

**CITY OF MUSKEGO WATER PUBLIC
UTILITY**

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

FINANCIAL STATEMENTS
December 31, 2007 and 2006

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 City of Muskego Water Public Utility, an enterprise fund of the City of Muskego, as of and for the years ended December 31, 2007 and 2006, 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, 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 City of Muskego Water Public Utility, an enterprise fund of the City of Muskego, 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 Utility has not presented "Management Discussion and Analysis" that the accounting principles generally accepted in the United States of America requires to supplement, although not required to be part of, the financial statements.

A handwritten signature in cursive script that reads "Virchow, Krause & Company, LLP".

Milwaukee, Wisconsin
July 10, 2008

CITY OF MUSKEGO WATER PUBLIC UTILITY

a Proprietary-Enterprise Fund of the
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STATEMENTS OF NET ASSETS

December 31, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 589,294	\$ 821,107
Accounts receivable - net	376,915	351,563
Restricted assets - Cash and cash equivalents	<u>410,426</u>	<u>433,490</u>
Total Current Assets	<u>1,376,635</u>	<u>1,606,160</u>
NONCURRENT ASSETS		
Restricted assets		
Cash and cash equivalents	979,833	840,300
Water capacity assessments receivable	192,702	226,861
Utility Plant		
Plant in service	30,479,162	29,263,497
Accumulated depreciation	(4,589,831)	(4,062,549)
Construction work in progress	413,087	259,020
Other Assets		
Special assessments receivable	245,473	283,331
Unamortized debt discount & expense	<u>71,418</u>	<u>85,990</u>
Total Noncurrent Assets	<u>27,791,844</u>	<u>26,896,450</u>
 Total Assets	 <u>29,168,479</u>	 <u>28,502,610</u>

CITY OF MUSKEGO WATER PUBLIC UTILITYa Proprietary-Enterprise Fund of the
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STATEMENTS OF NET ASSETS

(Continued)

December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 36,907	\$ 182,640
Accrued vacation, sick leave and compensatory time	105,623	96,299
Customer deposits	-	1,830
Deferred lease and other revenue	75,121	62,919
Liabilities payable from restricted assets		
Current portion of long-term debt	461,602	476,151
Accrued interest payable	34,276	36,414
Total Current Liabilities	<u>713,529</u>	<u>856,253</u>
NONCURRENT LIABILITIES		
Long-term debt	4,905,706	5,367,308
Other deferred revenue	79,207	79,619
Total Noncurrent Liabilities	<u>4,984,913</u>	<u>5,446,927</u>
Total Liabilities	<u>5,698,442</u>	<u>6,303,180</u>
NET ASSETS		
NET ASSETS		
Invested in capital assets, net of related debt	21,499,249	20,197,793
Restricted		
Equipment replacement	177,765	151,765
Water capacity assessments	691,369	652,605
Debt Service	179,548	157,667
Unrestricted	<u>922,106</u>	<u>1,039,600</u>
TOTAL NET ASSETS	<u>\$ 23,470,037</u>	<u>\$ 22,199,430</u>

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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>
OPERATING REVENUES		
Charges for services and sales	\$ 1,559,801	\$ 1,458,528
Other operating revenues	<u>160,570</u>	<u>93,646</u>
Total Operating Revenues	<u>1,720,371</u>	<u>1,552,174</u>
OPERATING EXPENSES		
Operation and maintenance	656,646	660,783
Depreciation	504,845	465,609
Taxes	<u>24,271</u>	<u>22,725</u>
Total Operating Expenses	<u>1,185,762</u>	<u>1,149,117</u>
Operating Income	<u>534,609</u>	<u>403,057</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	130,142	129,203
Interest on long term debt	(276,105)	(299,385)
Amortization of bond discount and expenses	<u>(14,572)</u>	<u>(15,845)</u>
Total Nonoperating Revenues (Expenses)	<u>(160,535)</u>	<u>(186,027)</u>
Income Before Capital Contributions and Transfers	374,074	217,030
CAPITAL CONTRIBUTIONS	1,301,011	1,997,912
INTERFUND TRANSFERS		
Tax equivalent	<u>(404,478)</u>	<u>(355,217)</u>
CHANGE IN NET ASSETS	1,270,607	1,859,725
NET ASSETS - Beginning of Year	<u>22,199,430</u>	<u>20,339,705</u>
NET ASSETS - END OF YEAR	<u>\$ 23,470,037</u>	<u>\$ 22,199,430</u>

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

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,369,719	\$ 1,196,275
Receipts from municipality for services	335,362	335,362
Payments to suppliers	(382,733)	(358,710)
Payments to employees	(285,071)	(279,327)
Net Cash Provided by Operating Activities	<u>1,037,277</u>	<u>893,600</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers paid to municipality for tax equivalent	<u>(404,478)</u>	<u>(355,217)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(390,270)	(1,098,768)
Principal paid on long term debt	(476,151)	(451,314)
Interest paid on long term debt	(278,243)	(297,341)
Collections on special assessments	266,379	449,437
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(878,285)</u>	<u>(1,397,986)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income		
Interest on investments	100,406	118,368
Interest on special assessments	29,736	10,835
Net Cash Provided by Investing Activities	<u>130,142</u>	<u>129,203</u>
Net Change in Cash and Cash Equivalents	<u>(115,344)</u>	<u>(730,400)</u>
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>2,094,897</u>	<u>2,825,297</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 1,979,553</u>	<u>\$ 2,094,897</u>
CASH AND CASH EQUIVALENTS - END OF YEAR		
Unrestricted	\$ 589,294	821,107
Restricted		
Debt Service Fund	1,212,494	1,122,025
Depreciation Fund	177,765	151,765
	<u>\$ 1,979,553</u>	<u>2,094,897</u>

CITY OF MUSKEGO WATER PUBLIC 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>
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Capital additions contributed to the Utility by customers and developers	<u>\$ 1,105,115</u>	<u>\$ 1,288,673</u>
Assessments of benefits for property owners for improvements	<u>\$ 195,896</u>	<u>\$ 709,239</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 534,609	\$ 403,057
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation expense	504,845	465,609
Depreciation charged to other accounts	26,085	24,584
Amortization of maintenance costs	-	24,647
Changes in Assets and Liabilities		
Accounts receivable	(29,143)	(61,971)
Receivable from City of Muskego	-	8,500
Accounts payable	(18,815)	10,595
Accrued expenses	9,324	(1,029)
Other deferred revenues	12,202	19,548
Customer deposits	<u>(1,830)</u>	<u>60</u>
Net Cash Provided by Operating Activities	<u>\$ 1,037,277</u>	<u>\$ 893,600</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

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NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1 - 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."

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 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 nonoperating 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:

	2007	2006	Associated Risk
Cash and cash equivalents held by the City:			
Commingled cash and investments with City	\$ 1,112,163	\$ 1,281,424	Not applicable
Wisconsin's Local Government Investment Pool	<u>867,390</u>	<u>813,473</u>	Credit and interest rate
 Total	 <u>\$ 1,979,553</u>	 <u>\$ 2,094,897</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, 2006 and 2005 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.

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 funds invested in LGIP which are subject to credit and interest rate risks. 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 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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Cash and Cash Equivalents		
Special Redemption Funds		
Bond Reserve Fund	\$ 490,190	\$ 490,190
Bond Principal and Interest Fund	210,656	193,990
Total	<u>700,846</u>	<u>684,180</u>
Other Debt Service Funds	511,648	437,845
Construction Funds (financed by debt)	-	-
Depreciation Funds	177,765	151,765
Total cash and cash equivalents	1,390,259	1,273,790
Water capacity assessments	<u>192,702</u>	<u>226,861</u>
 Total	 <u>\$ 1,582,961</u>	 <u>\$ 1,500,651</u>
 Current assets	 \$ 410,426	 \$ 433,490
Noncurrent assets	<u>1,172,535</u>	<u>1,067,161</u>
 Total	 <u>\$ 1,582,961</u>	 <u>\$ 1,500,651</u>

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 6.0% 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, 2007, 2006 and 2005 was \$294,395, \$279,327 and \$274,357 respectively. The total required contributions paid entirely by the employer for the years ended December 31, 2007, 2006 and 2005 were \$31,196, \$28,929 and \$27,164, respectively. All payments made were equal to the required contributions for 2007, 2006 and 2005.

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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NOTE V - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2007 and 2006 follows:

	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	29,234,349	1,221,243	5,578	30,450,014
Total Capital Assets	29,263,497	1,221,243	5,578	30,479,162
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	(4,062,549)	(530,930)	(3,648)	(4,589,831)
Construction in progress	259,020	240,045	85,978	413,087
Net Utility Plant	\$ 25,459,968	\$ 930,358	\$ 87,908	\$ 26,302,418

CITY OF MUSKEGO WATER PUBLIC UTILITY

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 NOTES TO FINANCIAL STATEMENTS
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NOTE V - CHANGES IN CAPITAL ASSETS (continued)

	Balance 12/31/2005	Additions	Retirements	Balance 12/31/2006
Capital assets, not being depreciated				
Land and land rights	\$ 29,148	\$ -	\$ -	\$ 29,148
Capital assets being depreciated				
Buildings and improvements	2,443,365	287,104	-	2,730,469
Improvements other than buildings	22,196,250	2,117,664	-	24,313,914
Machinery and equipment	1,955,134	239,707	4,875	2,189,966
Total Capital Assets Being Depreciated	<u>26,594,749</u>	<u>2,644,475</u>	<u>4,875</u>	<u>29,234,349</u>
Total Capital Assets	<u>26,623,897</u>	<u>2,644,475</u>	<u>4,875</u>	<u>29,263,497</u>
Less: Accumulated depreciation				
Buildings and improvements	(591,179)	(68,019)	-	(659,198)
Improvements other than buildings	(2,164,995)	(310,117)	-	(2,475,112)
Machinery and equipment	<u>(821,057)</u>	<u>(112,057)</u>	<u>(4,875)</u>	<u>(928,239)</u>
Total accumulated depreciation	<u>(3,577,231)</u>	<u>(490,193)</u>	<u>(4,875)</u>	<u>(4,062,549)</u>
Construction in progress	<u>366,751</u>	<u>873,080</u>	<u>980,811</u>	<u>259,020</u>
Net Utility Plant	<u>\$ 23,413,417</u>	<u>\$ 3,027,362</u>	<u>\$ 980,811</u>	<u>\$ 25,459,968</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

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

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, 2007 and 2006 are summarized below:

	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>

	Balance 12/31/05	Increases	Decreases	Balance 12/31/06	Current Portion
Waterworks System Revenue Bonds	\$ 4,490,000	\$ -	\$ 225,000	\$ 4,265,000	\$ 240,000
General Obligation Debt	600,000	-	18,925	581,075	18,925
Advances from Municipality	1,204,773	-	207,389	997,384	217,226
	<u>\$ 6,294,773</u>	<u>\$ -</u>	<u>\$ 451,314</u>	<u>\$ 5,843,459</u>	<u>\$ 476,151</u>

B. Details of long-term debt outstanding at December 31, 2007 are as follows:

Type	Date of Loan	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/2007
Waterworks System Revenue Bonds	02/01/99	3.6-4.9%	05/01/00-19	5/1&11/1	\$ 2,015,000	\$ 1,460,000
	01/01/00	4.7-5.6	05/01/02-13	5/1&11/1	950,000	575,000
	12/01/01	4.5-4.9	05/01/03-20	5/1&11/1	2,300,000	1,990,000
General Obligation Bonds	03/01/05	2.6-3.7	03/01/06-15	3/1&9/1	600,000	562,150
Advances from City	12/31/91	6.25	12/31/92-11	1/1&7/1	4,001,675	780,158
						5,367,308
Less: Current portion of long-term debt						461,602
						<u>\$ 4,905,706</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, 2007 and 2006

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>
2007				\$ 5,367,308
2008	\$ 461,602	\$ 254,417	\$ 716,019	4,905,706
2009	511,632	229,562	741,194	4,394,074
2010	576,819	202,069	778,888	3,817,255
2011	618,140	171,860	790,000	3,199,115
2012	440,700	139,107	579,807	2,758,415
2013-2017	1,863,415	416,729	2,280,144	895,000
2018-2020	895,000	59,424	954,424	-
	<u>\$ 5,367,308</u>	<u>\$ 1,473,168</u>	<u>\$ 6,840,476</u>	

E. The total principal and interest paid during 2007 on the Waterworks System Revenue Bonds was \$488,388. The net revenues as defined by the bond covenants for the same period were \$1.4 million.

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 \$143,772 and \$78,045 from rental of the water tower, for the years 2007 and 2006, 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.

Future minimum rentals related to these leases are as follows:

2009	\$ 66,950
2010	70,297
2011	73,812
2012	<u>77,503</u>
Total	<u>\$ 288,562</u>

CITY OF MUSKEGO WATER PUBLIC UTILITY

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

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 for which the Water Utility purchases commercial insurance. There has been no reduction in insurance coverage 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 - RATE INCREASE

In June 2005 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 three percent. The Utility implemented the new rates effective October 1, 2005.

In November 2007 the Utility applied to the Wisconsin Public Service Commission to increase its water rates. The application requests an increase in rates of 10 percent.

NOTE X - 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, 2007, are not likely to have a material adverse impact on the Utility's financial position.



INDEPENDENT AUDITORS' REPORT
ON THE SUPPLEMENTARY INFORMATION

City Council
City of Muskego
Muskego, Wisconsin

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole of the Muskego Water Utility, a Proprietary-Enterprise Fund of the City of Muskego, for the years ended December 31, 2007 and 2006, which are presented in the preceding section of this report. The supplementary information presented hereinafter and as presented in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audits of the basic financial statements for the years ended December 31, 2007 and 2006 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Virchow, Krause & Company, LLP

Milwaukee, Wisconsin
July 10, 2008

SUPPLEMENTARY INFORMATION

CITY OF MUSKEGO WATER PUBLIC UTILITYa Proprietary-Enterprise Fund of the
CITY OF MUSKEGO**OPERATION AND MAINTENANCE EXPENSES**
For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
SOURCE OF SUPPLY		
Operation labor	\$ 801	\$ 770
Operation supplies and expenses	519	620
Maintenance of water source plant	<u>10,722</u>	<u>26,169</u>
Total Source of Supply	<u>12,042</u>	<u>27,559</u>
PUMPING EXPENSES		
Operation labor	56,313	48,090
Fuel or power purchased	72,051	65,375
Operation supplies and expenses	315	130
Maintenance of pumping plant	<u>6,870</u>	<u>15,858</u>
Total Pumping Expenses	<u>135,549</u>	<u>129,453</u>
WATER TREATMENT EXPENSES		
Operation labor	15,815	8,338
Chemicals	15,141	17,542
Maintenance of water treatment plant	<u>1,722</u>	<u>2,471</u>
Total Water Treatment Expenses	<u>32,678</u>	<u>28,351</u>
TRANSMISSION AND DISTRIBUTION EXPENSES		
Operation labor	61,390	53,392
Operation supplies and expenses	9,877	8,892
Maintenance of distribution reservoirs	132	24,968
Maintenance of mains	15,501	5,372
Maintenance of services	1,187	1,849
Maintenance of meters	1,718	7,992
Maintenance of hydrants	19,460	24,168
Maintenance of other plant	<u>417</u>	<u>748</u>
Total Transmission and Distribution Expenses	<u>109,682</u>	<u>127,381</u>
CUSTOMER ACCOUNT EXPENSES		
Meter reading labor	2,147	1,553
Accounting and collecting labor	27,962	25,646
Supplies and expenses	<u>5,666</u>	<u>9,298</u>
Total Customer Account Expenses	<u>35,775</u>	<u>36,497</u>
ADMINISTRATIVE AND GENERAL EXPENSES		
Administrative and general salaries	106,239	97,454
Office supplies and expenses	24,052	24,900
Outside services	58,144	77,255
Property insurance	20,800	21,530
Injury and Damages	21,874	-
Employee pensions and benefits	86,071	74,471
Regulatory Commission expense	996	-
Miscellaneous general expenses	2,552	3,352
Transportation expense	<u>10,192</u>	<u>12,850</u>
Total Administrative and General Expenses	<u>330,920</u>	<u>311,542</u>
TOTAL OPERATION AND MAINTENANCE EXPENSES	<u>\$ 656,646</u>	<u>\$ 660,783</u>

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

UTILITY PLANT IN SERVICE
 Year Ended December 31, 2007

	Utility Plant in Service				Accumulated Depreciation				
	Balance 12/31/2006	Additions	Retirements	Balance 12/31/2007	Depreciation Rate	Balance 12/31/2006	Provisions	Retirements	Balance 12/31/2007
INTANGIBLE PLANT									
Organization	\$ 29,148	\$ -	\$ -	\$ 29,148	-%	\$ -	\$ -	\$ -	\$ -
SOURCE OF SUPPLY									
Well	1,243,393	-	-	1,243,393	2.94	313,940	41,475	-	355,415
PUMPING PLANT									
Structures and improvements	1,251,829	-	-	1,251,829	2.44	275,795	30,545	-	306,340
Electric pumping equipment	1,071,650	9,584	-	1,081,234	5.00	452,644	53,822	-	506,466
TREATMENT PLANT									
Water treatment equipment	12,469	-	-	12,469	6.00	4,697	748	-	5,445
TRANSMISSION AND DISTRIBUTION PLANT									
Reservoirs and standpipes	796,702	-	-	796,702	1.87	231,731	14,898	-	246,629
Transmission and distribution lines	17,634,962	848,864	-	18,483,826	1.10	1,357,182	198,654	-	1,555,836
Services	3,383,067	212,854	-	3,595,921	2.09	546,456	72,930	-	619,386
Meters	864,263	6,835	3,648	867,450	6.00	278,486	52,170	3,648	327,008
Hydrants	2,499,183	131,905	-	2,631,088	1.85	339,743	47,455	-	387,198
GENERAL PLANT									
Transportation	114,965	11,201	1,930	124,236	10.50	65,793	12,761	-	78,554
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	69,463	5,472	-	74,935
CONSTRUCTION IN PROGRESS	29,263,497	1,221,243	5,578	30,479,162		\$ 4,062,549	\$ 530,930	\$ 3,648	\$ 4,589,831
	259,020	240,045	85,978	413,087					
TOTAL UTILITY PLANT	\$ 29,522,517	\$ 1,461,288	\$ 91,556	\$ 30,892,249		Less allocation of meter depreciation to the Sewer Utility		(26,085)	\$ 504,845

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

SCHEDULE OF CONSTRUCTION FUNDS
December 31, 2007

Project	Balance 12/31/2006	Other Sources	Costs	Transfers	Balance 12/31/2007
Scada radio study / upgrade	\$ 16,217	\$ -	\$ 25,801	\$ 9,584	\$ -
Meters and meter transmitters	-	-	6,835	8,104	1,269
Janesville Road box culvert relocation	11,085	-	13,673	2,588	-
Lake Lore / Tudor Oaks community well study / well house	19,466	-	24,971	5,505	-
Elevated Storage	-	-	-	415	415
Woodland Creek Oversizing	-	-	35,635	35,635	-
Boxhorn Reserve Oversizing	-	-	20,623	20,623	-
Lakewood Condos Oversizing	-	-	21,627	21,627	-
Truck acquisition	-	-	11,201	11,201	-
Well #9 construction	19,270	-	19,270	-	-
Well #14	-	-	285	285	-
Lakewood Meadows project	445	-	445	-	-
Lakewood Meadows W/M Phase II	-	-	12,056	12,282	226
Well #13 construction	80,678	-	175,185	109,077	14,570
Well #13 pumping station	-	-	32,008	32,008	-
Transfer from working capital	-	262,000	-	(262,000)	-
Interest earnings and unallocated	5,104	4,200	-	(6,934)	2,370
TOTAL	\$ 152,265	\$ 266,200	\$ 399,615	\$ -	\$ 18,850
Construction Funds financed by:					
Utility working capital					\$ 18,850
Debt proceeds					-
					<u>\$ 18,850</u>