

CITY OF MUSKEGO SEWER UTILITY

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

FINANCIAL STATEMENTS

Including Independent Auditor's Report

As of and for the Years Ended
December 31, 2013 and 2012

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Muskego Sewer Utility, an enterprise fund of the City of Muskego, Wisconsin, as of and for the years ended December 31, 2013, and 2012, and the related notes to the 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Sewer Utility'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 Sewer Utility'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 opinion.

To the Mayor and Common Council
City of Muskego

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Muskego Sewer Utility as of December 31, 2013 and 2012, and the changes in its financial position and, where applicable, cash flows 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 1, the financial statements present only the City of Muskego Sewer Utility enterprise fund and do not purport to, and do not present fairly the financial position of the City of Muskego, Wisconsin, as of December 31, 2013, and 2012, and the changes in its financial position and, where applicable, its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the City of Muskego Sewer Utility adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. The prior year had been restated for this change. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole.

Baku Tilly Vinchow Krause, LLP

Milwaukee, Wisconsin
August 6, 2014

CITY OF MUSKEGO SEWER UTILITY

a Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

STATEMENTS OF NET POSITION
As of December 31, 2013 and 2012

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>2013</u>	<u>2012 (Restated)</u>
CURRENT ASSETS		
Cash and investments		
Operation and maintenance	\$ 9,082,318	\$ 9,032,981
Temporary investments	735,386	729,320
Accounts receivable - net	2,101,942	2,088,395
Prepaid items	600	-
Deferred contractual charge	286,271	63,724
Restricted Assets		
Debt Service Fund - Redemption		
Cash and investments	211,489	203,123
Total Current Assets	<u>12,418,006</u>	<u>12,117,543</u>
NON-CURRENT ASSETS		
Restricted Assets		
Debt Service Fund		
Cash and investments	380,950	380,950
Reserve Capacity Assessment Fund		
Cash and investments	5,324,033	5,007,806
RCA assessments receivable	263,235	291,868
Equipment Replacement Fund		
Cash and investments	816,801	789,851
Capital Assets		
Land	130,918	130,918
Construction in progress	69,656	325,359
Plant in service	61,788,577	61,166,449
Accumulated depreciation	(19,769,712)	(18,652,944)
Other Assets		
Special assessments	82,689	94,503
Total Non-Current Assets	<u>49,087,147</u>	<u>49,534,759</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	<u>52,888</u>	<u>98,220</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 61,558,041</u>	<u>\$ 61,750,522</u>

CITY OF MUSKEGO SEWER UTILITY

a Proprietary-Enterprise Fund of the
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STATEMENTS OF NET POSITION (Continued)

As of December 31, 2013 and 2012

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>2013</u>	<u>2012 (Restated)</u>
CURRENT LIABILITIES		
Accounts payable	\$ 394,921	\$ 323,921
Deferred contractual charge	286,271	63,724
Accrued vacation, sick leave and compensatory time	210,356	201,195
Liabilities Payable From Restricted Assets		
Current portion of long-term debt	295,000	280,000
Accrued interest payable	<u>14,822</u>	<u>16,456</u>
Total Current Liabilities	<u>1,201,370</u>	<u>885,296</u>
NON-CURRENT LIABILITIES		
Revenue bonds	2,005,000	2,300,000
Unearned revenue	<u>549,225</u>	<u>549,226</u>
Total Non-Current Liabilities	<u>2,554,225</u>	<u>2,849,226</u>
 Total Liabilities	 <u>3,755,595</u>	 <u>3,734,522</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	<u>24,155</u>	<u>27,955</u>
NET POSITION		
Net investment in capital assets	40,353,277	40,868,953
Restricted for:		
Debt service	196,667	186,667
RCA funds	5,587,268	5,299,674
Equipment replacement	816,801	789,851
Unrestricted	<u>10,824,278</u>	<u>10,842,900</u>
	<u>57,778,291</u>	<u>57,988,046</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	 <u>\$ 61,558,041</u>	 <u>\$ 61,750,522</u>

CITY OF MUSKEGO SEWER UTILITY

a Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012 (Restated)</u>
OPERATING REVENUES		
Charges for services	\$ 6,025,333	\$ 5,987,462
Other operating revenues	<u>16,452</u>	<u>13,903</u>
Total Operating Revenues	<u>6,041,785</u>	<u>6,001,364</u>
OPERATING EXPENSES		
Operation and maintenance	5,617,666	5,275,438
Depreciation	<u>1,116,768</u>	<u>1,095,057</u>
Total Operating Expenses	<u>6,734,434</u>	<u>6,370,495</u>
OPERATING LOSS	<u>(692,649)</u>	<u>(369,131)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	22,206	29,451
Interest income on RCA's and special assessments	27,954	38,629
MMSD I&I Subsidy	7,509	75,905
I&I MMSD program	(7,509)	(75,905)
Interest expense	(92,201)	(101,885)
Amortization of bond discount	<u>(45,332)</u>	<u>(45,333)</u>
Total Non-Operating Revenues (Expenses)	<u>(87,373)</u>	<u>(79,138)</u>
Loss Before Contributions	(780,022)	(448,269)
CAPITAL CONTRIBUTIONS		
Developer and customer	262,981	240,191
Contribution from the City	284,786	34,023
Sewer connection fees	<u>22,500</u>	<u>29,000</u>
Change in Net Position	(209,755)	(145,054)
NET POSTION - Beginning of Year (as restated)	<u>57,988,046</u>	<u>58,133,100</u>
NET POSITION - END OF YEAR	<u>\$ 57,778,291</u>	<u>\$ 57,988,046</u>

CITY OF MUSKEGO SEWER UTILITY

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STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 6,031,950	\$ 6,060,843
Paid to vendors for goods and services	(4,756,230)	(4,624,223)
Paid to employees for services	(790,441)	(725,746)
Payments to other funds	(40,566)	(40,746)
Net Cash Flows From Operating Activities	<u>444,713</u>	<u>670,128</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(40,017)	(265,189)
Debt retired	(280,000)	(270,000)
Interest paid	(93,835)	(103,460)
Special assessments received	303,427	311,692
Connection fees received	22,500	29,000
Net Cash Flows From Capital and Related Financing Activities	<u>(87,925)</u>	<u>(297,957)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income		
Interest on investments	22,204	29,420
Interest on RCA's and special assessments	27,954	38,629
Investments purchased	(735,386)	(729,320)
Investments sold and matured	729,320	225,081
Net Cash Flows From Investing Activities	<u>44,092</u>	<u>(436,190)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	400,880	(64,019)
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>15,414,711</u>	<u>15,478,730</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 15,815,591</u>	<u>\$ 15,414,711</u>

CITY OF MUSKEGO SEWER UTILITY

a Proprietary-Enterprise Fund of the
CITY OF MUSKEGO

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION - PROPRIETARY FUNDS		
Unrestricted		
Operation and maintenance	\$ 9,082,318	\$ 9,032,981
Temporary investments	735,386	729,320
Restricted		
Current:		
Debt Service Fund	211,489	203,123
Noncurrent:		
Debt Service Fund	380,950	380,950
Reserve Capacity Assessment Fund	5,324,033	5,007,806
Equipment Replacement Fund	816,801	789,851
Less: non-cash equivalents	<u>(735,386)</u>	<u>(729,320)</u>
CASH AND CASH EQUIVALENTS	<u>\$ 15,815,591</u>	<u>\$ 15,414,711</u>
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Capital additions contributed to the Utility by the City	<u>\$ 284,786</u>	<u>\$ 34,023</u>
Assessment of benefits to property owners for improvements	<u>\$ 262,981</u>	<u>\$ 240,191</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (692,649)	\$ (369,131)
Noncash items in operating loss		
Depreciation expense	1,116,768	1,095,057
Changes in assets and liabilities		
Accounts receivable	(17,344)	240,888
Prepaid items	(600)	-
Deferred contractual charge	(222,547)	(63,724)
Accounts payable	251,924	26,759
Accrued vacation, sick leave and compensatory time	9,161	(2,406)
Deferred contractual credit	-	(257,315)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 444,713</u>	<u>\$ 670,128</u>

See accompanying notes to financial statements.

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CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
CITY OF MUSKEGO
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting principles and policies utilized by the utility are described below:

REPORTING ENTITY AND NATURE OF BUSINESS

The utility is a separate enterprise fund of the City of Muskego (municipality). The utility accounts for the cost of operations on a continuing basis and is managed by the city council. The utility provides sewer service to properties within the municipality with wastewater treated by the Milwaukee Metropolitan Sewerage District.

The utility operates under service rules and rates established by the City's Common Council.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The utility is presented as an enterprise fund of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for management accountability.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities.

The utility implemented this standard effective January 1, 2012. The adoption of this standard had a significant effect on the utility's financial statements. Refer to Note IX.

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
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NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION (continued)

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Deposits and Investments

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

State statutes restrict investment of utility funds. 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, local professional football stadium district, local cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

The utility has not adopted a formal investment policy and is covered under an investment policy adopted by the municipality. Please reference the City of Muskego financial statements for details of this investment policy and its assessment of deposit and investment risks.

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, 2013, the fair value of the city's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
CITY OF MUSKEGO
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (continued)

Deposits and Investments (continued)

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. Market values may have changed significantly after year end.

See Note 2 for further information.

Receivables/Payables

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

The utility has the right under Wisconsin statutes to place delinquent sewer bills on the tax roll for collection. As such, no allowance for uncollectible customer accounts is considered necessary.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Bond agreements and other external parties require such segregations. Current liabilities payable from these restricted assets are so classified.

1. Operation and Maintenance Fund: A monthly amount equal to the estimated current expenses for such month and for the following two months.
2. Special Redemption Fund – Principal and Interest: A monthly amount equal to one-sixth (1/6) of the next installment of interest coming due and an amount equal to one-twelfth (1/12) of the installment of principal of the bonds coming due on the next succeeding principal payment date.
3. Special Redemption Fund – Reserve: A monthly amount equal to the total Reserve Account requirements divided by twelve until the amount accumulated in the Reserve Account totals the highest annual debt service on the outstanding bonds.
4. Depreciation Fund: An amount determined by the City Common Council to finance system repairs, replacements or the acquisition of capital equipment identified in the annual budget which are not financed by a revenue bond issue.
5. Surplus Fund: Any amount remaining after the above monthly transfers have been completed.

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
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NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (continued)

Restricted Assets (continued)

The authorizing resolution did not however specify amounts to be allocated to the following funds:

- Depreciation Fund
- Surplus Fund

As a result, at December 31, 2013 the utility has not allocated any amounts to these funds. In lieu of establishing a specific Depreciation Fund, the utility has established an “equipment replacement reserve” which management believes satisfies the bond resolution covenant. The equipment replacement reserve was established to comply with Wisconsin Department of Natural Resources requirements and is to be used for the replacement of significant mechanical equipment.

Restricted net position principally represent the Reserve Capacity Assessment Fund, Equipment Replacement Fund and Special Redemption Fund restricted assets less related current liabilities payable from restricted assets and funds financed by borrowings.

Restricted Construction Funds, if any, represent proceeds from long-term debt, which will be utilized to finance certain construction projects. Unrestricted Construction Funds represent working capital designated by management for construction purposes. There are no restricted construction funds at December 31, 2013.

Deferred Contractual Charge / Credit

Deferred contractual charges/credits represent amounts billed/credited by the Milwaukee Metropolitan Sewerage District related to capital costs that are recognized as expense and are payable in the subsequent year.

Special Assessments Receivable

This account represents the balances of special assessments levied against property owners for infrastructure improvements. The balances are receivable over various time periods with interest accrued annually.

Anticipated Future Special Assessments

At December 31, 2013, there was \$525,240 of anticipated future assessments which are not reported as receivables because collection is subject to certain events occurring in the future and no formal repayment schedule has been established.

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
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NOTES TO FINANCIAL STATEMENTS
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NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (continued)

Capital Assets

Capital assets are defined by the utility as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets of the utility are recorded at cost or the fair market value at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. \$0 of net interest was capitalized during the current year and the prior year. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings and improvements	20 - 50
Improvements other than buildings - utility collection system	40 - 125
Machinery and equipment	4 - 25

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Compensated Absences

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. Vested vacation and sick leave pay is accrued when earned in the financial statements. The liability is liquidated from general operating revenues of the utility.

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to the future period and will not be recognized as an outflow of resources expense until that future time.

Loss on refunding is a deferred charge resulting from the refunding of debt as is amortized over the shorter of the term of the refunding issue or the original term of the refunded debt.

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
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NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (continued)

Long-Term Obligations

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Gains or losses on refundings 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 premiums and discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for the loss on refunding is shown as a deferred outflow in the statement of net position.

Unearned Revenues

Unearned revenues principally represent deferred special assessments which will be reported as contributed capital when and if the property owner connects to the system and the assessment becomes due, and prepayments of RCA assessments.

Equity Classifications

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 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 their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that do not meet the definitions of "restricted" or "net investment in capital assets".

REVENUES AND EXPENSES

The utility distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utility's principle ongoing operations. The principle operating revenues of the utility are charges to customers for services. Operating expenses for enterprise 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.

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUES AND EXPENSES (continued)

Charges for Services

Billings are rendered and recorded quarterly based on metered usage. The utility does not accrue revenues beyond billing dates.

Effective January 1, 2012, the sewer rate for a single-family residence was \$167.66 per quarter or \$670.64 per year. All industrial and commercial users were billed on actual metered use at \$6.81 per 1,000 gallons plus a connection charge of \$69.10 per quarter.

Effective January 1, 2013, the sewer rate for a single-family residence was \$167.66 per quarter or \$670.64 per year. All industrial and commercial users were billed on actual metered use at \$6.81 per 1,000 gallons plus a connection charge of \$69.10 per quarter.

Capital Contributions

Cash and capital assets are contributed to the utility from customers, the municipality or external parties. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses and changes in net position.

The sewer utility charges new customers a connection fee to connect to the system. Fees collected are recorded as capital contributions on the statements of revenues, expenses and changes in net position.

Effect of New Accounting Standards on Current Period Financial Statement

The Governmental Accounting Standards Board (GASB) has approved the following:

- Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*
- Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*
- Statement No. 69, *Government Combinations and Disposals of Government Operations*
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

When they become effective, application of these standards may restate portions of these financial statements.

Comparative Data

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

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
CITY OF MUSKEGO
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE II – CASH, CASH EQUIVALENTS AND TEMPORARY INVESTMENTS

The utility's carrying values of cash and cash equivalents and temporary investments as of December 31, 2013 and 2012 consisted of the following:

	2013	2012	Associated Risks
Cash and cash equivalents			
Demand deposits	\$ 652,053	\$ 642,501	Custodial Credit Risk
Commingled cash and investments with the City	14,343,532	13,953,016	Not Applicable
LGIP/WISC	820,006	819,195	Credit Risk
Total Cash and Cash Equivalents	15,815,591	15,414,711	
Temporary Investments			
Certificate of deposit	735,386	729,320	Custodial Credit Risk
Total Cash, Cash Equivalents, and Temporary Investments	\$ 16,550,977	\$ 16,144,031	
Reconciliation to financial statements			
Unrestricted cash and investments			
Operation and maintenance	\$ 9,082,318	\$ 9,032,981	
Temporary investments	735,386	729,320	
Restricted cash and investments			
Debt service - current	211,489	203,123	
Debt service - non-current	380,950	380,950	
RCA cash and investments	5,324,033	5,007,806	
Equipment replacement fund	816,801	789,851	
Total Cash and Investments	\$ 16,550,977	\$ 16,144,031	

The bank balances were substantially equal to the carrying values shown above.

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 demand deposits (interest-bearing and noninterest-bearing). 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 combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000. However, due to the nature of the fund, recovery of material principle losses may not be significant to individual municipalities.

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
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NOTES TO FINANCIAL STATEMENTS
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NOTE II – CASH, CASH EQUIVALENTS AND TEMPORARY INVESTMENTS (continued)

Custodial Credit Risk

The utility maintains certain deposits at the same institutions as the municipality. The custodial credit risk pertaining specifically to the utility's resources cannot be determined for those accounts. Please refer to the municipality's financial statements for information on this risk.

Deposits

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

Investments

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

Credit Risk

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

As of December 31, 2013 and 2012 the utility had investments in LGIP. LGIP is unrated.

See Note I Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position – Deposits and Investments for further details.

CITY OF MUSKEGO SEWER UTILITY

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NOTE III – RESTRICTED ASSETS

Restricted assets were comprised of the following restricted funds at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash, Cash Equivalents and Temporary Investments		
Debt Service Fund - Special Redemption Funds		
Reserve	\$ 380,950	\$ 380,950
Redemption	<u>211,489</u>	<u>203,123</u>
Total	592,439	584,073
Reserve Capacity Assessment (RCA) Funds	5,324,033	5,007,806
Equipment Replacement Funds	<u>816,801</u>	<u>789,851</u>
 Total Cash, Cash Equivalents and Temporary Investments	 6,733,273	 6,381,730
 RCA assessments receivable	 <u>263,235</u>	 <u>291,868</u>
 Total Restricted Assets	 <u>\$ 6,996,508</u>	 <u>\$ 6,673,598</u>

Below are descriptions for restricted assets:

Debt Service Fund - Long Term Debt

- 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.

Reserve Capacity Assessments Funds

The utility has established funds to account for capacity assessment levies that are restricted to finance certain system capital costs or related debt service costs.

Equipment Replacement Funds

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.

CITY OF MUSKEGO SEWER UTILITY

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NOTE IV – ACCOUNTS RECEIVABLE

Receivables for the utility as of the year ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Accounts receivable - net		
Customer	\$ 2,081,618	\$ 1,989,718
Other governments	-	76,764
Special assessments	19,373	20,318
Accrued interest	240	238
Other	<u>711</u>	<u>1,357</u>
 Total	 <u>\$ 2,101,942</u>	 <u>\$ 2,088,395</u>

All receivables net of allowances are expected to be collected within one year.

NOTE V – DEFINED BENEFIT PENSION PLAN

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 at least 600 hours a year (440 hours for teachers and school district educational support employees) 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 1,200 hours a year (880 hours for teachers and school district educational support employees), and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. Note: Employees hired to work nine or ten months per year, (e.g. teachers contracts), but expected to return year after year are considered to have met the one-year requirement.

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 employees in the General Employment category, 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.

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE V – DEFINED BENEFIT PENSION PLAN (continued)

Contribution rates for 2013, 2012, and 2011 were:

	<u>Employee</u>	<u>Employer</u>
2013 General Category	6.65%	6.65%
2012 General Category	5.90%	5.90%
2011 General Category	7.05%	7.05%

The payroll for City of Muskego Sewer Utility employees covered by the WRS for the year ended December 31, 2013, 2012, and 2011 was \$547,186, \$525,623, and \$523,557 respectively. The total required contribution for the year ended December 31, 2013 was \$72,775, which consisted of 6.65% of payroll from the employer and 6.65% of payroll from employees. Total contributions for the years ending December 31, 2012 and 2011 were \$62,023 and \$60,733, respectively, equal to the required contributions for each year.

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 earnings 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.

Details of the plan are also disclosed in the basic financial statements of the City of Muskego.

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
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NOTE VI – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2013 is as follows:

	Balance 01/01/13	Additions	Retirements	Balance 12/31/13
Capital assets, not being depreciated				
Land and land rights	\$ 130,918	\$ -	\$ -	\$ 130,918
Construction in progress	325,359	71,290	326,993	69,656
Total Capital Assets not being Depreciated	\$ 456,277	\$ 71,290	\$ 326,993	\$ 200,574
Capital assets being depreciated				
Buildings and improvements	\$ 12,941,407	\$ -	\$ -	\$ 12,941,407
Improvements other than buildings	46,639,553	611,779	-	47,251,332
Machinery and equipment	1,585,489	10,349	-	1,595,838
Total Capital Assets Being Depreciated	61,166,449	622,128	-	61,788,577
Less: Accumulated depreciation				
Buildings and improvements	(7,400,719)	(550,086)	-	(7,950,805)
Improvements other than buildings	(9,833,061)	(468,162)	-	(10,301,223)
Machinery and equipment	(1,419,164)	(98,520)	-	(1,517,684)
Total accumulated depreciation	(18,652,944)	(1,116,768)	-	(19,769,712)
Net Capital Assets				
Being Depreciated	42,513,505	(494,640)	-	42,018,865
Total Capital Assets, Net of Depreciation	\$ 42,969,782	\$ (423,350)	\$ 326,993	\$ 42,219,439

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
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NOTE VI – CHANGES IN CAPITAL ASSETS (continued)

A summary of changes in capital assets for 2012 is as follows:

	Balance 1/01/12	Additions	Retirements	Balance 12/31/12
Capital assets, not being depreciated				
Land and land rights	\$ 130,918	\$ -	\$ -	\$ 130,918
Construction in progress	<u>789,349</u>	<u>250,779</u>	<u>714,769</u>	<u>325,359</u>
Total Capital Assets not being Depreciated	<u>\$ 920,267</u>	<u>\$ 250,779</u>	<u>\$ 714,769</u>	<u>\$ 456,277</u>
Capital assets being depreciated				
Buildings and improvements	\$ 12,217,958	\$ 723,449	\$ -	\$ 12,941,407
Improvements other than buildings	46,628,283	11,270	-	46,639,553
Machinery and equipment	<u>1,585,489</u>	<u>-</u>	<u>-</u>	<u>1,585,489</u>
Total Capital Assets Being Depreciated	<u>60,431,730</u>	<u>734,719</u>	<u>-</u>	<u>61,166,449</u>
Less: Accumulated depreciation				
Buildings and improvements	(6,868,719)	(532,000)	-	(7,400,719)
Improvements other than buildings	(9,368,007)	(465,054)	-	(9,833,061)
Machinery and equipment	<u>(1,321,161)</u>	<u>(98,003)</u>	<u>-</u>	<u>(1,419,164)</u>
Total accumulated depreciation	<u>(17,557,887)</u>	<u>(1,095,057)</u>	<u>-</u>	<u>(18,652,944)</u>
Net Capital Assets				
Being Depreciated	<u>42,873,843</u>	<u>(360,338)</u>	<u>-</u>	<u>42,513,505</u>
Total Capital Assets, Net of Depreciation	<u>\$ 43,794,110</u>	<u>\$ (109,559)</u>	<u>\$ 714,769</u>	<u>\$ 42,969,782</u>

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
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 NOTES TO FINANCIAL STATEMENTS
 As of and for the Years Ended December 31, 2013 and 2012

NOTE VII – LONG-TERM DEBT

Long-term obligation activity for the year ended December 31, 2013 is as follows:

	<u>Balance</u> <u>1/01/13</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/13</u>	<u>Current</u> <u>Portion</u>
Sewer System Revenue Bonds	\$ 2,580,000	\$ -	\$ 280,000	\$ 2,300,000	\$ 295,000

Long-term obligation activity for the year ended December 31, 2012 is as follows:

	<u>Balance</u> <u>1/01/12</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/12</u>	<u>Current</u> <u>Portion</u>
Sewer System Revenue Bonds	\$ 2,850,000	\$ -	\$ 270,000	\$ 2,580,000	\$ 280,000

Revenue Bonds

The following bonds have been issued as of December 31, 2013:

<u>Type</u>	<u>Date of</u> <u>Issue</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u> <u>Payable</u>	<u>Interest</u> <u>Payable</u>	<u>Original</u> <u>Amount</u>
Sewer System Revenue Bonds	3/1/2005	3.5 - 4.0%	5/1/06-20	5/1 & 11/1	\$ 4,225,000

Revenue bonds debt service requirements to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u> <u>Outstanding</u> <u>12/31</u>
2013				\$ 2,300,000
2014	\$ 295,000	\$ 83,625	\$ 378,625	2,005,000
2015	305,000	72,673	377,673	1,700,000
2016	320,000	60,950	380,950	1,380,000
2017	330,000	48,435	378,435	1,050,000
2018	345,000	35,100	380,100	705,000
2019 - 2020	<u>705,000</u>	<u>28,300</u>	<u>733,300</u>	-
Totals	<u>\$ 2,300,000</u>	<u>\$ 329,083</u>	<u>\$ 2,629,083</u>	

CITY OF MUSKEGO SEWER UTILITY

A Proprietary-Enterprise Fund of the
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NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE VII – LONG-TERM DEBT (continued)

The Sewer System Revenue Bonds are not general obligations of the City of Muskego and are payable from the income and revenues derived from the operation of the system. The utility has established separate funds, as described in Note 1, to account for the allocation of the Utility's gross revenues in compliance with the debt covenants. The sewer system and the earnings of the system remain subject to the lien until the principle and interest on the bonds are paid in full.

The principal and interest paid during the year on the Sewer System Revenue Bonds was \$373,835 in 2013 and \$373,460 in 2012. Total net revenue as defined by the bond covenants for the same periods was \$1,044,546 and \$1,097,220, respectively. Annual principal and interest payments are expected to require 40% of the net revenues.

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 deferred outflow of resources in the proprietary fund statements. Amortization for 2013 and 2012 was \$45,333 and \$45,333, respectively.

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE VIII – NET POSITION

Net position reported on the statement of net position at December 31, 2013 and 2012 include the following:

	<u>2013</u>	<u>2012</u>
Net investment in capital assets		
Land	\$ 130,918	\$ 130,918
Construction in progress	69,656	325,359
Other capital assets net of accumulated depreciation	42,018,865	42,513,505
Less: related long-term debt outstanding	(2,247,112)	(2,481,780)
Plus: non-capital debt proceeds	<u>380,950</u>	<u>380,951</u>
Total net investment in capital assets	<u>40,353,277</u>	<u>40,868,953</u>
Restricted Net Position		
Debt service	196,667	186,667
Equipment replacement funds	816,801	789,851
RCA	<u>5,587,268</u>	<u>5,299,674</u>
Total Restricted Net Position	<u>6,600,736</u>	<u>6,276,192</u>
Unrestricted Net Position	<u>10,824,278</u>	<u>10,842,900</u>
Total Utility Net Position	<u>\$ 57,778,291</u>	<u>\$ 57,988,045</u>

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

NOTE IX – RESTATEMENT OF NET POSITION

Net position has been restated as a result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which requires debt issuance costs to be expensed in the period incurred. The costs were previously required to be capitalized. The details of this restatement are as follows:

Net Position - December 31, 2011 (as reported)	\$ 58,181,633
Less: Unamortized debt issuance costs	<u>(48,533)</u>
Net Position - December 31, 2011 (as restated)	<u>\$ 58,133,100</u>

Net income of the prior year would have been increased by \$5,943.

CITY OF MUSKEGO SEWER UTILITY

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NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE X – RISK MANAGEMENT

The utility 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 employees and environmental damage. These risks are covered through the purchases commercial insurance, with minimal deductions. There has been no reduction in insurance coverage from coverage in the prior year. Settled claims have not exceeded the insurance coverage in any of the past three years.

NOTE XI – COMMITMENTS AND CONTINGENCIES

From time to time the utility 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 utility's financial position.

SUPPLEMENTARY INFORMATION

CITY OF MUSKEGO SEWER UTILITYa Proprietary-Enterprise Fund of the
CITY OF MUSKEGO**OPERATION AND MAINTENANCE EXPENSES**
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATION AND MAINTENANCE		
Milwaukee Metropolitan Sewerage District:		
Capital charge	\$ 3,035,772	\$ 2,707,803
User charge	1,048,110	1,033,852
Facility Plan	683	1,633
Town of Norway charges	174,097	203,999
Belle Chasse Oversizing	32,410	-
Private Property I&I MMSD Program	4,979	38,412
Supervision and labor	449,678	435,283
Supplies and expense	19,693	18,302
Maintenance:		
Building and structures	23,992	20,121
Sewage collection systems	178,484	206,386
Utilities	145,163	116,172
Transportation expenses	20,068	18,460
	<u>5,133,129</u>	<u>4,800,423</u>
CUSTOMER ACCOUNT EXPENSES		
Accounting and collection	58,795	56,724
Meter expense	28,566	28,746
General expenses:		
Office salaries	63,795	61,724
Employees' pensions and benefits	232,333	212,089
Office supplies and expenses	58,955	66,204
Outside services	42,093	49,528
	<u>484,537</u>	<u>475,015</u>
TOTAL OPERATION AND MAINTENANCE EXPENSES	<u>\$ 5,617,666</u>	<u>\$ 5,275,438</u>

CITY OF MUSKEGO SEWER UTILITY
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UTILITY PLANT IN SERVICE
For the Year Ended December 31, 2013

	Utility Plant in Service				Depreciation Rate	Accumulated Depreciation			
	Balance 12/31/2012	Additions	Retirements	Balance 12/31/2013		Balance 12/31/2012	Provisions	Retirements	Balance 12/31/2013
Land	\$ 130,918	\$ -	\$ -	\$ 130,918	-%	\$ -	\$ -	\$ -	\$ -
Buildings and Structures	3,232,803	-	-	3,232,803	2.00%	658,256	64,656	-	722,912
Collecting sewers	41,227,073	542,825	-	41,769,898	0.80%	7,033,450	331,988	-	7,365,438
Sewer laterals	5,412,481	68,954	-	5,481,435	2.50%	2,799,611	136,174	-	2,935,785
Transportation equipment	792,289	10,349	-	802,638	10.00%	690,377	79,746	-	770,123
Other plant equipment	88,268	-	-	88,268	4.00%	69,352	3,531	-	72,883
Lift pump station and equipment	9,708,604	-	-	9,708,604	5.00%	6,742,464	485,430	-	7,227,894
SCADA computer equipment	418,067	-	-	418,067	20.00%	418,067	-	-	418,067
Computer equipment	33,304	-	-	33,304	20.00%	33,304	-	-	33,304
Operating equipment	140,588	-	-	140,588	20.00%	95,689	15,038	-	110,727
Office equipment	5,896	-	-	5,896	10.00%	5,896	-	-	5,896
Meter equipment	5,130	-	-	5,130	4.00%	4,532	205	-	4,737
G/S Mapping	101,946	-	-	101,946	25.00%	101,946	-	-	101,946
	61,297,367	622,128	-	61,919,495		\$ 18,652,944	\$ 1,116,768	\$ -	\$ 19,769,712
CONSTRUCTION IN PROGRESS	<u>325,359</u>	<u>71,290</u>	<u>326,993</u>	<u>69,656</u>					
TOTAL UTILITY PLANT	<u>\$ 61,622,725</u>	<u>\$ 693,418</u>	<u>\$ 326,993</u>	<u>\$ 61,989,151</u>					

CITY OF MUSKEGO SEWER UTILITY
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SUMMARY OF LONG-TERM INDEBTEDNESS
As of December 31, 2013

	<u>Date of issue</u>	<u>Interest rate</u>	<u>Principal payable</u>	<u>Interest payable</u>	<u>Original amount of issue</u>	<u>Balance outstanding Dec. 31, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance outstanding Dec. 31, 2013</u>	<u>Interest expense</u>	<u>Principal due 2014</u>
Sewer System Revenue Bonds	3/1/2005	3.50-4.00	5/1/06-20	5/1 & 11/1	4,225,000	\$ 2,580,000	\$ -	\$ 280,000	\$ 2,300,000	\$ 93,835	\$ 295,000

ANNUAL PRINCIPAL AND INTEREST PAYMENTS
TO MATURITY ON LONG-TERM INDEBTEDNESS
As of December 31, 2013

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance outstanding December 31</u>
2014	295,000	83,625	378,625	2,005,000
2015	305,000	72,673	377,673	1,700,000
2016	320,000	60,950	380,950	1,380,000
2017	330,000	48,435	378,435	1,050,000
2018	345,000	35,100	380,100	705,000
2019-2020	<u>705,000</u>	<u>28,300</u>	<u>733,300</u>	-
Total	<u>\$ 2,300,000</u>	<u>\$ 329,083</u>	<u>\$ 2,629,083</u>	

MUSKEGO SEWER UTILITY

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SCHEDULE OF CONSTRUCTION FUNDS

As of and for the Years Ended December 31, 2012 and 2013

<u>Project</u>	<u>Balance</u> <u>12/31/2011</u>	<u>Additions</u>	<u>2012</u> <u>Costs</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/2012</u>	<u>Additions</u>	<u>2013</u> <u>Costs</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/2013</u>
Projects									
Future Projects	\$ 5,171	\$ -	\$ -	\$ (5,171)	\$ -	\$ -	\$ -	\$ -	\$ -
Ryan Rd Interseptor	-	-	234,341	234,341	-	-	22,631	22,631	-
McShane L/S Upgrade	-	-	10,833	10,833	-	-	10,349	10,349	-
Janesville Road Reconstruction	-	-	14,286	14,286	-	-	48,659	48,659	-
Transfer from working capital	-	254,289	-	(254,289)	-	81,639	-	(81,639)	-
TOTAL	<u>\$ 5,171</u>	<u>\$ 254,289</u>	<u>\$ 259,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,639</u>	<u>\$ 81,639</u>	<u>\$ -</u>	<u>\$ -</u>

MUSKEGO SEWER UTILITY
a Proprietary-Enterprise Fund of the
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STATISTICAL INFORMATION
As of December 31, 2013 and 2012

UTILITY CONNECTIONS AT DECEMBER 31,

Type of Customer	<u>Number of Connections</u>	
	<u>2013</u>	<u>2012</u>
Residential	6,813	6,768
Commercial	274	272
Industrial	63	63
Public Authority	<u>36</u>	<u>35</u>
TOTAL	<u><u>7,186</u></u>	<u><u>7,138</u></u>

MUSKEGO SEWER UTILITY

a Proprietary-Enterprise Fund of the
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SCHEDULE OF INSURANCE IN FORCE

As of December 31, 2013

<u>Coverage</u>	<u>Insurer</u>		<u>Type of coverage</u>	<u>Amount</u>	
1/1/13-1/1/14	R & R Insurance Services, Inc.	Workers Comp. Employee Liab.	Bodily injury by disease Bodily injury by accident Bodily injury by disease	\$ 500,000 100,000 100,000	Limit Each Each
1/1/13-1/1/14	R & R Insurance Services, Inc.	Commercial General Liab.	General aggregate limit Medical expense limit Damages to rented premises, each Completed operation limit Personal and advertising injury limit Each occurrence limit	6,000,000 10,000 250,000 6,000,000 6,000,000 6,000,000	
1/1/13-1/1/14	R & R Insurance Services, Inc.	Police Prof. Liability	Police professional aggregate limit Each wrongful act limit Medical expense limit	6,000,000 6,000,000 10,000	
1/1/13-1/1/14	R & R Insurance Services, Inc.	Business Auto	Combined liability Uninsured motorist Auto medical Comprehensive/Collision	6,000,000 100,000 1,000 Actual Value	Each
1/1/13-1/1/14	R & R Insurance Services, Inc.	Crime Policy	Employee dishonesty Theft, disappearance	1,000,000 25,000	
1/1/13-1/1/14	State of Wisconsin	Property Ins.	Building, personal property Contractors equipment	49,727,424 2,529,484	
1/1/13-1/1/14	R & R Insurance Services, Inc.	Public Official Employee Liab. Ins.	Aggregate liability	600,000	
1/1/13-1/1/14	R & R Insurance Services, Inc.	Ind. Employee Bonds	Clerk-Treasurer Judge Court Clerk	100,000 100,000 100,000	Bond Bond Bond

This schedule is prepared from insurance policies, and is intended only as a descriptive summary; no expression of opinion as to the adequacy of coverage is intended. The coverages indicated above are those of the City of Muskego, of which the Sewer Utility is a Proprietary-Enterprise Fund of the City.