

**CITY OF MUSKEGO SEWER UTILITY**

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

FINANCIAL STATEMENTS

December 31, 2007 and 2006

# CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO

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**Virchow Krause  
& company**

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, 2007 and 2006, and for the years then 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, 2007 and 2006 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, 2007 and 2006, 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 as they apply to enterprise funds of governmental entities.

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.

*Virchow, Krause & Company, LLP*

Milwaukee, Wisconsin  
July 10, 2008

# CITY OF MUSKEGO SEWER UTILITY

a Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO

## STATEMENTS OF NET ASSETS December 31, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS</b>		
Cash and investments		
Operation and maintenance	\$ 7,105,119	\$ 6,069,475
Construction	48,086	114,282
Temporary investments	705,024	600,000
Accounts receivable - net	2,048,887	1,850,045
Deferred contractual charge	-	237,090
Restricted Assets		
Debt Service Fund		
Cash and investments	<u>200,764</u>	<u>198,948</u>
Total Current Assets	<u>10,107,880</u>	<u>9,069,840</u>
<b>NON-CURRENT ASSETS</b>		
Restricted Assets		
Debt Service Fund		
Cash and investments	404,948	409,135
Reserve Capacity Assessment Fund		
Cash and investments	2,979,584	2,156,592
RCA assessments receivable	433,236	731,777
Equipment Replacement Fund		
Cash and investments	635,827	596,912
Capital Assets		
Land	130,918	130,918
Plant in service	57,340,812	55,269,062
Accumulated depreciation	(13,175,126)	(12,130,912)
Other Assets		
Special assessments	387,640	402,972
Unamortized debt discount & expense (net of accumulated amortization of \$16,838 and \$10,895 for 2007 and 2006, respectively)	72,304	78,247
Unamortized maintenance costs (net of accumulated amortization of \$309,438 and \$265,158 for 2007 and 2006, respectively)	<u>132,692</u>	<u>176,922</u>
Total Non-Current Assets	<u>49,342,835</u>	<u>47,821,625</u>
<b>TOTAL ASSETS</b>	<u>\$ 59,450,715</u>	<u>\$ 56,891,465</u>

# CITY OF MUSKEGO SEWER UTILITY

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## STATEMENTS OF NET ASSETS

(Continued)

December 31, 2007 and 2006

<b>LIABILITIES AND NET ASSETS</b>	<u>2007</u>	<u>2006</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 249,104	\$ 674,334
Accrued vacation, sick leave and compensatory time	175,966	166,745
Deferred revenue	140,851	42,142
Liabilities Payable From Restricted Assets		
Current portion of long-term debt	265,000	260,000
Accrued interest payable	24,097	25,614
Total Current Liabilities	<u>855,018</u>	<u>1,168,835</u>
<b>NON-CURRENT LIABILITIES</b>		
Revenue bonds	3,300,116	3,519,783
Deferred revenue	<u>927,282</u>	<u>910,585</u>
Total Non-Current Liabilities	<u>4,227,398</u>	<u>4,430,368</u>
 Total Liabilities	<u>5,082,416</u>	<u>5,599,203</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	41,208,741	39,976,669
Restricted for:		
Debt service	176,667	173,334
RCA funds	3,412,820	2,888,335
Equipment replacement	635,827	596,912
Unrestricted	<u>8,934,244</u>	<u>7,657,012</u>
	<u>54,368,299</u>	<u>51,292,262</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 59,450,715</u>	<u>\$ 56,891,465</u>

# CITY OF MUSKEGO SEWER UTILITY

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## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 5,616,956	\$ 5,367,594
Other operating revenues	<u>14,174</u>	<u>12,281</u>
Total Operating Revenues	<u>5,631,130</u>	<u>5,379,875</u>
<b>OPERATING EXPENSES</b>		
Operation and maintenance	4,233,524	4,776,122
Depreciation	<u>1,044,214</u>	<u>986,256</u>
Total Operating Expenses	<u>5,277,738</u>	<u>5,762,378</u>
<b>OPERATING INCOME (LOSS)</b>	<u>353,392</u>	<u>(382,503)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	531,344	424,769
Interest income on RCA's and special assessments	42,142	42,989
Interest expense	(147,618)	(154,560)
Amortization of bond discount	<u>(51,276)</u>	<u>(51,276)</u>
Total Non-Operating Revenues (Expenses)	<u>374,592</u>	<u>261,922</u>
Income (Loss) Before Contributions and Transfers	727,984	(120,581)
<b>CAPITAL CONTRIBUTIONS</b>		
Developer and customer	2,314,053	1,686,972
Sewer connection fees	34,000	60,500
<b>TRANSFERS IN</b>	<u>-</u>	<u>231,203</u>
<b>Change in Net Assets</b>	3,076,037	1,858,094
NET ASSETS - Beginning of Year	<u>51,292,262</u>	<u>49,434,168</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 54,368,299</u>	<u>\$ 51,292,262</u>

# CITY OF MUSKEGO SEWER UTILITY

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## STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 5,527,756	\$ 4,970,583
Paid to vendors for goods and services	(3,476,261)	(4,045,831)
Paid to employees for services	(679,489)	(621,969)
Payments to other funds	(40,223)	(39,185)
Net Cash Flows From Operating Activities	<u>1,331,783</u>	<u>263,598</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers paid by municipality for city subsidies	<u>-</u>	<u>231,203</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(295,969)	(386,986)
Debt retired	(260,000)	(75,000)
Interest paid	(149,135)	(154,997)
Special assessments received	701,438	965,229
Connection fees received	34,000	60,500
Net Cash Flows From Capital and Related Financing Activities	<u>30,334</u>	<u>408,746</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income		
Interest on investments	529,750	420,331
Interest on RCA's and special assessments	42,142	42,989
Investments purchased	(705,025)	(600,000)
Investments sold and matured	600,000	691,311
Net Cash Flows From Investing Activities	<u>466,867</u>	<u>554,631</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,828,984	1,458,178
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>9,545,344</u>	<u>8,087,166</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 11,374,328</u>	<u>\$ 9,545,344</u>

**CITY OF MUSKEGO SEWER UTILITY**

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STATEMENTS OF CASH FLOWS  
(Continued)

For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS - PROPRIETARY FUNDS</b>		
Unrestricted		
Operation and maintenance	\$ 7,105,119	\$ 6,069,475
Construction	48,086	114,282
Restricted		
Current:		
Debt Service Fund	200,764	198,948
Noncurrent:		
Debt Service Fund	404,948	409,135
Reserve Capacity Assessment Fund	2,979,584	2,156,592
Equipment Replacement Fund	<u>635,827</u>	<u>596,912</u>
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 11,374,328</u>	<u>9,545,344</u>
<b>NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
Capital additions contributed		
to the Utility by customers and developers	<u>\$ 1,948,020</u>	<u>\$ 1,098,497</u>
Assessment of benefits to property owners for improvements	<u>\$ 400,033</u>	<u>\$ 648,975</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 353,392	\$ (382,503)
Noncash items in operating loss		
Depreciation expense	1,044,214	986,256
Amortization of manhole rehabilitation	44,231	44,231
Changes in assets and liabilities		
Accounts receivable	(209,108)	(409,292)
Deferred contractual charge	237,090	672,102
Accounts payable	(252,991)	(692,964)
Accrued vacation, sick leave and compensatory time	9,221	45,768
Deferred contractual credit	<u>105,734</u>	<u>-</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 1,331,783</u>	<u>\$ 263,598</u>



# CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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

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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

A Proprietary-Enterprise Fund of the  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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

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### **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.

Investment of utility funds is restricted by state statutes. 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, 2007, 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

A Proprietary-Enterprise Fund of the  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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### **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. Such segregations are required by bond agreements and other external parties. 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, 2007 the utility has not allocated any amounts to these funds.

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.

# CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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### *ASSETS, LIABILITIES AND NET ASSETS* (continued)

#### *Restricted Assets* (continued)

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

A Proprietary-Enterprise Fund of the  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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### **ASSETS, LIABILITIES AND NET ASSETS (continued)**

#### ***Unamortized Maintenance and Contract Costs***

Certain maintenance and contract costs are amortized to expense as described in Notes 7 and 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.

#### ***Comparative Data***

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

#### ***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, 2007 and 2006

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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### ***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 is \$164.38 per quarter or \$657.52 per year. All industrial and commercial users will be billed on actual metered use at \$6.30 per 1,000 gallons plus a connection charge of \$65.85 per quarter.

Effective January 1, 2006, the sewer rate for a single family residence was \$159.60 per quarter or \$638.40 per year. All industrial and commercial users were billed on actual metered use at \$5.93 per 1,000 gallons plus a connection charge of \$65.42 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.

#### ***Interfund Transfer***

Transfers from the City's Special Revenue Fund (Tax Incremental District Fund and Sewer Utility Special Debt Service Fund) are used to finance Milwaukee Metropolitan Sewerage District capital charges and are reported as "City subsidies".

## CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

### 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, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>Associated Risks</u>
Cash and cash equivalents			
Demand deposits	\$ 622,457	\$ 601,530	Custodial Credit Risk
Commingled cash and investments with the City	10,068,908	8,293,268	Not Applicable
LGIP	<u>682,963</u>	<u>650,546</u>	Credit Risk, Interest Rate Risk
Total Cash and Cash Equivalents	11,374,328	9,545,344	
Temporary Investments			
Certificate of deposit	<u>705,024</u>	<u>600,000</u>	Custodial Credit Risk
Total Cash, Cash Equivalents, and Temporary Investments	<u>\$ 12,079,352</u>	<u>\$ 10,145,344</u>	
Reconciliation to financial statements			
Unrestricted cash and investments			
Operation and maintenance	\$ 7,105,119	\$ 6,069,475	
Construction	48,086	114,282	
Temporary investments	705,024	600,000	
Restricted cash and investments			
Debt service - current	200,764	198,948	
Debt service - non-current	404,948	409,135	
RCA cash and investments	2,979,584	2,156,592	
Equipment replacement fund	<u>635,827</u>	<u>596,912</u>	
Total Cash and Investments	<u>\$ 12,079,352</u>	<u>\$ 10,145,344</u>	

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 \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts.

# CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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

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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 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.

### ***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, 2007 and 2006 the utility had investments in LGIP. LGIP is unrated and had a weighted average maturity date of 56 days and 27 days as of December 31, 2007 and 2006 respectively.

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



# CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

## NOTE 3 – RESTRICTED ASSETS

Restricted assets were comprised of the following restricted funds at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Cash, Cash Equivalents and Temporary Investments		
Debt Service Fund - Special Redemption Funds		
Reserve	\$ 404,948	\$ 409,135
Redemption	<u>200,764</u>	<u>198,948</u>
Total	605,712	608,083
Reserve Capacity Assessment (RCA) Funds	2,979,584	2,156,592
Equipment Replacement Funds	<u>635,827</u>	<u>596,912</u>
 Total Cash, Cash Equivalents and Temporary Investments	 4,221,123	 3,361,587
 RCA assessments receivable	 <u>433,236</u>	 <u>731,777</u>
 Total Restricted Assets	 <u>\$ 4,654,359</u>	 <u>\$ 4,093,364</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

A Proprietary-Enterprise Fund of the  
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## NOTE 4 – ACCOUNTS RECEIVABLE

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

	<u>2007</u>	<u>2006</u>
Accounts receivable - net		
Customer	\$ 1,832,093	\$ 1,696,700
Other governments	154,274	70,921
Special assessments	34,461	42,279
Accrued interest	23,289	3,923
Other	<u>4,770</u>	<u>36,222</u>
 Total	 <u>\$ 2,048,887</u>	 <u>\$ 1,850,045</u>

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

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## NOTE 5 – WISCONSIN RETIREMENT SYSTEM

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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 6.0% and 5.9% of their salary to the plan in 2007 and 2006, respectively. 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, 2007, 2006, and 2005 were \$419,790, \$487,295, and \$444,454, respectively. The total required contributions paid entirely by the employer for the years ended December 31, 2007, 2006, and 2005 were \$48,276, \$43,602, and \$45,334, respectively. All payments made were equal to the required contributions for 2007, 2006, and 2005.

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

**CITY OF MUSKEGO SEWER UTILITY**

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**NOTE 6 – CHANGES IN CAPITAL ASSETS**

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)	(480,903)	-	(4,834,428)
Improvements other than buildings	(7,114,268)	(435,658)	-	(7,549,926)
Machinery and equipment	<u>(663,119)</u>	<u>(127,653)</u>	<u>-</u>	<u>(790,772)</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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December 31, 2007 and 2006

### NOTE 6 – CHANGES IN CAPITAL ASSETS (continued)

A summary of changes in capital assets for 2006 is as follows:

	Balance 12/31/05	Additions	Retirements	Balance 12/31/06
Capital assets, not being depreciated				
Land and land rights	\$ 130,918	\$ -	\$ -	\$ 130,918
Construction in progress	<u>54,643</u>	<u>-</u>	<u>54,643</u>	<u>-</u>
Total Capital Assets not being Depreciated	<u>185,561</u>	<u>-</u>	<u>54,643</u>	<u>130,918</u>
Capital assets being depreciated				
Buildings and improvements	11,260,338	136,987	-	11,397,325
Improvements other than buildings	41,682,815	1,060,553	-	42,743,368
Machinery and equipment	<u>783,036</u>	<u>345,333</u>	<u>-</u>	<u>1,128,369</u>
Total Capital Assets Being Depreciated	<u>53,726,189</u>	<u>1,542,873</u>	<u>-</u>	<u>55,269,062</u>
Less: Accumulated depreciation				
Buildings and improvements	(3,883,931)	(469,594)	-	(4,353,525)
Improvements other than buildings	(6,692,949)	(421,319)	-	(7,114,268)
Machinery and equipment	<u>(567,776)</u>	<u>(95,343)</u>	<u>-</u>	<u>(663,119)</u>
Total accumulated depreciation	<u>(11,144,656)</u>	<u>(986,256)</u>	<u>-</u>	<u>(12,130,912)</u>
Net Capital Assets				
Being Depreciated	<u>42,581,533</u>	<u>556,617</u>	<u>-</u>	<u>43,138,150</u>
Total Capital Assets, Net of Depreciation	<u>\$ 42,767,094</u>	<u>\$ 556,617</u>	<u>\$ 54,643</u>	<u>\$ 43,269,068</u>

**CITY OF MUSKEGO SEWER UTILITY**

A Proprietary-Enterprise Fund of the  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

**NOTE 7 – LONG-TERM DEBT**

Long-term obligation activity for the year ended December 31, 2007 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>

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

	Balance 12/31/05	Additions	Deductions	Balance 12/31/06	Current Portion
Sewer System Revenue Bonds	\$ 4,225,000	\$ -	\$ 75,000	\$ 4,150,000	\$ 260,000
Loss on Refunding	<u>(415,550)</u>	<u>-</u>	<u>45,333</u>	<u>(370,217)</u>	<u>-</u>
Totals	<u>\$ 3,809,450</u>	<u>\$ -</u>	<u>\$ 29,667</u>	<u>\$ 3,779,783</u>	<u>\$ 260,000</u>

**Revenue Bonds**

The following bonds have been issued as of December 31, 2007:

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 are as follows:

Year	Principal	Interest	Total	Balance Outstanding 12/31
2007				\$ 3,890,000
2008	\$ 265,000	\$ 139,948	\$ 404,948	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
2012-2017	1,530,000	359,518	1,889,518	1,050,000
2018-2020	<u>1,050,000</u>	<u>63,400</u>	<u>1,113,400</u>	<u>-</u>
Totals	<u>\$ 3,890,000</u>	<u>\$ 1,032,094</u>	<u>\$ 4,922,094</u>	

**CITY OF MUSKEGO SEWER UTILITY**

A Proprietary-Enterprise Fund of the  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

**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 \$409,135. Total net revenues as defined by the bond covenants for the same period were \$1,397,606.

***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 12/31/07, \$3.27 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 2006 and 2007 was \$45,333 each year.

**NOTE 8 – UNAMORTIZED MAINTENANCE COSTS**

Unamortized maintenance costs are comprised of the following:

Project Cost	Unamortized Balance		Amortization	
	12/31/07	12/31/06	12/31/07	12/31/06
Sanitary Manhole Rehabilitation Program				
2000	\$ 442,130	\$ 132,692	\$ 176,922	\$ 44,230
			\$ 44,231	

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

# CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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## NOTE 9 – NET ASSETS

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Net assets reported on the statement of net assets at December 31, 2007 and 2006 include the following:

	<u>2007</u>	<u>2006</u>
Invested in capital assets, net of related debt		
Land	\$ 130,918	\$ 130,918
Construction in progress	-	-
Other capital assets net of accumulated depreciation	44,165,686	43,138,150
Less: related long-term debt outstanding	(3,565,116)	(3,779,783)
Plus: non-capital debt proceeds	<u>477,253</u>	<u>487,384</u>
Total Invested in Capital Assets, Net of Related Debt	<u>41,208,741</u>	<u>39,976,669</u>
Restricted Net Assets		
Debt service	176,667	173,334
Equipment replacement funds	635,827	596,912
RCA	<u>3,412,820</u>	<u>2,888,335</u>
Total Restricted Net Assets	4,225,314	3,658,581
Unrestricted	<u>8,934,244</u>	<u>7,657,012</u>
Total Utility Net Assets	<u>\$ 54,368,299</u>	<u>\$ 51,292,262</u>

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

# CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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## **NOTE 10– RISK MANAGEMENT**

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The utility is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation; health care of employees and environmental damage. These risks are covered through the purchases commercial insurance, with minimal deductions. There has been no reduction in insurance coverage from coverage in the prior year. Settled claims have not exceeded the insurance coverage in any of the past three years.

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## **NOTE 11 – COMMITMENTS AND CONTINGENCIES**

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



**SUPPLEMENTARY INFORMATION**

**CITY OF MUSKEGO SEWER UTILITY**  
a Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO

**OPERATION AND MAINTENANCE EXPENSES**  
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>OPERATION AND MAINTENANCE</b>		
Milwaukee Metropolitan Sewerage District:		
Capital charge	\$ 2,115,082	\$ 2,614,057
User charge	678,550	670,465
Facility Plan	9,736	21,575
Town of Norway charges	176,011	163,589
Muskego Facility Plan	27,820	165,777
Supervision and labor	378,016	381,437
Supplies and expense	18,569	14,258
Maintenance:		
Building and structures	19,594	19,267
Sewage collection systems	225,322	177,748
Utilities	108,738	105,406
Transportation expenses	16,011	14,591
	<u>3,773,449</u>	<u>4,348,170</u>
<b>CUSTOMER ACCOUNT EXPENSES</b>		
Accounting and collection	56,910	52,926
Meter expense	28,723	27,685
General expenses:		
Office salaries	61,910	57,925
Employees' pensions and benefits	175,257	156,666
Office supplies and expenses	93,697	85,108
Outside services	43,578	47,642
	<u>460,075</u>	<u>427,952</u>
 <b>TOTAL OPERATION AND MAINTENANCE EXPENSES</b>	 <u>\$ 4,233,524</u>	 <u>\$ 4,776,122</u>

**CITY OF MUSKEGO SEWER UTILITY**  
a Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO

UTILITY PLANT IN SERVICE  
Year Ended December 31, 2007

	Utility Plant in Service				Depreciation Rate	Accumulated Depreciation			
	Balance 12/31/2006	Additions	Retirements	Balance 12/31/2007		Balance 12/31/2006	Provisions	Retirements	Balance 12/31/2007
Land	\$ 130,918	\$ -	\$ -	\$ 130,918	-	\$ -	\$ -	\$ -	\$ -
Buildings and Structures	3,228,242	-	-	3,228,242	2.00%	270,547	64,565	-	335,112
Collecting sewers	37,754,597	1,517,443	-	39,272,040	0.80	5,108,490	308,107	-	5,416,597
Sewer laterals	4,988,771	226,562	-	5,215,333	2.50	2,006,087	127,551	-	2,133,638
Transportation equipment	430,625	11,201	1,930	439,896	10.00	300,167	43,526	-	343,693
Other plant equipment	88,268	-	-	88,268	4.00	48,170	3,531	-	51,701
Lift pump station and equipment	8,169,082	315,374	-	8,484,456	5.00	4,082,670	416,338	-	4,499,008
SCADA computer equipment	397,801	3,100	-	400,901	20.00	105,456	79,870	-	185,326
Computer equipment	33,304	-	-	33,304	20.00	33,304	-	-	33,304
Operating equipment	65,400	-	-	65,400	20.00	65,400	-	-	65,400
Office equipment	5,896	-	-	5,896	10.00	5,375	521	-	5,896
Meter equipment	5,130	-	-	5,130	4.00	3,300	205	-	3,505
G/S Mapping	101,946	-	-	101,946	25.00	101,946	-	-	101,946
	<u>\$ 55,399,980</u>	<u>\$ 2,073,680</u>	<u>\$ 1,930</u>	<u>\$ 57,471,730</u>		<u>\$ 12,130,912</u>	<u>\$ 1,044,214</u>	<u>\$ -</u>	<u>\$ 13,175,126</u>

**CITY OF MUSKEGO SEWER UTILITY**  
a Proprietary-Enterprise Fund of the  
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**SUMMARY OF LONG-TERM INDEBTEDNESS**  
December 31, 2007

Date of issue	Interest rate	Principal payable	Interest payable	Original amount of issue	Balance outstanding Dec. 31, 2006	Additions	Payments	Balance outstanding Dec. 31, 2007	Interest expense	Principal due 2008
Sewer System Revenue Bonds	3/1/2005 3.50-4.00	5/1/06-20	5/1 & 11/1	\$ 4,225,000	\$ 4,150,000	\$ -	\$ 260,000	\$ 3,890,000	\$ 147,618	\$ 265,000

**ANNUAL PRINCIPAL AND INTEREST PAYMENTS  
TO MATURITY ON LONG-TERM INDEBTEDNESS**  
December 31, 2007

Year	Principal	Interest	Total	Balance outstanding December 31
2007				\$ 3,890,000
2008	\$ 265,000	\$ 139,948	\$ 404,948	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
2013-2017	1,530,000	359,518	1,889,518	1,050,000
2018-2020	1,050,000	63,400	1,113,400	-
<b>Total</b>	<b>\$ 3,890,000</b>	<b>\$ 1,032,094</b>	<b>\$ 4,922,094</b>	

**MUSKEGO SEWER UTILITY**  
a Proprietary-Enterprise Fund of the  
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**SCHEDULE OF CONSTRUCTION FUNDS**  
December 31, 2006 and 2007

Project	2005		2006		2006		2007		2007	
	Balance 12/31/2005	Additions	Costs	Transfers	Balance 12/31/2006	Additions	Costs	Transfers	Balance 12/31/2007	
<b>Projects</b>										
Jamesville Box Culvert	\$ 127,464	\$ -	\$ 173,093	\$ 49,589	\$ 3,960	\$ -	\$ 10,257	\$ 14,383	\$ 8,086	
Oversizing	10,000	-	-	-	10,000	-	101,100	91,100	-	
Vehicles	-	-	7,339	7,339	-	-	11,201	11,201	-	
Future Projects	100,000	-	-	(60,000)	40,000	-	-	-	40,000	
Scada Renovations	-	-	303,615	354,029	50,414	-	3,100	(47,314)	-	
2020 Facility Plan	45,000	-	161,100	126,008	9,908	-	27,820	17,912	-	
Muskego's Share MMSD Facility Plan	-	-	21,575	21,575	-	-	9,736	9,736	-	
Transfer from working capital	375,276	100,264	-	(475,540)	-	-	-	(92,906)	-	
Unallocated debt proceeds and interest earnings	-	23,000	-	(23,000)	-	4,112	-	(4,112)	-	
<b>TOTAL</b>	<b>\$ 657,740</b>	<b>\$ 123,264</b>	<b>\$ 666,722</b>	<b>\$ -</b>	<b>\$ 114,282</b>	<b>\$ 97,018</b>	<b>\$ 163,214</b>	<b>\$ -</b>	<b>\$ 48,086</b>	