

CITY OF MUSKEGO WATER PUBLIC UTILITY

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

FINANCIAL STATEMENTS
Including Independent Auditors' Report
December 31, 2010 and 2009

CITY OF MUSKEGO WATER PUBLIC UTILITY

A Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Muskego Water Public Utility
Muskego, Wisconsin

We have audited the accompanying financial statements of the City of Muskego Water Public Utility, an enterprise fund of the City of Muskego, as of and for the years ended December 31, 2010 and 2009, 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 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 audits provide a reasonable basis for our opinion.

As discussed in Note I, the financial statements present only the City of Muskego Water Public Utility, an enterprise fund of the City of Muskego, Wisconsin and do not purport to, and do not, present fairly the financial position of City of Muskego, Wisconsin as of December 31, 2010 and 2009 and the changes in its financial position and, where applicable, its cash flows for the year then ended 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 Water Public Utility, an enterprise fund of the City of Muskego, as of December 31, 2010 and 2009, 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 Utility has not presented the "Management Discussion and Analysis" that accounting principals generally accepted in the United States of America requires to supplement, although not be part of, the financial statements.

The supplementary 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.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
July 29, 2011

CITY OF MUSKEGO WATER PUBLIC UTILITY

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STATEMENTS OF NET ASSETS December 31, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 177,558	\$ 414,139
Accounts receivable - net	438,679	452,214
Prepaid items	380	-
Restricted assets		
Cash and cash equivalents	617,449	597,711
Grant receivable	-	135,730
Total Current Assets	<u>1,234,066</u>	<u>1,599,794</u>
NONCURRENT ASSETS		
Restricted assets		
Cash and cash equivalents	765,549	812,418
Water capacity assessments receivable	178,480	138,949
Utility Plant		
Plant in service	36,753,271	35,618,768
Accumulated depreciation	(6,564,915)	(5,822,370)
Construction work in progress	20,849	392,535
Other Assets		
Special assessments receivable	163,804	190,731
Unamortized debt discount & expense	36,069	46,369
Total Noncurrent Assets	<u>31,353,107</u>	<u>31,377,400</u>
Total Assets	<u>32,587,173</u>	<u>32,977,194</u>

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STATEMENTS OF NET ASSETS

(Continued)

December 31, 2010 and 2009

	LIABILITIES	
	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Accounts payable	\$ 18,015	\$ 17,826
Accrued vacation, sick leave and compensatory time	98,334	89,339
Deferred lease and other revenue	86,952	85,361
Liabilities payable from restricted assets		
Accounts payable	11,464	160,508
Current portion of long-term debt	706,184	652,693
Accrued interest payable	45,722	47,846
Total Current Liabilities	<u>966,671</u>	<u>1,053,573</u>
NONCURRENT LIABILITIES		
Long-term debt	5,753,463	6,164,080
Other deferred revenue	59,235	64,261
Total Noncurrent Liabilities	<u>5,812,698</u>	<u>6,228,341</u>
Total Liabilities	<u>6,779,369</u>	<u>7,281,914</u>
NET ASSETS		
NET ASSETS		
Invested in capital assets, net of related debt	24,548,159	24,391,641
Restricted		
Equipment replacement	253,765	228,765
Water capacity assessments	419,856	447,875
Debt Service	274,738	255,515
Unrestricted	311,286	371,484
TOTAL NET ASSETS	<u>\$ 25,807,804</u>	<u>\$ 25,695,280</u>

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Charges for services and sales	\$ 1,666,091	\$ 1,722,636
Other operating revenues	122,703	135,164
Total Operating Revenues	<u>1,788,794</u>	<u>1,857,800</u>
OPERATING EXPENSES		
Operation and maintenance	643,122	601,112
Depreciation	749,038	672,657
Taxes	24,155	23,001
Total Operating Expenses	<u>1,416,315</u>	<u>1,296,770</u>
Operating Income	<u>372,479</u>	<u>561,030</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	25,072	41,656
Interest on long term debt	(312,848)	(355,012)
Amortization of bond discount and expenses	(10,299)	(11,842)
Total Nonoperating Revenues (Expenses)	<u>(298,075)</u>	<u>(325,198)</u>
Income Before Capital Contributions and Transfers	74,404	235,832
CAPITAL CONTRIBUTIONS	444,536	742,956
CAPITAL GRANTS	137,860	316,114
INTERFUND TRANSFERS		
Tax equivalent	<u>(544,276)</u>	<u>(484,058)</u>
CHANGE IN NET ASSETS	112,524	810,844
NET ASSETS - Beginning of Year	<u>25,695,280</u>	<u>24,884,436</u>
NET ASSETS - END OF YEAR	<u>\$ 25,807,804</u>	<u>\$ 25,695,280</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

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STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,529,821	\$ 1,540,078
Receipts from municipality for services	300,000	300,000
Payments to suppliers	(384,623)	(362,785)
Payments to employees	(278,562)	(305,609)
Net Cash Provided by Operating Activities	<u>1,166,636</u>	<u>1,171,684</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers paid to municipality for tax equivalent	<u>(544,276)</u>	<u>(484,058)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	295,567	22,699
Proceeds from capital grant	137,860	180,384
Acquisition and construction of capital assets	(537,506)	(2,201,606)
Principal paid on long term debt	(652,693)	(561,632)
Interest paid on long term debt	(314,972)	(356,954)
Collections on special assessments	<u>160,600</u>	<u>129,883</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(911,144)</u>	<u>(2,787,226)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income		
Interest on investments	3,551	13,863
Interest on special assessments	<u>21,521</u>	<u>27,793</u>
Net Cash Provided by Investing Activities	<u>25,072</u>	<u>41,656</u>
Net Change in Cash and Cash Equivalents	<u>(263,712)</u>	<u>(2,057,944)</u>
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>1,824,268</u>	<u>3,882,212</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 1,560,556</u>	<u>\$ 1,824,268</u>
CASH AND CASH EQUIVALENTS - END OF YEAR		
Unrestricted	\$ 177,558	\$ 414,139
Restricted		
Debt Service Fund	1,122,769	1,171,364
Construction Fund	6,464	10,000
Depreciation Fund	<u>253,765</u>	<u>228,765</u>
	<u>\$ 1,560,556</u>	<u>\$ 1,824,268</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

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STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Capital additions contributed to the Utility by customers and developers	\$ 269,896	\$ 668,523
Assessments of benefits for property owners for improvements	\$ 174,641	\$ 74,433
Capital grants	\$ -	\$ 135,730
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 372,479	\$ 561,030
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation expense	749,038	672,657
Depreciation charged to other accounts	23,943	23,853
Changes in Assets and Liabilities		
Accounts receivable	10,781	(44,972)
Prepaid items	(380)	-
Accounts payable	189	(8,683)
Accrued expenses	8,995	(26,817)
Other deferred revenues	1,591	(5,384)
Net Cash Provided by Operating Activities	<u>\$ 1,166,636</u>	<u>\$ 1,171,684</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

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NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

The utility is a separate enterprise fund of the City of Muskego (municipality). The utility is managed by the City of Muskego's Common Council. The utility provides water service to properties within the municipality.

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

In June 2007, the GASB issued statement No. 51 – Accounting and Financial Reporting for Intangible Assets. This statement establishes accounting and reporting requirements for intangible assets to reduce inconsistencies among governments, thereby enhancing the comparability of such assets, amount state and local governments. The utility implemented this standard effective January 1, 2010.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF 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.

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NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND EQUITY

Cash and Investments

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

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

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, 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.

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.

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NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND EQUITY

Receivables/Payables

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

The utility has the right under Wisconsin statutes to place delinquent water 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.

The various revenue bond resolutions require segregation of the proceeds of the bond issue and the creation and continual funding of several accounts from operating revenue as described below:

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 125% of the average debt service on the outstanding bonds.
4. *Depreciation Fund* – An annually determined amount to finance the acquisition of capital equipment identified in the annual budget which is not financed by a revenue bond issue.
5. *Surplus Fund* – Any amount remaining after the above monthly transfers have been completed.

Restricted net assets represent Water Capacity Assessment Funds, Depreciation Funds and Special Redemption Fund – Principal and Interest Fund restricted assets less accrued interest payable from restricted assets.

Also, special assessment cash collections which are segregated for the future payment of debt service requirements are classified as restricted assets.

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NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND EQUITY

Restricted Assets (cont.)

Construction Funds (restricted) represent proceeds from long-term debt and interest earnings on the related funds which are expected to be utilized to finance certain construction projects 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.

Deferred Special Assessments

The balance of this account consists of amounts that will be assessed to property owners when specific property is annexed by the municipality or until vacant land is developed.

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.

Utility plant is 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 on borrowed funds during the construction phase is reflected in the capitalized value of the utility plant constructed, net of interest earned on the invested proceeds over the same period. Utility plant in service is depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings and improvements	33 - 44
Improvements other than buildings - utilities distribution system	19 - 90
Machinery and equipment	4 - 17

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.

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NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND EQUITY

Long-Term Obligations

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. The bond discounts and issuance costs are reported as deferred charges.

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 deferred revenue on cell tower leases.

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 (excluding unspent debt proceeds) 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."

REVENUES AND EXPENSES

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

Operating Revenues

Utility billings are rendered and recorded quarterly based on metered usage at rates authorized by the Public Service Commission.

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NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

REVENUES AND EXPENSES (cont.)

Taxes

Municipal utilities are exempt from federal and state income taxes. Taxes included in the financial statements are social security taxes and the Public Service Commission remainder assessment.

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.

Interfund Transfer

The utility records an annual payment in lieu of taxes (PILOT) expense based on the value of its plant and the current assessment ratio and local and school portion of the mill rate. The utility also reported transfers in for capital assets contributed by the City.

NOTE II - CASH, CASH EQUIVALENTS AND TEMPORARY INVESTMENTS

The Water Public Utility's cash and cash equivalents at year-end consisted of the following:

	2010	2009	Risk
Cash and cash equivalents held by the City:			
Commingled cash and investments with City	\$ 542,406	\$ 822,291	Not applicable
Wisconsin's Local Government Investment Pool	<u>1,018,150</u>	<u>1,001,977</u>	Credit and interest rate
Total	<u>\$ 1,560,556</u>	<u>\$ 1,824,268</u>	

The Utility, as a Proprietary-Enterprise Fund of the City of Muskego, maintains commingled cash and investment accounts with the City, except for its investment in the Pool. Federal depository insurance and the State Guarantee Fund insurance apply to the City of Muskego as an individual municipality and, accordingly, the amount of insured funds is not determinable for the Utility as a Proprietary-Enterprise Fund of the City. Also please refer to the City's financial statements for information on risks on the Utility's cash and investments with the City.

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, 2010 and 2009 the fair value of the Utility's share of the LGIP assets was substantially equal to the amount reported above.

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

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, 2010 and 2009 the utility had funds invested in LGIP which are subject to credit and interest rate risks. LGIP is unrated and had a weighted average maturity date of 73 days and 88 days as of December 31, 2010 and 2009 respectively.

See Note I Assets, Liabilities and Equity – Cash and Investments for further information.

NOTE III - RESTRICTED ASSETS

Restricted assets were comprised of the following restricted funds at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Cash and Cash Equivalents		
Special Redemption Funds		
Bond Reserve Fund	\$ 549,414	\$ 549,414
Bond Principal and Interest Fund	<u>320,460</u>	<u>303,361</u>
Total	869,874	852,775
Other Debt Service Funds	252,895	318,589
Construction Funds (financed by debt)	6,464	10,000
Depreciation Funds	<u>253,765</u>	<u>228,765</u>
Total cash and cash equivalents	1,382,998	1,410,129
Water capacity assessments receivable	178,480	138,949
Grant receivable	<u>-</u>	<u>135,730</u>
Total	<u>\$ 1,561,478</u>	<u>\$ 1,684,808</u>
Current assets	\$ 617,449	\$ 733,441
Noncurrent assets	<u>944,030</u>	<u>951,367</u>
Total	<u>\$ 1,561,478</u>	<u>\$ 1,684,808</u>

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NOTE IV - DEFINED BENEFIT PENSION PLAN

All eligible Muskego Water Utility 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 5.0% of their salary (3.0% for executives and elected officials, 5.0% for protective occupations with social security, and 3.2% for protective occupations without social security) to the plan. Employers may 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, 2010, 2009 and 2008 was \$287,557, \$278,791 and \$286,195 respectively. The total required contributions paid entirely by the employer for the years ended December 31, 2010, 2009 and 2008 were \$31,661, \$30,529 and \$28,620, respectively. All payments made were equal to the required contributions for 2010, 2009 and 2008.

Employees who retire at or after age 65 (62 for elected officials and 55 for protective occupation employees) are entitled to receive retirement benefits. 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 year's earnings. Employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefits. For employees beginning participation after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 40 of the 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.

CITY OF MUSKEGO WATER PUBLIC UTILITY

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NOTES TO FINANCIAL STATEMENTS
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NOTE V - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2010 and 2009 follows:

	Balance 12/31/2009	Additions	Retirements	Balance 12/31/2010
Capital assets, not being depreciated or amortized				
Intangible Easements	\$ -	\$ 36,500	\$ -	\$ 36,500
Land and land rights	29,148	-	-	29,148
Total Capital Assets Not Being Depreciated or Amortized	<u>29,148</u>	<u>36,500</u>	<u>-</u>	<u>65,648</u>
Capital assets being depreciated				
Buildings and improvements	6,583,431	619,866	-	7,203,297
Improvements other than buildings	26,426,099	310,851	-	26,736,950
Machinery and equipment	2,580,090	173,369	6,082	2,747,377
Total Capital Assets Being Depreciated	<u>35,589,620</u>	<u>1,104,085</u>	<u>6,082</u>	<u>36,687,623</u>
Total Capital Assets	<u>35,618,768</u>	<u>1,140,585</u>	<u>6,082</u>	<u>36,753,271</u>
Less: Accumulated depreciation				
Buildings and improvements	(953,161)	(183,134)	(24,353)	(1,111,942)
Improvements other than buildings	(3,580,280)	(453,553)	-	(4,033,833)
Machinery and equipment	(1,288,929)	(136,294)	(6,082)	(1,419,140)
Total accumulated depreciation	<u>(5,822,370)</u>	<u>(772,981)</u>	<u>(30,435)</u>	<u>(6,564,915)</u>
Construction in progress	<u>392,535</u>	<u>789,592</u>	<u>1,161,277</u>	<u>20,849</u>
Net Utility Plant	<u>\$ 30,188,932</u>	<u>\$ 1,157,196</u>	<u>\$ 1,136,924</u>	<u>\$ 30,209,205</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

A Proprietary-Enterprise Fund of the
CITY OF MUSKEGO
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE V - CHANGES IN CAPITAL ASSETS (continued)

	Balance 12/31/2008	Additions	Retirements	Balance 12/31/2009
Capital assets, not being depreciated				
Land and land rights	\$ 29,148	\$ -	\$ -	\$ 29,148
Capital assets being depreciated				
Buildings and improvements	2,730,469	3,852,962	-	6,583,431
Improvements other than buildings	25,766,816	659,283	-	26,426,099
Machinery and equipment	2,249,506	332,512	1,929	2,580,090
Total Capital Assets Being Depreciated	30,746,791	4,844,757	1,929	35,589,620
Total Capital Assets	30,775,939	4,844,757	1,929	35,618,768
Less: Accumulated depreciation				
Buildings and improvements	(809,083)	(144,078)	-	(953,161)
Improvements other than buildings	(3,152,962)	(427,318)	-	(3,580,280)
Machinery and equipment	(1,164,945)	(125,114)	(1,131)	(1,288,929)
Total accumulated depreciation	(5,126,991)	(696,510)	(1,131)	(5,822,370)
Construction in progress	2,897,446	1,648,530	4,153,441	392,535
Net Utility Plant	\$ 28,546,394	\$ 5,796,777	\$ 4,154,238	\$ 30,188,932

CITY OF MUSKEGO WATER PUBLIC UTILITY

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NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE VI - LONG-TERM DEBT

A. The utility's long-term debt consists of Waterworks System Revenue Bonds, General Obligation Debt and Advances from Municipality. The transactions related to long-term debt for the years ending December 31, 2010 and 2009 are summarized below:

	Balance 12/31/09	Increases	Decreases	Balance 12/31/10	Current Portion
Waterworks System					
Revenue Bonds	\$ 5,875,000	\$ -	\$ 385,000	\$ 5,490,000	\$ 410,000
General Obligation Debt	505,375	-	66,238	439,137	70,023
Advances from Municipality	413,699	-	200,581	213,118	213,118
WI Safe Drinking Water Loan	<u>22,699</u>	<u>295,567</u>	<u>874</u>	<u>317,392</u>	<u>13,044</u>
	<u>\$ 6,816,773</u>	<u>\$ 295,567</u>	<u>\$ 652,693</u>	<u>\$ 6,459,647</u>	<u>\$ 706,184</u>

	Balance 12/31/08	Increases	Decreases	Balance 12/31/09	Current Portion
Waterworks System					
Revenue Bonds	\$ 6,210,000	\$ -	\$ 335,000	\$ 5,875,000	\$ 385,000
General Obligation Debt	543,225	-	37,850	505,375	66,238
Advances from Municipality	602,481	-	188,782	413,699	200,581
WI Safe Drinking Water Loan	<u>-</u>	<u>22,699</u>	<u>-</u>	<u>22,699</u>	<u>874</u>
	<u>\$ 7,355,706</u>	<u>\$ 22,699</u>	<u>\$ 561,632</u>	<u>\$ 6,816,773</u>	<u>\$ 652,693</u>

B. Details of long-term debt outstanding at December 31, 2010 are as follows:

Type	Date of Loan	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/2010
Waterworks System						
Revenue Bonds	02/01/99	3.6-4.9%	05/01/00-19	5/1&11/1	\$ 2,015,000	\$ 1,165,000
	01/01/00	4.7-5.6	05/01/02-13	5/1&11/1	950,000	320,000
	12/01/01	4.5-4.9	05/01/03-20	5/1&11/1	2,300,000	1,680,000
	09/01/08	3.5-5.25	05/01/09-28	5/1&11/1	2,450,000	2,325,000
General Obligation Bonds	03/01/05	2.6-3.7	03/01/06-15	3/1&9/1	600,000	439,138
Advances from City	12/31/91	6.25	12/31/92-11	1/1&7/1	4,001,675	213,118
WI Safe Drinking Water Loan	11/25/09	2.668	05/01/10-29	5/1&11/1	318,266	<u>317,392</u>
						6,459,647
Less: Current portion of long-term debt						<u>706,184</u>
						<u>\$ 5,753,463</u>

C. The Waterworks 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 I, to account for the allocation of the Utility's gross revenues in compliance with the debt resolutions. The General Obligation Debt is secured by the full faith and credit of the City. The Advances from City represent unsecured debt of the Utility to the City. The Wisconsin Safe Drinking Loan disbursement of financial assistance represents 5% of the Municipal obligations as required by the IRS to consummate the Municipal Obligation closing. A principal amount of \$453,974 is available in the form of Water System Revenue Bonds.

CITY OF MUSKEGO WATER PUBLIC UTILITY

A Proprietary-Enterprise Fund of the
CITY OF MUSKEGO
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010 and 2009

NOTE VI - LONG-TERM DEBT (continued)

D. Annual principal and interest payments to maturity on long-term debt payable are as follows.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance Outstanding 12/31</u>
2010				\$ 6,459,647
2011	\$ 706,184	\$ 287,654	\$ 993,838	5,753,463
2012	554,092	251,267	805,359	5,199,371
2013	584,590	225,974	810,564	4,614,781
2014	487,526	202,595	690,121	4,127,255
2015	508,658	181,345	690,003	3,618,597
2016-2020	2,173,476	601,202	2,774,678	1,445,121
2021-2025	814,518	258,646	1,073,164	630,603
2026-2029	630,603	48,996	679,599	-
	<u>\$ 6,459,647</u>	<u>\$ 2,057,679</u>	<u>\$ 8,517,326</u>	

E. All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2010 and 2009 were \$655,008 and \$640,257, respectively. Total customer gross revenues as defined for the same periods were \$1.2 million and \$1.4 million. Annual principal and interest payments are expected to require 39% of gross revenues on average.

NOTE VII - ANTENNA LEASE AGREEMENTS

The Utility has lease agreements with cellular phone companies to lease a water tower as a site for cellular antennas. The initial term of the leases were five years with the right to extend the leases for four additional five year terms.

Rental income of \$94,086 and \$93,159 from rental of the water tower, for the years 2010 and 2009, respectively, is reported in other operating revenues.

Future minimum rentals related to these leases are as follows:

2011	\$ 98,014
2012	102,914
2013	<u>108,058</u>
Total	<u>\$ 308,986</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

A Proprietary-Enterprise Fund of the
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NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE VIII - RISK MANAGEMENT

The Water Utility is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; natural disasters; workers' compensation and environmental damage. These risks are covered through the purchases of commercial insurance. The general aggregate insurance coverage limits decreased \$1.0 million from coverage in the prior year. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in any of the past three years.

NOTE IX - OTHER POST EMPLOYMENT BENEFITS

The City provides post employment health care benefits to retired employees and their dependents. The City's annual other post employment benefit costs are calculated based on the annual required contribution of the employer as determined by an actuary in accordance with parameters of Governmental Accounting Standards Board Statement No.45. Certain specific information concerning the Utility's other post employment benefits have not been determined. Please refer to the City's financial statements for information concerning the City's other post employment benefits.

NOTE X - WATER RATES

The Utility implemented the current rates effective October 1, 2008.

NOTE XI - COMMITMENTS AND CONTINGENCIES

From time to time the Water Utility becomes involved in legal actions and claims, most of which normally occur in governmental utility operations. These legal actions and claims are generally defended by various insurance carriers, since claims brought against the Utility are generally covered by insurance policies. In the opinion of management, any legal actions and claims, and any other proceedings known to exist at December 31, 2010, are not likely to have a material adverse impact on the Utility's financial position.

SUPPLEMENTARY INFORMATION

CITY OF MUSKEGO WATER PUBLIC UTILITY

a Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

OPERATION AND MAINTENANCE EXPENSES For the Years Ended December 31, 2010 and 2009

	2010	2009
SOURCE OF SUPPLY		
Operation labor	\$ 981	\$ 845
Operation supplies and expenses	-	-
Maintenance of water source plant	4,407	2,306
Total Source of Supply	<u>5,388</u>	<u>3,151</u>
PUMPING EXPENSES		
Operation labor	63,740	42,917
Fuel or power purchased	73,976	76,634
Operation supplies and expenses	518	52
Maintenance of pumping plant	8,054	5,301
Total Pumping Expenses	<u>146,288</u>	<u>124,904</u>
WATER TREATMENT EXPENSES		
Operation labor	5,470	15,018
Chemicals	19,662	22,181
Maintenance of water treatment plant	1,053	1,200
Total Water Treatment Expenses	<u>26,185</u>	<u>38,399</u>
TRANSMISSION AND DISTRIBUTION EXPENSES		
Operation labor	56,415	56,751
Operation supplies and expenses	6,465	8,054
Maintenance of distribution reservoirs	7,551	2,801
Maintenance of mains	11,710	8,505
Maintenance of services	1,129	2,926
Maintenance of meters	3,575	3,290
Maintenance of hydrants	21,715	9,323
Maintenance of other plant	340	429
Total Transmission and Distribution Expenses	<u>108,900</u>	<u>92,079</u>
CUSTOMER ACCOUNT EXPENSES		
Meter reading labor	2,088	1,503
Accounting and collecting labor	14,079	22,296
Supplies and expenses	13,060	12,076
Total Customer Account Expenses	<u>29,227</u>	<u>35,875</u>
ADMINISTRATIVE AND GENERAL EXPENSES		
Administrative and general salaries	115,217	114,068
Office supplies and expenses	23,757	29,981
Outside services	53,788	45,294
Property insurance	15,300	15,708
Employee pensions and benefits	94,511	87,382
Miscellaneous general expenses	8,698	1,688
Transportation expense	15,863	12,583
Total Administrative and General Expenses	<u>327,134</u>	<u>306,704</u>
TOTAL OPERATION AND MAINTENANCE EXPENSES	<u>\$ 643,122</u>	<u>\$ 601,112</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY
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UTILITY PLANT IN SERVICE
Year Ended December 31, 2010

	Utility Plant in Service				Depreciation Rate	Accumulated Depreciation			
	Balance 12/31/2009	Additions	Retirements	Balance 12/31/2010		Balance 12/31/2009	Provisions	Retirements	Balance 12/31/2010
INTANGIBLE PLANT									
Easements	\$ -	\$ 36,500	\$ -	\$ 36,500	-%	\$ -	\$ -	\$ -	\$ -
Organization	29,148	-	-	29,148	-%	-	-	-	-
SOURCE OF SUPPLY									
Well	1,578,016	-	-	1,578,016	2.90%	432,881	45,762	24,353	454,290
PUMPING PLANT									
Structures and improvements	3,765,607	619,865	-	4,385,472	3.20%	417,164	130,417	-	547,581
Electric pumping equipment	1,411,000	169,707	-	1,580,707	4.40%	615,357	65,818	-	681,175
TREATMENT PLANT									
Water treatment equipment	12,469	-	-	12,469	6.00%	6,941	748	-	7,689
TRANSMISSION AND DISTRIBUTION PLANT									
Reservoirs and standpipes	1,796,702	-	-	1,796,702	1.90%	292,664	34,137	-	326,801
Transmission and distribution lines	19,175,862	274,181	-	19,450,043	1.30%	2,005,907	251,068	-	2,256,975
Services	3,707,823	3,120	-	3,710,943	2.90%	802,062	107,572	-	909,634
Meters	865,771	3,662	6,082	863,351	5.50%	424,574	47,885	6,082	466,377
Hydrants	2,745,712	33,550	-	2,779,262	2.20%	495,646	60,775	-	556,421
GENERAL PLANT									
Transportation	164,231	-	-	164,231	13.30%	115,439	21,843	-	137,282
Office furniture	19,991	-	-	19,991	5.80%	19,991	-	-	19,991
Computer equipment	106,628	-	-	106,628	26.70%	106,628	-	-	106,628
Structures and improvements	239,808	-	-	239,808	2.90%	87,116	6,954	-	94,070
	35,618,768	1,140,585	6,082	36,753,271		\$ 5,822,370	772,980	\$ 30,435	\$ 6,564,915
CONSTRUCTION IN PROGRESS	392,535	520,530	892,216	20,849					
TOTAL UTILITY PLANT	<u>\$ 36,011,303</u>	<u>\$ 1,661,115</u>	<u>\$ 898,298</u>	<u>\$ 36,774,120</u>	Less allocation of meter depreciation to the Sewer Utility		(23,943)		
							<u>\$ 749,038</u>		

CITY OF MUSKEGO WATER PUBLIC UTILITY
a Proprietary-Enterprise Fund of the
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SCHEDULE OF CONSTRUCTION FUNDS
December 31, 2010

<u>Project</u>	<u>Balance 12/31/2009</u>	<u>Other Sources</u>	<u>Costs</u>	<u>Transfers</u>	<u>Balance 12/31/2010</u>
Scada radio study / upgrade	\$ -	\$ -	\$ -	\$ -	\$ -
Meters and meter transmitters	10,000	-	3,662	(6,338)	-
Well #9 Pump Station	4,602	433,427	468,923	37,358	6,464
Well #13 Watermain Loop	8,161	-	64,370	56,209	-
Transfer from working capital	-	85,199	-	(85,199)	-
Interest earnings and unallocated	2,000	30	-	(2,030)	-
TOTAL	<u>\$ 24,763</u>	<u>\$ 518,656</u>	<u>\$ 536,955</u>	<u>\$ -</u>	<u>\$ 6,464</u>
Construction Funds financed by:					
Utility working capital					\$ 6,464
Debt proceeds					<u>-</u>
					<u>\$ 6,464</u>