

CITY OF MUSKEGO

FINANCIAL STATEMENTS

Including Independent Auditors' Report

December 31, 2012

Prepared by

City of Muskego
Finance and Administration Department

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Waukesha County, Wisconsin

City of Muskego

Table of Contents As of and for the Year Ended December 31, 2012

Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 12
Basic Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Balance Sheet – Governmental Funds	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	18
Statement of Net Position – Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21 – 22
Statement of Fiduciary Net Position – Fiduciary Funds	23
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	24
Index to Notes to Financial Statements	25
Notes to Financial Statements	26 – 62

City of Muskego

Index to Notes to Financial Statements As of and for the Year Ended December 31, 2012

Supplementary Information

Combining Balance Sheet – Non-major Governmental Funds – Special Revenue Funds	63 – 64
Combining Balance Sheet – Non-major Governmental Funds – Capital Projects Funds	65
Combining Balance Sheet – Non-major Governmental Funds	66
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds – Special Revenue Funds	67 – 68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds – Capital Projects Funds	69
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds	70

INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Common Council
City of Muskego
Muskego, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Muskego, Wisconsin, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Muskego's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City of Muskego's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the City of Muskego's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Mayor and Common Council
City of Muskego

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Muskego, Wisconsin, as of December 31, 2012 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note I, the City of Muskego adopted the provisions of GASB Statement No. 63, *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective January 1, 2012. Our opinions are not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Muskego's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Baku Tilly Vinchow Krause, LLP

Milwaukee, Wisconsin
September 12, 2013

**MANAGEMENT'S DISCUSSION
AND
ANALYSIS**

City of Muskego, Wisconsin
Management Discussion and Analysis
As of and for the Year Ended December 31, 2012
(Unaudited)

As management of the City of Muskego, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2012. The discussion and analysis presents the highlights of financial activities and financial position for the City of Muskego (City). The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the City.

Financial Highlights

- The net position of the City exceeded its liability by \$124,832,989 as of December 31, 2012. Of this amount, \$20,605,442 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. Compared to the prior year, the City's total net position increased by \$2,534,377.
- At the close of the 2012 fiscal year, the City's governmental funds reported combined ending fund balances of \$24,067,978, which is a decrease of \$3,197,791 in comparison with the prior year. Of this total amount, approximately 85% or \$20,510,564 is available for spending at the government's discretion (committed, assigned and unassigned fund balances).
- The City's combined committed and unassigned fund balance for the General Fund was \$6,055,289 or 45% of the total general fund expenditures (including transfers out) for fiscal year 2012. Of this total, \$4,916,348 is committed to meet the requirements of the City's Fund Balance and Annual General Fund Budgeted Contingency policy.
- The City of Muskego's total long-term debt, excluding compensated absences, decreased by \$2,306,288 (5.11%) during the 2012 fiscal year. The decrease was due to the net of scheduled payments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Muskego's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Muskego's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

City of Muskego
Management Discussion and Analysis
As of and for the Year Ended December 31, 2012
(Unaudited)

Government-wide Financial Statements (continued)

Both the government-wide financial statements distinguish functions of the City of Muskego that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Muskego include general government, protection of persons and property, highways and transportation, health and sanitation, recreation and education and conservation and development. Business-type activities of the City include the Sewer Utility and the Water Utility.

The government-wide financial statements include the City of Muskego and the following component units: The Community Development Authority and the Big Muskego Lake Bass Bay Protection and Rehabilitation District. There are no other organizations or agencies whose financial statements should be combined and presented with the financial statements of the City.

The government-wide financial statements can be found on pages 13 through 14 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Muskego, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Muskego maintains twenty-six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Debt Service Fund, Capital Budget Fund and Tax Increment District Capital Project Funds, all of which are considered to be major funds. Individual fund data for each of the twenty-two non-major governmental funds is provided in the form of combining statements and can be found on pages 63 through 70 of this report.

The City of Muskego adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with its budget on page 18 this report. The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

City of Muskego
Management Discussion and Analysis
As of and for the Year Ended December 31, 2012
(Unaudited)

Proprietary Funds

The City of Muskego maintains one type of proprietary fund: Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Muskego maintains two enterprise funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 19 through 22 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Muskego's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary funds for the City are private purpose trust funds and agency funds. Total assets of the fiduciary funds were \$37,220,207.

The basic fiduciary funds financial statements can be found on pages 23 and 24 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 62 of this report.

Other Information

The combining statements referred to earlier in connection with non-major governmental funds is presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 63 through 70 of this report.

Government-Wide Financial Analysis

As financial information is accumulated from year-to-year, changes in net position may serve as a useful indicator of a government's financial position. In the case of the City of Muskego, assets exceeded liabilities by \$124,832,989 as of December 31, 2012.

The largest portion of the City of Muskego's net position (75.10%) reflects its investment in capital assets (e.g., land, buildings, improvements, and machinery and equipment), less any debt used to acquire those assets that is still outstanding. The City of Muskego uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Muskego
Management Discussion and Analysis
As of and for the Year Ended December 31, 2012
(Unaudited)**

The following provides a summary of the City's net position:

	Governmental Activities		Business - type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$38,796,271	\$ 41,876,631	\$ 22,496,458	\$ 22,222,662	\$ 61,292,729	\$ 64,099,293
Capital assets	54,369,476	50,171,672	72,220,498	73,581,718	126,589,974	123,753,390
Total Assets	93,165,747	92,048,303	94,716,956	95,804,380	187,882,703	187,852,683
Current Liabilities	14,867,063	14,747,871	3,009,872	1,989,676	17,876,935	16,737,547
Noncurrent outstanding	37,138,819	38,806,375	6,923,937	8,899,481	44,062,756	47,705,856
Other liabilities	-	-	1,110,023	1,110,668	1,110,023	1,110,668
Total liabilities	52,005,882	53,554,246	11,043,832	11,999,825	63,049,714	65,554,071
Net investment in capital assets	30,038,875	29,277,730	65,256,815	66,143,560	93,746,308	93,816,798
Restricted	3,315,937	2,603,949	7,165,302	6,660,873	10,481,239	9,264,822
Unrestricted	7,805,053	6,612,378	11,251,007	11,000,122	20,605,442	19,216,992
Total net position	41,159,865	38,494,057	83,673,124	83,804,555	124,832,989	122,298,612
Total liabilities and net position	\$93,165,747	\$ 92,048,303	\$ 94,716,956	\$ 95,804,380	\$187,882,703	\$187,852,683

At the end of the 2012 fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Position

As of December 31, 2012, total net position of the City of Muskego amounted to \$124,832,989, which is an increase of \$2,534,377 as compared to the 2011 fiscal year end. The major item attributing to this increase are \$4.3 million in land purchases and road related net capital assets being depreciated.

Net position of the City's governmental activities totaled \$41,159,865, which is an increase of \$2,665,808 as compared to the prior year. Of this total, \$7,805,053 or 18.97% is classified as unrestricted assets and may be used to finance the City's ongoing obligations to citizens and creditors. The restricted net position portion (8.1%) represents resources that are subject to external restrictions on how they may be used, which include financing for debt service.

The business-type activities net position amounted to \$83,673,124, a decrease of \$131,431. The unrestricted balance of \$11,251,007 is used to finance the continued operations of the water and sewer utilities.

**City of Muskego
Management Discussion and Analysis
As of and for the Year Ended December 31, 2012
(Unaudited)**

The following schedule highlights the key elements of the City's revenues and expenses for the 2012 and 2011 fiscal year ends. These two main components are subtracted to yield the change in net position and are summarized as follows:

City of Muskego's Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues						
Charges for services	\$ 4,917,037	\$ 4,255,793	\$ 7,992,576	\$ 7,833,883	\$ 12,909,613	\$ 12,089,676
Operating grants and contributions	1,304,573	1,347,947	75,905	-	1,380,478	1,347,947
Capital grants and contributions	389,437	7,296	523,202	840,554	912,639	847,850
General Revenues						
Property taxes	13,025,665	12,823,715	-	-	13,025,665	12,823,715
Other Taxes	153,193	128,941	-	-	153,193	128,941
Grants and contributions not restricted to specific programs	452,173	570,247	-	-	452,173	570,247
Unrestricted investment earnings	193,142	327,295	104,647	74,480	297,789	401,775
Gain on sale of capital assets	32,226	12,028	-	-	32,226	12,028
Miscellaneous	651	15,842	-	-	651	15,842
Total Revenues	20,468,097	19,489,104	8,696,330	8,748,917	29,164,427	28,238,021
Expenses:						
General government	2,572,319	2,622,474	-	-	2,572,319	2,622,474
Public safety	6,512,524	6,561,453	-	-	6,512,524	6,561,453
Highway and transportation	3,681,505	5,027,531	-	-	3,681,505	5,027,531
Health and sanitation	1,149,702	1,095,422	-	-	1,149,702	1,095,422
Economic development	473,240	481,838	-	-	473,240	481,838
Education and recreation	2,853,599	2,557,361	-	-	2,853,599	2,557,361
Interest on long-term debt	1,137,059	955,203	-	-	1,137,059	955,203
Sewer	-	-	6,599,561	6,348,438	6,599,561	6,348,438
Water	-	-	1,650,541	1,774,228	1,650,541	1,774,228
Total Expenses	18,379,948	19,301,282	8,250,102	8,122,666	26,630,050	27,423,948
Increase in Net Position before transfers	2,088,149	187,822	446,228	626,251	2,534,377	814,073
Transfers	577,659	555,652	(577,659)	(555,652)	-	-
Change in Net Assets	2,665,808	743,474	(131,431)	70,599	2,534,377	814,073
Net Position - Beginning	38,494,057	37,750,583	83,804,555	83,733,956	122,298,612	121,484,539
Net Position - Ending	\$ 41,159,865	\$ 38,494,057	\$ 83,673,124	\$ 83,804,555	\$ 124,832,989	\$ 122,298,612

**City of Muskego
Management Discussion and Analysis
As of and for the Year Ended December 31, 2012
(Unaudited)**

Governmental Activities

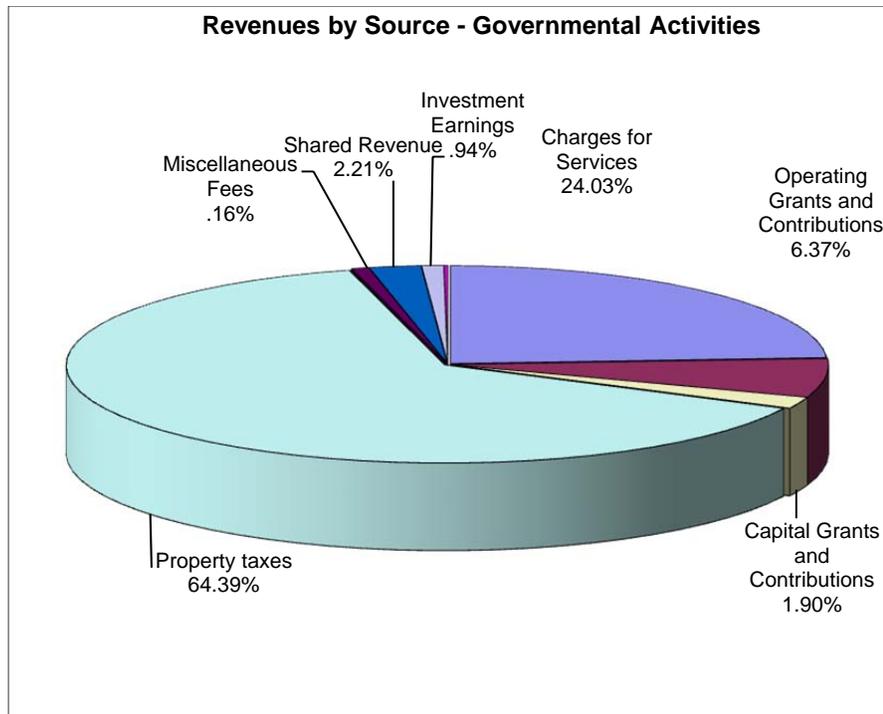
The table below discloses cost of services for Governmental Activities. The total cost of services column contains all costs related to the programs. The net of services column shows how much of the total amount is not covered by program revenues. Succinctly put net costs that must be covered by local taxes or other general revenue or transfers.

Programs	Total Cost of Services		Net (Expenses) of Services	
	2012	2011	2012	2011
General government	\$ 2,572,319	\$ 2,622,474	\$ (2,162,023)	\$ (2,204,158)
Public safety	6,512,524	6,561,453	(5,669,663)	(5,480,315)
Public works	3,681,505	5,027,531	(2,793,684)	(4,024,630)
Health and sanitation	1,149,702	1,095,422	2,063,839	1,260,629
Economic development	473,240	481,838	(29,133)	(427,153)
Education and recreation	2,853,599	2,557,361	(2,079,337)	(1,914,373)
Interest and long-term debt	1,137,059	955,203	(1,098,900)	(900,246)
Total	<u>\$ 18,379,948</u>	<u>\$ 19,301,282</u>	<u>\$ (11,768,901)</u>	<u>\$ (13,690,246)</u>

The major change in total cost of services was reflected in the public works function, which decreased by approximately \$1.3 million. In 2011, this function included additional capital outlay costs in equipment and road projects.

Net cost of services is 64% of total cost of services in 2012. This reflects a continued reliance on taxes and other general revenue sources to fund the cost of services.

The graph below shows the percentage of the total governmental activities revenues allocated by each revenue type.

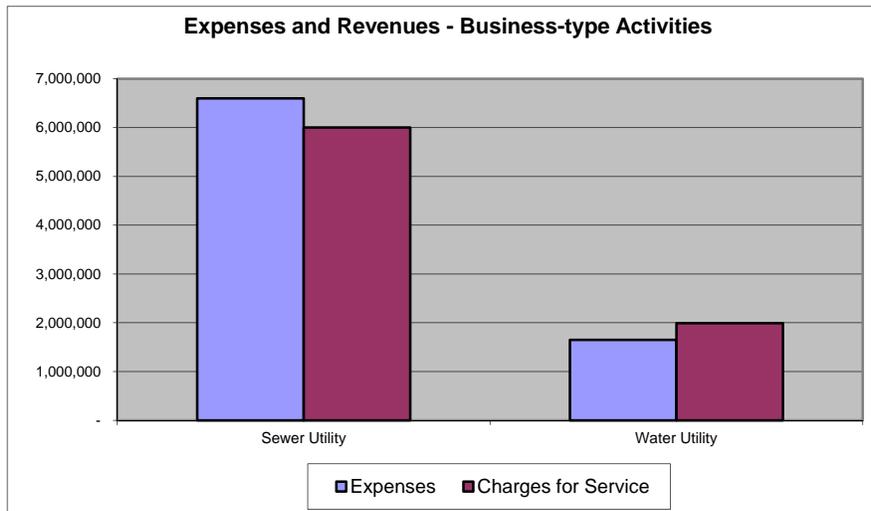


**City of Muskego
Management Discussion and Analysis
As of and for the Year Ended December 31, 2012
(Unaudited)**

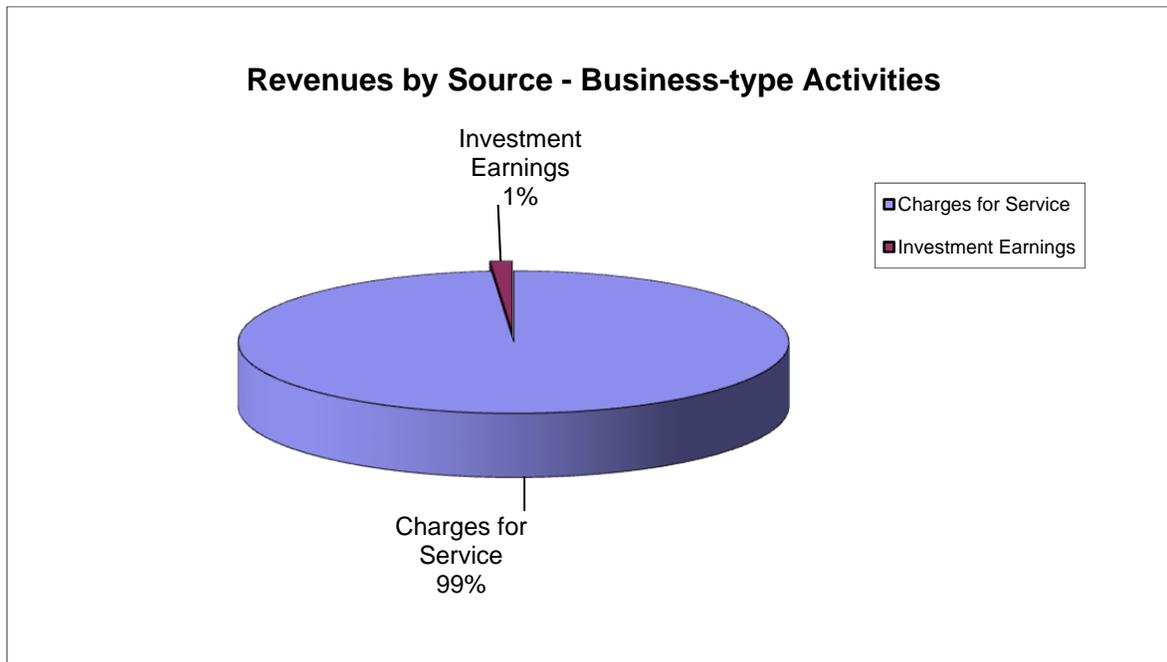
Business-Type Activities

Total Business-type activities' charges for service revenues for the year ending December 31, 2012 were \$7,992,576, which is an increase of \$158,693 over 2011. This was primarily due to an increase in water rates. As a result of expenses remaining relatively flat as compared to the prior year, the Business-type activities decreased the City of Muskego's net position slightly by \$131,431 and was mainly due to a the reduction in capital contributions.

The following graph shows the relationship between revenues and expenses for the City of Muskego Sewer and Water Utilities.



The graph below displays the breakdown of revenues by source for the business-type activities.



**City of Muskego
Management Discussion and Analysis
As of and for the Year Ended December 31, 2012
(Unaudited)**

Financial Analysis of the Government's Funds

As noted earlier, the City of Muskego uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. This section will discuss major developments within the City's governmental funds and proprietary funds.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds – General Fund, Debt Service Fund, Tax Increment District Capital Project Funds, and all Other Non-major Governmental Funds – reported a combined ending fund balances of \$24,067,978, a decrease of \$3,197,791 in comparison with the prior year. Approximately 85% of this total amount (\$20,510,564) is available for spending at the government's discretion. However, approximately 87% of this amount (\$17,134,769) is classified as committed, assigned or reported in special revenue funds or capital projects funds. The remainder of the fund balance is non-spendable or restricted.

General Fund

The General Fund is the chief operating fund of the City. During 2012, the General Fund balance increased by \$375,342. This is primarily due to actual expenses being less than budgeted, which resulted from position vacancies, employee benefit reductions and additional interest earnings. At the end of the year, the committed and unassigned fund balance of the General Fund was \$6,055,289, while total fund balance reached \$6,078,461. As a measure of the general fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The net committed and unassigned fund balance represents 45% of total general fund expenditures.

Debt Service Fund

Fund balance in the Debt Service Fund increased by \$532,497 during 2012. This increase resulted from Tax increment Districts #8, #9 & #10 transfers and reimbursements from Special Revenue and Utility funds to reimburse the City for relative past borrowings.

Capital Budget Fund

Fund balance in the Capital Budget Fund decreased by \$4,756,903 during 2012. This decrease relates to current year expenditures for several road projects and conservation related land purchases, where the funds were borrowed for in the prior year.

Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. At year-end, net position of the Sewer Utility Fund amounted to \$58,030,635 with the Water Fund totaling \$25,642,489. While the Water Utility Fund recognized growth in net position of \$19,567, the Sewer Utility Fund decreased by \$150,998.

**City of Muskego
Management Discussion and Analysis
As of and for the Year Ended December 31, 2012
(Unaudited)**

General Fund Budgetary Highlights

The 2012 final budget of \$14,031,076 included no amendments for the year. During the year, however, revenues were more than budgetary revenues and expenditures were less than budgetary expenditures.

Capital Assets and Debt Administration

Capital Assets

The City of Muskego's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounts to \$126,589,974 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, infrastructure and construction in progress.

Major capital events during the current year included road reconstruction and paving, storm water related stabilization projects, various park related projects, land conservation purchase and water utility pumping station.

**City of Muskego's Capital Assets
(net of depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 5,533,922	\$ 4,322,304	\$ 160,066	\$ 160,066	\$ 5,693,988	\$ 4,482,370
Intangibles	207,430	27,446	36,500	36,500	243,930	63,946
Construction in progress	2,859,682	3,992,203	487,174	816,550	3,346,856	4,808,753
Land Improvements	3,944,754	3,930,454	-	-	3,944,754	3,930,454
Buildings	13,196,365	13,188,079	20,144,704	19,421,255	33,341,069	32,609,334
Equipment	7,272,487	7,162,995	4,375,806	4,343,291	11,648,293	11,506,286
Library Collection	2,669,657	2,548,464	-	-	2,669,657	2,548,464
Infrastructure	59,262,681	52,647,588	73,761,717	73,673,516	133,024,398	126,321,104
Acc. Depreciation	(40,577,502)	(37,647,861)	(26,745,469)	(24,869,460)	(67,322,971)	(62,517,321)
Total	\$ 54,369,476	\$ 50,171,672	\$ 72,220,498	\$ 73,581,718	\$ 126,589,974	\$ 123,753,390

Additional information on the City's capital assets can be found in Note IV on pages 46 through 48 of this report.

Long-term Debt

As of December 31, 2012, the City of Muskego had general obligation bonds and notes and Community Development Lease Revenue Bonds outstanding totaling \$33,774,940. The City's business-type activities include revenue bonds and notes payable, an advance from the Municipality and refunding losses, which total \$8,988,504.

In the current year, the City paid \$1,634,300 in principal and \$1,137,084 in interest on outstanding debt. Business-Type Activities paid \$788,759 in principal and \$319,056 in interest on its outstanding debt.

Of the total City debt, \$17,170,163 will become due within one year. The City of Muskego has a Moody's "Aa2" rating on its General Obligation Debt, a Moody's "Aa1" rating on its Sewer Revenue Bonds and a Moody's "Aa2" on its Water Revenue Bonds.

**City of Muskego
Management Discussion and Analysis
As of and for the Year Ended December 31, 2012
(Unaudited)**

Long-term Debt (continued)

City of Muskego's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental Activities		Business-Type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
G.O. Bonds and Notes	\$ 32,334,940	\$ 33,869,240	\$ 1,565,060	\$ 1,640,760	\$ 33,900,000	\$ 35,510,000
Community Development Lease Revenue Bonds	1,440,000	1,540,000	-	-	1,440,000	1,540,000
Revenue Bonds	-	-	4,730,000	5,100,000	4,730,000	5,100,000
Revenue Refunding Bonds	-	-	2,365,000	2,740,000	2,365,000	2,740,000
Advances from Municipality	-	-	-	-	-	-
Wisconsin Safe Drinking Water Loan	-	-	426,664	304,348	426,664	304,348
Refundings-Gains/(Losses)	-	-	(98,220)	(143,553)	(98,220)	(143,553)
Total	<u>\$ 33,774,940</u>	<u>\$ 35,409,240</u>	<u>\$ 8,988,504</u>	<u>\$ 9,641,555</u>	<u>\$ 42,763,444</u>	<u>\$ 45,050,795</u>

Additional information about the City's long-term debt can be found in Note IV on pages 50 through 55 of the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following economic factors are noteworthy:

- The City of Muskego has experienced an average rate of growth of 0.72% in equalized value (Tax Increment Value included) over the past five years resulting in a \$2.6 billion tax base. In 2012, the average equalized value of a single-family home in Muskego was \$269,400.
- Despite the slow economic recovery, reserves continue to be maintained and are the result of sound financial operations.
- The City's overall debt burdens have continued to remain below the median for Wisconsin cities, which is notable given the City's growth during recent decades.
- The City of Muskego's 2012 tax rate decreased slightly to \$4.40 per thousand as compared to the 2011 rate of \$4.41 per thousand.

All these factors were considered in preparing the City of Muskego's budget for the year ending December 31, 2012.

Requests for information

This financial report is designed to provide a general overview of the City of Muskego's finances for all those with an interest in the government's finances. Readers having question about any of the information in this report or needing additional information should contact Director of Finance and Administration, City of Muskego, W182 S8200 Racine Ave, Muskego, WI 53150, direct contact at 262-679-5622 or e-mail smueller@cityofmuskego.org.

BASIC FINANCIAL STATEMENTS

City of Muskego

Statement of Net Position
As of December 31, 2012

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 24,160,524	\$ 9,111,025	\$ 33,271,549
Temporary investments	-	729,320	729,320
Receivables (net of allowance for uncollectibles)			
Accounts	1,170,894	2,530,223	3,701,117
Due from other governments	20,629	-	20,629
Taxes	13,277,370	-	13,277,370
Prepays	23,172	-	23,172
Deferred charge	-	63,724	63,724
Restricted Assets			
Cash and cash equivalents	-	8,806,248	8,806,248
RCA and WCA assessments receivable	-	394,339	394,339
Special assessments receivable	90,432	744,055	834,487
Deferred debits	53,250	117,524	170,774
Capital Assets			
Land	5,533,922	196,566	5,730,488
Intangible assets	207,430	-	207,430
Construction in progress	2,859,682	487,174	3,346,856
Other capital assets, net of depreciation	45,768,442	71,536,758	117,305,200
Total Assets	<u>93,165,747</u>	<u>94,716,956</u>	<u>187,882,703</u>
LIABILITIES			
Accounts payable and other current liabilities	1,259,368	711,871	1,971,239
Accrued interest payable	192,020	-	192,020
Unearned revenue	13,415,675	109,676	13,525,351
Liabilities payable from restricted assets			
Accrued interest payable	-	50,677	50,677
Current portion of long-term debt	-	2,137,648	2,137,648
Noncurrent Liabilities:			
Due within one year	15,137,515	-	15,137,515
Due in more than one year	22,001,304	6,923,937	28,925,241
Other unearned revenue	-	1,110,023	1,110,023
Total Liabilities	<u>52,005,882</u>	<u>11,043,832</u>	<u>63,049,714</u>
NET POSITION			
Net investment in capital assets	30,038,875	65,256,815	93,746,308
Restricted for:			
Depreciation and equipment and replacement funds	-	1,093,616	1,093,616
Water and sewer capacity assessment funds	-	5,570,853	5,570,853
Tax increment district purposes	841,977	-	841,977
Debt service	2,473,960	500,833	2,974,793
Unrestricted	<u>7,805,053</u>	<u>11,251,007</u>	<u>20,605,442</u>
TOTAL NET POSITION	<u>\$ 41,159,865</u>	<u>\$ 83,673,124</u>	<u>\$ 124,832,989</u>

See accompanying notes to financial statements.

City of Muskego

Statement of Activities
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental Activities							
General government	\$ 2,572,319	\$ 410,296	\$ -	\$ -	\$ (2,162,023)	\$ -	\$ (2,162,023)
Public safety	6,512,524	726,699	116,162	-	(5,669,663)	-	(5,669,663)
Public works	3,681,505	42,013	845,808	-	(2,793,684)	-	(2,793,684)
Health and sanitation	1,149,702	3,140,415	73,126	-	2,063,839	-	2,063,839
Conservation and development	473,240	2,600	52,070	389,437	(29,133)	-	(29,133)
Education and recreation	2,853,599	595,014	179,248	-	(2,079,337)	-	(2,079,337)
Interest on long-term debt	1,137,059	-	38,159	-	(1,098,900)	-	(1,098,900)
Total Governmental Activities	<u>18,379,948</u>	<u>4,917,037</u>	<u>1,304,573</u>	<u>389,437</u>	<u>(11,768,901)</u>	<u>-</u>	<u>(11,768,901)</u>
Business-type activities							
Sewer Utility	6,599,561	6,001,364	75,905	303,214	-	(219,078)	(219,078)
Water Utility	1,650,541	1,991,212	-	219,988	-	560,659	560,659
Total Business-type Activities	<u>8,250,102</u>	<u>7,992,576</u>	<u>75,905</u>	<u>523,202</u>	<u>-</u>	<u>341,581</u>	<u>341,581</u>
Total	<u>\$ 26,630,050</u>	<u>\$ 12,909,613</u>	<u>\$ 1,380,478</u>	<u>\$ 912,639</u>	<u>(11,768,901)</u>	<u>341,581</u>	<u>(11,427,320)</u>
General Revenues							
Taxes							
Property taxes, levied for general purposes					10,886,320	-	10,886,320
Property taxes, levied for debt service					2,139,345	-	2,139,345
Other taxes					153,193	-	153,193
Intergovernmental revenues not restricted to specific programs					452,173	-	452,173
Investment income					193,142	104,647	297,789
Gain on disposal of fixed assets					32,226	-	32,226
Miscellaneous					651	-	651
Total General Revenues					<u>13,857,050</u>	<u>104,647</u>	<u>13,961,697</u>
Transfers					<u>577,659</u>	<u>(577,659)</u>	<u>-</u>
Change in Net Position					<u>2,665,808</u>	<u>(131,431)</u>	<u>2,534,377</u>
NET POSITION - Beginning of Year					<u>38,494,057</u>	<u>83,804,555</u>	<u>122,298,612</u>
NET POSITION - END OF YEAR					<u>\$ 41,159,865</u>	<u>\$ 83,673,124</u>	<u>\$ 124,832,989</u>

City of Muskego

Balance Sheet
Governmental Funds
As of December 31, 2012

	General Fund	Debt Service Fund	Capital Budget Fund	Tax Increment District Capital Project Funds	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 6,504,713	\$ 2,656,523	\$ 4,742,171	\$ 483,710	\$ 9,773,407	\$ 24,160,524
Receivables - net						
Accounts	190,118	-	39,574	-	941,202	1,170,894
Due from other governments	11,048	-	-	-	9,581	20,629
Taxes	9,868,542	2,139,345	-	-	1,269,483	13,277,370
Special assessments						
Deferred	-	-	-	-	90,432	90,432
Prepaid items	23,172	-	-	-	-	23,172
Total Assets	<u>\$ 16,597,593</u>	<u>\$ 4,795,868</u>	<u>\$ 4,781,745</u>	<u>\$ 483,710</u>	<u>\$ 12,084,105</u>	<u>\$ 38,743,021</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 341,847	\$ -	\$ 141,524	\$ -	\$ 256,495	\$ 739,866
Accrued liabilities	199,502	-	-	-	-	199,502
Due to other governments	-	-	-	-	320,000	320,000
Deferred revenue	9,977,783	2,139,345	-	-	1,298,547	13,415,675
Total Liabilities	<u>10,519,132</u>	<u>2,139,345</u>	<u>141,524</u>	<u>-</u>	<u>1,875,042</u>	<u>14,675,043</u>
Fund Balances						
Nonspendable	23,172	-	-	-	-	23,172
Restricted	-	2,656,523	-	483,710	394,009	3,534,242
Committed	2,679,494	-	-	-	9,633,661	12,313,155
Assigned	-	-	4,640,221	-	181,393	4,821,614
Unassigned	3,375,795	-	-	-	-	3,375,795
Total Fund Balances	<u>6,078,461</u>	<u>2,656,523</u>	<u>4,640,221</u>	<u>483,710</u>	<u>10,209,063</u>	<u>24,067,978</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 16,597,593</u>	<u>\$ 4,795,868</u>	<u>\$ 4,781,745</u>	<u>\$ 483,710</u>	<u>12,084,105</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. See Note II.	54,369,476
Some liabilities, including long-term debt, are not due and payable in the current period and therefore are not reported in the funds. See Note II.	<u>(37,277,589)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 41,159,865

City of Muskego

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended December 31, 2012

	General	Debt Service	Capital Budget Fund	Tax Increment District Capital Project Funds	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 9,889,159	\$ 2,139,345	\$ -	\$ -	\$ 1,089,735	\$ 13,118,239
Intergovernmental	1,404,238	38,159	-	-	635,470	2,077,867
Licenses and permits	641,700	-	-	-	7,114	648,814
Fines, forfeitures and penalties	173,709	-	-	-	-	173,709
Public charges for services	673,308	-	-	-	3,235,994	3,909,302
Public improvement revenues	-	-	-	-	1,785	1,785
Commercial revenue	132,768	3,821	1,899	773	103,035	242,296
Intergovernmental charges for services	195,122	-	-	-	-	195,122
Interdepartmental revenues	77,694	-	-	-	-	77,694
Total Revenues	<u>13,187,698</u>	<u>2,181,325</u>	<u>1,899</u>	<u>773</u>	<u>5,073,133</u>	<u>20,444,828</u>
EXPENDITURES						
Current						
General government	2,076,953	-	-	-	180,745	2,257,698
Public safety	5,961,986	-	-	-	112,908	6,074,894
Public works	1,835,233	-	-	-	15,383	1,850,616
Health and sanitation	3,610	-	-	-	1,146,093	1,149,703
Conservation and development	266,592	-	-	124	201,193	467,909
Education and recreation	2,102,178	-	-	-	85,975	2,188,153
Debt service						
Principal retirement	-	1,634,300	-	-	-	1,634,300
Interest	-	1,137,084	-	-	-	1,137,084
Capital outlay	1,175,177	-	3,936,622	-	2,380,494	7,492,293
Total Expenditures	<u>13,421,729</u>	<u>2,771,384</u>	<u>3,936,622</u>	<u>124</u>	<u>4,122,791</u>	<u>24,252,650</u>
Excess (deficiency) of revenues over expenditures	<u>(234,031)</u>	<u>(590,059)</u>	<u>(3,934,723)</u>	<u>649</u>	<u>950,342</u>	<u>(3,807,822)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	577,659	1,122,556	-	-	983,905	2,684,120
Transfers out	-	-	(822,180)	-	(1,284,280)	(2,106,460)
Proceeds from sale of capital assets	31,714	-	-	-	657	32,371
Total Other Financing Sources (Uses)	<u>609,373</u>	<u>1,122,556</u>	<u>(822,180)</u>	<u>-</u>	<u>(299,718)</u>	<u>610,031</u>
Net Change in Fund Balance	375,342	532,497	(4,756,903)	649	650,624	(3,197,791)
FUND BALANCES - Beginning of Year	5,703,119	2,124,026	9,397,124	483,061	9,558,439	27,265,769
FUND BALANCES - END OF YEAR	<u>\$ 6,078,461</u>	<u>\$ 2,656,523</u>	<u>\$ 4,640,221</u>	<u>\$ 483,710</u>	<u>\$ 10,209,063</u>	<u>\$ 24,067,978</u>

City of Muskego

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2012

Net change in fund balances - total governmental funds \$ (3,197,791)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of net position, the cost of these assets is capitalized and they are depreciated over their estimated useful lives and reported as depreciation expense in the statement of activities.

Capital outlay reported as an expenditure in the fund financial statements but is capitalized in the government-wide financial statements	7,492,293
Some items capitalized were not reported as capital outlay	121,193
Some items reported as capital outlay were not capitalized	(200,269)
Depreciation is reported in the government-wide statements	(3,209,753)
Net book value of assets retired	(5,660)

Receivables not currently available are reported as revenue when collected or currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements (1,785)

Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position

Principal repaid	1,634,300
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Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(67,341)
Accrued interest on debt	6,413
Net OPEB Liability	100,597

Governmental funds report certain costs as expenditures in the period paid. However, in the statement of net position, these are deferred and reported as other assets and amortized over future years. (6,389)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 2,665,808

City of Muskego

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 General Fund
 For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		Variance with Final Budget - Over
	<u>Original and Final</u>	<u>Actual</u>	<u>(Under)</u>
REVENUES			
Taxes	\$ 9,882,572	\$ 9,889,159	\$ 6,587
Intergovernmental	1,379,696	1,404,238	24,542
Licenses and permits	542,230	641,700	99,470
Fines, forfeitures and penalties	183,000	173,709	(9,291)
Public charges for service	652,716	673,308	20,592
Commercial revenues	131,462	132,768	1,306
Intergovernmental charges for services	108,070	195,122	87,052
Interdepartmental revenues	199,600	77,694	(121,906)
Total Revenues	<u>13,079,346</u>	<u>13,187,698</u>	<u>108,352</u>
EXPENDITURES			
Current			
General government	2,226,292	2,076,953	(149,339)
Public safety	6,026,569	5,961,986	(64,583)
Public works	1,927,535	1,835,233	(92,302)
Health and sanitation	4,050	3,610	(440)
Conservation and development	270,455	266,592	(3,863)
Education and recreation	2,240,495	2,102,178	(138,317)
Capital Outlay	1,189,552	1,175,177	(14,375)
Contingency	146,128	-	(146,128)
Total Expenditures	<u>14,031,076</u>	<u>13,421,729</u>	<u>(609,347)</u>
Excess of revenues over (under) expenditures	<u>(951,730)</u>	<u>(234,031)</u>	<u>717,699</u>
OTHER FINANCING SOURCES			
Transfers in	570,000	577,659	7,659
Sale of property	25,200	31,714	6,514
Total Other Financing Sources	<u>595,200</u>	<u>609,373</u>	<u>14,173</u>
Net Change in Fund Balance	<u>\$ (356,530)</u>	375,342	<u>\$ 731,872</u>
FUND BALANCES - Beginning of Year		<u>5,703,119</u>	
FUND BALANCES - END OF YEAR		<u>\$ 6,078,461</u>	

See accompanying notes to financial statements.

City of Muskego

Statement of Net Position
Proprietary Funds
As of December 31, 2012

	Business Type Activities Enterprise Funds		
	Sewer Utility	Water Utility	Total Enterprise Funds
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 9,032,981	\$ 78,044	\$ 9,111,025
Temporary investments	729,320	-	729,320
Receivables, net	2,088,395	441,828	2,530,223
Deferred charge	63,724	-	63,724
Restricted Assets			
Cash and cash equivalents	203,123	348,387	551,510
Total Current Assets	<u>12,117,543</u>	<u>868,259</u>	<u>12,985,802</u>
NON-CURRENT ASSETS			
Restricted Assets			
Cash and cash equivalents	6,178,607	2,076,131	8,254,738
RCA and WCA assessments receivable	291,868	102,471	394,339
Capital Assets			
Land and Intangibles	130,918	65,648	196,566
Construction work in progress	325,359	161,815	487,174
Plant in service	61,166,449	37,115,777	98,282,226
Accumulated depreciation	(18,652,944)	(8,092,524)	(26,745,468)
Other assets			
Special assessments	596,774	147,281	744,055
Unamortized debt issuance costs	42,590	74,934	117,524
Total Non-Current Assets	<u>50,079,621</u>	<u>31,651,533</u>	<u>81,731,154</u>
Total Assets	<u>62,197,164</u>	<u>32,519,792</u>	<u>94,716,956</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable	387,645	23,491	411,136
Accrued vacation, sick leave and compensatory time	201,195	99,540	300,735
Unearned revenue	27,955	81,721	109,676
Liabilities Payable From Restricted Assets			
Current portion of long-term debt	280,000	1,857,648	2,137,648
Accrued interest	16,456	34,221	50,677
Total Current Liabilities	<u>913,251</u>	<u>2,096,621</u>	<u>3,009,872</u>
NON-CURRENT LIABILITIES			
Long-term debt	2,201,780	4,722,157	6,923,937
Other unearned revenue	1,051,498	58,525	1,110,023
Total Non-current Liabilities	<u>3,253,278</u>	<u>4,780,682</u>	<u>8,033,960</u>
Total Liabilities	<u>4,166,529</u>	<u>6,877,303</u>	<u>11,043,832</u>
NET POSITION			
Net investment in capital assets	40,911,543	24,345,272	65,256,815
Restricted for			
RCA and WCA funds	5,299,674	271,179	5,570,853
Debt service	186,667	314,166	500,833
Depreciation and equipment replacement funds	789,851	303,765	1,093,616
Unrestricted	10,842,900	408,107	11,251,007
TOTAL NET POSITION	<u>\$ 58,030,635</u>	<u>\$ 25,642,489</u>	<u>\$ 83,673,124</u>

See accompanying notes to financial statements.

City of Muskego

Statement of Revenues, Expenses
And Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2012

	Business Type Activities Enterprise Funds		
	Sewer Utility	Water Utility	Total Enterprise Funds
OPERATING REVENUES			
Charges for services	\$ 5,987,461	\$ 1,857,360	\$ 7,844,821
Other operating revenues	13,903	133,852	147,755
Total Operating Revenues	<u>6,001,364</u>	<u>1,991,212</u>	<u>7,992,576</u>
OPERATING EXPENSES			
Operation and maintenance	5,275,438	631,991	5,907,429
Depreciation	1,095,057	761,861	1,856,918
Taxes	-	23,527	23,527
Total Operating Expenses	<u>6,370,495</u>	<u>1,417,379</u>	<u>7,787,874</u>
Operating Income (Loss)	<u>(369,131)</u>	<u>573,833</u>	<u>204,702</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	29,451	3,917	33,368
Interest income on special assessments	38,629	13,712	52,341
MMSD I&I subsidy	75,905	-	75,905
I&I MMSD program expenses	(75,905)	-	(75,905)
Amortization of bond premium	-	18,938	18,938
Interest on long term debt	(101,885)	(214,060)	(315,945)
Amortization of debt issuance costs	(51,276)	(19,102)	(70,378)
Total Nonoperating Revenues (Expenses)	<u>(85,081)</u>	<u>(196,595)</u>	<u>(281,676)</u>
Income (Loss) before Contributions and Transfers	(454,212)	377,238	(76,974)
CAPITAL CONTRIBUTIONS	303,214	219,988	523,202
TRANSFERS - TAX EQUIVALENT	-	(577,659)	(577,659)
Change in Net Position	(150,998)	19,567	(131,431)
NET POSITION - BEGINNING OF YEAR	<u>58,181,633</u>	<u>25,622,922</u>	<u>83,804,555</u>
NET POSITION - END OF YEAR	<u>\$ 58,030,635</u>	<u>\$ 25,642,489</u>	<u>\$ 83,673,124</u>

City of Muskego

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

	Business Type Activities Enterprise Funds		
	Sewer Utility	Water Utility	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 6,060,843	\$ 1,730,180	\$ 7,791,023
Receipts from municipality for services	-	309,000	309,000
Payments to other funds	(40,746)	-	(40,746)
Paid to vendor for goods and services	(4,624,223)	(366,825)	(4,991,048)
Paid to employees for services	(725,746)	(286,798)	(1,012,544)
Net Cash Flows From Operating Activities	<u>670,128</u>	<u>1,385,557</u>	<u>2,055,685</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Paid to municipality for tax equivalent	-	(577,659)	(577,659)
Net Cash Flows From Non-Capital Financing Activities	<u>-</u>	<u>(577,659)</u>	<u>(577,659)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Debt issued	-	135,708	135,708
Debt retired	(270,000)	(564,092)	(834,092)
Interest paid	(103,460)	(215,596)	(319,056)
Special assessments received	311,692	187,099	498,791
Acquisition and construction of capital assets	(265,189)	(273,353)	(538,542)
Connection fees received	29,000	-	29,000
Net Cash Flows From Capital and Related Financing Activities	<u>(297,957)</u>	<u>(730,234)</u>	<u>(1,028,191)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income			
Interest on investments	29,420	3,917	33,337
Interest on special assessments	38,629	13,712	52,341
Investments purchased	(729,320)	-	(729,320)
Investments sold and matured	225,081	-	225,081
Net Cash Flows From Investing Activities	<u>(436,190)</u>	<u>17,629</u>	<u>(418,561)</u>
Net Change in Cash and Cash Equivalents	<u>(64,019)</u>	<u>95,293</u>	<u>31,274</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>15,478,730</u>	<u>2,407,269</u>	<u>17,885,999</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 15,414,711</u>	<u>\$ 2,502,562</u>	<u>\$ 17,917,273</u>

City of Muskego

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012
(Concluded)

	Business Type Activities Enterprise Funds		
	Sewer Utility	Water Utility	Total Enterprise Funds
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION - PROPRIETARY FUNDS			
Current:			
Cash and cash equivalents	\$ 9,032,981	\$ 78,044	\$ 9,111,025
Temporary investments	729,320	-	729,320
Restricted cash and cash equivalents	203,123	348,387	551,510
Non-current			
Restricted cash and cash equivalents	6,178,607	2,076,131	8,254,738
Less: Non-cash equivalents	<u>(729,320)</u>	<u>-</u>	<u>(729,320)</u>
Cash and cash equivalents - end of year	<u>\$ 15,414,711</u>	<u>\$ 2,502,562</u>	<u>\$ 17,917,273</u>
NON CASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital additions contributed			
to the Utility by customers and developers	<u>\$ 34,023</u>	<u>\$ 79,072</u>	<u>\$ 113,095</u>
Assessment of benefits for property owners for improvements	<u>\$ 240,191</u>	<u>\$ 140,916</u>	<u>\$ 381,107</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating Income (loss)	<u>\$ (369,131)</u>	<u>\$ 573,833</u>	<u>\$ 204,702</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	1,095,057	761,861	1,856,918
Depreciation charged to other accounts	-	24,415	24,415
(Increase) decrease in assets:			
Accounts receivable - other	240,888	11,487	252,375
Deferred charge	(63,724)	-	(63,724)
Increase (decrease) in liabilities:			
Accounts payable	26,759	12,116	38,875
Accrued vacation, sick leave and compensatory time	(2,406)	915	(1,491)
Deferred contractual credit and other deferred revenues	<u>(257,315)</u>	<u>930</u>	<u>(256,385)</u>
Total adjustments	<u>1,039,259</u>	<u>811,724</u>	<u>1,850,983</u>
Net Cash Flows From Operating Activities	<u>\$ 670,128</u>	<u>\$ 1,385,557</u>	<u>\$ 2,055,685</u>

City of Muskego

Statement of Fiduciary Net Position
Fiduciary Funds
As of December 31, 2012

	Private Purpose Trust Funds		
	Library Expansion Trust Fund	Volunteer Fire Co. Scholarship Fund	Agency Funds
ASSETS			
Cash and cash equivalents	\$ 49,794	\$ 175,739	\$ 31,605,640
Accounts receivable, net	-	-	16,814
Taxes receivable	-	-	5,372,220
Total Assets	<u>49,794</u>	<u>175,739</u>	<u>36,994,674</u>
LIABILITIES			
Accounts payable	-	-	196,824
Due to other taxing units	-	-	36,547,285
Special deposits	-	-	250,565
Total Liabilities	<u>-</u>	<u>-</u>	<u>36,994,674</u>
NET POSITION			
Restricted - held in trust	<u>49,794</u>	<u>175,739</u>	<u>-</u>
TOTAL NET POSITION	<u>\$ 49,794</u>	<u>\$ 175,739</u>	<u>\$ -</u>

City of Muskego

Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended December 31, 2012

	Private Purpose Trust Funds	
	Library Expansion Trust Fund	Volunteer Fire Co. Scholarship Fund
ADDITIONS		
Investment income	\$ 88	\$ 281
Total additions	<u>88</u>	<u>281</u>
Change in Net Position	88	281
NET POSITION - Beginning	<u>49,706</u>	<u>175,458</u>
NET POSITION - ENDING	<u>\$ 49,794</u>	<u>\$ 175,739</u>

City of Muskego

Index to Notes to Financial Statements As of and for the Year Ended December 31, 2012

NOTE	<u>Page</u>
I. Summary of Significant Accounting Policies	26
A. Reporting Entity	26
B. Government-Wide and Fund Financial Statements	27
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	29
D. Assets, Liabilities, and Net Position or Equity	32
1. Deposits and Investments	32
2. Receivables	34
3. Inventories and Prepaid Items	35
4. Restricted Assets	35
5. Capital Assets	35
6. Other Assets	36
7. Compensated Absences	36
8. Long-Term Obligations/Conduit Debt	37
9. Other Unearned Revenue	37
10. Claims and Judgments	37
11. Equity Classifications	38
E. Other Policies-Tax Incremental Districts	39
II. Reconciliation of Government-Wide and Fund Financial Statements Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Statement of Net Position	40 40
III. Stewardship, Compliance, and Accountability	41
A. Budgetary Information	41
B. Excess Expenditures Over Appropriations	41
C. Limitations on the City's Tax Levy	41
IV. Detailed Notes on All Funds	42
A. Deposits and Investments	42
B. Restricted Assets	44
C. Receivables	45
D. Capital Assets	46
E. Inter-fund Receivables/Payables and Transfers	48
F. Deferred Debits	49
G. Long-Term Obligations	50
H. Net Position / Fund Balances	55
V. Other Information	59
A. Employees' Retirement System	59
B. Risk Management	60
C. Antenna Lease Agreements	60
D. Water and Sewer Rates	61
E. Other Postemployment Benefits	61
F. Contingent Liabilities and Commitments	62
G. Effect of New Accounting Standards on Current Period Financial Statements	62

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Muskego, Wisconsin conform to accounting principles generally accepted in the United State of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

This report includes all of the funds of the City of Muskego. The reporting entity for the City consists of a) the primary government, b) organizations for which the primary government is financially accountable and c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. This report does not contain any discretely presented component units.

Blended Component Units

The City has included in its basic financial statements the Community Development Authority of the City of Muskego, Wisconsin (authority) as a blended component unit. The authority is legally separate from the City and governed by a seven member board appointed by the mayor and confirmed by the common council of the City. Separate financial statements are not published for the authority. The authority is reported as part of the Non-Major Special Revenue Funds.

The basic financial statements of the City also include the financial data of the City's component unit, Big Muskego Lake - Bass Bay Protection and Rehabilitation District (district). The City created the district under certain provisions of the Wisconsin Statutes in order to assist the City in undertaking programs of lake protection and rehabilitation. The district's governing body is substantively the same as the City, with all members serving on the City common council and with the Mayor acting as chairman. Separately issued financial statements for the district may be obtained from the district's office. The district is reported as part of the Non-Major Special Revenue Funds.

City of Muskego

Notes to Financial Statements As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

In June 2011, the GASB issued statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. The City implemented this standard effective January 1, 2012.

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net position/fund equity, revenues, and expenditure/expenses.

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental or enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or enterprise fund that the City believes is particularly important to financial statement users may be reported as a major fund.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

Separate financial statements are provided for governmental funds and proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund – accounts for the City’s primary operating activities. It is used to account for and report all financial resources except those required to be accounted for and report in another fund.

Debt Service Fund – used to account for and report financial resources that are restricted, committed, or assigned to expenditures for the payment of general long-term debt principal, interest, and related costs, other than TID or enterprise debt.

Tax Increment District Capital Projects Funds – used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets for the Tax Increment District #8, 9 and 10.

Capital Budget Fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

The City reports the following major enterprise funds:

Sewer Utility – accounts for operations of the sewer system

Water Utility – accounts for operations of the water system

The City reports the following non-major governmental funds:

Special Revenue Funds – used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes (other than debt service or capital projects).

Parks	Rescue
Sewer Utility Special Debt Service	Compensated Absences
Other Grant	Recreational Ticket
Refuse/Recycling	Cable TV
Revolving Loan	Capital Improvement
Landfill Standing Committee	Community Development Authority
Storm water Management	Federated Library System
Well Testing Reserve	Big Muskego Lake – Bass Bay
Land Open Space Conservation	Protection and
Landfill	Rehabilitation District
Tax Increment District	

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

Capital Projects Funds – used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

Industrial Park Expansion	FBI Shooting Range
Capital Equipment	

In addition, the City reports the following fund types:

Private-purpose trust funds are used to account for and report any trust arrangement not properly reported in a pension trust fund under which principal and income benefit the expansion of the library or scholarships.

Library Expansion	Volunteer Fire Co. Scholarship
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Agency funds are used to account for and report assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

Special Deposits	Subsequent Years Tax Roll
Police Health Insurance	Collections

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities 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. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and deferred revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for un-matured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivables and deferred revenues. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the City is entitled to the resources and the amounts are available. Amounts owed to the City which are not available are recorded as receivables and deferred revenues. Amounts received prior to the entitlement period are also recorded as deferred revenues.

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and deferred revenues.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees, and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

The City reports deferred revenues on its governmental funds balance sheet. Deferred revenues arise from taxes levied in the current year which are for subsequent year's operations. For governmental fund financial statements, deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING,
AND FINANCIAL STATEMENT PRESENTATION** (continued)

Fund Financial Statements (continued)

Proprietary and fiduciary fund financial statements (other than agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note. Agency funds follow the accrual basis of accounting, and do not have a measurement focus.

The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Utility and Sewer Utility are charges to customers for sales and services. Special assessments are recorded as receivables and contribution revenue when levied. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

All Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

1. Deposits and Investments

For purposes of the statement of cash flows, the City considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Investment of City funds is restricted by Wisconsin state statutes. Available investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace 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.

Investment of library trust funds is regulated by Chapter 112 of the Wisconsin state statutes. That section gives broad authority to use such funds to acquire various kinds of investments including stocks, bonds and debentures.

The City has adopted an investment policy that follows state statutes for allowable investments. The City is exposed to various risks related to their cash and investments. The City's policy related to these risks is described below:

Custodial Credit Risk

The City's policy indicates that to the extent possible bank balances should be maintained at amounts less than or equal to the amounts insured by FDIC or State of Wisconsin guaranteed amounts. (At year end the City had bank balances in excess of insured amounts as disclosed in Note IV A.) Additionally, all certificates of deposit exceeding these coverage's shall be collateralized with U.S. securities or Wisconsin municipal debt. Collateral shall be in the City's name and held by a third party custodian.

Credit Risk

Investment policy does not address this risk.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (continued)

1. Deposits and Investments (continued)

Interest Rate Risk

The City investment policy only addresses interest rate risk on certificates of deposit and specifies that they must mature within three years or less from the date of investment.

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. Investment income on commingled investments of municipal accounting funds is allocated based on the average investment balance. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

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, 2012, the fair value of the City's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

PMA Financial Network, Inc. is the administrator for the Wisconsin Investment Series Cooperative (WISC). The investment manager for WISC is PMA Financial Network, Inc. The WISC is not registered with the Securities and Exchange Commission, but invests its funds in accordance with applicable Wisconsin statutes. The WISC has the characteristics of a mutual fund and accordingly, reports the value of its underlying assets at fair value. At December 31, 2012, the City's share of the WISC's assets was substantially equal to the amount reported.

Certificate of Deposit Account Registry Service (CDARS) is a member of a special network which offers access to multi-million dollar FDIC insurance coverage on CD investments through one bank.

See Note IV.A. for further information.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (continued)

2. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the City, taxes are collected for and remitted to the state and county governments as well as the local school district and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying agency fund statement of fiduciary net position.

Property tax calendar – 2012 tax roll:

Lien date and levy date	December 2012
Tax bills mailed	December 2012
Payment in full, or	January 31, 2013
First installment due	January 31, 2013
Second installment due	April 30, 2013
Third installment due	July 31, 2013
Personal property taxes in full	January 31, 2013
Tax deed by county – 2012 delinquent Real estate taxes	October 2015

Accounts receivable have been shown net of an allowance for uncollectible accounts. Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof. No provision for uncollectible accounts receivable has been made for the water and sewer utilities because they have the right by law to place all delinquent bills on the tax roll, and other delinquent bills are generally not significant.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term inter-fund loans are reported as “due to and from other funds.” Long-term inter-fund loans (noncurrent portion) are reported as “advances from and to other funds.” Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

The City has received state grant funds for economic development loan programs to various businesses and individuals. The City records a loan receivable when the loan has been made and funds have been disbursed. The amount recorded as economic development loans receivable has not been reduced by an allowance for uncollectible accounts.

The Water and Sewer Utilities provide services to customers within the municipal boundaries. Metered water sales to customers are billed on a quarterly basis at rates approved by the Public Service Commission of Wisconsin. Sewer customers are billed rates established by the Common Council. Bills are payable in 30 days. Delinquent balances at the time of the property tax lien date are placed on the customer's tax bill and collected through the normal tax collection process.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (continued)

3. Inventories and Prepaid Items

Governmental fund inventory items are charged to expenditure accounts when purchased. Year-end inventory was not significant. Proprietary fund inventories are generally used for construction and for operation and maintenance work. They are not for resale. They are valued at cost based on weighted average, and charged to construction or operation and maintenance expense when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. 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 excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earning, is shown as restricted net position. Restricted net position principally represents Water and Sewer Reserve Capacity Assessment Funds, Special Redemption Funds and Equipment Replacement Funds restricted assets, less related current liabilities payable from the restricted assets.

5. Capital Assets

Government–Wide Statements

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 for general capital assets and \$10,000 for infrastructure assets, and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. No net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (continued)

5. Capital Assets (continued)

Government–Wide Statements (continued)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method. The range of estimated useful lives by type of asset is as follows:

Buildings	20-50	Years
Land Improvements Other than Building	10-50	Years
Machinery and Equipment	3-20	Years
Utility System	19-125	Years
Infrastructure	10-50	Years
Intangibles	5	Years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

6. Other Assets

In governmental funds, debt issuance costs are recognized as expenditures in the current period. For the proprietary fund type financial statements, debt issuance costs are deferred and amortized over the term of the debt issue.

For the government-wide financial statements, debt issuance costs incurred in the governmental funds are generally recognized as expense in the year incurred. Certain related costs incurred prior to 2004 are deferred and amortized over the life of the debt issue.

7. 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.

All vested vacation and sick leave pay are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable resources.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2012 are determined on the basis of current salary rates and include salary related payments.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (continued)

8. Long-Term Obligations/Conduit Debt

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable, and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts is reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

For the proprietary fund statements, bond premiums and discounts are deferred and amortized over the life of the issue using the effective interest method. Gains or losses on prior refunding bonds are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The balance at year end for both premiums/discounts and gains/losses, as applicable, is shown as an increase or decrease in the liability section of the statement of net position. For the government-wide statements for governmental funds bond premiums and discounts and gains or losses on prior refunding bonds have not been deferred, the effect of this on the financial statements is immaterial.

The City may approve the issuance of industrial revenue bonds (IRB) for the benefit of private business enterprises. IRB's are secured by mortgages or revenue agreements on the associated projects, and do not constitute indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At December 31, 2012, there were no series of IRBs outstanding.

9. Other Unearned Revenue

Other unearned revenue principally represents deferred special assessments which will be reported as contributed capital when and if the property owner connects to the sewer or water system and the assessment becomes due, and prepayments of reserve capacity assessments.

10. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments are only reported in the governmental funds if it has matured. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (continued)

11. Equity Classifications

Government–Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the 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 position – All other net positions that do not meet the definition of “restricted” or “net investment in capital assets.”

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

The net position section includes an adjustment of \$1.55 million for capital assets owned by the business type activities, but financed by the governmental activities. The amount is a reduction of the “net investment in capital assets”, and an increase in the “unrestricted” net position, shown only in the total column.

Fund Statements

Governmental fund equity is classified as fund balance. In accordance with Governmental Accounting Standards Board Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions, the city classifies governmental fund balance as follows:

- a. Non-spendable – Includes fund balance amounts that cannot be spent either because they are not expendable form or because legal or contractual requirements require them to be maintained intact.
- b. Restricted – Consists of fund balances with constraints place 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. Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action (resolution) of the city. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the city that originally created the commitment.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (continued)

11. Equity Classifications (continued)

- d. Assigned - Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance may be assigned through the following; 1) The city has adopted a financial policy authorizing the Finance Committee to assign amounts for a specific purpose. 2) All remaining positive spendable amounts in governmental funds, other than the general fund, that are neither restricted nor committed. Assignments may take place after the end of the reporting period.
- e. Unassigned - Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceeds amounts restricted, committed, or assigned for those purposes.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents / contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has a formal minimum fund balance policy. That policy is to maintain an unassigned fund balance in the general fund of \$2,432,800, or 17% of the ensuing year's budgeted general fund expenditures. The balance at year end was \$3,375,795 or 24% of 2013 budgeted general fund expenditures.

Proprietary fund equity is classified the same as in the government-wide statements.

Fiduciary fund equity is classified as held in trust for the Library Expansion Trust and the Volunteer Fire Co. Scholarship on the statement of fiduciary net position. Various donor restrictions apply, including authorizing and spending trust income, and the City believes it is in compliance with all significant restrictions.

E. OTHER POLICIES - TAX INCREMENTAL DISTRICTS

The City has created a number of "City of Muskego Tax Incremental Districts" to encourage development of the City tax base, efficient use of land, buildings and public improvements and private investment in various specific areas of the City. Property taxes of each specific District generated in future years, measured by the increment in value of the property in the district over the base year, will be used to retire the interest and principal of the related debt incurred to finance the project costs. Below is a summary of each district:

1. District No. 8 was created in 2000 and is for the development of the City's downtown area. Project costs were originally estimated at \$2.7 million. In September, 2005 the City amended the project plan to include an additional \$855,000 in project costs.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. OTHER POLICIES - TAX INCREMENTAL DISTRICTS (continued)

2. District No. 9 was created in 2003 for development in the City’s Community Development Authority Redevelopment District No. 1. Project costs were estimated at \$1.5 million and have been financed with a \$2.0 million Community Development Lease Revenue Bond.
3. District No. 10 was created in 2007 and is a mixed use tax increment district comprised of the east and west sides of Moorland Road from College Avenue on the north to one-half mile south. Project costs were estimated at \$8.3 million and have been financed with \$8.9 million bonds.

NOTE II – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

**EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL
FUND BALANCE SHEET AND THE STATEMENT OF NET POSITION**

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. The details of this reconciliation include the following items.

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds.

Land	\$ 5,533,922
Intangibles	207,430
Construction in progress	2,859,682
Land improvements	3,944,754
Buildings	13,196,365
Machinery and equipment	7,272,487
Library collection	2,669,657
Infrastructure	59,262,681
Less: Accumulated depreciation	<u>(40,577,502)</u>
Adjustment for Capital Assets	<u>\$ 54,369,476</u>

Long-term liabilities applicable to the City’s governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net position.

Bonds and notes payable	\$ 32,334,940
CDA Lease Revenue Bonds	1,440,000
Compensated absences	3,363,879
Unamortized debt issue costs	(53,250)
Accrued interest	<u>192,020</u>
Combined Adjustment for Long-Term Liabilities	<u>\$ 37,277,589</u>

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE III – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note I.C.

A budget has been adopted for the General Fund, certain Special Revenue Funds, Debt Service Funds, certain Capital Project Funds, the Water Utility and Sewer Utility. Budgets have not been formally adopted for other certain Special Revenue Funds and Capital Project Funds, and for Agency Funds. Wisconsin Statute 65.90 requires that an annual budget be adopted for all funds.

Appropriations lapse at year end unless specifically carried over by the Common Council. There were no carryovers to the following year. Budgetary control is exercised at the fund level for all funds.

B. EXCESS EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations due to the unbudgeted costs in the following funds. The excess expenditures were covered by additional revenues received or use of available fund balance.

Fund	Budgeted Expenditures	Actual Expenditures	Excess Expenditures Over Budget
Special Revenue Funds			
Park	\$ 218,933	\$ 233,115	\$ 14,182
Compensated Absences	120,815	136,368	15,553
Recreation Ticket	16,900	24,412	7,512
Capital Projects Fund			
Capital Equipment	782,549	857,697	75,148

C. LIMITATIONS ON THE CITY'S TAX LEVY

As part of Wisconsin Act 32 (2011), legislation was passed that limits the City's future tax levies. Generally, the City is limited to its prior tax levy dollar amount (excluding TIF Districts), increased by the greater of the percentage change in the City's equalized value due to new construction or 0% for the 2012 levy collected in 2013 and thereafter. Changes in debt service from one year to the next are generally exempt from this limit with certain exceptions.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The City's cash and investments at year end were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Deposits with banks	\$ 54,629,514	\$ 46,382,483	Custodial Credit Risk
LGIP	19,601,779	19,601,779	Credit Risk
Wisconsin Investment Series Cooperative (WISC)	404,627	404,627	Credit and Interest Rate Risk
Petty cash	2,369	-	None
 Total Cash and Investments	 \$ 74,638,290	 \$ 66,388,889	
 Reconciliation to financial statements			
Per statement of net assets			
Unrestricted cash and investments	\$ 33,271,549		
Temporary investments	729,320		
Restricted cash and investments	8,806,248		
Per statement of net assets - Fiduciary Funds			
Library expansion trust	49,794		
Volunteer Fire-Co. Scholarship	175,739		
Agency	31,605,640		
 Total Cash and Investments	 \$ 74,638,290		

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts), \$250,000 for interest-bearing demand deposit accounts, and unlimited amounts for noninterest-bearing transaction accounts through December 31, 2012. On January 1, 2013, the temporary unlimited coverage for noninterest bearing transaction accounts expired. Therefore, demand deposit accounts (interest-bearing and noninterest-bearing) are insured for a total of \$250,000 beginning January 1, 2013. In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities. This coverage has been considered in computing custodial credit risk.

The City maintains collateral agreement with its banks. At December 31, 2012, the banks had pledged various government securities in the amount of \$103,650 to secure the City's deposits.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

A. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to the City.

As of December 31, 2012, \$815,272 of the City's total bank balances of \$46,382,483 was exposed to custodial credit risk as uninsured and uncollateralized.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City does not have any investments exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

The City had investments in the external Wisconsin Local Government Investment Pool and Wisconsin Investment Series Cooperative, which are not rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rate will adversely affect the value of an investment.

As of December 31, 2012 the City investments were as follows:

Investment Type	Fair Value	Investment Maturities (in years)	
		Less than 1 Year	1-5 Years
WISC	\$ 404,627	\$ 235,479	\$ 169,147

See Note I.D.1. for further information on deposit and investment policies.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

B. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

	<u>Restricted Assets</u>	<u>Liabilities Payable from Restricted Assets and Other Liabilities</u>	<u>Restricted Net Position</u>
Sewer Utility			
Cash and investments			
Redemption account	\$ 203,123	\$ 16,456	\$ 186,667
Reserve account	380,950	280,000	- (1)
Equipment replacement	789,851	-	789,851
Reserve capacity assessments	5,007,806	-	5,007,806
RCA assessments receivable	<u>291,868</u>	<u>-</u>	<u>291,868</u>
Total Sewer Utility	<u>6,673,598</u>	<u>296,456</u>	<u>6,276,192</u>
Water Utility			
Cash and investments			
Redemption account	348,387	34,221	314,166
Reserve account	646,919	1,857,648	- (1)
Depreciation account	303,765	-	303,765
Construction funds	952,507	23,491	- (1)
Reserve capacity assessments	172,940	-	172,940
WCA assessments receivable	<u>102,471</u>	<u>4,232</u>	<u>98,239</u>
Total Water Utility	<u>2,526,989</u>	<u>1,919,592</u>	<u>889,110</u>
Total Business-type Activities	<u>\$ 9,200,587</u>	<u>\$ 2,216,048</u>	<u>\$ 7,165,302</u>

(1) – Reserve accounts and Construction funds consist of bond proceeds and are not a component of net position.

Below are descriptions of restricted assets:

Long Term Debt Accounts

- Redemption – Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve – Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Depreciation – Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.
- Construction – Used to report proceeds of revenue bond issuances that are restricted for use in construction.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

B. RESTRICTED ASSETS (continued)

Water and Sewer Capacity Assessments Account

The water and sewer utilities established funds to account for capacity assessment levies that are restricted to finance certain system capital costs or related debt service costs.

Equipment Replacement Account

The sewer utility established an equipment replacement account to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources and debt covenants.

C. RECEIVABLES

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes levied for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components for *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable for subsequent year	\$ -	\$ 13,249,401	\$ 13,249,401
Special assessments and other	-	90,473	90,473
Program revenue collected in advance	-	75,802	75,802
	<u>\$ -</u>	<u>\$ 13,415,675</u>	<u>\$ 13,415,675</u>

Significantly all governmental activities receivables are expected to be collected within one year.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

Governmental Activities

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated/amortized				
Land	\$ 4,322,304	\$ 1,211,618	\$ -	\$ 5,533,922
Construction in progress	3,992,203	2,544,991	3,677,512	2,859,682
Total capital assets not being depreciated	<u>8,314,507</u>	<u>3,756,609</u>	<u>3,677,512</u>	<u>8,393,604</u>
Capital assets being depreciated/amortized				
Intangibles	27,446	179,984	-	207,430
Land improvements	3,930,454	14,300	-	3,944,754
Buildings	13,188,079	8,286	-	13,196,365
Machinery and equipment	7,162,995	395,264	285,772	7,272,487
Library collection	2,548,464	121,193	-	2,669,657
Infrastructure	52,647,588	6,615,093	-	59,262,681
Total Capital Assets Being Depreciated/Amortized	<u>79,505,026</u>	<u>7,334,120</u>	<u>285,772</u>	<u>86,553,374</u>
Less: Accumulated depreciation/amortization for				
Intangibles	(8,172)	(38,203)	-	(46,375)
Land improvements	(1,677,764)	(136,996)	-	(1,814,760)
Buildings	(4,784,279)	(351,416)	-	(5,135,695)
Machinery and equipment	(4,882,395)	(475,672)	280,112	(5,077,955)
Library collection	(2,075,204)	(145,260)	-	(2,220,464)
Infrastructure	(24,220,047)	(2,062,206)	-	(26,282,253)
Total Accumulated Depreciation	<u>(37,647,861)</u>	<u>(3,209,753)</u>	<u>280,112</u>	<u>(40,577,502)</u>
Net Capital Assets Being Depreciated	<u>41,857,165</u>	<u>4,124,367</u>	<u>5,660</u>	<u>45,975,872</u>
Total Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 50,171,672</u>	<u>\$ 7,880,976</u>	<u>\$3,683,172</u>	<u>\$ 54,369,476</u>

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 211,430
Protection of persons and property	271,109
Highway and transportation, which includes the depreciation of infrastructure	2,163,472
Economic development	73,874
Education and recreation	<u>489,868</u>
Total Governmental Activities Depreciation Expense	<u>\$ 3,209,753</u>

Business Type Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not being depreciated				
Land and easements	\$ 196,566	\$ -	\$ -	\$ 196,566
Construction in progress	<u>816,550</u>	<u>462,326</u>	<u>791,702</u>	<u>487,174</u>
Total Capital Assets Not Being Depreciated	<u>1,013,116</u>	<u>462,326</u>	<u>791,702</u>	<u>683,740</u>
Capital Assets being depreciated				
Buildings and improvements	19,421,255	723,449	-	20,144,704
Improvements other than buildings	73,673,516	88,201	-	73,761,717
Machinery and equipment	<u>4,343,291</u>	<u>37,839</u>	<u>5,324</u>	<u>4,375,806</u>
Total Capital Assets Being Depreciated	<u>97,438,062</u>	<u>849,489</u>	<u>5,324</u>	<u>98,282,227</u>
Less: Accumulated Depreciation				
Buildings and improvements	(8,174,697)	(726,401)	-	(8,901,098)
Improvements other than buildings	(13,814,716)	(1,004,947)	-	(14,819,663)
Machinery and equipment	<u>(2,880,047)</u>	<u>(149,985)</u>	<u>5,324</u>	<u>(3,024,708)</u>
Total Accumulated Depreciation	<u>(24,869,460)</u>	<u>(1,881,333)</u>	<u>5,324</u>	<u>(26,745,469)</u>
Net Capital Assets Being Depreciated	<u>72,568,602</u>	<u>(1,031,844)</u>	<u>-</u>	<u>71,536,758</u>
Total Business Activities Capital Assets, Net of Depreciation	<u>\$ 73,581,718</u>	<u>\$ (569,518)</u>	<u>\$ 791,702</u>	<u>\$ 72,220,498</u>

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

Business-Type Activities		
Sewer utility		\$ 1,095,057
Water utility		<u>761,861</u>
Total Business-Type Activities Depreciation Expense		<u>\$ 1,856,918</u>

Depreciation expense does not agree to the increases in accumulated depreciation as additions to accumulated depreciation include depreciation expense as well as salvage on retired assets.

E. INTER-FUND RECEIVABLES/PAYABLES AND TRANSFERS

Transfers

The following is a schedule of inter-fund transfers:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Principal Purpose</u>
General Fund	Water Utility	\$ 577,659	Payment in lieu of taxes
Debt Service Fund	Nonmajor Governmental Funds	1,122,556	Debt service requirements
Nonmajor Governmental Funds	Capital Budget Fund	822,180	Capital improvements
Nonmajor Governmental Funds	Nonmajor Governmental Funds	<u>161,725</u>	CDA debt service
Subtotal - Fund Financial Statements		2,684,120	
Less: Fund eliminations		<u>(2,106,461)</u>	
Total Transfers - Government-Wide			
Statement of Activities		<u>\$ 577,659</u>	

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the statement of activities, inter-fund transfers within the governmental or business-type activities are netted and eliminated.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

F. DEFERRED DEBITS

Governmental activities deferred debits are comprised of the following:

Unamortized debt expense (net of accumulated amortization of \$63,884)	<u>\$ 53,250</u>
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Business-type activities deferred debits are comprised of the following:

	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>Total</u>
Unamortized debt expense			
Sewer (net of accumulated amortization of \$46,552)	\$ 42,590	\$ -	\$ 42,590
Water (net of accumulated amortization of \$284,196)	<u>-</u>	<u>74,934</u>	<u>74,934</u>
Total Deferred Debits	<u>\$ 42,590</u>	<u>\$ 74,934</u>	<u>\$ 117,524</u>

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

G. LONG-TERM OBLIGATIONS

General Obligation Debt

Long-term obligations activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable					
General obligation debt	\$ 33,869,240	\$ -	\$ 1,534,300	\$ 32,334,940	\$ 14,912,515
Community development lease revenue bonds	<u>1,540,000</u>	<u>-</u>	<u>100,000</u>	<u>1,440,000</u>	<u>120,000</u>
Total Bonds and Notes Payable	35,409,240	-	1,634,300	33,774,940	15,032,515
Other Liabilities					
Net OPEB Liability	100,597	-	100,597	-	-
Accrued compensted absences - vacation and sick leave	<u>3,296,538</u>	<u>172,339</u>	<u>104,998</u>	<u>3,363,879</u>	<u>105,000</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 38,806,375</u>	<u>\$ 172,339</u>	<u>\$ 1,839,895</u>	<u>\$ 37,138,819</u>	<u>\$ 15,137,515</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable					
Revenue Bonds	\$ 5,100,000	\$ -	\$ 370,000	\$ 4,730,000	\$ 380,000
Revenue Refunding Bonds	2,740,000	-	375,000	2,365,000	375,000
General obligation debt	1,640,760	-	75,700	1,565,060	1,362,485
Wisconsin Safe Drinking Water Loan	304,348	135,708	13,392	426,664	20,163
Refundings-Gains/(Losses)	(143,553)	-	(45,333)	(98,220)	-
Unamortized debt premium	<u>92,018</u>	<u>-</u>	<u>18,937</u>	<u>73,081</u>	<u>-</u>
Total Business-type Activities Long-Term Liabilities	<u>\$ 9,733,573</u>	<u>\$ 135,708</u>	<u>\$ 807,696</u>	<u>\$ 9,061,585</u>	<u>\$ 2,137,648</u>

All general obligation notes and bonds payable are backed by the full faith and credit of the City. Notes and bonds in the governmental funds will be retired by future property tax levies or tax increments accumulated by the debt service fund. Business-type activities debt is payable by revenues from user fees of those funds or, if the revenues are not sufficient, by future tax levies.

In accordance with Wisconsin Statutes, total general obligation indebtedness of the City may not exceed 5% of the equalized value of taxable property within the City's jurisdiction. The debt limit as of December 31, 2012, was \$128.3 million. Total general obligation debt outstanding at year end was \$33,900,000.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

G. LONG-TERM OBLIGATIONS (continued)

General Obligation Debt

	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/12
Governmental Activities						
General Obligation Debt						
Street improvement bonds	12/1/01	3.15-4.85	12/1/05-20	6/1&12/1	\$ 3,150,000	\$ 1,950,000
Corporate purpose bonds	2/1/03	3.70-4.10	12/1/06-20	6/1&12/1	4,100,000	3,275,000
Promissory notes	3/1/04	3.40-4.35	3/1/09-22	3/1& 9/1	2,090,000	1,680,000
Promissory notes	3/1/05	2.60-3.70	3/1/06-15	3/1& 9/1	985,000	481,585
Refunding Debt	6/1/06	4.00-4.25	6/1/07-17	6/1&12/1	5,160,000	3,110,000
Refunding Debt	4/27/10	2.50-4.75	5/1/12-24	4/1& 10/1	5,575,000	5,450,000
Refunding Debt	4/27/10	4.00-6.50	5/1/12-18	4/1& 10/1	815,000	725,000
Corporate purpose bonds (BABS)	4/27/10	2.00-4.75	5/1/12-20	4/1& 10/1	2,535,000	2,435,000
Corporate purpose bonds	11/08/11	1.60	11/1/2013	5/1& 11/1	13,228,355	<u>13,228,355</u>
Total Governmental Activities - General Obligation Debt						<u>\$ 32,334,940</u>

	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/12
Business-type activities						
General obligation debt	3/1/05	2.60-3.70	3/1/06-15	3/1 & 9/1	\$ 600,000	\$ 293,415
General obligation debt	11/8/11	1.60	11/1/13	5/1 & 11/1	1,271,645	<u>1,271,645</u>
Total Business-Type Activities						<u>\$ 1,565,060</u>

Debt service requirements to maturity are as follows:

	Governmental Type Long-Term Debt		Business Type Long-Term Debt	
	Principal	Interest	Principal	Interest
2013	\$ 14,912,515	\$ 1,022,404	\$ 1,362,485	\$ 34,417
2014	1,791,590	692,331	98,410	5,623
2015	1,935,835	620,493	104,165	1,926
2016	1,855,000	545,070	-	-
2017	1,910,000	469,164	-	-
2018-2022	8,130,000	1,198,937	-	-
2023-2024	1,800,000	74,000	-	-
Totals	<u>\$ 32,334,940</u>	<u>\$ 4,622,399</u>	<u>\$ 1,565,060</u>	<u>\$ 41,966</u>

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

G. LONG-TERM OBLIGATIONS (continued)

Community Development Lease Revenue Bonds

In June 2003, the Community Development Authority of the City of Muskego issued \$2.0 million Community Development Revenue Bonds. The bonds were issued by the Authority, pursuant to Section 66.1335 of the Wisconsin Statutes, for the purpose of financing a blight elimination program in a designated redevelopment area in the City consisting of project costs listed in the City's Tax Incremental District No 9. The bonds do not constitute any indebtedness of the City. The bonds are not general obligations of the authority and do not constitute indebtedness within any constitutional or statutory limitation or provision. The bonds are payable solely from the revenue and income derived by the Authority pursuant to the terms of a lease by and between the Authority and the City.

In conjunction with the issuance of the notes, the authority and the City entered into a lease agreement amounting to \$2.0 million. The lease generally provides for payments by the City to the authority in amounts sufficient to pay the principal and interest payments on the bonds as they come due. It is the City's intent to annually budget the rental payments under the lease, and finance such payments with tax increments generated by the Tax Incremental District No. 9. If the increment is insufficient to make payments under the lease, the City expects and anticipates that it will appropriate funds from other available revenues to fund any such shortfall.

The City of Muskego Community Development Authority is part of the primary government for financial reporting purposes and reported as a blended component unit. Consequently, the Authority's debt and assets are reported as part of the City's debt and assets. Debt service Activity is reported in the City's Debt Service Fund. Lease arrangements between the City and the authority have been eliminated for financial statement reporting purposes.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

G. LONG-TERM OBLIGATIONS (continued)

Community Development Lease Revenue Bonds

Community Development Lease Revenue Bonds at December 31, 2012 consist of the following:

Community Development Revenue Bonds	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/2012
Lease revenue bonds	6/10/03	2.00-4.75%	6/1/07-21	6/1 & 12/1	\$ 2,000,000	<u>\$ 1,440,000</u>

Debt service requirements to maturity are as follows:

	Governmental Activities Community Development Lease Revenue Bonds	
	Principal	Interest
2013	\$ 120,000	\$ 57,980
2014	130,000	53,570
2015	140,000	48,640
2016	150,000	43,200
2017	150,000	37,425
2018-2021	<u>750,000</u>	<u>74,350</u>
Totals	<u>\$ 1,440,000</u>	<u>\$ 315,165</u>

Other Debt Information

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability attributable to governmental activities will be primarily liquidated by the general fund.

Water and Sewer System Revenue Bonds

The Water and Sewer Utilities have \$7,095,000 in Water and Sewer System Revenue Bonds outstanding at December 31, 2012. The bonds are not general obligations of the City of Muskego and are payable from a first pledge of the income and revenues derived from the operations of the systems in accordance with the resolution adopted in conjunction with the issuance of the debt. The resolution creates a statutory mortgage lien upon the systems and its revenues in accordance with Section 66 of Wisconsin Statutes. The utilities have established certain funds, as described in the resolution, to account for the allocation of each utility's gross revenue and have deposited funds in compliance with the bond covenants.

There are a number of limitations and restrictions contained in the bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

G. LONG-TERM OBLIGATIONS (continued)

Water and Sewer System Revenue Bonds (continued)

Revenue bonds payable at December 31, 2012 consists of the following:

	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31/12
<u>Sewer Utility</u>						
Revenue Bonds	3/1/05	3.50-4.00%	5/1/06-20	5/1&11/1	\$ 4,225,000	\$ 2,580,000
<u>Water Utility</u>						
Revenue Bonds	9/1/08	3.5-5.25	5/1/09-28	5/1&11/1	2,450,000	2,150,000
Revenue Refunding Bonds	11/8/11	2.0-4.00	5/1/12-20	5/1&11/1	2,740,000	<u>2,365,000</u>
Total Business-Type Activities Revenue Debt						<u>\$ 7,095,000</u>

Debt service requirements to maturity are as follows:

	Business-type Activities Revenue Debt	
	Principal	Interest
2013	\$ 755,000	\$ 253,629
2014	670,000	232,919
2015	705,000	212,216
2016	720,000	190,494
2017	755,000	166,104
2018-2022	2,490,000	444,953
2023-2027	800,000	161,438
2028	200,000	5,250
Totals	<u>\$ 7,095,000</u>	<u>\$ 1,667,003</u>

The total principal and interest paid during the year on the Sewer System Revenue Bonds was \$373,460 and on the Water Revenue Bonds was \$644,794. The revenues as defined by the respective bond covenants for the same period were \$1.097 million for the Sewer Utility and \$1.35 million for the Water Utility. Annual principal and interest payments are expected to require 52% of the net revenues for the Sewer Utility and 28% of the net revenues for the Water Utility.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

G. LONG-TERM OBLIGATIONS (continued)

Deferred Amount on Refunding

Deferred amounts on refunding arise from advance refunding of debt. The difference between the cost of the securities placed in trust for future payment of refunded debt and the net carrying value of that debt is deferred and amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The unamortized amount is reported as a deduction from debt payable in the government-wide and proprietary fund statements. Amortization for 2012 was \$45,333 for the sewer utility.

H. NET POSITION / FUND BALANCES

Governmental Activities

Net position reported on the government wide statement of net position at December 31, 2012 includes the following:

Net investment in capital assets	
Land	\$ 5,533,922
Other capital assets, net of accumulated depreciation	45,975,872
Construction in progress	2,859,682
Less: related long-term debt outstanding	(32,334,940)
Plus: unspent capital related debt proceeds	4,592,676
Plus: non-capital debt proceeds	<u>3,411,663</u>
Total Net investment in capital assets	<u>30,038,875</u>
Restricted for:	
Tax Increment District purposes	841,977
Other debt service	<u>2,473,960</u>
Total Restricted Net Position	<u>3,315,937</u>
Unrestricted	<u>7,805,053</u>
Total Governmental Activities Net Position	<u>\$ 41,159,865</u>

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

H. NET POSITION / FUND BALANCES (continued)

Governmental Funds

Governmental fund balances reported on the fund financial statements at December 31, 2012 include the following:

Nonspendable	
Major Fund	
General Fund	
Prepaid items	\$ 23,172
Total Major Funds	<u>23,172</u>
Total Nonspendable Fund Balance	\$ <u><u>23,172</u></u>
Restricted	
Major Funds	
Debt Service Fund	\$ 2,656,523
Capital Projects Fund - Tax Increment District	
Project costs and debt service	<u>483,710</u>
Total Major Funds	<u>3,140,233</u>
Nonmajor Fund	
Special Revenue Fund	
Sewer Utility Special Debt Service Fund	61,528
Tax Increment District Funds	<u>332,481</u>
Total Nonmajor Funds	<u>394,009</u>
Total Restricted Fund Balance	\$ <u><u>3,534,242</u></u>
Committed	
Major Fund	
General Fund	
Unfunded portion of accrued compensated absences	\$ 2,679,494
Total Major Fund	<u>2,679,494</u>

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

H. NET POSITION / FUND BALANCES (continued)

Governmental Funds (continued)

Committed (continued)

Nonmajor Funds

Special Revenue Funds

Park Fund	\$	252,376
Other Grant Fund		10,950
Refuse / Recycling Fund		704,062
Revolving Loan Fund		284,120
Landfill Standing Committee Funds		68,900
Stormwater Management Fund		525,162
Well Testing Reserve Fund		471,737
Land Open Space Conservation Fund		164,830
Compensated Absences Fund		684,386
Recreational Ticket Fund		5,781
Cable TV Fund		173,009
Capital Improvements Fund		830,176
Community Development Authority Fund		196,475
Federated Library System Fund		129,185
Big Muskego Lake - Bass Bay Protection and Rehabilitation District		161,873
Landfill Fund		<u>4,970,639</u>

Total Nonmajor Funds 9,633,661

Total Committed Fund Balance \$ 12,313,155

Assigned

Major Fund

Capital Budget Fund \$ 4,640,221

Total Major Fund 4,640,221

Nonmajor Funds

Capital Projects Funds

Industrial Park Expansion Fund	\$	18,589
FBI Shooting Range		9,102
Capital Equipment Fund		<u>153,702</u>

Total Nonmajor Funds 181,393

Total Assigned Fund Balance \$ 4,821,614

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

H. NET POSITION / FUND BALANCES (continued)

Governmental Funds (continued)

Unassigned

Major Fund

General Fund

\$ 3,375,795

Total Unassigned Fund Balance

\$ 3,375,795

Net position reported on the government wide statement of net position at December 31, 2012 includes the following:

Business-type Activities

Net Investment in Capital Assets

Land and easements

\$ 196,566

Other capital assets, net of accumulated depreciation

71,536,758

Construction in progress

487,174

Less: related long-term debt outstanding

(8,988,503)

Add: unspent capital related debt proceeds

952,507

Add: Non-capital debt proceeds

1,072,313

Total Net Investment in Capital Assets

65,256,815

Restricted for:

Debt service

500,833

Depreciation and equipment replacement funds

1,093,616

Water and sewer capacity assessment funds

5,570,853

Total Restricted Net Position

7,165,302

Unrestricted

11,251,007

Total Business-type Activities Net Position

\$ 83,673,124

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE V – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

All eligible City of Muskego employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work over 600 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

Prior to June 29, 2011, covered employees in the General category were required by statute to contribute 6.5% of their salary (3.9% for Executives and Elected Officials, 5.8% for Protective Occupations with Social Security, and 4.8% for Protective Occupations without Social Security) to the plan. Employers could make these contributions to the plan on behalf of employees. Employers were required to contribute an actuarially determined amount necessary to the fund the remaining projected cost of future benefits.

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for General category employees, including Teachers, and Executives and Elected Officials. Required contributions for protective contributions are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. Contribution rates for 2012 are:

	<u>Employee</u>	<u>Employer</u>
General (including Teachers)	5.9%	5.9%
Executives & Elected Officials	7.05%	7.05%
Protective with Social Security	5.9%	9.0%
Protective without Social Security	5.9%	11.3%

The payroll for City of Muskego employees covered by the WRS for the year ended December 31, 2012 was \$6,840,930; the employer's total payroll was \$7,262,525. The total required contribution for the year ended December 31, 2012 was \$1,075,853 or 15.7% of covered payroll. Of this amount, the Protective Occupations category began contributing 50% of the required employee contributions effective July 1, 2012, whereas, 5.9% and 7.05% for the General and Elected Official categories, respectively, were contributed by the employer. Total contributions for the years ending December 31, 2011 and 2010 were \$1,059,226 and \$1,011,169, respectively, equal to the required contributions for each year.

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE V – OTHER INFORMATION (continued)

A. EMPLOYEES' RETIREMENT SYSTEM (continued)

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service, 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. 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. A final average earning is the average of the employee's three highest years' earnings. Employees terminating covered employment and submitting application before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or 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 and prior to July 1, 2011 are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be vested. The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes.

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

The City had no pension related debt as of December 31, 2012.

B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; health care of its employees; and environmental damages for which the City purchases commercial insurance. There have been no significant reductions in insurance coverage for any risk of loss in the past year and settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

C. ANTENNA LEASE AGREEMENTS

The City has lease agreements with four cellular phone companies to lease a Utility water tower as a site for cellular antennas. The initial term of the leases was 5 years with the right to extend the leases for four additional 5-year terms.

Rental income from rental of the water tower reported in other water revenues amounted to \$103,587.

Future minimum rentals related to these leases and expected future extensions are as follows:

2013	\$108,058
2014	113,461
2015	<u>119,134</u>
Total	<u>\$340,653</u>

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE V – OTHER INFORMATION (continued)

D. WATER AND SEWER UTILITY RATES

The Water Utility implemented current rates effective October 1, 2011.

Effective January 1, 2010 the sewer rate for a single family residence is \$167.66 per quarter or \$670.64 per year. All industrial and commercial users were charge on actual metered use at \$6.81 per 1,000 gallons plus a connection charge of \$69.10 per quarter.

E. OTHER POSTEMPLOYMENT BENEFITS

Effective August 28, 2012, the City's group health insurance plan no longer provides coverage to retirees (or other qualified terminated employees) at blended premium rates. This resulted in the elimination of other postemployment benefit (OPEB) for the retirees, commonly referred to as an implicit rate subsidy.

The City's prior year other postemployment benefit (OPEB) cost (expense) was calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$	-
Interest on net OPEB obligation		-
Adjustment to annual required contribution		<u>-</u>
Annual OPEB cost		-
Elimination of OPEB coverage		<u>(100,597)</u>
Decrease in net OPEB obligation (asset)		(100,597)
Net OPEB Obligation (Asset) - Beginning of Year		<u>100,597</u>
Net OPEB Obligation (Asset) - End of Year	\$	<u>-</u>

City of Muskego

Notes to Financial Statements
As of and for the Year Ended December 31, 2012

NOTE V – OTHER INFORMATION (continued)

F. CONTINGENT LIABILITIES AND COMMITMENTS

Environmental Protection Agency

In 1983, the Environmental Protection Agency placed the Muskego Sanitary Landfill on the National Superfund list. This prompted an investigation into alleged ground water contamination emitting from the site. As a result of the initial investigation, the Environmental Protection Agency named the City of Muskego as one of approximately 30 potentially responsible parties, in the owner/operator group.

Another potentially responsible party, Waste Management of Wisconsin, Inc., has headed the negotiations with the EPA relative to the preparation of a Remedial Investigation/Feasibility Study. The City of Muskego is not a party to this stipulation regarding payment for this Study, which has not yet been completed.

At December 31, 2012, the nature and extent of a potential liability for payment for the study as well as payment for possible clean-up costs is unknown. The City has tendered the defense to its insurance carriers but has not been advised as to its carrier's position with respect to the potential liability.

In addition, the City has received Notices of Claims and Claims from other property owners alleging the City's involvement with ground water contamination. The Notices have been forwarded to the City's insurance carrier and the questions of coverage, liability and damages are, as yet, unresolved.

The City has an agreement with Waste Management wherein Waste Management shall indemnify the City from any potential Superfund liability.

Other Contingencies

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

The city has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to the requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

G. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*; Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; and Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. Application of these standards may restate portions of these financial statements.

SUPPLEMENTARY INFORMATION

City of Muskego

Combining Balance Sheet
 Non-major Governmental Funds
 Special Revenue Funds
 As of December 31, 2012

	Park Funds	Sewer Utility Special Debt Service Fund	Other Grant Fund	Refuse/ Recycling Fund	Revolving Loan Fund	Landfill Standing Committee Funds	Stormwater Management Fund	Well Testing Reserve Fund	Land Open Space Conservation Fund	Rescue Fund
ASSETS										
Cash and cash equivalents	\$ 273,626	\$ 61,528	\$ 10,950	\$ 450,280	\$ 428,226	\$ 68,900	\$ 525,162	\$ 471,737	\$ 160,269	\$ 36,404
Accounts receivable - net	-	-	-	271,839	176,464	-	-	-	-	8,789
Deferred special assessments	-	90,432	-	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-	-	5,700	-
Taxes receivable	-	-	-	61,409	-	-	-	-	-	-
TOTAL ASSETS	\$ 273,626	\$ 151,960	\$ 10,950	\$ 783,528	\$ 604,690	\$ 68,900	\$ 525,162	\$ 471,737	\$ 165,969	\$ 45,193
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	\$ 21,250	\$ -	\$ -	\$ 79,466	\$ 570	\$ -	\$ -	\$ -	\$ 1,139	\$ 45,193
Due to other governments	-	-	-	-	320,000	-	-	-	-	-
Deferred revenue	-	90,432	-	-	-	-	-	-	-	-
Total Liabilities	21,250	90,432	-	79,466	320,570	-	-	-	1,139	45,193
Fund Balances										
Restricted	-	61,528	-	-	-	-	-	-	-	-
Committed	252,376	-	10,950	704,062	284,120	68,900	525,162	471,737	164,830	-
Total Fund Balances	252,376	61,528	10,950	704,062	284,120	68,900	525,162	471,737	164,830	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 273,626	\$ 151,960	\$ 10,950	\$ 783,528	\$ 604,690	\$ 68,900	\$ 525,162	\$ 471,737	\$ 165,969	\$ 45,193

City of Muskego

Combining Balance Sheet
 Non-major Governmental Funds
 Special Revenue Funds
 As of December 31, 2012
 (Concluded)

	Compensated Absences Fund	Recreational Ticket Fund	Cable TV Fund	Capital Improvements Fund	Community Development Authority Fund	Federated Library System Fund	Big Muskego Lake- Bass Bay Protection and Rehabilitation District	Landfill Fund	Tax Increment District Funds	Non-Major Special Revenue Fund Total
ASSETS										
Cash and cash equivalents	\$ 684,386	\$ 5,781	\$ 173,625	\$ 830,176	\$ 196,475	\$ 135,727	\$ 158,033	\$ 4,492,481	\$ 332,481	\$ 9,496,247
Accounts receivable - net	-	-	-	-	-	-	-	484,110	-	941,202
Deferred special assessments	-	-	-	-	-	-	-	-	-	90,432
Due from other governments	-	-	-	-	-	-	3,881	-	-	9,581
Taxes receivable	-	-	-	-	-	-	-	-	1,208,074	1,269,483
TOTAL ASSETS	<u>\$ 684,386</u>	<u>\$ 5,781</u>	<u>\$ 173,625</u>	<u>\$ 830,176</u>	<u>\$ 196,475</u>	<u>\$ 135,727</u>	<u>\$ 161,914</u>	<u>\$ 4,976,591</u>	<u>\$ 1,540,555</u>	<u>\$ 11,806,945</u>
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	\$ -	\$ -	\$ 616	\$ -	\$ -	\$ 6,542	\$ -	\$ 5,952	\$ -	\$ 160,728
Due to other governments	-	-	-	-	-	-	-	-	-	320,000
Deferred revenue	-	-	-	-	-	-	41	-	1,208,074	1,298,547
Total Liabilities	<u>-</u>	<u>-</u>	<u>616</u>	<u>-</u>	<u>-</u>	<u>6,542</u>	<u>41</u>	<u>5,952</u>	<u>1,208,074</u>	<u>1,779,275</u>
Fund Balances										
Restricted	-	-	-	-	-	-	-	-	332,481	394,009
Committed	684,386	5,781	173,009	830,176	196,475	129,185	161,873	4,970,639	-	9,633,661
Total Fund Balances	<u>684,386</u>	<u>5,781</u>	<u>173,009</u>	<u>830,176</u>	<u>196,475</u>	<u>129,185</u>	<u>161,873</u>	<u>4,970,639</u>	<u>332,481</u>	<u>10,027,670</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 684,386</u>	<u>\$ 5,781</u>	<u>\$ 173,625</u>	<u>\$ 830,176</u>	<u>\$ 196,475</u>	<u>\$ 135,727</u>	<u>\$ 161,914</u>	<u>\$ 4,976,591</u>	<u>\$ 1,540,555</u>	<u>\$ 11,806,945</u>

City of Muskego

Combining Balance Sheet
 Non-major Governmental Funds
 Capital Projects Funds
 As of December 31, 2012

	Industrial Park Expansion Fund	FBI Shooting Range	Capital Equipment Fund	Non-Major Capital Projects Fund Total
ASSETS				
Cash and cash equivalents	\$ 18,589	\$ 9,102	\$ 249,469	\$ 277,160
TOTAL ASSETS	<u>\$ 18,589</u>	<u>\$ 9,102</u>	<u>\$ 249,469</u>	<u>\$ 277,160</u>
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 95,767	\$ 95,767
Fund Balances				
Assigned	<u>18,589</u>	<u>9,102</u>	<u>153,702</u>	<u>181,393</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 18,589</u>	 <u>\$ 9,102</u>	 <u>\$ 249,469</u>	 <u>\$ 277,160</u>

City of Muskego

Combining Balance Sheet
Non-major Governmental Funds
As of December 31, 2012

	Non-Major Special Revenue Fund Total	Non-Major Capital Projects Fund Total	Non-major Governmental Funds Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 9,496,247	\$ 277,160	\$ 9,773,407
Accounts receivable - net	941,202	-	941,202
Deferred special assessments	90,432	-	90,432
Due from other governments	9,581	-	9,581
Taxes receivable	1,269,483	-	1,269,483
TOTAL ASSETS	<u><u>\$ 11,806,945</u></u>	<u><u>\$ 277,160</u></u>	<u><u>\$ 12,084,105</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 160,728	\$ 95,767	\$ 256,495
Due to other governments	320,000	-	320,000
Deferred revenue	1,298,547	-	1,298,547
Total Liabilities	<u><u>1,779,275</u></u>	<u><u>95,767</u></u>	<u><u>1,875,042</u></u>
Fund Balances			
Restricted	394,009	-	394,009
Committed	9,633,661	-	9,633,661
Assigned	-	181,393	181,393
Total Fund Balances	<u><u>10,027,670</u></u>	<u><u>181,393</u></u>	<u><u>10,209,063</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 11,806,945</u></u>	<u><u>\$ 277,160</u></u>	<u><u>\$ 12,084,105</u></u>

City of Muskego

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Non-Major Governmental Funds
 Special Revenue Funds
 For the Year Ended December 31, 2012

	Park Fund	Sewer Utility Special Debt Service Funds	Other Grants Fund	Refuse/ Recycling Fund	Revolving Loan Fund	Landfill Standing Committee Fund	Stormwater Management Fund	Well Testing Reserve Fund	Land Open Space Conservation Fund	Rescue Fund
REVENUES										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	42,667	-	-	73,125	-	-	-	-	404,637	-
Licenses and permits	7,114	-	-	-	-	-	-	-	-	-
Public charges for services	250,226	-	-	979,775	-	10,000	500,000	33,000	241,950	34,985
Public improvement	-	1,785	-	-	-	-	-	-	-	-
Commercial revenue	31,616	-	-	38,236	6,664	33	613	727	259	49
Total Revenues	<u>331,623</u>	<u>1,785</u>	<u>-</u>	<u>1,091,136</u>	<u>6,664</u>	<u>10,033</u>	<u>500,613</u>	<u>33,727</u>	<u>646,846</u>	<u>35,034</u>
EXPENDITURES										
Current										
General government	-	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-	-	112,908
Public Works	-	-	-	-	-	-	15,383	-	-	-
Health and sanitation	-	-	-	1,064,797	-	-	-	-	-	-
Conservation and development	-	-	-	-	5,571	5,562	-	-	124,377	-
Education and recreation	-	-	-	-	-	-	-	-	-	-
Capital Outlay	233,115	-	-	-	-	-	47,900	-	1,236,832	-
Total Expenditures	<u>233,115</u>	<u>-</u>	<u>-</u>	<u>1,064,797</u>	<u>5,571</u>	<u>5,562</u>	<u>63,283</u>	<u>-</u>	<u>1,361,209</u>	<u>112,908</u>
Excess (deficiency) of revenues over expenditures	<u>98,508</u>	<u>1,785</u>	<u>-</u>	<u>26,339</u>	<u>1,093</u>	<u>4,471</u>	<u>437,330</u>	<u>33,727</u>	<u>(714,363)</u>	<u>(77,874)</u>
OTHER FINANCING SOURCES (USES)										
Transfers in	-	-	-	-	-	-	-	-	822,180	-
Transfers out	-	-	-	-	-	-	(100,000)	-	(100,000)	-
Proceeds from sale of capital assets	-	-	-	-	-	-	-	-	-	-
Total Other Financing Source (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>722,180</u>	<u>-</u>
Net Change in Fund Balance	98,508	1,785	-	26,339	1,093	4,471	337,330	33,727	7,817	(77,874)
FUND BALANCES - Beginning of Year	<u>153,868</u>	<u>59,743</u>	<u>10,950</u>	<u>677,723</u>	<u>283,027</u>	<u>64,429</u>	<u>187,832</u>	<u>438,010</u>	<u>157,013</u>	<u>77,874</u>
FUND BALANCES - END OF YEAR	<u>\$ 252,376</u>	<u>\$ 61,528</u>	<u>\$ 10,950</u>	<u>\$ 704,062</u>	<u>\$ 284,120</u>	<u>\$ 68,900</u>	<u>\$ 525,162</u>	<u>\$ 471,737</u>	<u>\$ 164,830</u>	<u>\$ -</u>

City of Muskego

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Non-Major Governmental Funds
 Special Revenue Funds
 For the Year Ended December 31, 2012
 (Concluded)

	Compensated Absences Fund	Recreational Ticket Fund	Cable TV Fund	Capital Improvement Fund	Community Development Authority Fund	Federated Library System Fund	Big Muskego Lake- Bass Bay Protection and Rehabilitation District	Landfill Fund	Tax Increment District Funds	Non-Major Special Revenue Fund Total
REVENUES										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,089,735	\$ 1,089,735
Intergovernmental revenues	-	-	-	-	-	100,961	-	-	14,080	635,470
Licenses and permits	-	-	-	-	-	-	-	-	-	7,114
Public charges for services	-	24,874	-	-	-	-	28,730	1,132,454	-	3,235,994
Public improvement	-	-	-	-	-	-	-	-	-	1,785
Commercial revenue	5,391	9	-	1,360	436	4,370	475	6,588	-	96,826
Total Revenues	5,391	24,883	-	1,360	436	105,331	29,205	1,139,042	1,103,815	5,066,924
EXPENDITURES										
Current										
General government	136,368	-	33,927	-	-	-	-	-	10,450	180,745
Public Safety	-	-	-	-	-	-	-	-	-	112,908
Public Works	-	-	-	-	-	-	-	-	-	15,383
Health and sanitation	-	-	-	-	-	-	-	81,296	-	1,146,093
Conservation and development	-	-	-	44,319	-	-	21,364	-	-	201,193
Education and recreation	-	24,412	-	-	-	61,563	-	-	-	85,975
Capital Outlay	-	-	-	-	-	-	-	-	-	1,517,847
Total Expenditures	136,368	24,412	33,927	44,319	-	61,563	21,364	81,296	10,450	3,260,144
Excess (deficiency) of revenues over expenditures	(130,977)	471	(33,927)	(42,959)	436	43,768	7,841	1,057,746	1,093,365	1,806,780
OTHER FINANCING SOURCES (USES)										
Transfers in	-	-	-	-	161,725	-	-	-	-	983,905
Transfers out	-	-	-	-	(161,725)	-	-	-	(922,555)	(1,284,280)
Proceeds from sale of capital assets	-	-	-	-	-	657	-	-	-	657
Total Other Financing Source (Uses)	-	-	-	-	-	657	-	-	(922,555)	(299,718)
Net Change in Fund Balance	(130,977)	471	(33,927)	(42,959)	436	44,425	7,841	1,057,746	170,810	1,507,062
FUND BALANCES - Beginning of Year	815,363	5,310	206,936	873,135	196,039	84,760	154,032	3,912,893	161,671	8,520,608
FUND BALANCES - END OF YEAR	\$ 684,386	\$ 5,781	\$ 173,009	\$ 830,176	\$ 196,475	\$ 129,185	\$ 161,873	\$ 4,970,639	\$ 332,481	\$ 10,027,670

City of Muskego

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Non-Major Governmental Funds
 Capital Projects Funds
 For the Year Ended December 31, 2012

	Industrial Park Expansion Fund	FBI Shooting Range	Capital Equipment Fund	Non-Major Capital Projects Fund Total
REVENUES				
Commercial revenue	\$ 34	\$ -	\$ 6,175	\$ 6,209
Total Revenues	<u>34</u>	<u>-</u>	<u>6,175</u>	<u>6,209</u>
EXPENDITURES				
Capital Outlay				
General government	-	-	215,607	215,607
Public safety	-	-	93,426	93,426
Public works	4,950	-	-	4,950
Conservation and development	-	-	36,203	36,203
Education and recreation	-	-	512,461	512,461
Total Expenditures	<u>4,950</u>	<u>-</u>	<u>857,697</u>	<u>862,647</u>
Net Change in Fund Balance	(4,916)	-	(851,522)	(856,438)
FUND BALANCES - Beginning of Year	<u>23,505</u>	<u>9,102</u>	<u>1,005,224</u>	<u>1,037,831</u>
FUND BALANCES - END OF YEAR	<u>\$ 18,589</u>	<u>\$ 9,102</u>	<u>\$ 153,702</u>	<u>\$ 181,393</u>

City of Muskego

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Non-Major Governmental Funds
 For the Year Ended December 31, 2012

	Non-Major Special Revenue Fund Total	Non-Major Capital Projects Fund Total	Non-major Governmental Funds Total
REVENUES			
Taxes	\$ 1,089,735	\$ -	\$ 1,089,735
Intergovernmental	635,470	-	635,470
Licenses and permits	7,114	-	7,114
Public charges for services	3,235,994	-	3,235,994
Public improvement	1,785	-	1,785
Commercial revenue	96,826	6,209	103,035
Total Revenues	<u>5,066,924</u>	<u>6,209</u>	<u>5,073,133</u>
EXPENDITURES			
Current:			
General government	180,745	-	180,745
Public safety	112,908	-	112,908
Public works	15,383	-	15,383
Health and sanitation	1,146,093	-	1,146,093
Conservation and development	201,193	-	201,193
Education and recreation	85,975	-	85,975
Capital Outlay	1,517,847	862,647	2,380,494
Total Expenditures	<u>3,260,144</u>	<u>862,647</u>	<u>4,122,791</u>
Excess (deficiency) of revenues over expenditures	<u>1,806,780</u>	<u>(856,438)</u>	<u>950,342</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	983,905	-	983,905
Transfers out	(1,284,280)	-	(1,284,280)
Proceeds from sale of capital assets	657	-	657
Total Other Financing Source (Uses)	<u>(299,718)</u>	<u>-</u>	<u>(299,718)</u>
Net Change in Fund Balance	1,507,062	(856,438)	650,624
FUND BALANCES - Beginning of Year	<u>8,520,608</u>	<u>1,037,831</u>	<u>9,558,439</u>
FUND BALANCES - END OF YEAR	<u>\$ 10,027,670</u>	<u>\$ 181,393</u>	<u>\$ 10,209,063</u>