



MUSKEGO SEWER UTILITY
a Proprietary-Enterprise Fund of the
CITY OF MUSKEGO
Waukesha County, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

December 31, 2008 and 2007

Prepared by

City of Muskego Finance Department

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Waukesha County, Wisconsin

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
CITY OF MUSKEGO
Muskego, Wisconsin

FINANCIAL STATEMENTS

December 31, 2008 and 2007

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Muskego Sewer Utility
Muskego, Wisconsin

We have audited the accompanying financial statements of City of Muskego Sewer Utility, an enterprise fund of the City of Muskego, Wisconsin as of December 31, 2008 and 2007, and for the years there ended, as listed in the table of contents. These financial statements are the responsibility of the utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

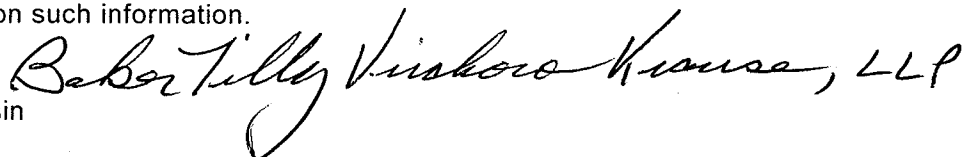
As discussed in Note 1, the financial statements present only the City of Muskego Sewer Utility, an enterprise fund of the City of Muskego, Wisconsin and do not purport to, and do not, present fairly the financial position of the City of Muskego, Wisconsin as of December 31, 2008 and 2007 and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Muskego Sewer Utility, as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The City of Muskego Sewer Utility, an enterprise fund of the City of Muskego, Wisconsin has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The financial and statistical information listed in the table of contents under "Other Information" is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Muskego Sewer Utility. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such information.



Milwaukee, Wisconsin
June 24, 2009

FINANCIAL STATEMENTS

CITY OF MUSKEGO SEWER UTILITY

a Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

STATEMENTS OF NET ASSETS
December 31, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash and investments		
Operation and maintenance	\$ 8,428,121	\$ 7,105,119
Construction	40,000	48,086
Temporary investments	727,181	705,024
Accounts receivable - net	2,057,543	2,048,887
Deferred contractual charge	158,776	-
Restricted Assets		
Debt Service Fund		
Cash and investments	189,218	200,764
Total Current Assets	<u>11,600,839</u>	<u>10,107,880</u>
NON-CURRENT ASSETS		
Restricted Assets		
Debt Service Fund		
Cash and investments	382,010	404,948
Reserve Capacity Assessment Fund		
Cash and investments	3,468,207	2,979,584
RCA assessments receivable	371,077	433,236
Equipment Replacement Fund		
Cash and investments	678,143	635,827
Capital Assets		
Land	130,918	130,918
Construction in progress	489,761	-
Plant in service	58,363,454	57,340,812
Accumulated depreciation	(14,242,036)	(13,175,126)
Other Assets		
Special assessments	377,579	387,640
Unamortized debt discount & expense (net of accumulated amortization of \$16,838 and \$10,895 for 2008 and 2007, respectively)	66,362	72,304
Unamortized maintenance costs (net of accumulated amortization of \$309,438 and \$265,158 for 2008 and 2007, respectively)	88,461	132,692
Total Non-Current Assets	<u>50,173,936</u>	<u>49,342,835</u>
TOTAL ASSETS	<u>\$ 61,774,775</u>	<u>\$ 59,450,715</u>

CITY OF MUSKEGO SEWER UTILITY

a Proprietary-Enterprise Fund of the
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STATEMENTS OF NET ASSETS

(Continued)

December 31, 2008 and 2007

LIABILITIES AND NET ASSETS	<u>2008</u>	<u>2007</u>
CURRENT LIABILITIES		
Accounts payable	\$ 473,256	\$ 249,104
Accrued vacation, sick leave and compensatory time	184,001	175,966
Unearned revenue	27,882	140,851
Liabilities Payable From Restricted Assets		
Current portion of long-term debt	250,000	265,000
Accrued interest payable	22,552	24,097
Total Current Liabilities	<u>957,691</u>	<u>855,018</u>
NON-CURRENT LIABILITIES		
Revenue bonds	3,095,448	3,300,116
Unearned revenue	922,066	927,282
Total Non-Current Liabilities	<u>4,017,514</u>	<u>4,227,398</u>
Total Liabilities	<u>4,975,205</u>	<u>5,082,416</u>
NET ASSETS		
Invested in capital assets, net of related debt	41,845,021	41,208,741
Restricted for:		
Debt service	166,666	176,667
RCA funds	3,839,284	3,412,820
Equipment replacement	678,143	635,827
Unrestricted	10,270,456	8,934,244
	<u>56,799,570</u>	<u>54,368,299</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 61,774,775</u>	<u>\$ 59,450,715</u>

CITY OF MUSKEGO SEWER UTILITY

a Proprietary-Enterprise Fund of the
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Charges for services	\$ 5,681,961	\$ 5,616,956
Other operating revenues	<u>107,753</u>	<u>14,174</u>
Total Operating Revenues	<u>5,789,714</u>	<u>5,631,130</u>
OPERATING EXPENSES		
Operation and maintenance	4,284,281	4,233,524
Depreciation	<u>1,066,910</u>	<u>1,044,214</u>
Total Operating Expenses	<u>5,351,191</u>	<u>5,277,738</u>
OPERATING INCOME	<u>438,523</u>	<u>353,392</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	323,401	531,344
Interest income on RCA's and special assessments	35,259	42,142
Interest expense	(138,403)	(147,618)
Amortization of bond discount and loss on refunding	<u>(51,276)</u>	<u>(51,276)</u>
Total Non-Operating Revenues (Expenses)	<u>168,981</u>	<u>374,592</u>
Income Before Contributions	607,504	727,984
CAPITAL CONTRIBUTIONS		
Developer and customer	1,303,006	2,314,053
Contributions from the City	489,761	-
Sewer connection fees	<u>31,000</u>	<u>34,000</u>
Change in Net Assets	2,431,271	3,076,037
NET ASSETS - Beginning of Year	<u>54,368,299</u>	<u>51,292,262</u>
NET ASSETS - END OF YEAR	<u>\$ 56,799,570</u>	<u>\$ 54,368,299</u>

CITY OF MUSKEGO SEWER UTILITY

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STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 5,649,321	\$ 5,527,756
Paid to vendors for goods and services	(3,377,122)	(3,476,261)
Paid to employees for services	(751,363)	(679,489)
Payments to other funds	(41,360)	(40,223)
Net Cash Flows From Operating Activities	<u>1,479,476</u>	<u>1,331,783</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(43,028)	(295,969)
Debt retired	(265,000)	(260,000)
Interest paid	(139,948)	(149,135)
Special assessments received	413,965	701,438
Connection fees received	31,000	34,000
Net Cash Flows From Capital and Related Financing Activities	<u>(3,011)</u>	<u>30,334</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income		
Interest on investments	321,804	529,750
Interest on RCA's and special assessments	35,259	42,142
Investments purchased	(727,181)	(705,025)
Investments sold and matured	705,024	600,000
Net Cash Flows From Investing Activities	<u>334,906</u>	<u>466,867</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,811,371	1,828,984
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>11,374,328</u>	<u>9,545,344</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 13,185,699</u>	<u>\$ 11,374,328</u>

CITY OF MUSKEGO SEWER UTILITY

a Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS - PROPRIETARY FUNDS		
Unrestricted		
Operation and maintenance	\$ 8,428,121	\$ 7,105,119
Construction	40,000	48,086
Restricted		
Current:		
Debt Service Fund	189,218	200,764
Noncurrent:		
Debt Service Fund	382,010	404,948
Reserve Capacity Assessment Fund	3,468,207	2,979,584
Equipment Replacement Fund	678,143	635,827
	<u>\$ 13,185,699</u>	<u>\$ 11,374,328</u>
CASH AND CASH EQUIVALENTS		
	<u>\$ 13,185,699</u>	<u>\$ 11,374,328</u>
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Capital additions contributed to the Utility by customers and developers	\$ 976,410	\$ 1,948,020
Capital additions contributed to the Utility by the City	\$ 489,761	\$ -
Assessment of benefits to property owners for improvements	\$ 357,596	\$ 400,033
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 438,523	\$ 353,392
Noncash items in operating loss		
Depreciation expense	1,066,910	1,044,214
Amortization of manhole rehabilitation	44,231	44,231
Changes in assets and liabilities		
Accounts receivable	(34,658)	(209,108)
Deferred contractual charge	(158,776)	237,090
Accounts payable	220,945	(252,991)
Accrued vacation, sick leave and compensatory time	8,035	9,221
Deferred contractual credit	(105,734)	105,734
	<u>\$ 1,479,476</u>	<u>\$ 1,331,783</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 1,479,476</u>	<u>\$ 1,331,783</u>

CITY OF MUSKEGO SEWER UTILITY

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CITY OF MUSKEGO
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Muskego Sewer Utility (utility) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the utility are described below:

REPORTING ENTITY AND NATURE OF BUSINESS

The utility is a separate enterprise fund of the City of Muskego (municipality). The utility accounts for the cost of operations on a continuing basis and is managed by the city council. The utility provides sewer service to properties within the municipality with wastewater treated by the Milwaukee Metropolitan Sewerage District.

The utility charges operates under service rules and rates established by the City's Common Council.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

The utility follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

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

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS, LIABILITIES AND NET ASSETS

Deposits and Investments

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

State statutes restrict investment of utility funds. 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, local professional football stadium district, 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.

The utility has not adopted a formal investment policy and is covered under an investment policy adopted by the municipality. Please reference the City of Muskego financial statements for details of this investment policy and its assessment of deposit and investment risks.

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, 2008, the fair value of the city's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

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.

See Note 2 for further information.

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS, LIABILITIES AND NET ASSETS (continued)

Receivables/Payables

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

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

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Bond agreements and other external parties require such segregations. Current liabilities payable from these restricted assets are so classified.

1. Operation and Maintenance Fund: A monthly amount equal to the estimated current expenses for such month and for the following two months.
2. Special Redemption Fund – Principal and Interest: A monthly amount equal to one-sixth (1/6) of the next installment of interest coming due and an amount equal to one-twelfth (1/12) of the installment of principal of the bonds coming due on the next succeeding principal payment date.
3. Special Redemption Fund – Reserve: A monthly amount equal to the total Reserve Account requirements divided by twelve until the amount accumulated in the Reserve Account totals the highest annual debt service on the outstanding bonds.
4. Depreciation Fund: An amount determined by the City Common Council to finance system repairs, replacements or the acquisition of capital equipment identified in the annual budget which are not financed by a revenue bond issue.
5. Surplus Fund: Any amount remaining after the above monthly transfers have been completed.

The authorizing resolution did not however specify amounts to be allocated to the following funds:

Depreciation Fund
Surplus Fund

As a result, at December 31, 2008 and 2007 the utility has not allocated any amounts to these funds.

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS, LIABILITIES AND NET ASSETS (continued)

Restricted Assets (continued)

In lieu of establishing a specific Depreciation Fund, the utility has established an "equipment replacement reserve" which management believes satisfies the bond resolution covenant. The equipment replacement reserve was established to comply with Wisconsin Department of Natural Resources requirements and is to be used for the replacement of significant mechanical equipment.

Restricted net assets principally represent the Reserve Capacity Assessment Fund, Equipment Replacement Fund and Special Redemption Fund restricted assets less related current liabilities payable from restricted assets and funds financed by borrowings.

Restricted Construction Funds, if any, represent proceeds from long-term debt, which will be utilized to finance certain construction projects. Unrestricted Construction Funds represent working capital designated by management for construction purposes.

Deferred Contractual Charge / Credit

Deferred contractual charges/credits represent amounts billed/credited by the Milwaukee Metropolitan Sewerage District related to capital costs that are recognized as expense and are payable in the subsequent year.

Special Assessments Receivable

This account represents the balances of special assessments levied against property owners for infrastructure improvements. The balances are receivable over various time periods with interest accrued annually.

Capital Assets

Capital assets are defined by the utility as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Capital assets of the utility are recorded at cost or the fair market value at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. \$0 of net interest was capitalized during the current year and the prior year. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings and improvements	20 - 50
Improvements other than buildings - utility collection system	40 - 125
Machinery and equipment	4 - 25

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS, LIABILITIES AND NET ASSETS (continued)

Unamortized Maintenance Costs

Certain maintenance costs are amortized to expense as described in Note 8.

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. Vested vacation and sick leave pay is accrued when earned in the financial statements. The liability is liquidated from general operating revenues of the utility.

Long-Term Obligations

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

Deferred Revenues

Deferred revenues principally represent deferred special assessments which will be reported as contributed capital when and if the property owner connects to the system and the assessment becomes due, and prepayments of RCA assessments.

Equity Classifications

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.
- b. Restricted net assets - Consists of net assets with constraints placed on their 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 definitions of "restricted" or "invested in capital assets, net of related debt."

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
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NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUES AND EXPENSES

The utility distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utility's principle ongoing operations. The principle operating revenues of the utility are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charges for Services

Billings are rendered and recorded quarterly based on metered usage. The utility does not accrue revenues beyond billing dates.

Effective January 1, 2007, the sewer rate for a single-family residence was \$164.38 per quarter or \$657.52 per year. All industrial and commercial users were billed on actual metered use at \$6.30 per 1,000 gallons plus a connection charge of \$65.85 per quarter.

Effective January 1 2008, the sewer rate for a single-family residence was \$164.38 per quarter or \$657.52 per year. All industrial and commercial users were billed on actual metered use at \$6.22 per 1,000 gallons plus a connection charge of \$68.44 per quarter.

Capital Contributions

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

The sewer utility charges new customers a connection fee to connect to the system. Fees collected are recorded as capital contributions on the statements of revenues, expenses and changes in net assets.

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 – CASH, CASH EQUIVALENTS AND TEMPORARY INVESTMENTS

The utility's carrying values of cash and cash equivalents and temporary investments as of December 31, 2008 and 2007 consisted of the following:

	2008	2007	Associated Risks
Cash and cash equivalents			
Demand deposits	\$ 620,484	\$ 622,457	Custodial Credit Risk
Commingled cash and investments with the City	11,871,872	10,068,908	Not Applicable
LGIP	693,342	682,963	Credit Risk, Interest Rate Risk
Total Cash and Cash Equivalents	13,185,698	11,374,328	
Temporary Investments			
Certificate of deposit	727,181	705,024	Custodial Credit Risk
Total Cash, Cash Equivalents, and Temporary Investments	\$ 13,912,879	\$ 12,079,352	
Reconciliation to financial statements			
Unrestricted cash and investments			
Operation and maintenance	\$ 8,428,121	\$ 7,105,119	
Construction	40,000	48,086	
Temporary investments	727,181	705,024	
Restricted cash and investments			
Debt service - current	189,218	200,764	
Debt service - non-current	382,010	404,948	
RCA cash and investments	3,468,207	2,979,584	
Equipment replacement fund	678,143	635,827	
Total Cash and Investments	\$ 13,912,879	\$ 12,079,352	

The bank balances were substantially equal to the carrying values shown above.

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest bearing accounts and unlimited coverage for non-interest bearing accounts.

CITY OF MUSKEGO SEWER UTILITY

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NOTE 2 – CASH, CASH EQUIVALENTS AND TEMPORARY INVESTMENTS (continued)

The State Deposit Guarantee Fund in the amount of \$400,000 also insures bank accounts. 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 principle losses may not be significant to individual municipalities.

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. This coverage expired on February 15, 2009.

Custodial Credit Risk

The utility maintains certain deposits at the same institutions as the municipality. The custodial credit risk pertaining specifically to the utility's resources cannot be determined for those accounts. Please refer to the municipality's financial statements for information on this risk.

Deposits

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

Investments

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

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, 2008 and 2007 the utility had investments in LGIP. LGIP is unrated and had a weighted average maturity date of 80 days and 56 days as of December 31, 2008 and 2007 respectively.

See Note 1 Assets, Liabilities and Net Assets – Deposits and Investments for further information.

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
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NOTE 3 – RESTRICTED ASSETS

Restricted assets were comprised of the following restricted funds at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Cash, Cash Equivalents and Temporary Investments		
Debt Service Fund - Special Redemption Funds		
Reserve	\$ 382,010	\$ 404,948
Redemption	<u>189,218</u>	<u>200,764</u>
Total	571,228	605,712
Reserve Capacity Assessment (RCA) Funds	3,468,207	2,979,584
Equipment Replacement Funds	<u>678,143</u>	<u>635,827</u>
 Total Cash, Cash Equivalents and Temporary Investments	 4,717,578	 4,221,123
 RCA assessments receivable	 <u>371,077</u>	 <u>433,236</u>
 Total Restricted Assets	 <u>\$ 5,088,655</u>	 <u>\$ 4,654,359</u>

Below are descriptions for restricted assets:

Debt Service Fund - Long Term Debt

- 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.

Reserve Capacity Assessments Funds

The utility has established funds to account for capacity assessment levies that are restricted to finance certain system capital costs or related debt service costs.

Equipment Replacement Funds

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.

CITY OF MUSKEGO SEWER UTILITY

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NOTE 4 – ACCOUNTS RECEIVABLE

Receivables for the utility as of the year ended December 31, 2007 and 2006 are as follows:

	<u>2008</u>	<u>2007</u>
Accounts receivable - net		
Customer	1,852,934	\$ 1,832,093
Other governments	179,863	154,274
Special assessments	11,634	34,461
Accrued interest	10,840	23,289
Other	<u>2,272</u>	<u>4,770</u>
 Total	 <u>\$ 2,057,543</u>	 <u>\$ 2,048,887</u>

All receivables net of allowances are expected to be collected within one year.

NOTE 5 – WISCONSIN RETIREMENT SYSTEM

All eligible employees of the utility 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 5.6% of their salary to the plan in both 2008 and 2007. Employers generally make these contributions to the plan on behalf of the 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 years ended December 31, 2008, 2007, and 2006 were \$534,538, \$419,790, and \$487,295, respectively. The total required contributions paid entirely by the employer for the years ended December 31, 2008, 2007, and 2006 were \$54,095, \$48,276, and \$43,602, respectively. All payments made were equal to the required contributions for 2008, 2007, and 2006.

Details of the plan are disclosed in the basic financial statements of the City of Muskego.

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NOTE 6 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2008 is as follows:

	Balance 12/31/07	Additions	Retirements	Balance 12/31/08
Capital assets, not being depreciated				
Land and land rights	\$ 130,918	\$ -	\$ -	\$ 130,918
Construction in progress	-	489,761	-	489,761
Total Capital Assets not being Depreciated	<u>\$ 130,918</u>	<u>\$ 489,761</u>	<u>\$ -</u>	<u>\$ 620,679</u>
Capital assets being depreciated				
Buildings and improvements	\$ 11,712,699	\$ 444,692	\$ -	\$ 12,157,391
Improvements other than buildings	44,487,373	516,003	-	45,003,376
Machinery and equipment	1,140,740	61,947	-	1,202,687
Total Capital Assets Being Depreciated	<u>57,340,812</u>	<u>1,022,642</u>	<u>-</u>	<u>58,363,454</u>
Less: Accumulated depreciation				
Buildings and improvements	(4,834,120)	(499,596)	-	(5,333,716)
Improvements other than buildings	(7,550,235)	(447,607)	-	(7,997,842)
Machinery and equipment	(790,771)	(119,707)	-	(910,478)
Total accumulated depreciation	<u>(13,175,126)</u>	<u>(1,066,910)</u>	<u>-</u>	<u>(14,242,036)</u>
Net Capital Assets Being Depreciated	<u>44,165,686</u>	<u>(44,268)</u>	<u>-</u>	<u>44,121,418</u>
Total Capital Assets, Net of Depreciation	<u>\$ 44,296,604</u>	<u>\$ 445,493</u>	<u>\$ -</u>	<u>\$ 44,742,097</u>

CITY OF MUSKEGO SEWER UTILITY

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NOTE 6 – CHANGES IN CAPITAL ASSETS (continued)

A summary of changes in capital assets for 2007 is as follows:

	Balance 12/31/06	Additions	Retirements	Balance 12/31/07
Capital assets, not being depreciated				
Land and land rights	\$ 130,918	\$ -	\$ -	\$ 130,918
Construction in progress	-	-	-	-
Total Capital Assets not being Depreciated	<u>\$ 130,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,918</u>
Capital assets being depreciated				
Buildings and improvements	\$ 11,397,325	\$ 315,374	\$ -	\$ 11,712,699
Improvements other than buildings	42,743,368	1,744,005	-	44,487,373
Machinery and equipment	<u>1,128,369</u>	<u>14,301</u>	<u>1,930</u>	<u>1,140,740</u>
Total Capital Assets Being Depreciated	<u>55,269,062</u>	<u>2,073,680</u>	<u>1,930</u>	<u>57,340,812</u>
Less: Accumulated depreciation				
Buildings and improvements	(4,353,525)	(480,595)	-	(4,834,120)
Improvements other than buildings	(7,114,268)	(435,967)	-	(7,550,235)
Machinery and equipment	<u>(663,119)</u>	<u>(127,652)</u>	<u>-</u>	<u>(790,771)</u>
Total accumulated depreciation	<u>(12,130,912)</u>	<u>(1,044,214)</u>	<u>-</u>	<u>(13,175,126)</u>
Net Capital Assets Being Depreciated	<u>43,138,150</u>	<u>1,029,466</u>	<u>1,930</u>	<u>44,165,686</u>
Total Capital Assets, Net of Depreciation	<u>\$ 43,269,068</u>	<u>\$ 1,029,466</u>	<u>\$ 1,930</u>	<u>\$ 44,296,604</u>

CITY OF MUSKEGO SEWER UTILITY

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NOTE 7 – LONG-TERM DEBT

Long-term obligation activity for the year ended December 31, 2008 is as follows:

	Balance 12/31/07	Additions	Deductions	Balance 12/31/08	Current Portion
Sewer System Revenue Bonds	\$ 3,890,000	\$ -	\$ 265,000	\$ 3,625,000	\$ 250,000
Loss on Refunding	<u>(324,884)</u>	<u>-</u>	<u>45,332</u>	<u>(279,552)</u>	<u>-</u>
Totals	<u>\$ 3,565,116</u>	<u>\$ -</u>	<u>\$ 219,668</u>	<u>\$ 3,345,448</u>	<u>\$ 250,000</u>

Long-term obligation activity for the year ended December 31, 2006 is as follows:

	Balance 12/31/06	Additions	Deductions	Balance 12/31/07	Current Portion
Sewer System Revenue Bonds	\$ 4,150,000	\$ -	\$ 260,000	\$ 3,890,000	\$ 265,000
Loss on Refunding	<u>(370,217)</u>	<u>-</u>	<u>45,333</u>	<u>(324,884)</u>	<u>-</u>
Totals	<u>\$ 3,779,783</u>	<u>\$ -</u>	<u>\$ 214,667</u>	<u>\$ 3,565,116</u>	<u>\$ 265,000</u>

Revenue Bonds

The following bonds have been issued as of December 31, 2008:

Type	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount
Sewer System Revenue Bonds	3/1/2005	3.5 - 4.0%	5/1/06-20	5/1 & 11/1	<u>\$ 4,225,000</u>

Revenue bonds debt service requirements to maturity follows:

Year	Principal	Interest	Total	Balance Outstanding 12/31
2008				\$ 3,625,000
2009	250,000	130,935	380,935	3,375,000
2010	260,000	122,010	382,010	3,115,000
2011	265,000	112,823	377,823	2,850,000
2012	270,000	103,460	373,460	2,580,000
2013	280,000	93,835	373,835	2,300,000
2014-2018	1,595,000	300,783	1,895,783	705,000
2019-2020	<u>705,000</u>	<u>28,300</u>	<u>733,300</u>	<u>-</u>
Totals	<u>\$ 3,625,000</u>	<u>\$ 892,146</u>	<u>\$ 4,517,146</u>	

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NOTE 7 – LONG-TERM DEBT (continued)

The Sewer System Revenue Bonds are not general obligations of the City of Muskego and are payable from the income and revenues derived from the operation of the system. The utility has established separate funds, as described in Note 1, to account for the allocation of the Utility's gross revenues in compliance with the debt covenants. The sewer system and the earnings of the system remain subject to the lien until the principal and interest on the bonds are paid in full.

The principal and interest paid during the year on the Sewer System Revenue Bonds was \$404,948 in 2008 and \$409,135 in 2007. Total net revenue as defined by the bond covenants for the same periods was \$1,407,661 and 1,397,606, respectively. Annual principal and interest payments are expected to require 16.6% of net revenues.

Prior-Year Defeasance of Debt

In prior years, the city defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the city's financial statements. At 12/31/08, \$3 million of bonds outstanding are considered defeased. The bonds mature or are callable in varying amounts through the year 2010.

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 2007 and 2008 was \$45,333 and \$45,332, respectively.

NOTE 8 – UNAMORTIZED MAINTENANCE COSTS

Unamortized maintenance costs are comprised of the following:

Project Cost	Unamortized Balance		Amortization	
	12/31/08	12/31/07	12/31/08	12/31/07
Sanitary Manhole Rehabilitation Program				
2000	\$ 442,130	\$ 88,461	\$ 44,231	\$ 44,231

The costs associated with the program were amortized to operations and maintenance expense over a ten (10) year period beginning in 2001.

