



**CITY OF MUSKEGO**

**FINANCIAL STATEMENTS**

**Including Independent Auditors' Report**

**December 31, 2005**

Prepared by

City of Muskego Finance Department

W182 S8200 Racine Avenue, Muskego, WI 53150-0749  
Waukesha County, Wisconsin

**CITY OF MUSKEGO**

Muskego, Wisconsin

FINANCIAL STATEMENTS

December 31, 2005

# City of Muskego

## Table of Contents December 31, 2005

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Independent Auditors' Report	1
Management's Discussion and Analysis	2 – 11
Basic Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	17
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Landfill Fund	18
Statement of Net Assets – Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21 – 22
Statement of Net Assets – Fiduciary Funds	23
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	24
Index to Notes to Financial Statements	25 – 26
Notes to Financial Statements	27 – 62

**City of Muskego**

Table of Contents  
December 31, 2005

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Supplementary Information

Combining Balance Sheet – Nonmajor Governmental Funds – Special Revenue Funds	63 – 64
Combining Balance Sheet – Nonmajor Governmental Funds – Capital Projects Funds	65
Combining Balance Sheet – Nonmajor Governmental Funds	66
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds – Special Revenue Funds	67 – 68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds – Capital Projects Funds	69
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	70

## **INDEPENDENT AUDITORS' REPORT**



## INDEPENDENT AUDITORS' REPORT

Mayor and Common Council  
City of Muskego  
Muskego, Wisconsin

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Muskego, Wisconsin, as of and for the year ended December 31, 2005, which collectively comprise the city's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Muskego's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Muskego, Wisconsin, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund and Landfill Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muskego's basic financial statements. The combining fund financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Virchow, Krause + Company, LLP*

Milwaukee, Wisconsin  
March 31, 2006, except for Note III, as to  
which the date is May 23, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## City of Muskego, Wisconsin

### Management Discussion and Analysis December 31, 2005

As management of the City of Muskego, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2005. The discussion and analysis presents the highlights of financial activities and financial position for the City of Muskego (City). The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the City.

#### Financial Highlights

- The assets of the City exceeded its liability at the close of the most recent fiscal year by \$88,244,219 (net assets). Of this amount, \$12,875,615 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$7,219,040.
- At the close of the 2005 fiscal year, the City's governmental funds reported combined ending fund balances of \$16,917,877, an increase of \$1,455,497 in comparison with the prior year. Approximately 77% of this total amount, \$12,951,440, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the 2005 fiscal year, unreserved fund balance for the General Fund was \$3,760,718 or 31% of the total general fund expenditures (including transfers out).
- The City of Muskego's total long-term debt, excluding compensated absences, decreased by \$5,132,408 (12.78%) during fiscal year ended December 31, 2005. The significant decrease was due to the issuance of \$4,225,000 revenue bonds to advance refund \$8,655,000 of outstanding revenue bonds in the Sewer Utility. In addition to the net of scheduled payments, the City Sewer Utility deposited \$4,836,315 in an irrevocable trust with an escrow agent to provide for all future debt service payment on the outstanding revenue bonds, which are considered defeased and have been removed from the financial statements.

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Muskego's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the City of Muskego's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).



## City of Muskego

### Management Discussion and Analysis December 31, 2005

Both the government-wide financial statements distinguish functions of the City of Muskego that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Muskego include general government, protection of persons and property, highways and transportation, health and sanitation and recreation and education. Business-type activities of the City include the Sewer Utility and the Water Utility.

The government-wide financial statements include the City of Muskego and the following component units: The Community Development Authority and the Big Muskego Lake Bass Bay Protection and Rehabilitation District. There are no other organizations or agencies whose financial statements should be combined and presented with the financial statements of the City.

The government-wide financial statements can be found on pages 12 through 13 of this report.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Muskego, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Muskego maintains twenty-seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Landfill Fund, the Debt Service Fund and the Capital Budget Fund, all of which are considered to be major funds. Individual fund data for each of the twenty-three non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Muskego adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund and Landfill Fund to demonstrate compliance with its budget on pages 17 and 18 of this report.

## City of Muskego

### Management Discussion and Analysis December 31, 2005

The basic governmental fund financial statements can be found on pages 14 through 18 of this report.

Proprietary funds – The City of Muskego maintains one type of proprietary funds: Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Muskego maintains two enterprise funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 19 through 22 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Muskego's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary funds for the City are private purpose trust funds and agency funds. Total assets of the fiduciary funds were \$30,502,866.

The basic fiduciary funds financial statements can be found on pages 23 and 24 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 62 of this report.

Other information –The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 63 through 70 of this report.

#### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Muskego, assets exceeded liabilities by \$88,244,219 as of December 31, 2005

The largest portion of the City of Muskego's net assets (77%) reflects its investment in capital assets (e.g., land, buildings, improvements, and machinery and equipment), less any debt used to acquire those assets that is still outstanding. The City of Muskego uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Muskego**

**Management Discussion and Analysis  
December 31, 2005**

**City of Muskego - Net Assets**

	<b>Governmental Activities</b>		<b>Business - type Activities</b>		<b>Total</b>	
	2005	2004	2005	2004	2005	2004
Current and assets	\$ 30,998,985	\$ 29,486,896	\$ 15,246,248	\$ 18,780,152	\$ 46,245,233	\$ 48,267,048
Capital assets	27,974,654	26,870,578	66,180,511	62,231,672	94,155,165	89,102,250
<b>Total Assets</b>	<b>\$ 58,973,639</b>	<b>\$ 56,357,474</b>	<b>\$ 81,426,759</b>	<b>\$ 81,011,824</b>	<b>\$ 140,400,398</b>	<b>\$ 137,369,298</b>
Current Noncurrent liabilities	\$ 12,872,884	\$ 12,584,874	\$ 2,149,325	\$ 2,033,674	\$ 15,022,209	\$ 14,618,548
Other liabilities	27,630,409	28,014,916	8,373,136	12,555,000	36,003,545	40,569,916
Total liabilities	-	-	1,130,425	1,155,655	1,130,425	1,155,655
<b>Total liabilities and net assets</b>	<b>40,503,293</b>	<b>40,599,790</b>	<b>11,652,886</b>	<b>15,744,329</b>	<b>52,156,179</b>	<b>56,344,119</b>
Invested in capital assets net of debt	9,772,208	5,541,496	58,137,660	50,431,364	67,909,868	55,972,860
Restricted	3,616,901	3,417,636	3,841,835	5,280,666	7,458,736	8,698,302
Unrestricted	5,081,237	6,798,552	7,794,378	9,555,465	12,875,615	16,354,017
<b>Total net</b>	<b>18,470,346</b>	<b>15,757,684</b>	<b>69,773,873</b>	<b>65,267,495</b>	<b>88,244,219</b>	<b>81,025,179</b>
<b>Total liabilities and net assets</b>	<b>\$ 58,973,639</b>	<b>\$ 56,357,474</b>	<b>\$ 81,426,759</b>	<b>\$ 81,011,824</b>	<b>\$ 140,400,398</b>	<b>\$ 137,369,298</b>

A restricted portion of the City's net assets (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$12,875,615, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the 2005 fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's total net assets increased by \$7,219,040 during the current fiscal year. The two major items attributing to this increase are \$4.9 million in water and sewer capital contributions to the City and the health and sanitation fees which exceed functional expenses by \$1.9 million. These fees are primarily related to the landfill.

**Analysis of the City's Operations** - The following schedule highlights the City's revenues and expenses for the fiscal year ended December 31, 2005. These two main components are subtracted to yield the change in net assets. The table utilizes the full accrual method of accounting. The table below demonstrates that governmental activities increased by \$2,712,662 in 2005, and business-type activities increased the City's net assets by \$4,506,378 that same year. Key elements of this increase are as follows:

**City of Muskego**

**Management Discussion and Analysis  
December 31, 2005**

**City of Muskego's Change in Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenues:</b>						
Program Revenues						
Charges for services	\$ 5,078,625	\$ 4,106,388	\$ 6,048,082	\$ 4,735,992	\$ 11,126,707	\$ 8,842,380
Operating grants and contributions	1,089,762	1,020,175	-	-	1,089,762	1,020,175
Capital grants and contributions	572,577	1,627,699	4,905,443	5,481,360	5,478,020	7,109,059
General Revenues						
Property taxes	10,680,809	10,096,957	-	-	10,680,809	10,096,957
Other Taxes	82,595	87,236	-	-	82,595	87,236
Franchise Taxes	127,585	125,234	-	-	127,585	125,234
Grants and contributions not restricted to specific programs	689,514	751,349	-	-	689,514	751,349
Unrestricted investment earnings	682,884	315,847	479,387	250,877	1,162,271	566,724
Miscellaneous	4,704	1,502	-	-	4,704	1,502
Gain on sale of capital assets	19,390	-	-	-	19,390	-
<b>Total Revenues</b>	<b>19,028,445</b>	<b>18,132,387</b>	<b>11,432,912</b>	<b>10,468,229</b>	<b>30,461,357</b>	<b>28,600,616</b>
<b>Expenses:</b>						
General government	3,324,195	3,264,859	-	-	3,324,195	3,264,859
Public safety	6,022,009	7,693,823	-	-	6,022,009	7,693,823
Highway and transportation	2,028,039	2,874,919	-	-	2,028,039	2,874,919
Health and sanitation	902,032	863,461	-	-	902,032	863,461
Economic development	195,297	258,475	-	-	195,297	258,475
Education and recreation	2,578,240	2,494,356	-	-	2,578,240	2,494,356
Interest on long-term debt	1,014,453	1,045,820	-	-	1,014,453	1,045,820
Sewer	-	-	5,731,449	4,787,908	5,731,449	4,787,908
Water	-	-	1,446,603	1,365,928	1,446,603	1,365,928
<b>Total Expenses</b>	<b>16,064,265</b>	<b>18,495,713</b>	<b>7,178,052</b>	<b>6,153,836</b>	<b>23,242,317</b>	<b>24,649,549</b>
<b>Increase in Net Assets before Transfers</b>	<b>2,964,180</b>	<b>(363,326)</b>	<b>4,254,860</b>	<b>4,314,393</b>	<b>7,219,040</b>	<b>3,951,067</b>
<b>Transfers</b>	<b>(251,518)</b>	<b>37,112</b>	<b>251,518</b>	<b>(37,112)</b>	<b>-</b>	<b>-</b>
Change in Net Assets	2,712,662	(326,214)	4,506,378	4,277,281	7,219,040	3,951,067
Net Assets - beginning	15,757,684	16,083,898	65,267,495	60,990,214	81,025,179	77,074,112
Net Assets - ending	\$ 18,470,346	\$ 15,757,684	\$ 69,773,873	\$ 65,267,495	\$ 88,244,219	\$ 81,025,179

**City of Muskego**

**Management Discussion and Analysis  
December 31, 2005**

**Governmental Activities**

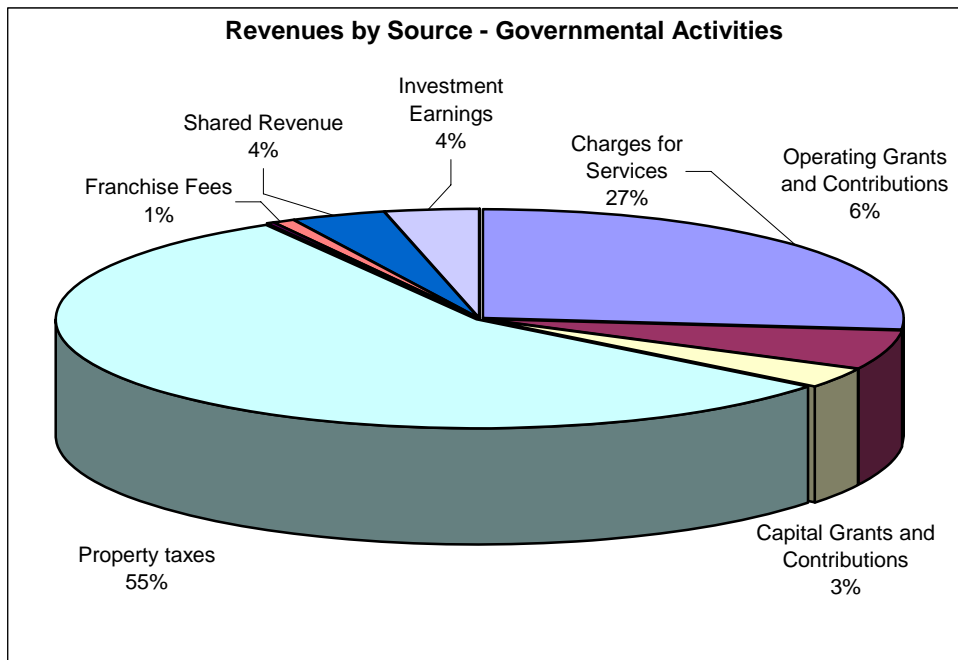
The table below discloses cost of services for Governmental Activities. The total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues; succinctly put, net costs that must be covered by local taxes or other general revenue or transfers.

Programs	Total Cost of Services		Net (Expenses) of Services	
	2005	2004	2005	2004
General government	\$ 3,324,195	\$ 3,264,859	\$ (2,899,013)	\$ (2,825,455)
Public safety	6,022,009	7,693,823	(4,669,885)	(6,507,961)
Public works	2,028,039	2,874,919	(1,158,457)	(754,293)
Health and sanitation	902,032	863,461	1,935,320	1,313,073
Economic development	195,297	258,475	225,397	(18,189)
Education and recreation	2,578,240	2,494,356	(1,742,210)	(1,902,806)
Interest and long-term debt	1,014,453	1,045,820	(1,014,453)	(1,045,820)
<b>Total</b>	<b>\$ 16,064,265</b>	<b>\$ 18,495,713</b>	<b>\$ (9,323,301)</b>	<b>\$ (11,741,451)</b>

The cost of services for the public safety function and the public works function decreased approximately \$1.7 million and \$847,000 from 2004 respectively. These are both primarily due to capital projects, which were not capitalizable. In 2004 the public safety function included approximately \$2 million of expenses for fire equipment, which is not owed by the City. The public works function for 2004 included project costs for a reconstruction of a state-owed road and tax incremental district water project costs.

Net cost of services is 58% of total cost of services in 2005. This reflects a continued reliance on taxes and other general revenue sources to fund the cost of services.

The graph below shows the percentage of the total governmental activities revenues allocated by each revenue type.



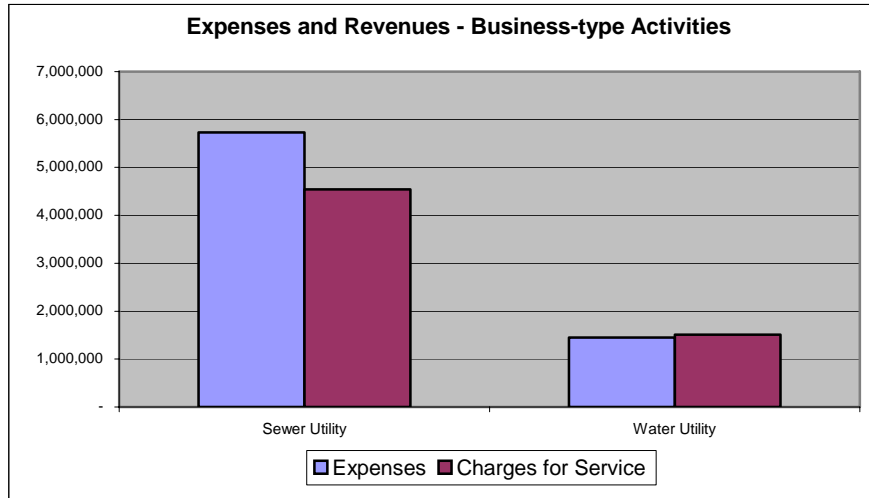
# City of Muskego

## Management Discussion and Analysis December 31, 2005

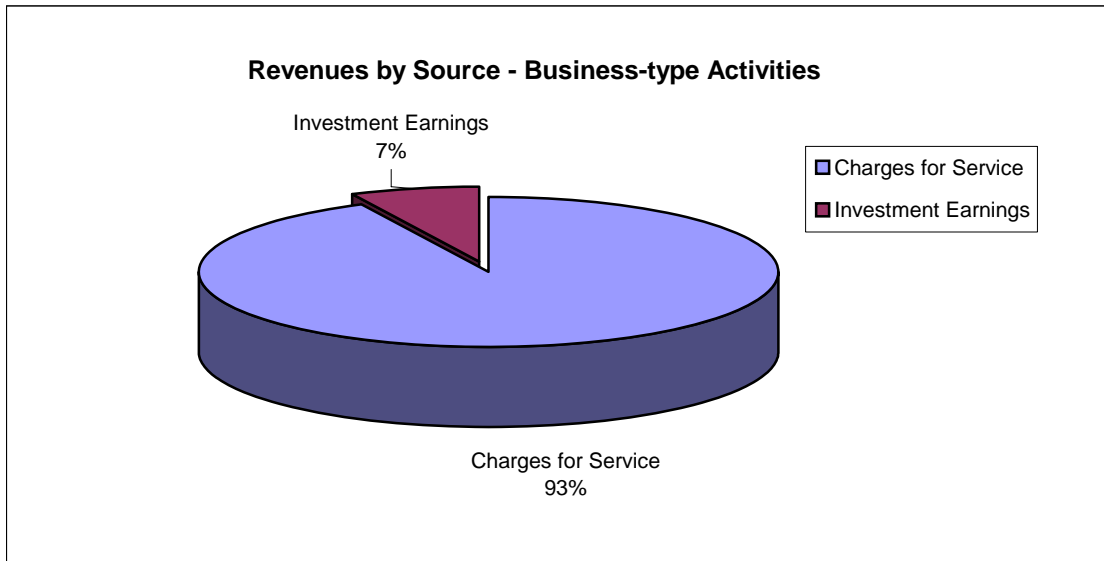
### Business-Type Activities

Total Business-type activities' charges for service revenues for the year ending December 31, 2005 were \$6,048,082, an increase of \$1,312,090 over 2004. This was primarily due to an increase in sewer rates of 33% and increase in water rates of 3%. The Business-type activities increased the City of Muskego's net assets by \$4,506,378 primarily due to capital contributions.

The graph below shows the relationship between revenues and expenses for the City of Muskego Sewer and Water Utilities.



The graph below shows the breakdown of revenues by source for the business-type activities.



## City of Muskego

### Management Discussion and Analysis December 31, 2005

#### **Financial Analysis of the Government's Funds**

As noted earlier, the City of Muskego uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. This section will discuss major developments within the City's governmental funds and proprietary funds.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds – General Fund, Landfill Fund, Debt Service Fund, Capital Budget Fund and all Other Governmental Funds – reported a combined ending fund balances of \$16,917,877, an increase of \$1,455,497 in comparison with the prior year. Approximately 77% of this total amount (\$12,951,440) constitutes unreserved fund balance, which is available for spending at the government's discretion. However, approximately 71% of this unreserved amount (\$9,190,722) is designated or reported in special revenue funds or capital projects funds. The remainder of the fund balance is reserved to indicate that it is not available for new spending, because it has already been committed.

The General Fund is the chief operating fund of the City. During 2005, the General Fund balance increased by \$457,775. This is due to actual revenues being more than budgeted and actual expenses being less than budgeted. At the end of the year, the unreserved fund balance of the General Fund was \$3,760,718 while total fund balance reached \$3,779,223. As a measure of the general fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 31% of total general fund expenditures.

Fund balance in the Debt Service Fund increased by \$205,948 during 2005. This increase is partially the result of the transfer in of \$200,820 to meet the Community Development Authority Lease Revenue Bonds reserve requirements. Fund balance in the Capital Budget Fund decreased by \$404,695 during 2005, reaching a total of \$2,818,870. This decrease relates to the current year expenditure of funds borrowed in the prior year.

**Proprietary funds.** The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Total net assets of the Sewer Fund at the end of the year amounted to \$49,434,168 and the Water Fund totaled \$20,339,705. Total growth in net assets for both funds was \$1,487,407 and \$3,018,971 respectively.

#### **General Fund Budgetary Highlights.**

The total original expenditure budget of \$12,489,713 was increased to \$13,291,811 (an increase of \$802,098). The budget was increased to finance the potential costs related to additional operating expenditures, professional services for property revaluations, legal matters, other capital expenditures not considered in the original budget and to comply with the expenditure restraint program. The final amended budget includes an increase to the Public Works expenditures of \$110,802 for major road improvements, which was funded out of contingency.

During the year, however, revenues were more than budgetary revenues and expenditures were less than budgetary expenditures.

**City of Muskego**

**Management Discussion and Analysis  
December 31, 2005**

**Capital Assets and Debt Administration**

**Capital Assets.** The City of Muskego's investment in capital assets for its governmental and business-type activities as of December 31, 2005, amounts to \$94,155,165 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, infrastructure and construction in progress.

Major capital events during the current year included major road reconstruction, construction of the Idle Isle park shelter and Moorland Skateboard Park.

**City of Muskego's Capital Assets  
(net of depreciation)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	2005	2004	2005	2004	2005	2004
Land	\$ 3,871,054	\$ 3,871,054	\$ 160,066	\$ 160,066	\$ 4,031,120	\$ 4,031,120
Construction in progress	475,841	748,411	421,394	323,670	897,235	1,072,081
Land Improvements	2,768,779	1,880,024	-	-	2,768,779	1,880,024
Buildings	11,009,855	10,844,461	13,703,703	13,153,671	24,713,558	23,998,132
Equipment	6,172,785	5,968,095	2,555,812	2,405,082	8,728,597	8,373,177
Library Collection	1,667,389	1,580,523	-	-	1,667,389	1,580,523
Infrastructure	11,244,270	10,026,505	64,061,423	59,562,326	75,305,693	69,588,831
Acc. Depreciation	(9,235,319)	(8,048,495)	(14,721,887)	(13,373,143)	(23,957,206)	(21,421,638)
<b>Total</b>	<b>\$ 27,974,654</b>	<b>\$ 26,870,578</b>	<b>\$ 66,180,511</b>	<b>\$ 62,231,672</b>	<b>\$ 94,155,165</b>	<b>\$ 89,102,250</b>

Additional information on the City's capital assets can be found in Note IV on pages 46 through 48 of this report.

**Long-term debt** - As of December 31, 2005, the City of Muskego, Wisconsin had governmental activities general obligation bonds and notes and Community Development Lease Revenue Bonds outstanding totaling \$24,919,451. The City of Muskego has business-type activities revenue bonds and notes payable, an advance from the Municipality and refunding losses totaling \$10,104,223. In the current year, the City paid \$1,468,727 in principal and \$1,060,542 in interest on outstanding debt. Business-Type Activities paid \$9,058,131 in principal and \$664,702 in interest on outstanding debt in the current year. Of the total City debt, \$2,102,377 will become due within one year. The City of Muskego has a Moody's "Aa3" rating on its General Obligation Debt, a Moody's "A1" rating on its Sewer Revenue Bonds and a Moody's "A3" on its Water Revenue Bonds.



**City of Muskego**

**Management Discussion and Analysis  
December 31, 2005**

**City of Muskego's Outstanding Debt  
General Obligation and Revenue Bonds**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
G.O. Bonds and Notes	\$ 22,919,451	\$ 23,403,178	\$ 600,000	\$ -	\$ 23,519,451	\$ 23,403,178
Community Development Lease Revenue					-	-
Bonds	2,000,000	2,000,000	-	-	2,000,000	2,000,000
Revenue Bonds	-	-	8,715,000	13,350,000	8,715,000	13,350,000
Advances from Municipality			1,204,773	1,402,904	1,204,773	1,402,904
Refundings-deferral	-	-	(415,550)	-	(415,550)	-
<b>Total</b>	<u>\$ 24,919,451</u>	<u>\$ 25,403,178</u>	<u>\$ 10,104,223</u>	<u>\$ 14,752,904</u>	<u>\$ 35,023,674</u>	<u>\$ 40,156,082</u>

Additional information about the City's long-term debt can be found in Note IV on pages 51 through 57 of the financial statements.

**Economic Factors and Next Year's Budgets and Rates**

The following economic factors are noteworthy:

- The equalized value of the City of Muskego increased by 10% in 2005, while preceding year values increased by 11.3%. In 2005 the average equalized value of a single-family home in Muskego was \$261,012.
- The City of Muskego 2005 tax rate decreased to \$4.74 per thousand as compared to the 2004 rate of \$6.41 per thousand. The major factors contributing to the tax rate decrease were the 2005-property revaluation and use of reserve funds.
- The City of Muskego's 2006 budget has not qualified the City to receive the Expenditure Restraint Shared Revenue payment, as it did in 2005. This was due to the State tax levy limit imposed on the determination of the 2006 allowable levy.
- The City's \$2.2 billion tax base averaged a rapid annual growth of 9.7% over the last five years. It is expected the City's tax base will continue to experience an above average rate of growth, as well as additional land development.

All these factors were considered in preparing the City of Muskego, Wisconsin's 2006 Budget.

**Requests for information**

This financial report is designed to provide a general overview of the City of Muskego's finances for all those with an interest in the government's finances. Readers having question about any of the information in this report or needing additional information should contact Finance Supervisor, City of Muskego, W182 S8200 Racine Ave, Muskego, WI 53150, call 262-679-5622 or e-mail [smueller@ci.muskego.wi.us](mailto:smueller@ci.muskego.wi.us).

## **BASIC FINANCIAL STATEMENTS**

**City of Muskego**

Statement of Net Assets  
December 31, 2005

	Governmental Activities	Business-type Activities	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 17,601,527	\$ 6,209,002	\$ 23,810,529
Temporary investments	-	691,311	691,311
Receivables (net of allowance for uncollectibles)	11,960,349	1,744,594	13,704,943
Prepays	18,505	-	18,505
Deferred charge	-	909,192	909,192
Internal balances	1,196,273	(1,196,273)	-
Restricted Assets			
Cash and cash equivalents	-	4,703,461	4,703,461
RCA and WCA assessments receivable	-	1,083,946	1,083,946
Special assessments receivable	124,362	669,190	793,552
Deferred debits	97,969	431,825	529,794
Capital Assets			
Land	3,871,054	160,066	4,031,120
Construction in progress	475,841	421,394	897,235
Other capital assets, net of depreciation	23,627,759	65,599,051	89,226,810
Total Assets	<u>58,973,639</u>	<u>81,426,759</u>	<u>140,400,398</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	1,579,962	1,449,487	3,029,449
Accrued interest payable	145,936	64,510	210,446
Unearned revenue	11,146,986	-	11,146,986
Liabilities payable from restricted assets			
Accounts payable	-	24,452	24,452
Accrued interest payable	-	84,562	84,562
Current portion of long-term debt	-	526,314	526,314
Noncurrent Liabilities:			
Due within one year	1,706,063	-	1,706,063
Due in more than one year	25,924,346	8,373,136	34,297,482
Other unearned revenue	-	1,130,425	1,130,425
Total Liabilities	<u>40,503,293</u>	<u>11,652,886</u>	<u>52,156,179</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	9,772,208	58,137,660	67,909,868
Restricted for:			
Depreciation and equipment and replacement funds	-	686,427	686,427
Water and sewer capacity assessment funds	-	2,973,830	2,973,830
Tax increment district purposes	2,789,962	-	2,789,962
Other debt service	826,939	181,578	1,008,517
Unrestricted	<u>5,081,237</u>	<u>7,794,378</u>	<u>12,875,615</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 18,470,346</u>	<u>\$ 69,773,873</u>	<u>\$ 88,244,219</u>

See accompanying notes to financial statements.

**City of Muskego**

Statement of Activities  
For the Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
<b>Governmental Activities</b>							
General government	\$ 3,324,195	\$ 421,701	\$ 3,481	\$ -	\$ (2,899,013)	\$ -	\$ (2,899,013)
Public safety	6,022,009	1,281,919	70,205	-	(4,669,885)	-	(4,669,885)
Public works	2,028,039	79,510	761,445	28,627	(1,158,457)	-	(1,158,457)
Health and sanitation	902,032	2,742,868	94,484	-	1,935,320	-	1,935,320
Conservation and development	195,297	-	82,875	337,819	225,397	-	225,397
Education and recreation	2,578,240	552,627	77,272	206,131	(1,742,210)	-	(1,742,210)
Interest on long-term debt	1,014,453	-	-	-	(1,014,453)	-	(1,014,453)
Total Governmental Activities	<u>16,064,265</u>	<u>5,078,625</u>	<u>1,089,762</u>	<u>572,577</u>	<u>(9,323,301)</u>	<u>-</u>	<u>(9,323,301)</u>
<b>Business-type activities</b>							
Sewer Utility	5,731,449	4,540,872	-	1,706,281	-	515,704	515,704
Water Utility	1,446,603	1,507,210	-	3,199,162	-	3,259,769	3,259,769
Total Business-type Activities	<u>7,178,052</u>	<u>6,048,082</u>	<u>-</u>	<u>4,905,443</u>	<u>-</u>	<u>3,775,473</u>	<u>3,775,473</u>
<b>Total</b>	<u>\$ 23,242,317</u>	<u>\$ 11,126,707</u>	<u>\$ 1,089,762</u>	<u>\$ 5,478,020</u>	<u>(9,323,301)</u>	<u>3,775,473</u>	<u>(5,547,828)</u>
<b>General Revenues</b>							
Taxes							
Property taxes, levied for general purposes					8,698,449	-	8,698,449
Property taxes, levied for debt service					1,982,360	-	1,982,360
Other taxes					82,595	-	82,595
Franchise taxes					127,585	-	127,585
Intergovernmental revenues not restricted to specific programs					689,514	-	689,514
Investment Income					682,884	479,387	1,162,271
Gain on disposal of fixed assets					19,390	-	19,390
Miscellaneous					4,704	-	4,704
Total General Revenues					<u>12,287,481</u>	<u>479,387</u>	<u>12,766,868</u>
Transfers					<u>(251,518)</u>	<u>251,518</u>	<u>-</u>
<b>Change in Net Assets</b>					<u>2,712,662</u>	<u>4,506,378</u>	<u>7,219,040</u>
NET ASSETS - Beginning of Year					<u>15,757,684</u>	<u>65,267,495</u>	<u>81,025,179</u>
<b>NET ASSETS - END OF YEAR</b>					<u>\$ 18,470,346</u>	<u>\$ 69,773,873</u>	<u>\$ 88,244,219</u>

**City of Muskego**

Balance Sheet  
Governmental Funds  
December 31, 2005

	General Fund	Landfill Fund	Debt Service Fund	Capital Budget Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 4,361,045	\$ 1,475,542	\$ 972,875	\$ 3,179,639	\$ 7,612,426	\$ 17,601,527
Receivables - net						
Accounts	93,808	183,199	-	-	532,953	809,960
Due from other governments	7,472	-	-	-	203,786	211,258
Taxes	8,644,890	-	2,108,868	-	185,373	10,939,131
Special assessments						
Due in installments	-	-	-	-	33,930	33,930
Deferred	-	-	-	-	90,432	90,432
Due from other funds	38,700	-	-	-	-	38,700
Prepaid items	18,505	-	-	-	-	18,505
Advance to Water Utility						
Current portion	-	-	207,389	-	-	207,389
Due after 2005	-	-	997,384	-	-	997,384
Total Assets	<u>\$ 13,164,420</u>	<u>\$ 1,658,741</u>	<u>\$ 4,286,516</u>	<u>\$ 3,179,639</u>	<u>\$ 8,658,900</u>	<u>\$ 30,948,216</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities						
Accounts payable	\$ 514,517	\$ 3,766	\$ -	\$ 360,769	\$ 280,731	\$ 1,159,783
Accrued liabilities	100,178	-	-	-	-	100,178
Due to other funds	8,500	-	-	-	38,700	47,200
Due to other governments	-	-	-	-	320,000	320,000
Deferred revenue	8,762,002	32,898	3,313,641	-	294,637	12,403,178
Total Liabilities	<u>9,385,197</u>	<u>36,664</u>	<u>3,313,641</u>	<u>360,769</u>	<u>934,068</u>	<u>14,030,339</u>
Fund Balances						
Reserved for						
Prepays	18,505	-	-	-	-	18,505
Non-current receivables	-	-	-	-	130,320	130,320
Revolving loan purposes	-	-	-	-	235,711	235,711
Encumbrances	-	-	-	-	183,820	183,820
Tax increment financing purposes	-	-	-	-	2,425,206	2,425,206
Debt service	-	-	972,875	-	-	972,875
Unreserved, reported in						
General fund, designated	1,100,000	-	-	-	-	1,100,000
General fund, undesignated	2,660,718	-	-	-	-	2,660,718
Special revenue funds	-	1,622,077	-	-	3,812,133	5,434,210
Capital projects funds	-	-	-	2,818,870	937,642	3,756,512
Total Fund Balances	<u>3,779,223</u>	<u>1,622,077</u>	<u>972,875</u>	<u>2,818,870</u>	<u>7,724,832</u>	<u>16,917,877</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 13,164,420</u>	<u>\$ 1,658,741</u>	<u>\$ 4,286,516</u>	<u>\$ 3,179,639</u>	<u>\$ 8,658,900</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds.	27,974,654
Some receivables that are currently available are reported as deferred revenue in the fund financial statements but are recognized as revenue when earned in the government-wide statements.	51,418
Advance to Water Utility	1,204,773
Some liabilities, including long-term debt, are not due and payable in the current period and therefore are not reported in the funds. See Note II.A.	<u>(27,678,376)</u>

**NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 18,470,346

**City of Muskego**

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2005

	General	Landfill Fund	Debt Service	Capital Budget	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 8,619,422	\$ -	\$ 1,982,360	\$ -	\$ 128,359	\$ 10,730,141
Intergovernmental	1,520,377	-	-	-	569,700	2,090,077
Licenses and permits	747,325	-	-	-	-	747,325
Fines, forfeitures and penalties	163,762	-	-	-	-	163,762
Public charges for services	715,628	1,921,070	-	-	1,174,278	3,810,976
Public improvement revenues	-	-	-	-	248,248	248,248
Commercial revenue	369,644	35,441	28,586	102,527	504,828	1,041,026
Intergovernmental charges for services	108,250	-	-	3,600	-	111,850
Interdepartmental revenues	80,292	-	291,988	-	-	372,280
Total revenues	<u>12,324,700</u>	<u>1,956,511</u>	<u>2,302,934</u>	<u>106,127</u>	<u>2,625,413</u>	<u>19,315,685</u>
<b>EXPENDITURES</b>						
Current						
General government	2,827,817	-	-	-	210,240	3,038,057
Public safety	5,056,429	-	-	-	305,101	5,361,530
Public works	1,504,552	-	-	-	-	1,504,552
Health and sanitation	-	32,504	-	-	869,529	902,033
Conservation and development	-	-	-	-	171,214	171,214
Education and recreation	1,911,593	-	-	-	79,957	1,991,550
Debt service:						
Principal retirement	-	-	1,468,727	-	-	1,468,727
Interest	-	-	1,070,693	-	-	1,070,693
Bond issuance costs	-	-	-	18,920	-	18,920
Capital outlay	846,963	-	-	1,117,473	1,157,180	3,121,616
Total Expenditures	<u>12,147,354</u>	<u>32,504</u>	<u>2,539,420</u>	<u>1,136,393</u>	<u>2,793,221</u>	<u>18,648,892</u>
Excess (deficiency) of revenues over expenditures	<u>177,346</u>	<u>1,924,007</u>	<u>(236,486)</u>	<u>(1,030,266)</u>	<u>(167,808)</u>	<u>666,793</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	335,489	-	442,434	-	1,703,017	2,480,940
Transfers out	(110,282)	(1,009,237)	-	(359,429)	(1,253,510)	(2,732,458)
Sale of property	55,222	-	-	-	-	55,222
General obligation debt issued	-	-	-	985,000	-	985,000
Total Other Financing Sources (Uses)	<u>280,429</u>	<u>(1,009,237)</u>	<u>442,434</u>	<u>625,571</u>	<u>449,507</u>	<u>788,704</u>
<b>Net Change in Fund Balance</b>	457,775	914,770	205,948	(404,695)	281,699	1,455,497
FUND BALANCES - Beginning of Year	<u>3,321,448</u>	<u>707,307</u>	<u>766,927</u>	<u>3,223,565</u>	<u>7,443,133</u>	<u>15,462,380</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 3,779,223</u>	<u>\$ 1,622,077</u>	<u>\$ 972,875</u>	<u>\$ 2,818,870</u>	<u>\$ 7,724,832</u>	<u>\$ 16,917,877</u>

**City of Muskego**

Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended December 31, 2005

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Net change in fund balances - total governmental funds	\$ 1,455,497
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of net assets, the cost of these assets is capitalized and they are depreciated over their estimated useful lives and reported as depreciation expense in the statement of activities.

Capital outlay reported as an expenditure in the fund financial statements but is capitalized in the government-wide financial statements	3,121,616
Some items reported as capital outlay were not capitalized	(539,327)
Depreciation is reported in the government-wide statements	(1,442,381)
Net book value of assets retired	(35,832)

Receivables not currently available are reported as revenue when collected or currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements	(14,590)
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Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	
Debt issued	(985,000)
Principal repaid	1,468,727

Principal payments received on advances are not available until collected in the fund financial statements. However, this was not unearned in the government-wide financial statements	(198,131)
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Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Compensated absences	(99,220)
Accrued interest on debt	(12,309)

Governmental funds report certain costs as expenditures in the period paid. However, in the statement of net assets, these are deferred and reported as other assets and amortized over future years.	<u>(6,388)</u>
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<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 2,712,662</u></b>
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**City of Muskego**

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
 General Fund  
 For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Over (Under)
<b>REVENUES</b>				
Taxes	\$ 8,618,092	\$ 8,618,092	\$ 8,619,422	\$ 1,330
Intergovernmental	1,514,577	1,514,577	1,520,377	5,800
Licenses and permits	559,752	559,752	747,325	187,573
Fines, forfeitures and penalties	178,500	178,500	163,762	(14,738)
Public charges for service	644,685	644,685	715,628	70,943
Investment income	251,001	251,001	369,644	118,643
Intergovernmental charges for services	102,200	102,200	108,250	6,050
Interdepartmental revenues	55,220	55,220	80,292	25,072
Total Revenues	<u>11,924,027</u>	<u>11,924,027</u>	<u>12,324,700</u>	<u>400,673</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,952,187	3,032,077	2,827,817	(204,260)
Public safety	5,205,593	5,205,593	5,056,429	(149,164)
Public works	1,565,772	1,565,772	1,504,552	(61,220)
Education and recreation	1,980,004	1,980,004	1,911,593	(68,411)
Capital Outlay	736,157	846,959	846,963	4
Contingency	50,000	661,406	-	(661,406)
Total Expenditures	<u>12,489,713</u>	<u>13,291,811</u>	<u>12,147,354</u>	<u>(1,144,457)</u>
Excess of revenues over (under) expenditures	<u>(565,686)</u>	<u>(1,367,784)</u>	<u>177,346</u>	<u>1,545,130</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	605,687	285,000	335,489	50,489
Transfers out	(95,001)	(110,282)	(110,282)	-
Proceeds from the sale of fixed assets	40,000	40,000	55,222	15,222
Total Other Financing Sources (Uses)	<u>550,686</u>	<u>214,718</u>	<u>280,429</u>	<u>65,711</u>
Net Change in Fund Balance	<u>\$ (15,000)</u>	<u>\$ (1,153,066)</u>	457,775	<u>\$ 1,610,841</u>
FUND BALANCES - Beginning of Year			<u>3,321,448</u>	
<b>FUND BALANCES - END OF YEAR</b>			<u>\$ 3,779,223</u>	



**City of Muskego**

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Landfill Fund  
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Over (Under)
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>REVENUES</b>				
Public charges for service	\$ 1,246,121	\$ 1,246,121	\$ 1,921,070	\$ 674,949
Investment Income	<u>11,000</u>	<u>11,000</u>	<u>35,441</u>	<u>24,441</u>
Total Revenues	1,257,121	1,257,121	1,956,511	699,390
<b>EXPENDITURES</b>				
Current:				
Health and sanitation	<u>30,000</u>	<u>32,504</u>	<u>32,504</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>1,227,121</u>	<u>1,224,617</u>	<u>1,924,007</u>	<u>699,390</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(874,583)</u>	<u>(874,583)</u>	<u>(1,009,237)</u>	<u>134,654</u>
Net Change in Fund Balance	<u>\$ 352,538</u>	<u>\$ 350,034</u>	914,770	<u>\$ 564,736</u>
FUND BALANCES - Beginning of Year			<u>707,307</u>	
<b>FUND BALANCES - END OF YEAR</b>			<u>\$ 1,622,077</u>	

**City of Muskego**

Statement of Net Assets  
Proprietary Funds  
December 31, 2005

	Business Type Activities Enterprise Funds		
	Sewer Utility	Water Utility	Total Enterprise Funds
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 5,398,206	\$ 810,796	\$ 6,209,002
Temporary investments	691,311	-	691,311
Receivables, net	1,455,002	289,592	1,744,594
Due from other funds	-	8,500	8,500
Deferred charge	909,192	-	909,192
Restricted Assets			
Cash and cash equivalents	<u>56,776</u>	<u>439,807</u>	<u>496,583</u>
Total Current Assets	<u>8,510,487</u>	<u>1,548,695</u>	<u>10,059,182</u>
<b>NON-CURRENT ASSETS</b>			
Restricted Assets			
Cash and cash equivalents	2,632,184	1,574,694	4,206,878
RCA and WCA assessments receivable	902,840	181,106	1,083,946
Capital Assets			
Land	130,918	29,148	160,066
Construction work in progress	54,643	366,751	421,394
Plant in service	53,726,190	26,594,749	80,320,939
Accumulated depreciation	(11,144,657)	(3,577,231)	(14,721,888)
Other assets			
Special assessments	571,456	97,734	669,190
Unamortized debt issuance costs	84,190	101,835	186,025
Unamortized maintenance costs	<u>221,153</u>	<u>24,647</u>	<u>245,800</u>
Total Non-Current Assets	<u>47,178,917</u>	<u>25,393,433</u>	<u>72,572,350</u>
Total Assets	<u>55,689,404</u>	<u>26,942,128</u>	<u>82,631,532</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	1,204,528	24,884	1,229,412
Accrued vacation, sick leave and compensatory time	120,977	97,328	218,305
Customer deposits	-	1,770	1,770
Deferred revenue	41,191	43,371	84,562
Liabilities Payable From Restricted Assets			
Accounts payable	-	24,452	24,452
Current portion of long-term debt	75,000	451,314	526,314
Accrued interest	<u>26,052</u>	<u>38,458</u>	<u>64,510</u>
Total Current Liabilities	<u>1,467,748</u>	<u>681,577</u>	<u>2,149,325</u>
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt	3,734,450	5,843,459	9,577,909
Other deferred revenue	<u>1,053,038</u>	<u>77,387</u>	<u>1,130,425</u>
Total Non-current Liabilities	<u>4,787,488</u>	<u>5,920,846</u>	<u>10,708,334</u>
Total Liabilities	<u>6,255,236</u>	<u>6,602,423</u>	<u>12,857,659</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	39,450,959	18,686,701	58,137,660
Restricted for			
RCA and WCA funds	2,566,237	407,593	2,973,830
Debt service	30,724	150,854	181,578
Depreciation and equipment replacement funds	559,662	126,765	686,427
Unrestricted	<u>6,826,586</u>	<u>967,792</u>	<u>7,794,378</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 49,434,168</u>	<u>\$ 20,339,705</u>	<u>\$ 69,773,873</u>

See accompanying notes to financial statements.

**City of Muskego**

Statement of Revenues, Expenses  
And Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2005

	Business Type Activities Enterprise Funds		
	Sewer Utility	Water Utility	Total Enterprise Funds
<b>OPERATING REVENUES</b>			
Charges for services	\$ 4,527,280	\$ 1,416,730	\$ 5,944,010
Other operating revenues	13,592	90,480	104,072
Total Operating Revenues	<u>4,540,872</u>	<u>1,507,210</u>	<u>6,048,082</u>
<b>OPERATING EXPENSES</b>			
Operation and maintenance	4,530,094	679,503	5,209,597
Depreciation	923,956	413,316	1,337,272
Taxes	-	22,553	22,553
Total Operating Expenses	<u>5,454,050</u>	<u>1,115,372</u>	<u>6,569,422</u>
Net Operating Income (Loss)	<u>(913,178)</u>	<u>391,838</u>	<u>(521,340)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income	340,572	94,691	435,263
Interest income on special assessments	44,124	-	44,124
Interest on long term debt	(234,670)	(314,182)	(548,852)
Amortization of debt issuance costs	<u>(42,729)</u>	<u>(17,049)</u>	<u>(59,778)</u>
Total Nonoperating Revenues (Expenses)	<u>107,297</u>	<u>(236,540)</u>	<u>(129,243)</u>
Income (Loss) before Contributions and Transfers	(805,881)	155,298	(650,583)
<b>CAPITAL CONTRIBUTIONS</b>	1,706,281	3,199,162	4,905,443
<b>TRANSFERS IN</b>	587,007	-	587,007
<b>TRANSFERS - TAX EQUIVALENT</b>	<u>-</u>	<u>(335,489)</u>	<u>(335,489)</u>
<b>Change in Net Assets</b>	1,487,407	3,018,971	4,506,378
NET ASSETS - BEGINNING OF YEAR	<u>47,946,761</u>	<u>17,320,734</u>	<u>65,267,495</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 49,434,168</u>	<u>\$ 20,339,705</u>	<u>\$ 69,773,873</u>

**City of Muskego**

Statement of Cash Flows  
Proprietary Funds  
Year Ended December 31, 2005

	Business Type Activities		
	Enterprise Funds		
	Sewer Utility	Water Utility	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 4,124,265	\$ 1,181,872	\$ 5,306,137
Receipts from municipality for services	-	328,036	328,036
Payments to other funds	(39,845)	-	(39,845)
Paid to vendor for goods and services	(3,538,455)	(366,606)	(3,905,061)
Paid to employees for services	(629,455)	(274,357)	(903,812)
Net Cash Flows From Operating Activities	<u>(83,490)</u>	<u>868,945</u>	<u>785,455</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Paid by municipality for City subsidies	587,007	-	587,007
Paid to municipality for tax equivalent	-	(335,489)	(335,489)
Net Cash Flows From Non-Capital Financing Activities	<u>587,007</u>	<u>(335,489)</u>	<u>251,518</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Debt issued	4,225,000	588,477	4,813,477
Debt retired	-	(403,131)	(403,131)
Payment to escrow agent	(8,969,329)	-	(8,969,329)
Debt issuance costs paid	(89,142)	-	(89,142)
Interest paid	(322,219)	(312,638)	(634,857)
Special assessments received	863,039	271,425	1,134,464
Acquisition and construction of capital assets	(1,290,628)	(656,768)	(1,947,396)
Connection fees received	73,000	-	73,000
Net Cash Flows From Capital and Related Financing Activities	<u>(5,510,279)</u>	<u>(512,635)</u>	<u>(6,022,914)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income			
Interest on investments	364,173	85,478	449,651
Interest on special assessments	44,124	9,213	53,337
Net Cash Flows From Investing Activities	<u>408,297</u>	<u>94,691</u>	<u>502,988</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(4,598,465)	115,512	(4,482,953)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>12,685,631</u>	<u>2,709,775</u>	<u>15,395,406</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 8,087,166</u>	<u>\$ 2,825,287</u>	<u>\$ 10,912,453</u>

**City of Muskego**

Statement of Cash Flows  
Proprietary Funds  
Year Ended December 31, 2005  
(Concluded)

	Business Type Activities Enterprise Funds		
	Sewer Utility	Water Utility	Total Enterprise Funds
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS - PROPRIETARY FUNDS</b>			
Unrestricted	\$ 5,398,206	\$ 810,796	\$ 6,209,002
Restricted	<u>2,688,960</u>	<u>2,014,501</u>	<u>4,703,461</u>
	<u>\$ 8,087,166</u>	<u>\$ 2,825,297</u>	<u>\$ 10,912,463</u>
<b>NON CASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital additions contributed to the Utility by customers and developers	<u>\$ 427,739</u>	<u>\$ 2,905,125</u>	<u>\$ 3,332,864</u>
Assessment of benefits for property owners for improvements	<u>\$ 1,205,542</u>	<u>\$ 294,037</u>	<u>\$ 1,499,579</u>
Loss on refunding of debt	<u>\$ 453,327</u>	<u>\$ -</u>	<u>\$ 453,327</u>
<b>Reconciliation of operating income (loss) to net cash provided (used ) by operating activities:</b>			
Operating Income (Loss)	\$ (913,178)	\$ 391,838	\$ (521,340)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	923,956	413,316	1,337,272
Depreciation charged to other accounts	-	22,184	22,184
Milwaukee Metropolitan Sewerage District - contract amortization	316,475	-	316,475
Amortization - other	44,230	24,505	68,735
(Increase) decrease in assets:			
Accounts receivable - other	(416,607)	1,153	(415,454)
Due from other funds	-	(8,500)	(8,500)
Deferred charge	(487,298)	-	(487,298)
(Increase) decrease in liabilities:			
Accounts payable	435,773	12,254	448,027
Accrued vacation, sick leave and compensatory time	13,159	10,337	23,496
Customer deposits	-	1,770	1,770
Deferred contractual credit and other deferred revenues	-	88	88
Total adjustments	<u>829,688</u>	<u>477,107</u>	<u>1,306,795</u>
<b>Net Cash Flows From Operating Activities</b>	<u>\$ (83,490)</u>	<u>\$ 868,945</u>	<u>\$ 785,455</u>

**City of Muskego**

Statement of Fiduciary Net Assets  
Fiduciary Funds  
December 31, 2005

	Private Purpose Trust Funds			Total Fiduciary Funds
	Library Expansion Trust Fund	Volunteer Fire Co. Scholarship Fund	Agency Funds	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 37,619	\$ 154,161	\$ 26,972,084	\$ 27,163,864
Accounts receivable, net	-	-	97,945	97,945
Special assessments	-	-	50,566	50,566
Taxes receivable	-	-	3,190,491	3,190,491
<b>Total Assets</b>	<b>37,619</b>	<b>154,161</b>	<b>30,311,086</b>	<b>30,502,866</b>
<b>LIABILITIES</b>				
Accounts payable	-	-	227,052	227,052
Due to other taxing units	-	-	29,373,547	29,373,547
Special deposits	-	-	710,487	710,487
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>30,311,086</b>	<b>30,311,086</b>
<b>NET ASSETS</b>				
Restricted - held in trust	37,619	154,161	-	191,780
<b>TOTAL NET ASSETS</b>	<b>\$ 37,619</b>	<b>\$ 154,161</b>	<b>\$ -</b>	<b>\$ 191,780</b>

**City of Muskego**

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds  
For the Year Ended December 31, 2005

	Private Purpose Trust Funds	
	Library Expansion Trust Fund	Volunteer Fire Co. Scholarship Fund
<b>ADDITIONS</b>		
Investment income	\$ 1,207	\$ 4,621
<b>DEDUCTIONS</b>	-	-
<b>Change in Net Assets</b>	1,207	4,621
NET ASSETS - Beginning	36,412	149,540
<b>NET ASSETS - ENDING</b>	\$ 37,619	\$ 154,161

## City of Muskego

### Index to Notes to Financial Statements December 31, 2005

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<b>NOTE</b>	<u>Page</u>
I. Summary of Significant Accounting Policies	27
A. Reporting Entity	27
B. Government-Wide and Fund Financial Statements	28
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	31
D. Assets, Liabilities, and Net Assets or Equity	33
1. Deposits and Investments	33
2. Receivables	35
3. Inventories and Prepaid Items	36
4. Restricted Assets	36
5. Capital Assets	36
6. Other Assets	37
7. Compensated Absences	37
8. Long-Term Obligations/Conduit Debt	38
9. Other Unearned Revenue	38
10. Claims and Judgments	38
11. Equity Classifications	39
E. Other Policies-Tax Incremental Districts	39
II. Reconciliation of Government-Wide and Fund Financial Statements Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Statement of Net Assets	40 40
III. Stewardship, Compliance, and Accountability	41
A. Budgetary Information	41
B. Limitations on the City's Tax Levy	41
IV. Detailed Notes on All Funds	42
A. Deposits and Investments	42
B. Restricted Assets	44
C. Receivables	45
D. Capital Assets	46
E. Interfund Receivables/Payables and Transfers	48
F. Deferred Debits	50
G. Long-Term Obligations	51
H. Net Assets / Fund Balances	57



**City of Muskego**

Index to Notes to Financial Statements  
December 31, 2005

---

**NOTE**

V. Other Information	60
A. Employees' Retirement System	60
B. Risk Management	61
C. Antenna Lease Agreements	61
D. Water and Sewer Rates	61
E. Contingent Liabilities and Commitments	62

## City of Muskego

Notes to Financial Statements  
December 31, 2005

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### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The accounting policies of the City of Muskego, Wisconsin conform to generally accepted accounting principles as applicable to governmental units.

#### **A. REPORTING ENTITY**

This report includes all of the funds of the City of Muskego. The reporting entity for the city consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the primary government. This report does not contain any discretely presented component units.

#### ***Blended Component Units***

The city has included in its basic financial statements the Community Development Authority of the City of Muskego, Wisconsin (authority) as a blended component unit. The authority is legally separate from the city and governed by a seven member board appointed by the mayor and confirmed by the common council of the city. Separate financial statements are not published for the authority. The authority is reported as part of the Non-Major Special Revenue Funds.

The basic financial statements of the city also include the financial data of the city's component unit, Big Muskego Lake - Bass Bay Protection and Rehabilitation District (district). The city created the district under certain provisions of the Wisconsin Statutes in order to assist the city in undertaking programs of lake protection and rehabilitation. The district's governing body is substantively the same as the city, with all members serving on the city common council and with the Mayor acting as chairman. The district is reported as part of the Non-Major Special Revenue Funds.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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***B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS***

***Government-Wide Financial Statements***

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The city does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

***Fund Financial Statements***

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net assets/fund equity, revenues, and expenditure/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 individual enterprise funds are reported as separate columns in the fund financial statements.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

---

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (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 city or meets the following criteria:

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

The city reports the following major governmental funds:

General Fund – accounts for the city’s primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

Landfill Fund Special Revenue Fund – accounts for resources legally restricted to support expenditures for the landfill program.

Debt Service Fund – accounts for resources accumulated and payments made for principal and interest on long-term debt other than TID or enterprise fund debt.

Capital Budget Fund Capital Projects Fund – accounts for proceeds from long-term borrowing and other resources to be used for capital improvement projects.

The city reports the following major enterprise funds:

Sewer Utility – accounts for operations of the sewer system

Water Utility – accounts for operations of the water system

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

**Fund Financial Statements (continued)**

The city reports the following non-major governmental funds:

Special Revenue Funds – used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Tax Increment District	Rescue
Park	Compensated Absences
Sewer Utility Special Debt Service	Recreational Ticket
Special Assessment	Cable TV
Other Grant	Capital Improvement
Refuse/Recycling	Community Development Authority
Revolving Loan	Federated Library System
Landfill Standing Committee	Big Muskego Lake – Bass Bay
Stormwater Management	Protection and
Well Testing Reserve	Rehabilitation District
Land Open Space Conservation	

Capital Projects Funds – used to account for financial resources to be used for the acquisition or construction of equipment or major capital facilities.

Industrial Park Expansion	FBI Shooting Range
Tax Increment Districts #'s 8 & 9	Capital Equipment

In addition, the city reports the following fund types:

Private-purpose trust funds are used to account for resources legally held in trust for the expansion of the library or scholarships.

Library Expansion	Volunteer Fire Co. Scholarship
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Agency funds are used to account for assets held by the city in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

Special Deposits	Subsequent Years Tax Roll
Schubring Bay Special Assessment	Collections

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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***C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING,  
AND FINANCIAL STATEMENT PRESENTATION***

***Government-Wide Financial Statements***

The government-wide statement of net assets and statement of activities 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. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and deferred revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the city's water and sewer utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

***Fund Financial Statements***

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivables and deferred revenues. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the city is entitled to the resources and the amounts are available. Amounts owed to the city which are not available are recorded as receivables and deferred revenues. Amounts received prior to the entitlement period are also recorded as deferred revenues.

## City of Muskego

Notes to Financial Statements  
December 31, 2005

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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#### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)**

##### ***Fund Financial Statements* (continued)**

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and deferred revenues.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees, and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

The city reports deferred revenues on its governmental funds balance sheet. Deferred revenues arise from taxes levied in the current year which are for subsequent year's operations. For governmental fund financial statements, deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the city has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the city has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Proprietary and fiduciary fund financial statements (other than agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note. Agency funds follow the accrual basis of accounting, and do not have a measurement focus.

The enterprise funds follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. The 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 sewer and water utilities are charges to customers for sales and services. Special assessments are recorded as receivables and contribution revenue when levied. Operating expenses for proprietary 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.

##### ***All Financial Statements***

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 could differ from those estimates.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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***D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY***

***1. Deposits and Investments***

For purposes of the statement of cash flows, the city considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Investment of city funds is restricted by state statutes. Available investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. 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, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

Investment of library trust funds is regulated by Chapter 112. That section gives broad authority to use such funds to acquire various kinds of investments including stocks, bonds and debentures.

The city has adopted an investment policy that follows state statutes for allowable investments. The city is exposed to various risks related to their cash and investments. The city policy related to these risks is described below:

***Custodial Credit Risk***

The city's policy indicates that to the extent possible bank balances should be maintained at amounts less than or equal to the amounts insured by FDIC or State of Wisconsin guaranteed amounts. (At year end the city had bank balances in excess of insured amounts as disclosed in Note IV A.) Additionally, all certificates of deposit exceeding these coverage's shall be collateralized with U.S. securities or Wisconsin municipal debt. Collateral shall be in the city's name and held by a third party custodian.

***Credit Risk***

Investment policy does not address this risk.



**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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***D . ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY*** (continued)

***1. Deposits and Investments*** (continued)

***Interest Rate Risk***

The city investment policy only addresses interest rate risk on certificates of deposit and specifies that they must mature within three years or less from the date of investment.

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. Investment income on commingled investments of municipal accounting funds is allocated based on the average investment balance. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2005, the fair value of the city's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

See Note IV.A. for further information.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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**D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)**

**2. Receivables**

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the city, taxes are collected for and remitted to the state and county governments as well as the local school district and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units in the accompanying agency fund balance sheet.

Property tax calendar – 2005 tax roll:

Lien date and levy date	December 2005
Tax bills mailed	December 2005
Payment in full, or	January 31, 2006
First installment due	January 31, 2006
Second installment due	April 30, 2006
Third installment due	July 31, 2006
Personal property taxes in full	January 31, 2006
Tax deed by county – 2005 delinquent real estate taxes	October 2008

Accounts receivable have been shown net of an allowance for uncollectible accounts. Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof. No provision for uncollectible accounts receivable has been made for the water and sewer utilities as they have the right by law to place delinquent bills on the tax roll, and other delinquent bills are generally not significant.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “due to and from other funds.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

The Water and Sewer Utilities provide services to customers within the municipal boundaries. Metered water sales to customers are billed on a quarterly basis at rates approved by the Public Service Commission of Wisconsin. Sewer customers are billed rates established by the Common Council. Bills are payable in 30 days. Delinquent balances at the time of the property tax lien date are placed on the customer’s tax bill and collected through the normal tax collection process.

## City of Muskego

Notes to Financial Statements  
December 31, 2005

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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#### **D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)**

##### **3. Inventories and Prepaid Items**

Governmental fund inventory items are charged to expenditure accounts when purchased. Year-end inventory was not significant. Proprietary fund inventories are generally used for construction and for operation and maintenance work. They are not for resale. They are valued at cost based on weighted average, and charged to construction or operation and maintenance expense when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

##### **4. Restricted Assets**

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements, other external parties or enabling legislation. Current liabilities payable from these restricted assets are so classified. Restricted net assets principally represents Water and Sewer Reserve Capacity Assessment Funds, Special Redemption Funds and Equipment Replacement Funds restricted assets, less related current liabilities payable from the restricted assets.

##### **5. Capital Assets**

###### **Government-Wide Statements**

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 for general capital assets and \$10,000 for infrastructure assets, and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

Prior to January 2003, infrastructure assets of governmental funds were not capitalized. Upon implementing GASB 34 governmental units are required to account for all capital assets, including infrastructure, in the government-wide statements prospectively from the date of implementation. Retroactive reporting of all major general infrastructure assets is encouraged but not required until January 1, 2007 when GASB 34 requires the city to retroactively report all major general infrastructure assets acquired since January 1, 1980. For the year ended December 31, 2005, the City of Muskego has not retroactively reported any network infrastructure acquired by its governmental fund types.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed funds. No net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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**D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)**

**5. Capital Assets (continued)**

**Government–Wide Statements (continued)**

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	20-50 Years
Land Improvements Other than Building	10-50 Years
Machinery and Equipment	3-20 Years
Utility System	19-125 Years
Infrastructure	10-50 Years

**Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

**6. Other Assets**

In governmental funds, debt issuance costs are recognized as expenditures in the current period. For the government-wide and the proprietary fund type financial statements, debt issuance costs are deferred and amortized over the term of the debt issue.

For the government-wide financial statements, debt issuance costs incurred in the governmental funds are generally recognized as expense in the year incurred. Certain related costs incurred prior to 2004 are deferred and amortized over the life of the debt issue.

**7. Compensated Absences**

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, or are payable with expendable available resources.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2005 are determined on the basis of current salary rates and include salary related payments.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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***D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)***

***8. Long-Term Obligations/Conduit Debt***

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligation consists primarily of notes and bonds payable, and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debt is reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

For the proprietary fund statements, bond premiums and discounts are deferred and amortized over the life of the issue using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The balance at year end for both premiums/discounts and gains/losses, as applicable, is shown as an increase or decrease in the liability section of the statement of net assets. For the government-wide statements for governmental funds bond premiums and discounts and gains or losses on prior refundings have not been deferred, the effect of this on the financial statements is immaterial.

The city has approved the issuance of industrial revenue bonds (IRB) for the benefit of private business enterprises. IRB's are secured by mortgages or revenue agreements on the associated projects, and do not constitute indebtedness of the city. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At December 31, 2005, there were several series of IRBs outstanding. The original amount payable for the series was \$7.175 million, the outstanding balance of the IRBs at December 31, 2005 is not known.

***9. Other Unearned Revenue***

Other unearned revenue principally represents deferred special assessments which will be reported as contributed capital when and if the property owner connects to the sewer or water system and the assessment becomes due, and prepayments of reserve capacity assessments.

***10. Claims and Judgments***

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

## City of Muskego

Notes to Financial Statements  
December 31, 2005

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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#### **D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)**

##### **11. Equity Classifications**

###### **Government–Wide Statements**

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

- a. 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 less any unspent debt proceeds.
- b. 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.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

###### **Fund Statements**

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved fund balances include funds which have been legally segregated for specific purposes or unavailable to finance current expenditures. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled “designated”. The balance of unreserved fund balance is labeled “undesignated”, which indicates it is available for appropriation. Proprietary fund equity is classified the same as in the government-wide statements.

Fiduciary fund equity is classified as held in trust for Library Expansion Trust Fund and Volunteer Fire Co. Scholarship Fund on the statement of fiduciary net assets. Various donor restrictions apply, including authorizing and spending trust income, and the city believes it is in compliance with all significant restrictions.

#### **E. OTHER POLICIES - TAX INCREMENTAL DISTRICTS**

1. In 1979, the city created “City of Muskego Tax Incremental Districts Numbers 2 through 7” to encourage development of the city tax base, efficient use of land, buildings and public improvements and private investment. These Districts have since been terminated in accordance with state statute and do not produce a tax increment levy, but have an accounting existence until all of debt of the Districts has been liquidated. The city projects that all District debt will be liquidated in 2006.
2. In 2000, the city created “City of Muskego Tax Incremental District No. 8” to encourage development of the city tax base, efficient use of land, buildings and public improvements and private investment in the city’s downtown area. Project costs are estimated at \$2.7 million. In September, 2005 the city amended the project plan to include an additional \$855,000 in project costs. Property taxes to be generated in

City of Muskego

Notes to Financial Statements  
December 31, 2005

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**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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**E. OTHER POLICIES - TAX INCREMENTAL DISTRICTS (continued)**

2. (continued) future years, measured by the increment in value of the property in the district over the base year, are to be used to retire the interest and principal of the related debt issues.
3. In 2003, the city created “City of Muskego Tax Incremental District No. 9” to encourage development of the city tax base, efficient use of land, buildings and public improvements and private investment in the City of Muskego Community Development Authority Redevelopment District No.1 which is in the northeastern portion of the city. Project costs are estimated at \$1.5 million and have been financed with a \$2.0 million Community Development Lease Revenue Bond. Property taxes to be generated in future years, measured by the increment in value of the property in the district over the base year, are to be used to retire the interest and principal of the debt issue.

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**NOTE II – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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**EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL  
FUND BALANCE SHEET AND THE STATEMENT OF NET ASSETS**

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The details of this reconciliation include the following items.

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds.

Land	\$ 3,871,054
Construction in progress	475,841
Land improvements	2,768,779
Buildings	11,009,855
Machinery and equipment	6,172,785
Library collection	1,667,389
Infrastructure	11,244,270
Less: Accumulated depreciation	<u>(9,235,319)</u>
Adjustment for Capital Assets	<u>\$ 27,974,654</u>

Long-term liabilities applicable to the city’s governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net assets.

Bonds and notes payable	\$ 24,919,451
Compensated absences	2,710,958
Unamortized debt issue costs	(97,969)
Accrued interest	<u>145,936</u>
Combined Adjustment for Long-Term Liabilities	<u>\$ 27,678,376</u>

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE III – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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**A. BUDGETARY INFORMATION**

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting as described in Note I.C.

The City adopted annual budgets for the General Fund, certain Special Revenue Funds, Debt Service Funds, certain Capital Project Funds, the Water Utility and Sewer Utility. These budgets are adopted in accordance with State Statutes and are prepared on a basis consistent with generally accepted accounting principles.

The budgeted amounts presented include any amendments made. Supplemental appropriations during the year were as follows:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 1,138,066
Landfill Fund	2,504
Debt Service Fund	26,820
Capital Budget Fund	205,393
Park Fund	175,105
Compensated Absences Fund	142,497
Cable Fund	116,782
Capital Improvement Fund	203,905

Appropriations lapse at year end unless specifically carried over by the Common Council. Budgets control is exercised at the individual fund level for all funds.

**B. LIMITATIONS ON THE CITY'S TAX LEVY**

As part of Wisconsin's Act 25 (2005), new legislation was passed that limits the city's future tax levies. Generally, the city is limited to its prior tax levy dollar amount (excluding TIF districts), increased by the greater of the percentage change in the city's equalized value due to new construction, or 2%. Changes in debt service from one year to the next are generally exempt from this limit. The levy limit begins with the 2005 levy collected in 2006 and is set to expire after the 2006 levy.



**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

The city's cash and investments at year end were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Demand deposits	\$ 14,567,545	\$ 6,863,484	Custodial Credit Risk
LGIP	41,208,829	41,208,829	Credit Risk, Interest Rate Risk
US Treasury Note	591,311	591,311	Custodial Credit Risk, Interest Rate Risk
Petty cash	1,480	-	None
 Total Cash and Investments	 \$ 56,369,165	 \$ 48,663,624	
 Reconciliation to financial statements			
Per statement of net assets			
Unrestricted cash and investments	\$ 23,810,529		
Temporary investments	691,311		
Restricted cash and investments	4,703,461		
Per statement of net assets - Fiduciary Funds			
Private purpose trust	191,780		
Agency	26,972,084		
 Total Cash and Investments	 \$ 56,369,165		

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing 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 been considered in the calculation of uninsured balances within the custodial credit risk section below.

Investments in the local government investment pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool except U.S. Government and agency securities. The bond provides unlimited coverage on principal losses, reduced by any FDIC and State of Wisconsin Guarantee Fund insurance.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE IV – DETAILED NOTES ON ALL FUNDS**

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**A. DEPOSITS AND INVESTMENTS** (continued)

***Custodial Credit Risk***

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

As of December 31, 2005, \$4,463,484 of the city's total bank balances of \$6,863,484 were exposed to custodial credit risk as uninsured and uncollateralized.

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

As of December 31, 2005, the city's U.S. Treasury Note of \$591,311 was exposed to custodial credit risk as neither insured nor registered and held by counterparty, but not in the City's name.

***Credit and Interest Rate Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Interest rate risk is the risk that changes in interest rate will adversely affect the fair market value of an investment.

As of December 31, 2005 the city had \$41,208,829 invested in LGIP. LGIP is unrated and had a weighted average maturity of 32 days.

As of December 31, 2005 the city's investment in the U.S. Treasury Note had a maturity date of May 15, 2006.

See Note I.D.1. for further information on deposit and investment policies.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

**B. RESTRICTED ASSETS**

The following is a list of restricted assets as of December 31, 2005:

	<u>Restricted Assets</u>	<u>Liabilities Payable from Restricted Assets</u>	<u>Restricted Net Assets</u>
<b>Sewer Utility</b>			
Cash and investments			
Redemption account	\$ 56,776	\$ 26,052	\$ 30,724
Reserve account	409,125	75,000	-
Equipment replacement	559,662	-	559,662
Reserve capacity assessments	1,663,397	-	1,663,397
RCA assessments receivable	902,840	-	902,840
Total Sewer Utility	<u>3,591,800</u>	<u>101,052</u>	<u>3,156,623</u>
<b>Water Utility</b>			
Cash and investments			
Redemption account	185,698	34,844	150,854
Reserve account	490,190	454,926	-
Depreciation account	126,765	-	126,765
Construction funds	976,033	24,452	-
Reserve capacity assessments	235,815	-	235,815
RCA assessments receivable	181,106	9,328	171,778
Total Water Utility	<u>2,195,607</u>	<u>523,550</u>	<u>685,212</u>
Total Business-type Activities	<u>\$ 5,787,407</u>	<u>\$ 624,602</u>	<u>\$ 3,841,835</u>

Below are descriptions of restricted assets:

**Long Term Debt Accounts**

- 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.
- Depreciation – Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.
- Construction – Used to report proceeds of revenue bond issuances that are restricted for use in construction.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

**B. RESTRICTED ASSETS (continued)**

***Water and Sewer Capacity Assessments Account***

The water and sewer utilities established funds to account for capacity assessment levies that are restricted to finance certain system capital costs or related debt service costs.

***Equipment Replacement Account***

The sewer utility established an equipment replacement account to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources and debt covenants.

**C. RECEIVABLES**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes receivable for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components for *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Property taxes receivable for subsequent year	\$ -	\$ 10,939,212	\$ 10,939,212
Advance to Water Utility	1,204,773	-	1,204,773
Special assessments and other	51,419	90,432	141,851
Program revenue collected in advance	-	117,342	117,342
	\$ 1,256,192	\$ 11,146,986	\$ 12,403,178

Significantly all governmental activities receivables are expected to be collected within one year except for advance to the Water Utility.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

**D. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 3,871,054	\$ -	\$ -	\$ 3,871,054
Construction in progress	748,411	475,841	748,411	475,841
Total capital assets not being depreciated	<u>4,619,465</u>	<u>475,841</u>	<u>748,411</u>	<u>4,346,895</u>
Capital assets being depreciated				
Land improvements	1,880,024	888,755	-	2,768,779
Buildings	10,844,461	165,394	-	11,009,855
Machinery and equipment	5,968,095	471,234	266,544	6,172,785
Library collection	1,580,523	111,711	24,845	1,667,389
Infrastructure	10,026,505	1,217,765	-	11,244,270
Total Capital Assets Being Depreciated	<u>30,299,608</u>	<u>2,854,859</u>	<u>291,389</u>	<u>32,863,078</u>
Less: Accumulated depreciation for				
Land improvements	(1,099,517)	(70,820)	-	(1,170,337)
Buildings	(2,552,241)	(295,621)	-	(2,847,862)
Machinery and equipment	(3,137,932)	(574,818)	(255,557)	(3,457,193)
Library collection	(983,631)	(238,198)	-	(1,221,829)
Infrastructure	(275,174)	(262,924)	-	(538,098)
Total Accumulated Depreciation	<u>(8,048,495)</u>	<u>(1,442,381)</u>	<u>(255,557)</u>	<u>(9,235,319)</u>
Net Capital Assets Being Depreciated	<u>22,251,113</u>	<u>1,412,478</u>	<u>35,832</u>	<u>23,627,759</u>
Total Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 26,870,578</u>	<u>\$ 1,888,319</u>	<u>\$ 784,243</u>	<u>\$ 27,974,654</u>

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

**D. CAPITAL ASSETS (continued)**

Depreciation expense was charged to functions as follows:

<b>Governmental Activities</b>		
General government		\$ 208,508
Protection of persons and property		209,201
Highway and transportation, which includes the depreciation of infrastructure		477,815
Economic development		18,280
Education and recreation		<u>528,577</u>
Total Governmental Activities Depreciation Expense		<u>\$ 1,442,381</u>

<b>Business Type Activities</b>	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not being depreciated				
Land	\$ 160,066	\$ -	\$ -	\$ 160,066
Construction in progress	<u>323,670</u>	<u>198,102</u>	<u>100,378</u>	<u>421,394</u>
Total Capital Assets Not Being Depreciated	<u>483,736</u>	<u>198,102</u>	<u>100,378</u>	<u>581,460</u>
Capital Assets being depreciated				
Buildings and improvements	13,153,671	550,032	-	13,703,703
Improvements other than buildings	59,562,326	4,509,810	10,713	64,061,423
Machinery and equipment	<u>2,405,082</u>	<u>150,730</u>	<u>-</u>	<u>2,555,812</u>
Total Capital Assets Being Depreciated	<u>75,121,079</u>	<u>5,210,572</u>	<u>10,713</u>	<u>80,320,938</u>
Less: Accumulated Depreciation				
Buildings and improvements	(3,956,809)	(518,300)	-	(4,475,109)
Improvements other than buildings	(8,202,004)	(728,793)	10,713	(8,920,084)
Machinery and equipment	<u>(1,214,330)</u>	<u>(112,364)</u>	<u>-</u>	<u>(1,326,694)</u>
Total Accumulated Depreciation	<u>(13,373,143)</u>	<u>(1,359,457)</u>	<u>10,713</u>	<u>(14,721,887)</u>
Net Capital Assets Being Depreciation	<u>61,747,936</u>	<u>3,851,115</u>	<u>21,426</u>	<u>65,599,051</u>
Total Business Activities Capital Assets, Net of Depreciation	<u>\$ 62,231,672</u>	<u>\$ 4,049,217</u>	<u>\$ 100,378</u>	<u>\$ 66,180,511</u>

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

**D. CAPITAL ASSETS (continued)**

Depreciation expense was charged to functions as follows:

<b>Business-Type Activities</b>		
Water utility		\$ 413,316
Sewer utility		<u>923,956</u>
	Total Business-Type Activities Depreciation Expense	<u>\$ 1,337,272</u>

Depreciation expense does not agree to the increases in accumulated depreciation as additions to accumulated depreciation include depreciation expense as well as salvage on retired assets.

**E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts:

Receivable Fund	Payable Fund	Amount	Amount Not Due Within One Year
General Fund	Nonmajor Governmental Funds	\$ 38,700	\$ -
Water Utility	General Fund	8,500	-
Advance			
Debt Service Fund	Water Utility	<u>1,204,773</u>	<u>997,384</u>
Subtotal - Fund Financial Statements		1,251,973	997,384
Less: Fund eliminations		(38,700)	-
Less: Government-wide eliminations		<u>(17,000)</u>	-
Total Internal Balances - Government-wide Statement of Net Assets		<u>\$ 1,196,273</u>	<u>\$ 997,384</u>

Receivable Fund	Payable Fund	Amount
Government Activities	Business-type Activities	\$ 1,204,773
Business-type Activities	Government Activities	<u>(8,500)</u>
		<u>\$ 1,196,273</u>

The principal purpose of these interfunds is due to the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the statement of net assets, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

***E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS*** (continued)

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount	Principal Purpose
General Fund	Water Utility	\$ 335,489	Payment in lieu of taxes
Debt Service Fund	Nonmajor Governmental Funds	442,434	Debt service requirements
Nonmajor Governmental Funds	General Fund	110,282	Capital improvements
Nonmajor Governmental Funds	Capital Budget Fund	359,429	Freedom square project reimbursement
Nonmajor Governmental Funds	Nonmajor Governmental Funds	1,233,306	Park and conservation improvements
Sewer Utility	Nonmajor Governmental Funds	<u>587,007</u>	MMSD Subsidy
Subtotal - Fund Financial Statements		3,067,947	
Less: Fund eliminations		(2,145,451)	
Less: Government-wide eliminations		<u>(1,174,014)</u>	
Total Transfers - Government-Wide			
Statement of Activities		<u>\$ (251,518)</u>	

Fund Transferred To	Fund Transferred From	Amount
Governmental Activities	Business-Type Activities	\$ (335,489)
Business-Type Activities	Governmental Activities	<u>587,007</u>
Total		<u>\$ 251,518</u>

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers from the Nonmajor Governmental Funds to the Sewer Utility amounting to \$587,007 represent the use of Tax Increment District Funds to finance the Milwaukee Metropolitan Sewerage District capital charges.

For the statement of activities, interfund transfers within the governmental or business-type activities are netted and eliminated.



**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

***F. DEFERRED DEBITS***

Governmental activities deferred debits are comprised of the following:

Unamortized debt expense (net of accumulated amortization of \$19,165 )	<u>\$ 97,969</u>
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Business-type activities deferred debits are comprised of the following:

	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>Total</u>
Unamortized debt expense			
Sewer (net of accumulated amortization of \$4,952)	\$ 84,190	\$ -	\$ 84,190
Water (net of accumulated amortization of \$179,169)	-	101,835	101,835
Unamortized maintenance costs			
Sewer (net of accumulated amortization of \$220,977)	221,153	-	221,153
Water (net of accumulated amortization of \$97,880)	<u>-</u>	<u>24,647</u>	<u>24,647</u>
 Total Deferred Debits	 <u>\$ 305,343</u>	 <u>\$ 126,482</u>	 <u>\$ 431,825</u>

Unamortized extraordinary loss MMSD (Milwaukee Metropolitan Sewerage District) contract represents the remaining costs of a contract that was terminated in 1999. These costs were amortized to expense through 2005. Amortization expense for 2005 was \$316,477.

The Sewer Utility began a Sanitary Manhole Rehabilitation Program in 2000. The total costs incurred in 2000 through 2002 were approximately \$442,000. These costs have been reflected as a deferred debit and are amortized on a straight-line basis over a period of ten (10) years. Annual amortization expense was \$44,231 in 2005.

The above extraordinary loss and maintenance costs have been recorded as assets because of the benefit which will result from the inclusion of such costs in the future authorized rate structure.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

**G. LONG-TERM OBLIGATIONS**

**General Obligation Debt**

Long-term obligations activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Notes Payable					
General obligation debt	\$ 23,403,178	\$ 985,000	\$ 1,468,727	\$ 22,919,451	\$ 1,576,063
Community development lease revenue bonds	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>	<u>-</u>
Total Bonds and Notes Payable	25,403,178	985,000	1,468,727	24,919,451	1,576,063
Other Liabilities					
Accrued compensted absences - vacation and sick leave	<u>2,611,738</u>	<u>233,675</u>	<u>134,455</u>	<u>2,710,958</u>	<u>130,000</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 28,014,916</u>	<u>\$ 1,218,675</u>	<u>\$ 1,603,182</u>	<u>\$ 27,630,409</u>	<u>\$ 1,706,063</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds and Notes Payable					
Revenue Bonds	\$ 13,350,000	\$ 4,225,000	\$ 8,860,000	\$ 8,715,000	\$ 300,000
General obligation debt	-	600,000	-	600,000	18,925
Advances from municipality	1,402,904	-	198,131	1,204,773	207,389
Refundings-Gains/(Losses)	<u>-</u>	<u>(453,327)</u>	<u>37,777</u>	<u>(415,550)</u>	<u>-</u>
Total Business-type Activities Long-Term Liabilities	<u>\$ 14,752,904</u>	<u>\$ 4,371,673</u>	<u>\$ 9,095,908</u>	<u>\$ 10,104,223</u>	<u>\$ 526,314</u>

All general obligation notes and bonds payable are backed by the full faith and credit of the city. Notes and bonds in the governmental funds will be retired by future property tax levies or tax increments accumulated by the debt service fund. Business-type activities debt is payable by revenues from user fees of those funds or, if the revenues are not sufficient, by other sources of revenues.

In accordance with Wisconsin Statutes, total general obligation indebtedness of the city may not exceed 5% of the equalized value of taxable property within the city's jurisdiction. The debt limit as of December 31, 2005, was \$112,024,480. Total general obligation debt outstanding at year end was \$23,519,451.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

**G. LONG-TERM OBLIGATIONS (continued)**

**General Obligation Debt**

	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/05
Governmental Activities						
General Obligation Debt						
Corporate purpose bonds	12/1/97	4.50-5.00%	6/1/06-17	6/1&12/1	\$ 6,125,000	\$ 6,125,000
Promissory notes	11/23/99	None	1/31/00-08	None	122,720	40,904
Promissory notes	12/1/99	4.50-5.00	12/1/01-09	6/1&12/1	2,600,000	1,160,000
Promissory notes	1/9/01	4.20	1/31/01-09	1/31	291,485	133,547
Promissory notes	3/1/01	3.50-4.20	6/1/06-17	3/1& 9/1	2,250,000	1,425,000
Promissory notes	12/1/01	4.00-4.30	6/1/04-11	6/1&12/1	1,900,000	1,625,000
Street improvement bonds	12/1/01	3.15-4.85	12/1/05-20	6/1&12/1	3,150,000	3,050,000
Promissory notes	12/1/02	2.50-3.85	6/1/05-12	6/1&12/1	1,850,000	1,700,000
Corporate purpose bonds	2/1/03	3.70-4.10	12/1/06-20	6/1&12/1	4,100,000	4,100,000
Promissory notes	3/1/04	3.40-4.35	3/1/09-22	3/1& 9/1	2,090,000	2,090,000
Fire department refunding bonds	3/1/04	2.00-2.50	3/1/05-08	3/1& 9/1	935,000	485,000
Promissory notes	3/1/05	2.60-3.70	3/1/06-15	3/1& 9/1	985,000	<u>985,000</u>
Total Governmental Activities - General Obligation Debt						<u>\$ 22,919,451</u>

	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/05
Business-type activities						
General obligation debt	3/1/05	2.60-3.70	3/1/06-15	3/1 & 9/1	\$ 600,000	<u>\$ 600,000</u>

Debt service requirements to maturity are as follows:

	Governmental Type Long-Term Debt		Business Type Long-Term Debt	
	Principal	Interest	Principal	Interest
2006	\$ 1,576,063	\$ 851,735	\$ 18,925	\$ 20,057
2007	1,632,380	901,123	18,925	19,550
2008	1,803,752	831,488	18,925	19,011
2009	1,887,619	753,814	37,850	18,155
2010	1,883,754	667,403	66,238	16,518
2011-2015	7,920,883	2,263,040	439,137	42,695
2016-2020	5,805,000	717,813	-	-
2021-2022	410,000	17,953	-	-
Totals	<u>\$ 22,919,451</u>	<u>\$ 7,004,370</u>	<u>\$ 600,000</u>	<u>\$ 135,986</u>

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

**G. LONG-TERM OBLIGATIONS (continued)**

**COMMUNITY DEVELOPMENT LEASE REVENUE BONDS**

In June 2003, the Community Development Authority of the City of Muskego issued \$2.0 million Community Development Revenue Bonds described above. The bonds were issued by the Authority, pursuant to Section 66.1335 of the Wisconsin Statutes, for the purpose of financing a blight elimination program in a designated redevelopment area in the city consisting of project costs listed in the city's Tax Incremental District No 9. The bonds do not constitute any indebtedness of the city. The bonds are not general obligations of the authority and do not constitute indebtedness within any constitutional or statutory limitation or provision. The bonds are payable solely from the revenue and income derived by the Authority pursuant to the terms of a lease by and between the authority and the city.

In conjunction with the issuance of the notes, the authority and the city entered into a lease agreement amounting to \$2.0 million. The lease generally provides for payments by the city to the authority in amounts sufficient to pay the principal and interest payments on the bonds as they come due. It is the city's intent to annually budget the rental payments under the lease, and finance such payments with tax increments generated by the Tax Incremental District No. 9. If the increment is insufficient to make payments under the lease, the city expects and anticipates that it will appropriate funds from other available revenues to fund any such shortfall.

The City of Muskego Community Development Authority is part of the primary government for financial reporting purposes and reported as a blended component unit. Consequently, the authority's debt and assets are reported as part of the city's debt and assets. Debt service activity is reported in the City's Debt Service Fund. Lease arrangements between the city and the authority have been eliminated for financial statement reporting purposes.

Community Development Lease Revenue Bonds at December 31, 2005 consist of the following:

Governmental Activities Community Development Lease Revenue Bonds	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/05
Lease revenue bonds	6/10/03	2.00-4.30%	6/1/07-21	6/1 & 12/1	\$ 2,000,000	<u>\$ 2,000,000</u>

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

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**G. LONG-TERM OBLIGATIONS (continued)**

**COMMUNITY DEVELOPMENT LEASE REVENUE BONDS**

Debt service requirements to maturity are as follows:

	Governmental Activities Community Development Lease Revenue Bonds	
	Principal	Interest
2006	\$ -	\$ 75,655
2007	75,000	74,905
2008	85,000	73,178
2009	100,000	70,900
2010	100,000	68,100
2011-2015	590,000	286,915
2016-2020	850,000	150,225
2021	200,000	4,750
Totals	<u>\$ 2,000,000</u>	<u>\$ 804,629</u>

**OTHER DEBT INFORMATION**

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability attributable to governmental activities will be primarily liquidated by the general fund.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

**G. LONG-TERM OBLIGATIONS (continued)**

***Water and Sewer System Revenue Bonds***

The Water and Sewer Utilities have \$8,715,000 in Water and Sewer System Revenue Bonds outstanding at December 31, 2005. The bonds are not general obligations of the City of Muskego and are payable from a first pledge of the income and revenues derived from the operations of the systems in accordance with the resolution adopted in conjunction with the issuance of the debt. The resolution creates a statutory mortgage lien upon the systems and its revenues in accordance with Section 66 of Wisconsin Statutes. The utilities have established certain funds, as described in the resolution, to account for the allocation of each utility's gross revenue and has deposited funds in compliance with the bond covenants.

There are a number of limitations and restrictions contained in the bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

Revenue bonds payable at December 31, 2005 consists of the following:

	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/05
<u>Sewer Utility</u>						
Revenue Bonds	3/1/05	3.50-4.00%	5/1/06-20	5/1&11/1	\$ 4,225,000	\$ 4,225,000
<u>Water Utility</u>						
Revenue Bonds	2/ 1/99	3.60-4.90	5/ 1/00-19	5/1&11/1	2,015,000	1,635,000
Revenue Bonds	1/1/00	4.70-5.60	5/ 1/02-13	5/1&11/1	950,000	720,000
Revenue Bonds	12/1/01	4.50-4.90	5/ 1/03-20	5/1&11/1	2,300,000	<u>2,135,000</u>
Total Business-Type Activities Revenue Debt						<u>\$ 8,715,000</u>

Debt service requirements to maturity are as follows:

	Business-type Activities Revenue Debt	
	Principal	Interest
2006	\$ 300,000	\$ 364,059
2007	500,000	347,523
2008	530,000	326,594
2009	535,000	304,688
2010	570,000	281,705
2011-2015	3,060,000	1,020,638
2016-2020	<u>3,220,000</u>	<u>349,668</u>
Totals	<u>\$ 8,715,000</u>	<u>\$ 2,994,876</u>

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

**G. LONG-TERM OBLIGATIONS (continued)**

**Advances from Municipality**

Advances from the City of Muskego payable at December 31, 2005 consists of the following:

	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Principal Payable</u>	<u>Interest Payable</u>	<u>Original Amount</u>	<u>Balance 12/31/05</u>
<u>Water Utility</u>						
Advance from municipality	12/31/91	6.25%	12/31/92-11	12/31	\$4,001,675	\$ 1,104,773
Advance from municipality	2/1/98	4.25	6/1/99-07	6/1 & 12/1	445,000	<u>100,000</u>
Total Advances from Municipality						<u>\$ 1,204,773</u>

Debt service requirements to maturity are as follows:

	<u>Business-type Activities Advance from Municipality</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 207,389	\$ 72,311
2007	217,226	60,306
2008	177,677	48,760
2009	188,782	37,655
2010	200,581	25,856
2011-2015	<u>213,118</u>	<u>13,320</u>
Totals	<u>\$ 1,204,773</u>	<u>\$ 258,208</u>

**Advance Refunding**

On March 1, 2005, the sewer utility issued \$4,225,000 in revenue bonds with an average interest rate of 3.67 percent to advance refund \$8,655,000 of outstanding revenue bonds with an average interest rate of 4.82 percent. The net proceeds of \$4,133,014 (after payment for underwriting fees, insurance and other issuance costs less accrued interest totaling \$91,986) plus an additional \$4,836,315 of available monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the revenue bonds. As a result, the revenue bonds are considered to be defeased and the liability for those bonds has been removed from these financial statements.

The cash flow requirements on the refunded bonds and notes prior to the advance refunding was \$11,844,370 from 2005 through 2019. The cash flow requirements on the 2005 refunding bonds are \$5,665,432 from 2005 through 2020. These cash flow requirements in addition to \$4,836,315 in required contributions by the sewer utility, result in total cash flow requirements on the 2005 refunding bonds of \$10,501,747. The advance refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$208,565.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

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**G. LONG-TERM OBLIGATIONS (continued)**

***Deferred Amount on Refunding***

Deferred amounts on refunding arise from advance refunding of debt. The difference between the cost of the securities placed in trust for future payment of refunded debt and the net carrying value of that debt is deferred and amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The unamortized amount is reported as a deduction from debt payable in the government-wide and proprietary fund statements. Amortization for 2005 was \$37,777 for the sewer utility.

**H. NET ASSETS / FUND BALANCES**

***Governmental Activities***

Net assets reported on the government wide statement of net assets at December 31, 2005 includes the following:

Invested in capital assets, net of related debt	
Land	\$ 3,871,054
Other capital assets, net of accumulated depreciation	23,627,759
Construction in progress	475,841
Less: related long-term debt outstanding	(24,919,451)
Plus: unspent capital related debt proceeds	2,241,005
Plus: non-capital debt proceeds	<u>4,476,000</u>
Total Invested in Capital Assets	<u>9,772,208</u>
Restricted for:	
Tax Increment District purposes	2,789,962
Other debt service	<u>826,939</u>
Total Restricted Net Assets	<u>3,616,901</u>
Unrestricted	<u>5,081,237</u>
Total Governmental Activities Net Assets	<u>\$ 18,470,346</u>



City of Muskego

Notes to Financial Statements  
December 31, 2005

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**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

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**H. NET ASSETS / FUND BALANCES (continued)**

**Governmental Funds**

Governmental fund balances reported on the fund financial statements at December 31, 2005 include the following:

**Unreserved**

Major Funds

General Fund

Designated for working capital	\$ 1,000,000
Designated for 2006 budget appropriations	100,000
Undesignated	<u>2,660,718</u>
Total General Fund	<u>3,760,718</u>

Landfill Fund

Designated for specific use	1,000,000
Undesignated	<u>622,077</u>
Total Landfill Fund	<u>1,622,077</u>

Capital Budget Fund

Designated for 2006 budget appropriations	280,000
Designated for specific use	<u>2,538,870</u>
Total Capital Budget Fund	<u>2,818,870</u>

Non-Major Funds

All other Special Revenue Funds

Designated for 2006 budget appropriations	176,833
Designated for specific use	121,833
Undesignated	<u>3,513,467</u>
Total Special Revenue Funds	<u>3,812,133</u>

All other Capital Projects Funds

Designated for 2006 budget appropriations	38,500
Designated for specific use	810,336
Undesignated	<u>88,806</u>
Total Capital Projects Funds	<u>937,642</u>

Total Unreserved Fund Balance	<u>\$ 12,951,440</u>
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**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

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**H. NET ASSETS / FUND BALANCES (continued)**

Net assets reported on the government wide statement of net assets at December 31, 2005 includes the following:

***Business-type Activities***

Invested in capital assets, net of related debt	
Land	\$ 160,066
Other capital assets, net of accumulated depreciation	65,599,051
Construction in progress	421,394
Less: related long-term debt outstanding	(10,104,223)
Add: Unspent debt proceeds	976,033
Add: Unamortized debt discount and issue costs	186,025
Add: Non-capital debt proceeds	899,314
Total Invested in Capital Assets	<u>58,137,660</u>
Restricted for:	
Debt service	181,578
Depreciation and equipment replacement funds	686,427
Water and sewer capacity assessment funds	<u>2,973,830</u>
Total Restricted Net Assets	<u>3,841,835</u>
Unrestricted	<u>7,794,378</u>
Total Business-type Activities Net Assets	<u>\$ 69,773,873</u>

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE V – OTHER INFORMATION**

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***A. EMPLOYEES' RETIREMENT SYSTEM***

All eligible City of Muskego employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the General category are required by statute to contribute 5.8% of their salary (2.8% for Executives and Elected Officials, 4.9% for Protective Occupations with Social Security, and 3.3% for Protective Occupations without Social Security) to the plan. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for employees covered by the system for the year ended December 31, 2005 was \$6,484,541; the employer's total payroll was \$6,899,792. The total required contribution for the year ended December 31, 2005 was \$775,583 or 12.0% of covered payroll. Of this amount, 100% was contributed by the employer for the current year. Total contributions for the years ending December 31, 2004 and 2003 were \$704,196 and \$675,830, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 (62 for elected officials and 55 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 is the average of the employee's three highest years 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 5 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 System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of Wisconsin Statutes. The System issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

The city had no pension related debt as of December 31, 2005.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE V – OTHER INFORMATION (continued)**

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***B. RISK MANAGEMENT***

The city 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; and environmental damages for which the city purchases commercial insurance. There have been no significant reductions in insurance coverage for any risk of loss in the past year and settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

***C. ANTENNA LEASE AGREEMENTS***

In 2001 the city entered into lease agreements with four cellular phone companies to lease a Utility water tower as a site for cellular antennas. The initial term of the leases was 5 years with the right to extend the leases for four additional 5-year terms.

Rental income from rental of the water tower reported in other water revenues amounted to \$76,240.

Future minimum rentals related to these leases and expected future extensions are as follows:

2006	\$ <u>51,497</u>
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***D. WATER AND SEWER UTILITY RATES***

In June 2005 the water utility's application with the Wisconsin Public Service Commission to increase water rates was approved. The new rates were expected to increase annual operating revenues by approximately \$100,000. The utility implemented the new rates effective October 1, 2005, and there have been no subsequent changes to the rates.

Effective January 1, 2005, the sewer rate for a single family residence was \$139 per quarter or \$555 per year. All industrial and commercial users were billed on actual metered use at \$4.93 per 1,000 gallons plus a connection charge of \$54.84 per quarter.

Effective January 1 2006, the sewer rate for a single family residence is \$160 per quarter or \$640 per year. All industrial and commercial users will be billed on actual metered use at \$5.93 per 1,000 gallons plus a connection charge of \$65.42 per quarter.

**City of Muskego**

Notes to Financial Statements  
December 31, 2005

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**NOTE V – OTHER INFORMATION (continued)**

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***E. CONTINGENT LIABILITIES AND COMMITMENTS***

***ENVIRONMENTAL PROTECTION AGENCY***

In 1983, the Environmental Protection Agency placed the Muskego Sanitary Landfill on the National Superfund list. This prompted an investigation into alleged ground water contamination emitting from the site. As a result of the initial investigation, the Environmental Protection Agency named the City of Muskego as one of approximately 30 potentially responsible parties, in the owner/operator group.

Another potentially responsible party, Waste Management of Wisconsin, Inc., has headed the negotiations with the EPA relative to the preparation of a Remedial Investigation/Feasibility Study. The City of Muskego is not a party to this stipulation regarding payment for this Study, which has not yet been completed.

At December 31, 2005, the nature and extent of a potential liability for payment for the study as well as payment for possible clean up costs is unknown. The city has tendered the defense to its insurance carriers but has not been advised as to its carrier's position with respect to the potential liability.

In addition, the city has received Notices of Claims and Claims from other property owners alleging the city's involvement with ground water contamination. The Notices have been forwarded to the city's insurance carrier and the questions of coverage, liability and damages are, as yet, unresolved.

The city has an agreement with Waste Management wherein Waste Management shall indemnify the city from any potential Superfund liability.

***OTHER CONTINGENCIES***

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

## **COMBINING FINANCIAL STATEMENTS**

**City of Muskego**  
Combining Balance Sheet  
Non-major Governmental Funds  
Special Revenue Funds  
December 31, 2005

	Tax Increment District Funds	Park Fund	Sewer Utility Special Debt Service Fund	Special Assessment Fund	Other Grant Fund	Refuse/ Recycling Fund	Revolving Loan Fund	Landfill Standing Committee Funds	Stormwater Management Fund	Well Testing Reserve Fund	Land Open Space Conservation Fund
<b>ASSETS</b>											
Cash and cash equivalents	\$ 1,010,062	\$ 404,699	\$ 1,421,411	\$ 4,094	\$ 62,073	\$ 358,433	\$ 457,212	\$ 58,368	\$ 494,297	\$ 205,066	\$ 309,522
Accounts receivable - net	-	-	-	-	-	188,673	98,499	-	-	-	-
Special assessments	-	-	33,930	-	-	-	-	-	-	-	-
Deferred special assessments	90,432	-	-	-	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	86	-	-	-	-	200,820
Taxes receivable	142,787	-	17,443	-	-	25,143	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,243,281</b>	<b>\$ 404,699</b>	<b>\$ 1,472,784</b>	<b>\$ 4,094</b>	<b>\$ 62,073</b>	<b>\$ 572,335</b>	<b>\$ 555,711</b>	<b>\$ 58,368</b>	<b>\$ 494,297</b>	<b>\$ 205,066</b>	<b>\$ 510,342</b>
<b>LIABILITIES AND FUND BALANCES</b>											
<b>Liabilities</b>											
Accounts payable	\$ 5,767	\$ 87,944	\$ 500	\$ -	\$ 235	\$ 62,088	\$ -	\$ -	\$ 69,386	\$ -	\$ 1,085
Due to other funds	-	-	-	-	-	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-	320,000	-	-	-	-
Deferred revenue	233,219	-	51,373	-	-	-	-	10,000	-	-	-
<b>Total Liabilities</b>	<b>238,986</b>	<b>87,944</b>	<b>51,873</b>	<b>-</b>	<b>235</b>	<b>62,088</b>	<b>320,000</b>	<b>10,000</b>	<b>69,386</b>	<b>-</b>	<b>1,085</b>
<b>Fund Balances</b>											
<b>Reserved for:</b>											
Encumbrances	-	159,286	-	-	-	-	-	-	24,534	-	-
Revolving loan purposes	-	-	-	-	-	-	235,711	-	-	-	-
Non-current receivables	-	-	-	-	-	-	-	-	-	-	-
Tax increment financing purposes	1,004,295	-	1,420,911	-	-	-	-	-	-	-	-
<b>Unreserved</b>											
Designated for 2006 budget appropriations	-	-	-	-	44,890	-	-	600	-	-	75,014
Designated for specific use	-	-	-	4,094	-	-	-	-	-	-	-
Undesignated	-	157,469	-	-	16,948	510,247	-	47,768	400,377	205,066	434,243
<b>Total Fund Balances</b>	<b>1,004,295</b>	<b>316,755</b>	<b>1,420,911</b>	<b>4,094</b>	<b>61,838</b>	<b>510,247</b>	<b>235,711</b>	<b>48,368</b>	<b>424,911</b>	<b>205,066</b>	<b>509,257</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,243,281</b>	<b>\$ 404,699</b>	<b>\$ 1,472,784</b>	<b>\$ 4,094</b>	<b>\$ 62,073</b>	<b>\$ 572,335</b>	<b>\$ 555,711</b>	<b>\$ 58,368</b>	<b>\$ 494,297</b>	<b>\$ 205,066</b>	<b>\$ 510,342</b>

**City of Muskego**

Combining Balance Sheet  
 Non-major Governmental Funds  
 Special Revenue Funds  
 December 31, 2005  
 (Concluded)

	Rescue Fund	Compensated Absences Fund	Recreational Ticket Fund	Cable TV Fund	Capital Improvements Fund	Community Development Authority Fund	Federated Library System Fund	Big Muskego Lake- Bass Bay Protection and Rehabilitation District	Non-Major Special Revenue Fund Total
<b>ASSETS</b>									
Cash and cash equivalents	\$ -	\$ 1,104,886	\$ 2,312	\$ 192,956	\$ 341,487	\$ 76,811	\$ 54,327	\$ 83,555	\$ 6,641,571
Accounts receivable - net	212,952	-	-	32,829	-	-	-	-	532,953
Special assessments	-	-	-	-	-	-	-	-	33,930
Deferred special assessments	-	-	-	-	-	-	-	-	90,432
Due from other governments	-	-	-	-	-	-	-	2,880	203,786
Taxes receivable	-	-	-	-	-	-	-	-	185,373
<b>TOTAL ASSETS</b>	<b>\$ 212,952</b>	<b>\$ 1,104,886</b>	<b>\$ 2,312</b>	<b>\$ 225,785</b>	<b>\$ 341,487</b>	<b>\$ 76,811</b>	<b>\$ 54,327</b>	<b>\$ 86,435</b>	<b>\$ 7,688,045</b>
<b>LIABILITIES AND FUND EQUITY</b>									
<b>Liabilities</b>									
Accounts payable	\$ 18,925	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,588	\$ -	\$ 247,518
Due to other funds	38,700	-	-	-	-	-	-	-	38,700
Due to other governments	-	-	-	-	-	-	-	-	320,000
Deferred revenue	-	-	-	-	-	-	-	45	294,637
<b>Total Liabilities</b>	<b>57,625</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,588</b>	<b>45</b>	<b>900,855</b>
<b>Fund Balances</b>									
<b>Reserved for:</b>									
Encumbrances	-	-	-	-	-	-	-	-	183,820
Revolving loan purposes	-	-	-	-	-	-	-	-	235,711
Non-current receivables	130,320	-	-	-	-	-	-	-	130,320
Tax increment financing purposes	-	-	-	-	-	-	-	-	2,425,206
<b>Unreserved:</b>									
Designated for 2006 budget appropriations	-	-	-	3,534	-	43,512	-	9,283	176,833
Designated for specific use	-	-	-	-	-	-	52,739	65,000	121,833
Undesignated	25,007	1,104,886	2,312	222,251	341,487	33,299	-	12,107	3,513,467
<b>Total Fund Balances</b>	<b>155,327</b>	<b>1,104,886</b>	<b>2,312</b>	<b>225,785</b>	<b>341,487</b>	<b>76,811</b>	<b>52,739</b>	<b>86,390</b>	<b>6,787,190</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 212,952</b>	<b>\$ 1,104,886</b>	<b>\$ 2,312</b>	<b>\$ 225,785</b>	<b>\$ 341,487</b>	<b>\$ 76,811</b>	<b>\$ 54,327</b>	<b>\$ 86,435</b>	<b>\$ 7,688,045</b>



**City of Muskego**

Combining Balance Sheet  
 Non-major Governmental Funds  
 Capital Projects Funds  
 December 31, 2005

	Industrial Park Expansion Fund	Tax Increment Districts #'s 8 & 9	FBI Shooting Range	Capital Equipment Fund	Non-Major Capital Projects Fund Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 88,806	\$ 366,006	\$ 7,302	\$ 508,741	\$ 970,855
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities					
Accounts payable	\$ -	\$ 1,250	\$ -	\$ 31,963	\$ 33,213
<b>Fund equity - fund balances:</b>					
Unreserved:					
Designated for 2006 budget appropriations	-	-	-	38,500	38,500
Designated for specific use	-	364,756	7,302	438,278	810,336
Undesignated	88,806	-	-	-	88,806
Total Fund Balances	88,806	364,756	7,302	476,778	937,642
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 88,806	 \$ 366,006	 \$ 7,302	 \$ 508,741	 \$ 970,855

**City of Muskego**

Combining Balance Sheet  
Non-major Governmental Funds  
December 31, 2005

	Non-Major Special Revenue Fund Total	Non-Major Capital Projects Fund Total	Non-major Governmental Funds Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,641,571	\$ 970,855	\$ 7,612,426
Accounts receivable - net	532,953	-	532,953
Special assessments	33,930	-	33,930
Deferred special assessments	90,432	-	90,432
Due from other governments	203,786	-	203,786
Taxes receivable	185,373	-	185,373
<b>TOTAL ASSETS</b>	<u><u>\$ 7,688,045</u></u>	<u><u>\$ 970,855</u></u>	<u><u>\$ 8,658,900</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 247,518	\$ 33,213	\$ 280,731
Due to other funds	38,700	-	38,700
Due to other governments	320,000	-	320,000
Deferred revenue	294,637	-	294,637
<b>Total Liabilities</b>	<u>900,855</u>	<u>33,213</u>	<u>934,068</u>
<b>Fund Balances</b>			
Reserved for:			
Revolving loan	235,711	-	235,711
Non-current receivables	130,320	-	130,320
Encumbrances	183,820	-	183,820
Tax increment financing purposes	2,425,206	-	2,425,206
Unreserved:			
Designated for 2006 budget appropriations	176,833	38,500	215,333
Designated for specific use	121,833	810,336	932,169
Undesignated	3,513,467	88,806	3,602,273
<b>Total Fund Balances</b>	<u>6,787,190</u>	<u>937,642</u>	<u>7,724,832</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 7,688,045</u></u>	<u><u>\$ 970,855</u></u>	<u><u>\$ 8,658,900</u></u>

**City of Muskego**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Non-Major Governmental Funds  
 Special Revenue Funds  
 For the Year Ended December 31, 2005

	Tax Increment District Funds	Park Funds	Sewer Utility Special Debt Service Funds	Special Assessment Fund	Other Grants Fund	Refuse/ Recycling Fund	Revolving Loan Fund	Landfill Standing Committee Fund	Stormwater Management Fund	Well Testing Reserve Fund	Land Open Space Conservation Fund
<b>REVENUES</b>											
Taxes	\$ 128,359	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	4,269	9,562	-	-	15,089	94,484	-	-	-	-	346,235
Public charges for services	-	13,981	-	-	-	722,639	-	-	-	-	52,154
Public improvement	-	206,131	41,192	925	-	-	-	-	-	-	-
Commercial revenue	33,330	75,959	45,039	109	2,690	93,705	7,352	10,563	10,382	5,652	14,074
Total Revenues	<u>165,958</u>	<u>305,633</u>	<u>86,231</u>	<u>1,034</u>	<u>17,779</u>	<u>910,828</u>	<u>7,352</u>	<u>10,563</u>	<u>10,382</u>	<u>5,652</u>	<u>412,463</u>
<b>EXPENDITURES</b>											
Current											
General government	38,167	-	6,000	-	-	-	-	6,789	-	-	-
Public Safety	-	-	-	-	15,089	-	-	-	-	-	-
Health and sanitation	-	-	-	-	54,721	814,808	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-	-	-	39,416
Education and recreation	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	-	708,780	-	-	-	-	-	-	167,499	-	3,348
Total Expenditures	<u>38,167</u>	<u>708,780</u>	<u>6,000</u>	<u>-</u>	<u>69,810</u>	<u>814,808</u>	<u>-</u>	<u>6,789</u>	<u>167,499</u>	<u>-</u>	<u>42,764</u>
Excess (deficiency) of revenues over expenditures	<u>127,791</u>	<u>(403,147)</u>	<u>80,231</u>	<u>1,034</u>	<u>(52,031)</u>	<u>96,020</u>	<u>7,352</u>	<u>3,774</u>	<u>(157,117)</u>	<u>5,652</u>	<u>369,699</u>
<b>OTHER FINANCING SOURCES (USES)</b>											
Transfers in	202,037	188,839	-	-	12,250	-	-	-	482,875	33,000	188,839
Transfers out	(682,790)	-	(202,037)	-	-	-	-	-	(147,735)	-	(200,820)
Total Other Financing Source (Uses)	<u>(480,753)</u>	<u>188,839</u>	<u>(202,037)</u>	<u>-</u>	<u>12,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>335,140</u>	<u>33,000</u>	<u>(11,981)</u>
Net Change in Fund Balance	(352,962)	(214,308)	(121,806)	1,034	(39,781)	96,020	7,352	3,774	178,023	38,652	357,718
FUND BALANCES - Beginning of Year	<u>1,357,257</u>	<u>531,063</u>	<u>1,542,717</u>	<u>3,060</u>	<u>101,619</u>	<u>414,227</u>	<u>228,359</u>	<u>44,594</u>	<u>246,888</u>	<u>166,414</u>	<u>151,539</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 1,004,295</u>	<u>\$ 316,755</u>	<u>\$ 1,420,911</u>	<u>\$ 4,094</u>	<u>\$ 61,838</u>	<u>\$ 510,247</u>	<u>\$ 235,711</u>	<u>\$ 48,368</u>	<u>\$ 424,911</u>	<u>\$ 205,066</u>	<u>\$ 509,257</u>

**City of Muskego**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Non-Major Governmental Funds  
 Special Revenue Funds  
 For the Year Ended December 31, 2005  
 (Concluded)

	Rescue Fund	Compensated Absences Fund	Recreational Ticket Fund	Cable TV Fund	Capital Improvement Fund	Community Development Authority Fund	Federated Library System Fund	Big Muskego Lake-Bass Bay Protection and Rehabilitation District	Non-Major Special Revenue Fund Total
<b>REVENUES</b>									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 128,359
Intergovernmental revenues	-	-	-	-	-	-	53,561	46,500	569,700
Public charges for services	319,074	-	38,470	-	-	-	-	27,960	1,174,278
Public improvement	-	-	-	-	-	-	-	-	248,248
Commercial revenue	3,487	35,254	52	127,595	9,897	7,952	8,813	1,369	493,274
<b>Total Revenues</b>	<b>322,561</b>	<b>35,254</b>	<b>38,522</b>	<b>127,595</b>	<b>9,897</b>	<b>7,952</b>	<b>62,374</b>	<b>75,829</b>	<b>2,613,859</b>
<b>EXPENDITURES</b>									
Current									
General government	-	142,497	-	16,787	-	-	-	-	210,240
Public Safety	290,012	-	-	-	-	-	-	-	305,101
Health and sanitation	-	-	-	-	-	-	-	-	869,529
Economic development	-	-	-	-	-	17,821	-	113,977	171,214
Education and recreation	-	-	37,279	-	-	-	42,678	-	79,957
Capital Outlay	-	-	-	-	29,430	-	-	-	909,057
<b>Total Expenditures</b>	<b>290,012</b>	<b>142,497</b>	<b>37,279</b>	<b>16,787</b>	<b>29,430</b>	<b>17,821</b>	<b>42,678</b>	<b>113,977</b>	<b>2,545,098</b>
Excess (deficiency) of revenues over expenditures	32,549	(107,243)	1,243	110,808	(19,533)	(9,869)	19,696	(38,148)	68,761
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in	-	-	-	-	52,032	66,128	-	-	1,226,000
Transfers out	-	-	-	-	-	(20,128)	-	-	(1,253,510)
<b>Total Other Financing Source (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>52,032</b>	<b>46,000</b>	<b>-</b>	<b>-</b>	<b>(27,510)</b>
<b>Net Change in Fund Balance</b>	<b>32,549</b>	<b>(107,243)</b>	<b>1,243</b>	<b>110,808</b>	<b>32,499</b>	<b>36,131</b>	<b>19,696</b>	<b>(38,148)</b>	<b>41,251</b>
<b>FUND BALANCES - Beginning of Year</b>	<b>122,778</b>	<b>1,212,129</b>	<b>1,069</b>	<b>114,977</b>	<b>308,988</b>	<b>40,680</b>	<b>33,043</b>	<b>124,538</b>	<b>6,745,939</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 155,327</b>	<b>\$ 1,104,886</b>	<b>\$ 2,312</b>	<b>\$ 225,785</b>	<b>\$ 341,487</b>	<b>\$ 76,811</b>	<b>\$ 52,739</b>	<b>\$ 86,390</b>	<b>\$ 6,787,190</b>

**City of Muskego**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Non-Major Governmental Funds  
 Capital Projects Funds  
 For the Year Ended December 31, 2005

	Industrial Park Expansion Fund	Tax Increment District #s 8 & 9	FBI Shooting Range	Capital Equipment Fund	Non-Major Capital Projects Fund Total
<b>REVENUES</b>					
Investment income	\$ 2,679	\$ 6,775	\$ -	\$ 2,100	\$ 11,554
<b>EXPENDITURES</b>					
Capital Outlay					
General government	-	-	-	46,847	46,847
Public safety	-	-	-	89,557	89,557
Public works	-	5,808	-	-	5,808
Health and sanitation	-	80,656	-	-	80,656
Economic development	1,155	1,250	-	-	2,405
Education and recreation	-	-	-	22,850	22,850
Total Expenditures	<u>1,155</u>	<u>87,714</u>	<u>-</u>	<u>159,254</u>	<u>248,123</u>
Excess (deficiency) of revenues over expenditures	1,524	(80,939)	-	(157,154)	(236,569)
<b>OTHER FINANCING SOURCES</b>					
Transfers in	<u>-</u>	<u>361,333</u>	<u>-</u>	<u>115,684</u>	<u>477,017</u>
Net Change in Fund Balance	1,524	280,394	-	(41,470)	240,448
FUND BALANCES - Beginning of Year	<u>87,282</u>	<u>84,362</u>	<u>7,302</u>	<u>518,248</u>	<u>697,194</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 88,806</u>	<u>\$ 364,756</u>	<u>\$ 7,302</u>	<u>\$ 476,778</u>	<u>\$ 937,642</u>

**City of Muskego**

Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
 Non-Major Governmental Funds  
 For the Year Ended December 31, 2005

	Non-Major Special Revenue Fund Total	Non-Major Capital Projects Fund Total	Non-major Governmental Funds Total
<b>REVENUES</b>			
Taxes	\$ 128,359	\$ -	\$ 128,359
Intergovernmental	569,700	-	569,700
Public charges for services	1,174,278	-	1,174,278
Public improvement	248,248	-	248,248
Commercial revenue	493,274	11,554	504,828
Total Revenues	<u>2,613,859</u>	<u>11,554</u>	<u>2,625,413</u>
<b>EXPENDITURES</b>			
Current:			
General government	210,240	-	210,240
Public safety	305,101	-	305,101
Health and sanitation	869,529	-	869,529
Economic development	171,214	-	171,214
Education and recreation	79,957	-	79,957
Capital Outlay	909,057	248,123	1,157,180
Total Expenditures	<u>2,545,098</u>	<u>248,123</u>	<u>2,793,221</u>
Excess (deficiency) of revenues over expenditures	<u>68,761</u>	<u>(236,569)</u>	<u>(167,808)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	1,226,000	477,017	1,703,017
Transfers out	(1,253,510)	-	(1,253,510)
Total Other Financing Source (Uses)	<u>(27,510)</u>	<u>477,017</u>	<u>449,507</u>
Net Change in Fund Balance	41,251	240,448	281,699
FUND BALANCES - Beginning of Year	<u>6,745,939</u>	<u>697,194</u>	<u>7,443,133</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 6,787,190</u>	<u>\$ 937,642</u>	<u>\$ 7,724,832</u>