



CITY OF MUSKEGO WATER PUBLIC 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

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

**CITY OF MUSKEGO WATER PUBLIC
UTILITY**

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

FINANCIAL STATEMENTS
December 31, 2008 and 2007

CITY OF MUSKEGO WATER PUBLIC UTILITY

A Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

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Baker Tilly Virchow Krause, LLP
115 S 84th St, Ste 400
Milwaukee, WI 53214-1475
tel 414 777 5500
fax 414 777 5555
bakertilly.com

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, 2008 and 2007, 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, 2008 and 2007 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, 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 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
June 24, 2009

CITY OF MUSKEGO WATER PUBLIC UTILITY

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STATEMENTS OF NET ASSETS
December 31, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 674,312	\$ 589,294
Accounts receivable - net	410,557	376,915
Restricted assets - Cash and cash equivalents	<u>1,197,390</u>	<u>410,426</u>
Total Current Assets	<u>2,282,259</u>	<u>1,376,635</u>
NONCURRENT ASSETS		
Restricted assets		
Cash and cash equivalents	2,010,510	979,833
Water capacity assessments receivable	169,712	192,702
Utility Plant		
Plant in service	30,775,939	30,479,162
Accumulated depreciation	(5,126,991)	(4,589,831)
Construction work in progress	2,897,446	413,087
Other Assets		
Special assessments receivable	227,096	245,473
Unamortized debt discount & expense	<u>58,211</u>	<u>71,418</u>
Total Noncurrent Assets	<u>31,011,923</u>	<u>27,791,844</u>
 Total Assets	 <u>33,294,182</u>	 <u>29,168,479</u>

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STATEMENTS OF NET ASSETS

(Continued)

December 31, 2008 and 2007

	LIABILITIES	
	<u>2008</u>	<u>2007</u>
CURRENT LIABILITIES		
Accounts payable	\$ 26,508	\$ 16,665
Accrued vacation, sick leave and compensatory time	116,156	105,623
Deferred lease and other revenue	90,745	75,121
Liabilities payable from restricted assets		
Current portion of long-term debt	561,632	461,602
Accounts payable	689,108	20,242
Accrued interest payable	53,902	34,276
Total Current Liabilities	<u>1,538,051</u>	<u>713,529</u>
NONCURRENT LIABILITIES		
Long-term debt	6,794,074	4,905,706
Other deferred revenue	77,621	79,207
Total Noncurrent Liabilities	<u>6,871,695</u>	<u>4,984,913</u>
Total Liabilities	<u>8,409,746</u>	<u>5,698,442</u>
NET ASSETS		
NET ASSETS		
Invested in capital assets, net of related debt	23,444,777	22,279,407
Restricted		
Equipment replacement	203,765	177,765
Water capacity assessments	601,689	691,369
Debt Service	224,722	179,548
Unrestricted	<u>409,483</u>	<u>141,948</u>
TOTAL NET ASSETS	<u>\$ 24,884,436</u>	<u>\$ 23,470,037</u>

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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 and sales	\$ 1,587,400	\$ 1,559,801
Other operating revenues	<u>91,567</u>	<u>160,570</u>
Total Operating Revenues	<u>1,678,967</u>	<u>1,720,371</u>
OPERATING EXPENSES		
Operation and maintenance	700,175	656,646
Depreciation	512,214	504,845
Taxes	<u>23,477</u>	<u>24,271</u>
Total Operating Expenses	<u>1,235,866</u>	<u>1,185,762</u>
Operating Income	<u>443,101</u>	<u>534,609</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	100,852	130,142
Interest on long term debt	(274,043)	(276,105)
Amortization of bond discount and expenses	<u>(13,207)</u>	<u>(14,572)</u>
Total Nonoperating Revenues (Expenses)	<u>(186,398)</u>	<u>(160,535)</u>
Income Before Capital Contributions and Transfers	256,703	374,074
CAPITAL CONTRIBUTIONS	1,584,027	1,301,011
INTERFUND TRANSFERS		
Tax equivalent	<u>(426,331)</u>	<u>(404,478)</u>
CHANGE IN NET ASSETS	1,414,399	1,270,607
NET ASSETS - Beginning of Year	<u>23,470,037</u>	<u>22,199,430</u>
NET ASSETS - END OF YEAR	<u>\$ 24,884,436</u>	<u>\$ 23,470,037</u>

CITY OF MUSKEGO WATER PUBLIC 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		
Receipts from customers	\$ 1,345,958	\$ 1,369,719
Receipts from municipality for services	326,522	335,362
Payments to suppliers	(392,727)	(382,733)
Payments to employees	(296,728)	(285,071)
Net Cash Provided by Operating Activities	<u>983,025</u>	<u>1,037,277</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers paid to municipality for tax equivalent	<u>(426,331)</u>	<u>(404,478)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	2,450,000	-
Acquisition and construction of capital assets	(708,276)	(390,270)
Principal paid on long term debt	(461,602)	(476,151)
Interest paid on long term debt	(251,895)	(278,243)
Collections on special assessments	216,886	266,379
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>1,245,113</u>	<u>(878,285)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income		
Interest on investments	72,767	100,406
Interest on special assessments	28,085	29,736
Net Cash Provided by Investing Activities	<u>100,852</u>	<u>130,142</u>
Net Change in Cash and Cash Equivalents	1,902,659	(115,344)
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>1,979,553</u>	<u>2,094,897</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 3,882,212</u>	<u>\$ 1,979,553</u>
CASH AND CASH EQUIVALENTS - END OF YEAR		
Unrestricted	\$ 674,312	589,294
Restricted		
Debt Service Fund	1,271,043	1,212,494
Construction Fund	1,733,092	-
Depreciation Fund	203,765	177,765
	<u>\$ 3,882,212</u>	<u>1,979,553</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

a Proprietary-Enterprise Fund of the
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STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Capital additions contributed		
to the Utility by customers and developers	\$ 1,408,081	\$ 1,105,115
Assessments of benefits for property owners for improvements	\$ 175,946	\$ 195,896
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 443,101	\$ 534,609
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation expense	512,214	504,845
Depreciation charged to other accounts	26,045	26,085
Changes in Assets and Liabilities		
Accounts receivable	(34,335)	(29,143)
Accounts payable	9,843	(18,815)
Accrued expenses	10,533	9,324
Other deferred revenues	15,624	12,202
Customer deposits	-	(1,830)
Net Cash Provided by Operating Activities	<u>\$ 983,025</u>	<u>\$ 1,037,277</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

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NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

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).

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.

CITY OF MUSKEGO WATER PUBLIC UTILITY

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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.

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

ASSETS, LIABILITIES AND EQUITY

Restricted Assets (cont.)

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

Construction Funds represent either working capital or 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. Construction Funds on hand at December 31, 2007 were solely funds made available from working capital.

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 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."

Comparative Data

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

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.

CITY OF MUSKEGO WATER PUBLIC UTILITY

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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:

	2008	2007	Associated Risk
Cash and cash equivalents held by the City:			
Commingled cash and investments with City	\$ 2,898,969	\$ 1,112,163	Not applicable
Wisconsin's Local Government Investment Pool	<u>983,243</u>	<u>867,390</u>	Credit and interest rate
 Total	 <u>\$ 3,882,212</u>	 <u>\$ 1,979,553</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, 2008 and 2007 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)

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.

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 funds invested in LGIP which are subject to credit and interest rate risks. 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 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, 2008 and 2007:

	2008	2007
Cash and Cash Equivalents		
Special Redemption Funds		
Bond Reserve Fund	\$ 549,414	\$ 490,190
Bond Principal and Interest Fund	278,624	210,656
Total	828,038	700,846
Other Debt Service Funds	443,005	511,648
Construction Funds (financed by debt)	1,733,092	-
Depreciation Funds	203,765	177,765
Total cash and cash equivalents	3,207,900	1,390,259
Water capacity assessments receivable	169,712	192,702
Total	\$ 3,377,612	\$ 1,582,961
Current assets	\$ 1,197,390	\$ 410,426
Noncurrent assets	2,180,222	1,172,535
Total	\$ 3,377,612	\$ 1,582,961

CITY OF MUSKEGO WATER PUBLIC UTILITY

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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, 5.1% for protective occupations with social security, and 3.4% 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, 2008, 2007 and 2006 was \$286,195, \$294,395 and \$279,327 respectively. The total required contributions paid entirely by the employer for the years ended December 31, 2008, 2007 and 2006 were \$28,620, \$31,196 and \$28,929, respectively. All payments made were equal to the required contributions for 2008, 2007 and 2006.

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 2008 and 2007 follows:

	Balance 12/31/2007	Additions	Retirements	Balance 12/31/2008
Capital assets, not being depreciated				
Land and land rights	\$ 29,148	\$ -	\$ -	\$ 29,148
Capital assets being depreciated				
Buildings and improvements	2,730,469		-	2,730,469
Improvements other than buildings	25,507,537	259,279	-	25,766,816
Machinery and equipment	2,212,008	38,598	1,100	2,249,506
Total Capital Assets Being Depreciated	<u>30,450,014</u>	<u>297,877</u>	<u>1,100</u>	<u>30,746,791</u>
Total Capital Assets	<u>30,479,162</u>	<u>297,877</u>	<u>1,100</u>	<u>30,775,939</u>
Less: Accumulated depreciation				
Buildings and improvements	(736,690)	(72,393)	-	(809,083)
Improvements other than buildings	(2,809,049)	(343,913)	-	(3,152,962)
Machinery and equipment	(1,044,092)	(121,953)	(1,100)	(1,164,945)
Total accumulated depreciation	<u>(4,589,831)</u>	<u>(538,260)</u>	<u>(1,100)</u>	<u>(5,126,991)</u>
Construction in progress	<u>413,087</u>	<u>2,509,406</u>	<u>25,047</u>	<u>2,897,446</u>
Net Utility Plant	<u>\$ 26,302,418</u>	<u>\$ 2,269,023</u>	<u>\$ 25,047</u>	<u>\$ 28,546,394</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

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

NOTE V - CHANGES IN CAPITAL ASSETS (continued)

	Balance 12/31/2006	Additions	Retirements	Balance 12/31/2007
Capital assets, not being depreciated				
Land and land rights	\$ 29,148	\$ -	\$ -	\$ 29,148
Capital assets being depreciated				
Buildings and improvements	2,730,469	-	-	2,730,469
Improvements other than buildings	24,313,914	1,193,623	-	25,507,537
Machinery and equipment	2,189,966	27,620	5,578	2,212,008
Total Capital Assets Being Depreciated	<u>29,234,349</u>	<u>1,221,243</u>	<u>5,578</u>	<u>30,450,014</u>
Total Capital Assets	<u>29,263,497</u>	<u>1,221,243</u>	<u>5,578</u>	<u>30,479,162</u>
Less: Accumulated depreciation				
Buildings and improvements	(659,198)	(77,492)	-	(736,690)
Improvements other than buildings	(2,475,112)	(333,937)	-	(2,809,049)
Machinery and equipment	(928,239)	(119,501)	(3,648)	(1,044,092)
Total accumulated depreciation	<u>(4,062,549)</u>	<u>(530,930)</u>	<u>(3,648)</u>	<u>(4,589,831)</u>
Construction in progress	<u>259,020</u>	<u>240,045</u>	<u>85,978</u>	<u>413,087</u>
Net Utility Plant	<u>\$ 25,459,968</u>	<u>\$ 930,358</u>	<u>\$ 87,908</u>	<u>\$ 26,302,418</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

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

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, 2008 and 2007 are summarized below:

	Balance 12/31/07	Increases	Decreases	Balance 12/31/08	Current Portion
Waterworks System Revenue Bonds	\$ 4,025,000	\$ 2,450,000	\$ 265,000	\$ 6,210,000	\$ 335,000
General Obligation Debt	562,150	-	18,925	543,225	37,850
Advances from Municipality	780,158	-	177,677	602,481	188,782
	<u>\$ 5,367,308</u>	<u>\$ 2,450,000</u>	<u>\$ 461,602</u>	<u>\$ 7,355,706</u>	<u>\$ 561,632</u>

	Balance 12/31/06	Increases	Decreases	Balance 12/31/07	Current Portion
Waterworks System Revenue Bonds	\$ 4,265,000	\$ -	\$ 240,000	\$ 4,025,000	\$ 265,000
General Obligation Debt	581,075	-	18,925	562,150	18,925
Advances from Municipality	997,384	-	217,226	780,158	177,677
	<u>\$ 5,843,459</u>	<u>\$ -</u>	<u>\$ 476,151</u>	<u>\$ 5,367,308</u>	<u>\$ 461,602</u>

B. Details of long-term debt outstanding at December 31, 2008 are as follows:

Type	Date of Loan	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/2008
Waterworks System Revenue Bonds	02/01/99	3.6-4.9%	05/01/00-19	5/1&11/1	\$ 2,015,000	\$ 1,365,000
	01/01/00	4.7-5.6	05/01/02-13	5/1&11/1	950,000	495,000
	12/01/01	4.5-4.9	05/01/03-20	5/1&11/1	2,300,000	1,900,000
	09/01/08	3.5-5.25	05/01/09-28	5/1&11/1	2,450,000	2,450,000
General Obligation Bonds	03/01/05	2.6-3.7	03/01/06-15	3/1&9/1	600,000	543,225
Advances from City	12/31/91	6.25	12/31/92-11	1/1&7/1	4,001,675	602,480
						7,355,705
Less: Current portion of long-term debt						<u>561,632</u>
						<u>\$ 6,794,073</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.

CITY OF MUSKEGO WATER PUBLIC UTILITY

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

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>
2008				\$ 7,355,706
2009	\$ 561,632	\$ 361,068	\$ 922,700	6,794,074
2010	651,819	312,381	964,200	6,142,255
2011	693,140	279,360	972,500	5,449,115
2012	540,700	243,325	784,025	4,908,415
2013	570,840	218,395	789,235	4,337,575
2014-2018	2,252,575	775,298	3,027,873	2,085,000
2019-2023	1,235,000	336,069	1,571,069	850,000
2024-2028	850,000	118,125	968,125	-
	<u>\$ 7,355,706</u>	<u>\$ 2,644,021</u>	<u>\$ 9,999,727</u>	

E. The total principal and interest paid during 2008 and 2007 on the Waterworks System Revenue Bonds was \$451,646 and 438,388, respectively. The net revenues as defined by the bond covenants for the same period were \$1.7 million and \$1.84 million, respectively.

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 \$74,886 and \$143,772 from rental of the water tower, for the years 2008 and 2007, respectively, is reported in other operating revenues. In 2007, one of the cell phone companies brought out its lease with the Utility for \$75,000. During 2008, the Utility agreed with one additional cellular phone company to lease a utility water tower as a site for it's cellular antenna.

Future minimum rentals related to these leases are as follows:

2009	\$ 88,901
2010	93,345
2011	98,023
2012	<u>52,600</u>
Total	<u>\$ 332,869</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

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

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 - RATE INCREASE

In September 2008 the Utility's application to increase its water rates with the Wisconsin Public Service Commission was approved. The new rates were expected to increase annual operating revenues by approximately eight percent. The Utility implemented the new 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, 2008, 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, 2008 and 2007

	2008	2007
SOURCE OF SUPPLY		
Operation labor	\$ 826	\$ 801
Operation supplies and expenses	12	519
Maintenance of water source plant	40,072	10,722
Total Source of Supply	<u>40,910</u>	<u>12,042</u>
PUMPING EXPENSES		
Operation labor	55,272	56,313
Fuel or power purchased	80,059	72,051
Operation supplies and expenses	838	315
Maintenance of pumping plant	8,249	6,870
Total Pumping Expenses	<u>144,418</u>	<u>135,549</u>
WATER TREATMENT EXPENSES		
Operation labor	13,145	15,815
Chemicals	18,597	15,141
Maintenance of water treatment plant	1,575	1,722
Total Water Treatment Expenses	<u>33,317</u>	<u>32,678</u>
TRANSMISSION AND DISTRIBUTION EXPENSES		
Operation labor	67,317	61,390
Operation supplies and expenses	7,424	9,877
Maintenance of distribution reservoirs	1,488	132
Maintenance of mains	17,991	15,501
Maintenance of services	1,819	1,187
Maintenance of meters	4,115	1,718
Maintenance of hydrants	12,232	19,460
Maintenance of other plant	186	417
Total Transmission and Distribution Expenses	<u>112,572</u>	<u>109,682</u>
CUSTOMER ACCOUNT EXPENSES		
Meter reading labor	2,182	2,147
Accounting and collecting labor	26,572	27,962
Supplies and expenses	10,628	5,666
Total Customer Account Expenses	<u>39,382</u>	<u>35,775</u>
ADMINISTRATIVE AND GENERAL EXPENSES		
Administrative and general salaries	100,523	106,239
Office supplies and expenses	30,335	24,052
Outside services	50,887	58,144
Property insurance	18,000	20,800
Injury and Damages	25,047	21,874
Employee pensions and benefits	83,419	86,071
Regulatory Commission expense	4,642	996
Miscellaneous general expenses	1,632	2,552
Transportation expense	15,091	10,192
Total Administrative and General Expenses	<u>329,576</u>	<u>330,920</u>
TOTAL OPERATION AND MAINTENANCE EXPENSES	<u>\$ 700,175</u>	<u>\$ 656,646</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY
a Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

UTILITY PLANT IN SERVICE
Year Ended December 31, 2008

	Utility Plant in Service				Depreciation Rate	Accumulated Depreciation			
	Balance 12/31/2007	Additions	Retirements	Balance 12/31/2008		Balance 12/31/2007	Provisions	Retirements	Balance 12/31/2008
INTANGIBLE PLANT									
Organization	\$ 29,148	\$ -	\$ -	\$ 29,148	-%	\$ -	\$ -	\$ -	\$ -
SOURCE OF SUPPLY									
Well	1,243,393	-	-	1,243,393	2.94%	355,415	36,556	-	391,971
PUMPING PLANT									
Structures and improvements	1,251,829	-	-	1,251,829	2.44%	306,340	30,545	-	336,885
Electric pumping equipment	1,081,234	-	-	1,081,234	5.00%	506,466	54,062	-	560,528
TREATMENT PLANT									
Water treatment equipment	12,469	-	-	12,469	6.00%	5,445	748	-	6,193
TRANSMISSION AND DISTRIBUTION PLANT									
Reservoirs and standpipes	796,702	-	-	796,702	1.87%	246,629	14,898	-	261,527
Transmission and distribution lines	18,483,826	163,432	-	18,647,258	1.10%	1,555,836	204,221	-	1,760,057
Services	3,595,921	64,797	-	3,660,718	2.09%	619,386	75,832	-	695,218
Meters	867,450	368	1,100	866,718	6.00%	327,008	52,091	1,100	377,999
Hydrants	2,631,088	31,050	-	2,662,138	1.85%	387,198	48,962	-	436,160
GENERAL PLANT									
Transportation	124,236	38,230	-	162,466	10.50%	78,554	15,052	-	93,606
Office furniture	19,991	-	-	19,991	5.83%	19,991	-	-	19,991
Computer equipment	106,628	-	-	106,628	26.67%	106,628	-	-	106,628
Structures and improvements	235,247	-	-	235,247	2.25%	74,935	5,293	-	80,228
	30,479,162	297,877	1,100	30,775,939		\$ 4,589,831	538,260	\$ 1,100	\$ 5,126,991
CONSTRUCTION IN PROGRESS	413,087	2,509,406	25,047	2,897,446					
TOTAL UTILITY PLANT	<u>\$ 30,892,249</u>	<u>\$ 2,807,283</u>	<u>\$ 26,147</u>	<u>\$ 33,673,385</u>	Less allocation of meter depreciation to the Sewer Utility		(26,045)		
							<u>\$ 512,214</u>		

CITY OF MUSKEGO WATER PUBLIC UTILITY
a Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

SCHEDULE OF CONSTRUCTION FUNDS
December 31, 2008

<u>Project</u>	<u>Balance 12/31/2007</u>	<u>Other Sources</u>	<u>Costs</u>	<u>Transfers</u>	<u>Balance 12/31/2008</u>
Meters and meter transmitters	\$ 1,269	\$ 50,000	\$ 368	\$ -	\$ 50,901
Janesville Road box culvert relocation	-	-	16,000	16,000	-
Elevated Storage	415	652,400	306,114	-	346,701
Truck acquisition	-	37,500	38,230	730	-
Lakewood Meadows W/M Phase II	226	-	226	-	-
Well #13 construction	14,570	-	14,570	-	-
Well #13 pumping station	-	1,689,000	353,510	-	1,335,490
Other	-	21,100	21,100	-	-
Interest earnings and unallocated	<u>2,370</u>	<u>21,700</u>	<u>-</u>	<u>(16,730)</u>	<u>7,340</u>
TOTAL	<u>\$ 18,850</u>	<u>\$ 2,471,700</u>	<u>\$ 750,118</u>	<u>\$ -</u>	<u>\$ 1,740,432</u>
Construction Funds financed by:					
Utility working capital					\$ 7,340
Debt proceeds					<u>1,733,092</u>
					<u>\$ 1,740,432</u>