



**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, 2005 and 2004

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, 2005 and 2004

# 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, 2005 and 2004, 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 and are not intended to present the financial position of City of Muskego, 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, 2005 and 2004, 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.

*Virchow, Krause + Company, LLP*

Milwaukee, Wisconsin  
February 28, 2006

# CITY OF MUSKEGO WATER PUBLIC UTILITY

a Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO

## STATEMENTS OF NET ASSETS December 31, 2005 and 2004

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<b>ASSETS</b>	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 810,796	\$ 698,081
Accounts receivable - net	289,592	290,745
Due from City of Muskego	8,500	-
Restricted assets - Cash and cash equivalents	<u>439,807</u>	<u>396,686</u>
Total Current Assets	<u>1,548,695</u>	<u>1,385,512</u>
<b>NONCURRENT ASSETS</b>		
Restricted assets		
Cash and cash equivalents	1,574,694	1,615,018
Water capacity assessments	181,106	154,098
Utility Plant		
Plant in service	26,623,897	23,186,176
Accumulated depreciation	(3,577,231)	(3,152,443)
Construction work in progress	366,751	254,814
Other Assets		
Special assessments	97,734	105,339
Unamortized debt discount & expense	101,835	107,361
Unamortized maintenance costs	<u>24,647</u>	<u>49,153</u>
Total Noncurrent Assets	<u>25,393,433</u>	<u>22,319,516</u>
Total Assets	<u>26,942,128</u>	<u>23,705,028</u>

**CITY OF MUSKEGO WATER PUBLIC UTILITY**

a Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO

STATEMENTS OF NET ASSETS

(Continued)

December 31, 2005 and 2004

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	<b>LIABILITIES</b>	
	<u>2005</u>	<u>2004</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 24,884	\$ 12,630
Accrued vacation, sick leave and compensatory time	97,328	86,991
Customer deposits	1,770	-
Deferred lease and other revenue	43,371	43,283
Liabilities payable from restricted assets		
Accounts payable	24,452	24,210
Current portion of long-term debt	451,314	403,131
Accrued interest payable	38,458	36,913
Total Current Liabilities	<u>681,577</u>	<u>607,158</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt	5,843,459	5,694,773
Other deferred revenue	<u>77,387</u>	<u>82,363</u>
Total Noncurrent Liabilities	<u>5,920,846</u>	<u>5,777,136</u>
Total Liabilities	<u>6,602,423</u>	<u>6,384,294</u>
<b>NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	18,686,701	15,790,586
Restricted		
Equipment replacement	126,765	104,265
Water capacity assessments	407,593	387,310
Debt Service	150,854	137,432
Unrestricted	<u>967,792</u>	<u>901,141</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 20,339,705</u>	<u>\$ 17,320,734</u>

# CITY OF MUSKEGO WATER PUBLIC UTILITY

a Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>OPERATING REVENUES</b>		
Charges for services and sales	\$ 1,416,730	\$ 1,281,855
Other operating revenues	<u>90,480</u>	<u>98,274</u>
Total Operating Revenues	<u>1,507,210</u>	<u>1,380,129</u>
<b>OPERATING EXPENSES</b>		
Operation and maintenance	679,503	636,186
Depreciation	413,316	364,231
Taxes	<u>22,553</u>	<u>28,663</u>
Total Operating Expenses	<u>1,115,372</u>	<u>1,029,080</u>
Operating Income	<u>391,838</u>	<u>351,049</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	94,691	46,185
Interest on long term debt	(314,182)	(320,371)
Amortization of bond discount and expenses	<u>(17,049)</u>	<u>(16,477)</u>
Total Nonoperating Revenues (Expenses)	<u>(236,540)</u>	<u>(290,663)</u>
Income Before Capital Contributions and Transfers	155,298	60,386
<b>CAPITAL CONTRIBUTIONS</b>	3,199,162	2,770,011
<b>INTERFUND TRANSFERS</b>		
Tax equivalent	<u>(335,489)</u>	<u>(344,748)</u>
<b>CHANGE IN NET ASSETS</b>	3,018,971	2,485,649
NET ASSETS - Beginning of Year	<u>17,320,734</u>	<u>14,835,085</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 20,339,705</u>	<u>\$ 17,320,734</u>

# CITY OF MUSKEGO WATER PUBLIC UTILITY

a Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO

## STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,181,872	\$ 995,857
Receipts from municipality for services	328,036	325,594
Payments to suppliers	(366,606)	(289,821)
Payments to employees	<u>(274,357)</u>	<u>(273,071)</u>
Net Cash Provided by Operating Activities	<u>868,945</u>	<u>758,559</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfers paid to municipality for tax equivalent	<u>(335,489)</u>	<u>(344,748)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	588,477	-
Acquisition and construction of capital assets	(656,768)	(432,541)
Principal paid on long term debt	(403,131)	(374,417)
Interest paid on long term debt	(312,638)	(321,993)
Collections on special assessments	<u>271,425</u>	<u>273,064</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(512,635)</u>	<u>(855,887)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income		
Interest on investments	85,478	35,530
Interest on special assessments	<u>9,213</u>	<u>10,654</u>
Net Cash Provided by Investing Activities	<u>94,691</u>	<u>46,184</u>
<b>Net Change in Cash and Cash Equivalents</b>	115,512	(395,892)
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>2,709,785</u>	<u>3,105,677</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 2,825,297</u>	<u>\$ 2,709,785</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>		
Unrestricted	\$ 810,796	698,081
Restricted		
Debt Service Fund	911,703	905,047
Construction Fund	976,033	1,002,392
Depreciation Fund	<u>126,765</u>	<u>104,265</u>
	<u>\$ 2,825,297</u>	<u>2,709,785</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, 2005 and 2004

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	<u>2005</u>	<u>2004</u>
<b>NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
Capital additions contributed to the Utility by customers and developers	<u>\$ 2,905,125</u>	<u>\$ 2,533,216</u>
Assessments of benefits for property owners for improvements	<u>\$ 294,037</u>	<u>\$ 236,795</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 391,838	\$ 351,049
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation expense	413,316	364,231
Depreciation charged to other accounts	22,184	19,600
Amortization of maintenance costs	24,505	24,505
Changes in Assets and Liabilities		
Accounts receivable	1,153	(56,109)
Receivable from City of Muskego	(8,500)	33,072
Accounts payable	12,254	2,147
Accrued expenses	10,337	22,633
Other deferred revenues	88	(2,569)
Customer deposits	<u>1,770</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>\$ 868,945</u>	<u>\$ 758,559</u>

# CITY OF MUSKEGO WATER PUBLIC UTILITY

A Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

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

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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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NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

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

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### ***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.

# CITY OF MUSKEGO WATER PUBLIC UTILITY

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NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

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

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### ***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.

# CITY OF MUSKEGO WATER PUBLIC UTILITY

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

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### *ASSETS, LIABILITIES AND EQUITY*

#### *Restricted Assets* (cont.)

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

Construction Funds represent proceeds from long-term debt and interest earnings on the related funds which are expected to be utilized to finance certain 2006 construction projects.

#### *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.

# CITY OF MUSKEGO WATER PUBLIC UTILITY

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NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

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

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### ***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.

#### ***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.

**CITY OF MUSKEGO WATER PUBLIC UTILITY**

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 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2005 and 2004

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

**REVENUES AND EXPENSES (cont.)**

**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:

	2005	2004	Associated Risk
Cash and cash equivalents held by the City:			
Commingled cash and investments with City	\$ 2,056,283	\$ 1,974,532	Not applicable
Wisconsin's Local Government Investment Pool	<u>769,014</u>	<u>735,253</u>	Credit and interest rate
 Total	 <u>\$ 2,825,297</u>	 <u>\$ 2,709,785</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, 2005 and 2004 the fair value of the Utility's share of the LGIP assets was substantially equal to the amount reported above.

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.

# CITY OF MUSKEGO WATER PUBLIC UTILITY

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

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### *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, 2005 and 2004 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 32 days and 28 days as of December 31, 2005 and 2004 respectively.

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

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## NOTE III - RESTRICTED ASSETS

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Restricted assets were comprised of the following restricted funds at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents		
Special Redemption Funds		
Bond Reserve Fund	\$ 490,190	\$ 490,190
Bond Principal and Interest Fund	<u>185,698</u>	<u>173,895</u>
Total	675,888	664,085
Other Debt Service Funds	235,815	240,962
Construction Funds	976,033	1,002,392
Depreciation Funds	<u>126,765</u>	<u>104,265</u>
Total cash and cash equivalents	2,014,501	2,011,704
Water capacity assessments	<u>181,106</u>	<u>154,098</u>
Total	<u>\$ 2,195,607</u>	<u>\$ 2,165,802</u>
Current assets	\$ 439,807	\$ 396,686
Noncurrent assets	<u>1,755,800</u>	<u>1,769,116</u>
Total	<u>\$ 2,195,607</u>	<u>\$ 2,165,802</u>



# CITY OF MUSKEGO WATER PUBLIC UTILITY

A Proprietary-Enterprise Fund of the  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

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## **NOTE IV - DEFINED BENEFIT PENSION PLAN**

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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 5.8% of their salary (2.8% for executives and elected officials, 4.9% for protective occupations with social security, and 3.3% 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, 2005, 2004 and 2003 was \$274,357, \$273,071 and \$217,694 respectively. The total required contributions paid entirely by the employer for the years ended December 31, 2005, 2004 and 2003 were \$27,164, \$30,282 and \$20,539, respectively. All payments made were equal to the required contributions for 2005, 2004 and 2003.

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

A Proprietary-Enterprise Fund of the  
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NOTES TO FINANCIAL STATEMENTS  
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## **NOTE IV - CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for 2005 and 2004 follows:

	Balance 12/31/2004	Additions	Retirements	Balance 12/31/2005
Capital assets, not being depreciated				
Land and land rights	\$ 29,148	\$ -	\$ -	\$ 29,148
Capital assets being depreciated				
Buildings and improvements	2,356,638	86,727	-	2,443,365
Improvements other than buildings	19,151,434	3,237,888	10,713	22,378,609
Machinery and equipment	1,648,956	123,819	-	1,772,775
Total Capital Assets Being Depreciated	23,157,028	3,448,434	10,713	26,594,749
Total Capital Assets	23,186,176	3,448,434	10,713	26,623,897
Less: Accumulated depreciation				
Buildings and improvements	(528,298)	(62,880)	-	(591,178)
Improvements other than buildings	(1,918,717)	(319,131)	(10,713)	(2,227,135)
Machinery and equipment	(705,428)	(53,490)	-	(758,918)
Total accumulated depreciation	(3,152,443)	(435,501)	(10,713)	(3,577,231)
Construction in progress	254,814	153,710	41,773	366,751
Net Utility Plant	\$ 20,288,547	\$ 3,166,643	\$ 41,773	\$ 23,413,417

# CITY OF MUSKEGO WATER PUBLIC UTILITY

A Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

## **NOTE V - CHANGES IN CAPITAL ASSETS** (continued)

	Balance 12/31/03	Additions	Retirements	Balance 12/31/04
Capital assets, not being depreciated				
Land and land rights	\$ 29,148	\$ -	\$ -	\$ 29,148
Capital assets being depreciated				
Buildings and improvements	2,226,192	130,446	-	2,356,638
Improvements other than buildings	16,464,385	2,697,453	10,404	19,151,434
Machinery and equipment	<u>1,501,058</u>	<u>147,898</u>	<u>-</u>	<u>1,648,956</u>
Total Capital Assets Being Depreciated	<u>20,191,635</u>	<u>2,975,797</u>	<u>10,404</u>	<u>23,157,028</u>
Total Capital Assets	<u>20,220,783</u>	<u>2,975,797</u>	<u>10,404</u>	<u>23,186,176</u>
Less: Accumulated depreciation				
Buildings and improvements	(468,255)	(60,043)	-	(528,298)
Improvements other than buildings	(1,654,018)	(275,103)	(10,404)	(1,918,717)
Machinery and equipment	<u>(656,743)</u>	<u>(48,685)</u>	<u>-</u>	<u>(705,428)</u>
Total accumulated depreciation	<u>(2,779,016)</u>	<u>(383,831)</u>	<u>(10,404)</u>	<u>(3,152,443)</u>
Construction in progress	<u>380,826</u>	<u>100,263</u>	<u>226,275</u>	<u>254,814</u>
Net Utility Plant	<u>\$ 17,822,593</u>	<u>\$ 2,692,229</u>	<u>\$ 226,275</u>	<u>\$ 20,288,547</u>

**CITY OF MUSKEGO WATER PUBLIC UTILITY**

A Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

**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, 2005 and 2004 are summarized below:

	Balance 12/31/04	Increases	Decreases	Balance 12/31/05	Current Portion
Waterworks System Revenue Bonds	\$ 4,695,000	\$ -	\$ 205,000	\$ 4,490,000	\$ 225,000
General Obligation Debt	-	600,000	-	600,000	18,925
Advances from Municipality	1,402,904	-	198,131	1,204,773	207,389
	<u>\$ 6,097,904</u>	<u>\$ 600,000</u>	<u>\$ 403,131</u>	<u>\$ 6,294,773</u>	<u>\$ 451,314</u>

	Balance 12/31/03	Increases	Decreases	Balance 12/31/04	Current Portion
Waterworks System Revenue Bonds	\$ 4,880,000	\$ -	\$ 185,000	\$ 4,695,000	\$ 205,000
Advances from Municipality	1,592,321	-	189,417	1,402,904	198,131
	<u>\$ 6,472,321</u>	<u>\$ -</u>	<u>\$ 374,417</u>	<u>\$ 6,097,904</u>	<u>\$ 403,131</u>

B. Details of long-term debt outstanding at December 31, 2005 are as follows:

Type	Date of Loan	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/2005
Waterworks System Revenue Bonds	02/01/99	3.6-4.9%	05/01/00-19	5/1&11/1	\$ 2,015,000	\$ 1,635,000
	01/01/00	4.7-5.6	05/01/02-13	5/1&11/1	950,000	720,000
	12/01/01	4.5-4.9	05/01/03-20	5/1&11/1	2,300,000	2,135,000
General Obligation Bonds	03/01/05	2.6-3.7	03/01/06-15	3/1&9/1	600,000	600,000
Advances from City	12/31/91	6.25	12/31/92-11	1/1&7/1	1,840,000	100,000
	02/01/98	4.25	06/01/99-07	1/1&7/1	4,000,000	1,104,773
						<u>6,294,773</u>
Less: Current portion of long-term debt						<u>451,314</u>
						<u>\$ 5,843,459</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, 2005 and 2004

**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>
2005				\$ 6,294,773
2006	\$ 451,314	\$ 301,429	\$ 752,743	5,843,459
2007	476,151	278,243	754,394	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
2011-2015	2,297,255	610,237	2,907,492	1,520,000
2016-2020	<u>1,520,000</u>	<u>176,883</u>	<u>1,696,883</u>	-
	<u>\$ 6,294,773</u>	<u>\$ 2,052,840</u>	<u>\$ 8,347,613</u>	

**NOTE VII - UNAMORTIZED MAINTENANCE COSTS**

Unamortized maintenance costs are comprised of the following:

	<u>Project Cost</u>	<u>Unamortized Balance</u>		<u>Amortization</u>	
		<u>12/31/05</u>	<u>12/31/04</u>	<u>2005</u>	<u>2004</u>
Water tower cleaning and painting					
2001	\$ 122,527	<u>\$ 24,647</u>	<u>\$ 49,153</u>	<u>\$ 24,506</u>	<u>\$ 24,505</u>

The costs associated with the painting were amortized to operations and maintenance expense over a five year period beginning in 2002.

# CITY OF MUSKEGO WATER PUBLIC UTILITY

A Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

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## **NOTE VIII - ANTENNA LEASE AGREEMENTS**

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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 \$76,240 and \$72,743 from rental of the water tower, for the years 2005 and 2004, respectively, is reported in other operating revenues.

Future minimum rentals related to these leases are as follows:

2006	<u>\$ 51,497</u>
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## **NOTE IX - RISK MANAGEMENT**

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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.

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## **NOTE X - RATE INCREASE**

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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.

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## **NOTE XI - COMMITMENTS AND CONTINGENCIES**

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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, 2005, 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, 2005 and 2004, 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, 2005 and 2004 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  
February 28, 2006

## **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, 2005 and 2004

	2005	2004
<b>SOURCE OF SUPPLY</b>		
Operation labor	\$ 774	\$ 2,003
Operation supplies and expenses	2,794	62
Maintenance of water source plant	14,546	1,503
Total Source of Supply	<u>18,114</u>	<u>3,568</u>
<b>PUMPING EXPENSES</b>		
Operation labor	45,924	41,530
Fuel or power purchased	54,225	40,055
Operation supplies and expenses	1,356	2,130
Maintenance of pumping plant	11,882	5,877
Total Pumping Expenses	<u>113,387</u>	<u>89,592</u>
<b>WATER TREATMENT EXPENSES</b>		
Operation labor	10,507	9,773
Chemicals	23,289	19,364
Maintenance of water treatment plant	5,505	503
Total Water Treatment Expenses	<u>39,301</u>	<u>29,640</u>
<b>TRANSMISSION AND DISTRIBUTION EXPENSES</b>		
Operation labor	62,825	45,847
Operation supplies and expenses	5,993	5,767
Maintenance of distribution reservoirs	30,038	30,920
Maintenance of mains	22,040	12,342
Maintenance of services	6,853	2,322
Maintenance of meters	7,338	11,721
Maintenance of hydrants	22,669	30,558
Maintenance of other plant	708	221
Total Transmission and Distribution Expenses	<u>158,464</u>	<u>139,698</u>
<b>CUSTOMER ACCOUNT EXPENSES</b>		
Meter reading labor	2,244	1,902
Accounting and collecting labor	21,882	29,801
Supplies and expenses	6,803	3,844
Total Customer Account Expenses	<u>30,929</u>	<u>35,547</u>
<b>ADMINISTRATIVE AND GENERAL EXPENSES</b>		
Administrative and general salaries	84,111	95,576
Office supplies and expenses	28,141	27,668
Outside services	106,544	117,856
Property insurance	13,071	11,028
Employee pensions and benefits	73,521	75,253
Regulatory Commission expense	114	-
Miscellaneous general expenses	3,955	2,996
Transportation expense	9,851	7,764
Total Administrative and General Expenses	<u>319,308</u>	<u>338,141</u>
<b>TOTAL OPERATION AND MAINTENANCE EXPENSES</b>	<u>\$ 679,503</u>	<u>\$ 636,186</u>

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

UTILITY PLANT IN SERVICE  
Year Ended December 31, 2005

	Utility Plant in Service				Depreciation Rate	Accumulated Depreciation			
	Balance 12/31/2004	Additions	Retirements	Balance 12/31/2005		Balance 12/31/2004	Provisions	Retirements	Balance 12/31/2005
<b>INTANGIBLE PLANT</b>									
Organization	\$ 29,148	\$ -	\$ -	\$ 29,148	-%	\$ -	\$ -	\$ -	\$ -
<b>SOURCE OF SUPPLY</b>									
Well	941,021	24,944	-	965,965	2.94	253,429	28,033	-	281,462
<b>PUMPING PLANT</b>									
Structures and improvements	1,180,370	61,783	-	1,242,153	2.44	215,992	29,555	-	245,547
Electric pumping equipment	822,846	105,410	-	928,256	5.00	358,868	43,778	-	402,646
<b>TREATMENT PLANT</b>									
Water treatment equipment	12,469	-	-	12,469	6.00	3,201	748	-	3,949
<b>TRANSMISSION AND DISTRIBUTION PLANT</b>									
Reservoirs and standpipes	796,702	-	-	796,702	1.87	201,934	14,898	-	216,832
Transmission and distribution lines	13,911,556	2,193,007	-	16,104,563	1.10	1,009,392	163,685	-	1,173,077
Services	2,403,589	650,549	-	3,054,138	2.09	421,672	57,516	-	479,188
Meters	698,474	92,403	10,713	780,164	6.00	200,081	44,368	10,713	233,736
Hydrants	1,938,918	301,929	-	2,240,847	1.85	257,235	38,663	-	295,898
<b>GENERAL PLANT</b>									
Transportation	89,217	18,409	-	107,626	10.50	43,791	10,316	-	54,107
Office furniture	19,991	-	-	19,991	5.83	21,343	(1,352)	-	19,991
Computer equipment	106,628	-	-	106,628	26.67	106,628	-	-	106,628
Structures and improvements	235,247	-	-	235,247	2.25	58,877	5,293	-	64,170
	23,186,176	3,448,434	10,713	26,623,897		\$ 3,152,443	435,501	\$ 10,713	\$ 3,577,231
<b>CONSTRUCTION IN PROGRESS</b>	254,814	153,710	41,773	366,751					
<b>TOTAL UTILITY PLANT</b>	<u>\$ 23,440,990</u>	<u>\$ 3,602,144</u>	<u>\$ 52,486</u>	<u>\$ 26,990,648</u>	Less allocation of meter depreciation to the Sewer Utility		(22,185)		
						<u>\$ 413,316</u>			

**CITY OF MUSKEGO WATER PUBLIC UTILITY**

a Proprietary-Enterprise Fund of the  
CITY OF MUSKEGO

SCHEDULE OF CONSTRUCTION FUNDS  
December 31, 2005

Project	Balance 12/31/2004	2005				Balance 12/31/2005
		Borrowings	Other Sources	Costs	Transfers	
Scada radio study / upgrade	\$ 11,000	\$ -	\$ -	\$ 23,289	\$ 21,717	\$ 9,428
Meters and meter transmitters	100,000	-	-	92,403	92,403	100,000
Janesville Road box culvert relocation	86,083	-	-	7,544	8,461	87,000
Lake Lore / Tudor Oaks community well study	1,275	-	-	6,134	5,404	545
Truck acquisition	21,000	-	-	18,759	12,759	15,000
CCV Project	335,090	-	-	395,322	60,232	-
Well #9 pumphouse	-	200,000	-	-	-	200,000
Well #9 construction	366,540	-	-	62,146	(252,159)	52,235
Well #4 & 5 radium compliance and well abandonment	50,000	50,000	-	-	(100,000)	-
Water facilities plans - various	26,114	-	-	2,114	(24,000)	-
Lakewood Meadows project	5,290	350,000	-	19,957	(265,000)	70,333
Well #13 construction	-	-	-	29,100	35,355	6,255
Interest earnings and unallocated	-	-	30,409	-	404,828	435,237
<b>TOTAL</b>	<u>\$ 1,002,392</u>	<u>\$ 600,000</u>	<u>\$ 30,409</u>	<u>\$ 656,768</u>	<u>\$ -</u>	<u>\$ 976,033</u>