

CITY OF MEQUON

Mequon, Wisconsin

FINANCIAL STATEMENTS

December 31, 2006

CITY OF MEQUON

TABLE OF CONTENTS December 31, 2006

	<u>Page(s)</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-14
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	15
Statement of Activities	16 - 17
Fund Financial Statements	
Balance Sheet - Governmental Funds	18 - 19
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	21 - 22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Statement of Net Assets - Proprietary Fund	24 - 25
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	26
Statement of Cash Flows - Proprietary Fund	27 - 28
Statement of Net Assets - Fiduciary Fund	29
Index to Notes to Financial Statements	30
Notes to Financial Statements	31 - 57
Required Supplementary Information	
General Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	58
Notes to Required Supplementary Information	59
Supplementary Information	
Combining Balance Sheet - Nonmajor Governmental Funds	60
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	61

INDEPENDENT AUDITORS' REPORT

This page intentionally blank.



INDEPENDENT AUDITORS' REPORT

To the City Council
City of Mequon
Mequon, Wisconsin

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 Mequon, Wisconsin, as of and for the year ended December 31, 2006, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements referred to above include only the primary government of the City of Mequon, Wisconsin, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported as a discretely presented component unit with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Mequon, Wisconsin, as of December 31, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of the City of Mequon, Wisconsin, as of December 31, 2006, or the changes in financial position thereof for the year then ended.

To the City Council
City of Mequon

Further, 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 for the primary government of the City of Mequon, Wisconsin, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 58 through 59 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mequon's basic financial statements. The combining statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Virehow, Krause & Company, LLP

Milwaukee, Wisconsin
March 26, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF MEQUON, WISCONSIN
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis of the City of Mequon's financial performance is intended to provide an overview of the City's financial activities for the fiscal year ended December 31, 2006. Please consider it in conjunction with the City's financial statements, which begin on page 15, following this narrative.

FINANCIAL HIGHLIGHTS

- ✓ With total assets of \$110.3 million and total liabilities of \$67.7 million, the total net assets of the City of Mequon stood at approximately \$42.6 million at the close of the 2006 fiscal year, an increase of 11% over the previous year.
- ✓ The City of Mequon's total net assets increased by a net amount of \$4,276,041 with a \$2,093,235 increase in the investment in capital assets, net of related debt.
- ✓ As of December 31, 2006, the City of Mequon's governmental funds reported combined ending fund balances of \$8,202,053, an increase of \$27,185 compared to the prior year. \$6,719,749 or 81.9 percent of this total is available for spending at the government's discretion (unreserved fund balance).
- ✓ At the close of the fiscal year the City of Mequon's unreserved, undesignated general fund balance totaled approximately \$2.1 million; an increase of \$370,250 from the previous fiscal year.
- ✓ The City of Mequon's total general obligation debt decreased \$2,892,907 (6.1%) during 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Mequon's basic financial statements are comprised of three components: 1) government-wide 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's finances in a manner similar to private-sector business entities.

The *Statement of Net Assets* presents information on all of the City of Mequon's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation).

The government-wide financial statements distinguish those functions of the municipality that are principally supported by taxes and intergovernmental revenues, known as *governmental*

activities, from other functions that are intended to recover all or a significant portion of their costs through user fees and service charges, called *business-type activities*. The governmental activities of the City of Mequon include general government, administration, public safety, public works and transportation, public facilities, planning and development, and parks and recreation.

The business-type activities of the City consist of a Sewer utility.

The government-wide financial statements can be found on pages 15 through 17 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 Mequon, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with various finance related legal requirements. All of the funds of the City of Mequon 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 statements, governmental fund financial statements focus on 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 municipality'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 Mequon maintains seven 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, and Capital Projects Fund, all of which are considered to be major funds or funds for which separate reporting has been determined to be helpful in fulfilling other legal reporting requirements. Data from the other governmental funds are combined into a single, aggregated presentation. Disaggregated fund data for these other governmental funds is provided in the form of combining statements in the supplementary information section.

Compliance with the City's annual operating budget for the year ended December 31, 2006 is reported in the *Statement of Revenues and Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) - General Fund* which is found on page 57.

The governmental fund financial statements can be found beginning on page 18 of this report.

Proprietary Funds. Proprietary funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City's proprietary fund financial statements present information for the Sewer Utility. The Sewer Utility is considered to be a major fund of the City of Mequon.

The proprietary fund financial statements can be found beginning on page 24 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 statements because the resources of those funds are not available to support the City of Mequon's own programs. The accounting for fiduciary funds is similar to that used for governmental funds. The City of Mequon uses fiduciary funds to account for taxes collected for the benefit of overlapping tax jurisdictions.

The fiduciary fund financial statements can be found beginning on page 29 of this report.

Notes to the Financial Statements. The notes to the financial statements provide additional detail 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 beginning on page 29 of this report.

Supplementary Information. Following the basic government-wide and fund financial statements and accompanying notes additional supplementary information has been provided as part of this report. The supplementary information includes combining statements for the non-major governmental funds. This supplementary information section of the report begins on page 60.

Government-wide Financial Analysis

The City of Mequon's statement of net assets is summarized in the table on the following page. The City's assets exceeded liabilities by nearly \$42.6 million at the close of 2006. The majority of total assets (56%) reflect the City's investment in capital assets including land, land improvements, buildings, machinery and equipment, infrastructure, and construction in progress. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Mequon, Wisconsin
Summary Statement of Net Assets
December 31, 2006 and 2005**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current & Other Assets	\$ 21,713,310	\$ 21,567,415	\$ 27,287,451	\$ 29,283,112	\$ 49,000,761	\$ 50,850,527
Capital Assets (net)	34,702,057	33,109,054	26,567,775	26,970,572	61,269,832	60,079,626
Total Assets	\$ 56,415,367	\$ 54,676,469	\$ 53,855,226	\$ 56,253,684	\$ 110,270,593	\$ 110,930,153
Current Liabilities	\$ 14,779,537	\$ 14,698,433	\$ 8,139,557	\$ 11,240,744	\$ 22,919,094	\$ 25,939,177
Non-Current Liabilities	9,619,102	10,379,900	35,181,426	36,336,146	44,800,528	46,716,046
Total Liabilities	\$ 24,398,639	\$ 25,078,333	\$ 43,320,983	\$ 47,576,890	\$ 67,719,622	\$ 72,655,223
Net Assets						
Invested in Capital Assets, net of related debt	\$ 25,692,983	\$ 23,336,951	\$ 26,417,775	\$ 26,680,572	\$ 52,110,758	\$ 50,017,523
Restricted	939,229	783,620	199,449	300,294	1,138,678	1,083,914
Unrestricted (deficit)	5,384,516	5,477,565	(16,082,981)	(18,304,072)	(10,698,465)	(12,826,507)
Total Net Assets	\$ 32,016,728	\$ 29,598,136	\$ 10,534,243	\$ 8,676,794	\$ 42,550,971	\$ 38,274,930
Total Net Assets as a % of Total Liabilities	131.2%	118.0%	24.3%	18.2%	62.8%	52.7%
Unrestricted Net Assets as a % of Total Liabilities	22.1%	21.8%	-37.1%	-38.5%	-15.8%	-17.7%

A relatively small portion of the City's net assets (3%) represents resources that are subject to other restrictions as to how they may be used. The remainder of total net assets may be used to meet the City's on-going obligations to its citizens and creditors.

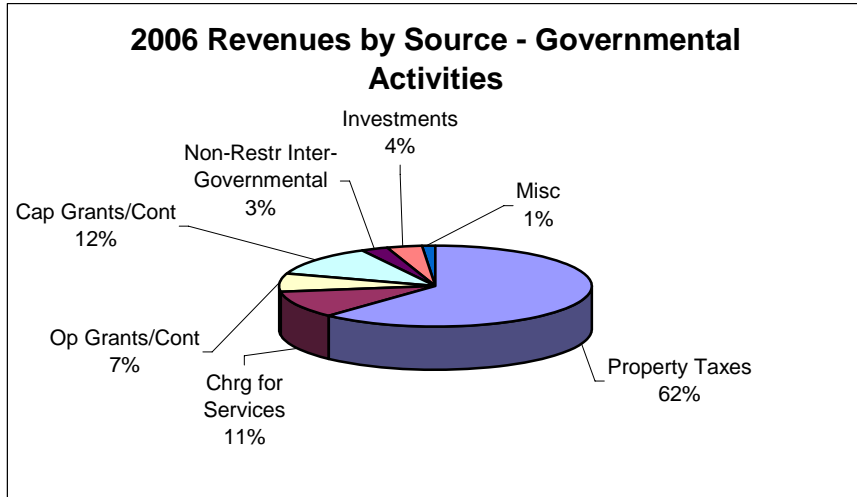
At the end of 2006, the City is able to report positive balances in all of the three categories of net assets for the governmental activities and for two of three categories for the government as a whole, and business-type activities.

The deficit in the Business-Type Activities group is related to a settlement with the Metropolitan Milwaukee Sewerage District (MMSD) made in 1997. There had been a long-running dispute with MMSD and suburban users of the treatment system. MMSD wanted suburban users to pay sewerage capital charges based upon valuation, while the communities continued to make capital payments based on usage. It was determined via the courts that valuation was the proper method of contribution, which resulted in Mequon having an additional balance due to MMSD in excess of \$20 million. Since there is no related asset associated with the debt the City incurred to cover the additional amount owed to MMSD, the result is a deficit. It is anticipated this debt will be retired by 2017.

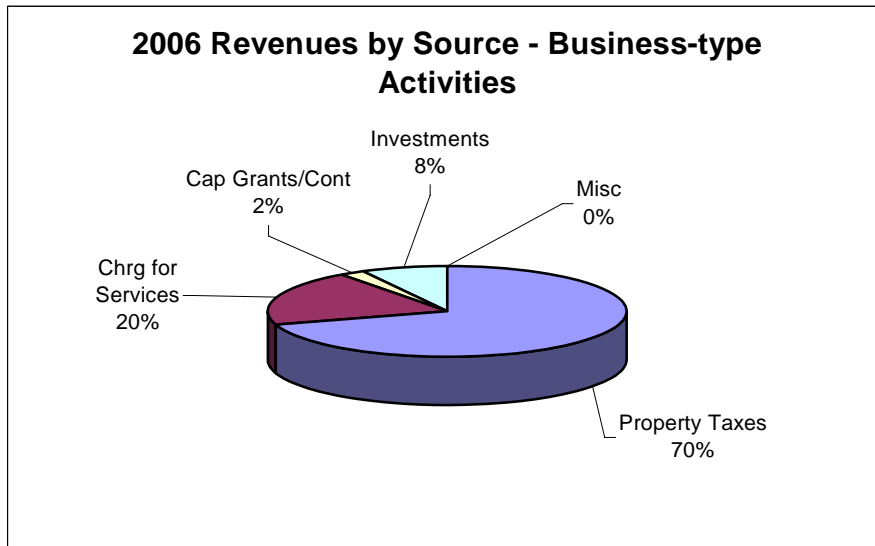
As comparable data is accumulated and reported by governmental units over time, a sense of what level of net assets is typical or appropriate will begin to develop. Total net assets exceeded total liabilities at the end of 2006 for the governmental activities. Unrestricted net assets stood at 22.1% of total liabilities for governmental activities.

An examination of the statement of activities can provide a concise picture of how the various activities of the City are funded. The following pie charts draw data from the statement of activities. For governmental services, the City is highly dependent upon the property tax for

funding, deriving 62% of its revenue from this single source. State aids not restricted to specific programs comprise only 3% of the City's revenues while other grants comprise 19%. Charges for services continue to grow in relative importance, accounting for 11% of governmental revenues.



In the case of business-type activities, the property tax is still the largest component of revenue, making up 70% of all revenues received. However, 100% of these tax revenues relate directly to the MMSD annual capital charge, and repayment of the debt associated with the 1997 MMSD settlement. Funding of the utility's annual operation and maintenance costs is covered primarily by user fees, accounting for 20% of total revenues. The balance of revenue is made up of capital grants and contributions, and investment earnings.

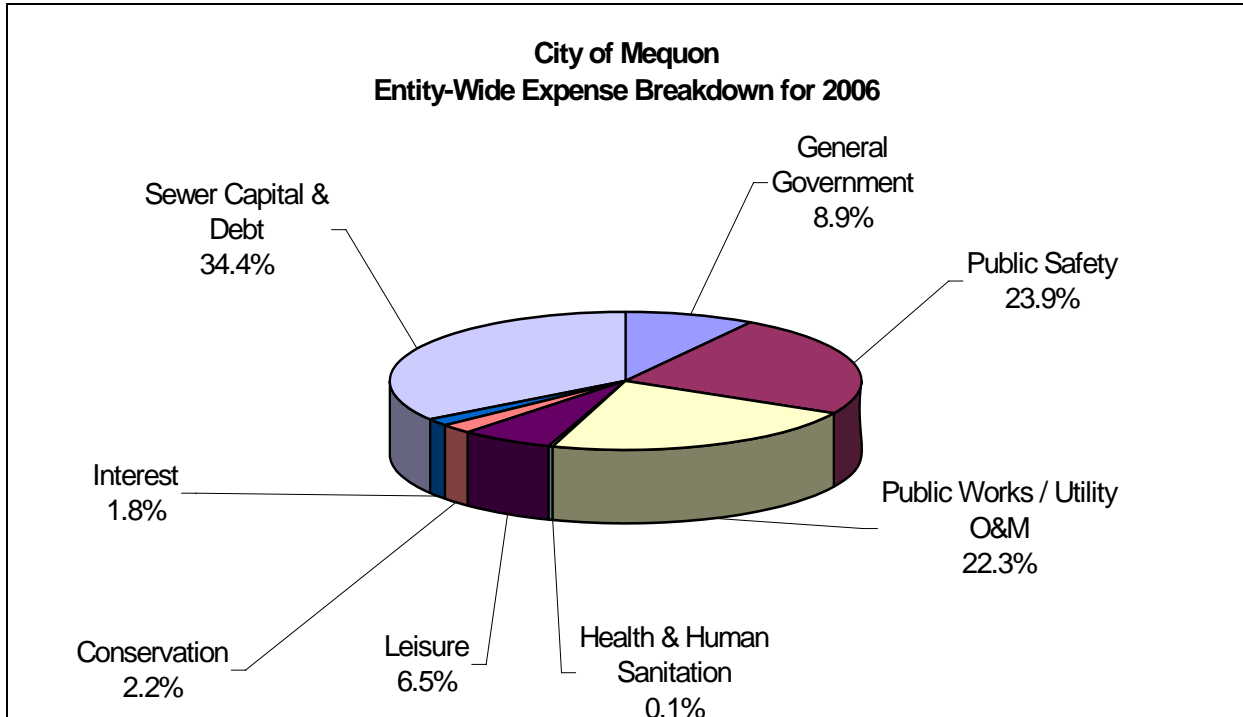


Governmental activities. Governmental activity expenses increased \$1,039,426 from a year ago. Increases were realized in Public Safety, \$181,197, Public Works, \$836,475, Community Enrichment \$52,087 and Conservation and Development, \$109,612. Savings were realized in the following programs: General Government, \$103,862 and Interest charges, \$14,260.

The table below illustrates the change in net assets for the City of Mequon for fiscal years ended December 31, 2006 and 2005:

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2004
Revenues						
Program Revenues						
Charges for services	\$ 2,150,602	\$ 2,080,366	\$ 2,167,798	\$ 2,162,963	\$ 4,318,400	\$ 4,243,329
Operating grants and contributions	1,475,873	1,248,609	-	-	1,475,873	1,248,609
Capital grants and contributions	2,437,878	1,791,295	253,060	712,291	2,690,938	2,503,586
General Revenues						
Property Taxes	12,100,990	11,841,776	7,720,789	6,325,088	19,821,779	18,166,864
Other Taxes	174,743	128,584	-	-	174,743	128,584
Intergovernmental revenues not restricted to specific programs	498,368	499,970	-	-	498,368	499,970
Investment Income	734,174	328,386	842,084	442,473	1,576,258	770,859
Other	285,467	280,795	5,042	13,042	290,509	293,837
Transfers	-	-	-	-	-	-
Total Revenues	\$ 19,858,095	\$ 18,199,781	\$ 10,988,773	\$ 9,655,857	\$ 30,846,868	\$ 27,855,638
Expenses						
General government	2,371,545	2,475,407	-	-	\$ 2,371,545	\$ 2,475,407
Public Safety	6,344,911	6,163,714	-	-	6,344,911	6,163,714
Public Works	5,934,382	5,097,907	-	-	5,934,382	5,097,907
Health and Human Sanitation	27,040	28,863	-	-	27,040	-
Community enrichment services	1,715,473	1,663,386	-	-	1,715,473	1,663,386
Conservation and development	578,174	488,562	-	-	578,174	488,562
Interest and fiscal charges	467,978	482,238	-	-	467,978	482,238
Sewer	-	-	9,131,324	8,745,619	9,131,324	8,745,619
Total expenses	\$ 17,439,503	\$ 16,400,077	\$ 9,131,324	\$ 8,745,619	\$ 26,570,827	\$ 25,116,833
Increase in net assets	\$ 2,418,592	\$ 1,799,704	\$ 1,857,449	\$ 910,238	\$ 4,276,041	\$ 2,709,942
Net Assets - beginning of year	29,598,136	27,798,432	8,676,794	7,766,556	38,274,930	35,564,988
Net Assets - end of year	\$ 32,016,728	\$ 29,598,136	\$ 10,534,243	\$ 8,676,794	\$ 42,550,971	\$ 38,274,930

Presented below is a chart depicting the relative percentage of expenses for the City's major functions for 2006.



FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

Governmental Funds

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

As of December 31, 2006, the City of Mequon's governmental funds reported combined ending fund balances of approximately \$8.20 million, an increase of \$27 thousand from the previous year. Of this total, \$1.48 million is reserved for specific legal requirements and other commitments, leaving total unreserved governmental fund balances of \$6.72 million available for use at the discretion of the City's elected officials. As the result of past actions and policy decisions, \$4.66 million (69%) of these unreserved balances have been segregated or otherwise designated for specific uses (primarily capital projects), leaving an unreserved, undesignated fund balance of \$2.06 million in the general fund.

The *General fund* is the primary operating fund used to account for the governmental operations of the City, with the direct expenditures of this fund accounting for nearly 70% of the City's governmental fund expenditures as reported on the *Statement of revenues expenditures and changes in fund balances*. The total year-end 2006 unreserved General fund balance of \$2.06 million represented 15.1% of the \$13.6 million 2006 General Fund expenditures reported on the *Statement of Revenues Expenditures and Changes in fund balances* and 11.3% of total governmental fund expenditures for 2006.

Traditionally in Mequon, this year-end unreserved balance has been considered in proportion to the subsequent year's budgeted general fund expenditures, including debt service. This is used to measure the adequacy of the City's operating reserve, with a stated target ratio of 10%. The adopted 2007 General fund budget authorizes expenditures of \$15,792,867. Therefore, the 2006 year-end unreserved, undesignated General fund balance of \$2.06 million exceeds the target ratio.

The *Debt Service* fund had a total fund balance of \$390 thousand, all of which is reserved for the payment of debt service. This balance has accumulated over time through the transfers from other funds for the payment of future, scheduled long-term indebtedness.

The *Capital Projects* fund is a governmental fund used to account for long-term capital acquisitions, such as squad cars and contractor equipment, acquisition of land, and large-scale infrastructure projects, such as roadways. The fund balance in this fund is primarily derived from funds set aside for projects to be completed in a subsequent period. The \$3.5 million fund balance is designated entirely for such projects.

The aggregated *Nonmajor Governmental* Funds column includes various park, revolving loan, endowment and library special revenue funds used to account for the proceeds of specific revenue sources, or that are legally restricted to expenditures for specific purposes. The accumulated fund balances totaling \$2.1 million increased by \$185 thousand during 2006.

Proprietary Funds

The City's *proprietary funds* provide the same type of information found in the government-wide financial statements. The net assets of the *enterprise-type* proprietary funds at the end of 2006 totaled \$10.5 million, an increase of \$1.86 million from the previous year. Net operating income before contributions of \$1.60 million along with developer capital contributions of \$253 thousand accounted for the increase.

GENERAL FUND BUDGETARY HIGHLIGHTS

As shown in the Required Supplemental Information section, *Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual* for the General Fund, the original 2006 general fund budget authorized expenditures of approximately \$14.4 million, along with a transfer to a Special Revenue fund of \$.83 million. The general fund anticipated revenues of \$15.1 million, and a transfer from other governmental funds of \$132,000 of prior year surplus funds. During the year, no changes were made to the total original revenue budget by the Common Council. However, \$744,254 of the expenditure budget was transferred to the Capital Projects and Special Revenue Funds in order to fund project expenses.

The City ended the year with a favorable general fund budget variance in revenues coupled with a favorable expenditure variance. Revenues were more than \$425 thousand, or 2.8% above the final amended budget, while expenditures came in almost \$10 thousand or .08% under the amended budget. The net favorable variance of \$435 thousand represents 3% of the original general fund expenditure budget. This 2006 budgetary result reflects a series of positive occurrences during the year.

Favorable outcomes were realized in 2006 in most expenditure categories. General Government expenditures had a favorable variance of \$130 thousand primarily due to ending the year under budget for computer consulting combined with appropriately allocating liability insurance to the Sewer fund. Public Safety finished the year approximately \$5 thousand (.08%) over budget. Public Works finished 2006 \$125 thousand over budget, of which the majority can be traced to labor and road maintenance costs. A hiring freeze remained in place for 2006. Cost-saving measures continue to be a focus of the City, while preserving the high quality services that residents have come to expect.

On the revenue side, the local residential construction market fell below expectations. Consequently, regulation and compliance revenue ended the year \$66,000 below budget. Public charges for services also surpassed the amount budgeted by \$58 thousand. A rebound in interest rates helped improve interest income. For 2006, investment income was \$294 thousand over budget. An unexpected surge in agricultural use value penalties lifted miscellaneous income \$55 thousand above budget.

CAPITAL ASSETS AND LONG TERM DEBT

Capital Assets

In accordance with the implementation requirements of GASB #34, the City has recorded historical costs and depreciation expense associated with all of its capital assets, including infrastructure. As summarized in the table below, the City's reported investment in capital assets for governmental and business type activities as of December 31, 2006 totaled over \$108 million. Of this total cost, (35%), was related to governmental infrastructure, with the City's street network comprising the most significant component.

Total accumulated depreciation was calculated to be just over \$46.9 million, or approximately 43% of the historical cost of depreciable capital assets. Net of accumulated depreciation, the City's investment in capital assets exceeded \$61 million.

City of Mequon, Wisconsin
Capital Assets, Net of Accumulated Depreciation
December 31, 2006 and 2005

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 6,459,680	\$ 5,012,660	\$ -	\$ -	\$ 6,459,680	\$ 5,012,660
Buildings	14,482,909	14,361,864	-	-	14,482,909	14,361,864
Library Collection	3,537,313	3,564,929	-	-	3,537,313	3,564,929
Machinery and Equipment	6,031,804	5,023,801	3,472,706	3,472,706	9,504,510	8,496,507
Infrastructure	37,755,700	36,162,566	32,859,864	32,556,760	70,615,564	68,719,326
Structure and Improvements		-	3,550,731	3,545,731	3,550,731	3,545,731
Subtotal	68,267,406	64,125,820	39,883,301	39,575,197	108,150,707	103,701,017
Less:						
Accumulated Depreciation	(33,564,693)	(31,016,766)	(13,315,526)	(12,604,625)	(46,880,219)	(43,621,391)
	<u>\$ 34,702,713</u>	<u>\$ 33,109,054</u>	<u>\$ 26,567,775</u>	<u>\$ 26,970,572</u>	<u>\$ 61,270,488</u>	<u>\$ 60,079,626</u>

Some of the more significant additions to the City's capital assets during 2006 included:

Equipment & Vehicles	\$1,101,041
Buildings	121,045
Street network additions	1,593,134
Sewer collection system additions	253,058

Additional information related to the City of Mequon's capital assets is reported in Note III-D following the financial statements.

Long-Term Debt

On December 31, 2006, the City of Mequon had \$46,533,161 of long-term notes, bonds and other long-term obligations, as summarized in the following table:

City of Mequon, Wisconsin						
Long-Term Obligations Outstanding						
December 31, 2006 and 2005						
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2005	2005	2006	2005
General Obligation Bonds & Notes	\$ 8,993,182	\$ 9,721,089	\$ 35,640,000	\$ 37,805,000	\$ 44,633,182	\$ 47,526,089
Unfunded retirement liability	1,340,040	1,314,629	-	-	1,340,040	1,314,629
Capital leases	15,893	51,014	-	-	15,893	51,014
Compensated absences	544,046	605,126	-	-	544,046	605,126
	<u>\$ 10,893,161</u>	<u>\$ 11,691,858</u>	<u>\$ 35,640,000</u>	<u>\$ 37,805,000</u>	<u>\$ 46,533,161</u>	<u>\$ 49,496,858</u>

Under Wisconsin State Statutes, the outstanding long-term debt of a municipality may not exceed 5% of the equalized property value of all taxable property within the jurisdiction. Outstanding general obligation debt, less amounts to be paid from funds restricted for debt retirement, totaled \$27,058,182, 12.8% of the maximum legal limit of \$210,745,190. The City of Mequon had one material new debt issue during 2006; Library Refunding Bonds \$1,395,000.

CURRENTLY KNOWN FACTS

The 2007 budget adopted by the Mequon Common Council in November, 2006 increased total General and Debt Service Fund expenditures by 3.28%. Due to projected increases in other revenue, the tax levy increase was held to 2.08%. It is anticipated the City will maintain a fund balance of at least ten percent of the current year's general fund budget.

Five Year Expenditure History

Fiscal Year	Amount	Percent Increase
2007	\$ 16,915,324	3.28%
2006	\$ 16,378,106	2.54%
2005	\$ 15,972,789	4.97%
2004	\$ 15,216,940	-1.23%
2003	\$ 15,406,030	-3.59%

As presented in the table on the following page, Salaries and benefits were held to an increase of 2.77%. Health insurance costs were held to 4.55% increase by switching to a higher deductible plan. The Wisconsin Retirement System raised pension contribution rates for a third consecutive year with an increase of .2% for general employees and .2% for protective service employees. Land and building funding increased \$116,170 or 11.12% primarily as a result of increased funding towards the road program.

Change in Expenditure Budget by Function

Expenditures	2007 Adopted	2006 Adopted	Net Increase (Decrease)	Percent Change
Salaries/Fringes	\$10,647,810	\$10,360,807	\$287,003	2.77%
Materials/Supplies	1,758,405	1,712,569	45,836	2.68%
Purchased Services	2,715,407	2,658,091	57,316	2.16%
Land & Building	1,161,264	1,045,094	116,170	11.12%
Equipment	632,438	601,545	30,893	5.14%
Total	\$16,915,324	\$16,378,106	\$537,218	3.28%

In the 2007 budget, several guiding principles applied:

- The State of Wisconsin's biennial budget, known as Act 25, imposes a two-year property tax limit on all city levies in 2005 and 2006, i.e., FY 2006 and FY 2007. Act 25 allows municipal levies to increase by either two percent or the percentage change in the city's equalized value due to net new construction, whichever is greater.
- City of Mequon Resolution 2454 passed by the Common Council in September 2003 set forth a property tax levy cap for three years in which the levy is not allowed to increase except for growth due to new development and additional debt service.
- The property tax levy cap permitted an increase in FY2007 of 3.05 percent or \$331,731. The actual increase adopted was an increase of \$246,846 or 2.08 percent.

The FY2007 Budget focuses on organizational goals such as maintaining the city's infrastructure and facilities, preserving open space, progressing on a town center plan and addressing storm water needs.

REQUESTS FOR INFORMATION

This report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to provide accountability for the financial resources it receives. If you have questions about the information contained in this report or need additional financial information concerning the City of Mequon, please contact the Finance Department, 11333 N Cedarburg Road, Mequon, Wisconsin, 53092. Our staff can be reached by telephone at 262-242-3100. You are also invited to visit the City's web site at <http://www.ci.mequon.wi.us>.

This page intentionally blank.

BASIC FINANCIAL STATEMENTS

This page intentionally blank.

CITY OF MEQUON

STATEMENT OF NET ASSETS December 31, 2006

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Totals</u>
ASSETS			
Cash and investments	\$ 8,382,706	\$ 2,323,040	\$ 10,705,746
Receivables			
Taxes receivable	12,551,087	6,207,900	18,758,987
Delinquent personal property taxes	33,533	-	33,533
Accounts	-	542,111	542,111
Special assessments	71,266	51,247	122,513
Other	609,736	116,887	726,623
Accrued interest	64,982	23,017	87,999
Restricted assets			
Cash and investments	-	17,803,391	17,803,391
Accrued interest receivable	-	219,858	219,858
Capital assets (net of accumulated depreciation)			
Land	6,459,680	-	6,459,680
Construction in progress	-	50,046	50,046
Other capital assets, net of depreciation	<u>28,242,377</u>	<u>26,517,729</u>	<u>54,760,106</u>
Total Assets	<u>56,415,367</u>	<u>53,855,226</u>	<u>110,270,593</u>
LIABILITIES			
Accounts payable and accrued expenses	930,354	199,821	1,130,175
Accrued interest payable	80,212	572,569	652,781
Unearned revenue	12,494,911	6,267,167	18,762,078
Noncurrent liabilities			
Due within one year	1,274,060	1,100,000	2,374,060
Due in more than one year	<u>9,619,102</u>	<u>35,181,426</u>	<u>44,800,528</u>
Total Liabilities	<u>24,398,639</u>	<u>43,320,983</u>	<u>67,719,622</u>
NET ASSETS			
Invested in capital assets, net of related debt	25,692,983	26,417,775	52,110,758
Restricted for			
Debt service	310,220	65,090	375,310
Loan programs	606,682	-	606,682
Cemetery reserve	22,327	-	22,327
Equipment replacement	-	134,359	134,359
Unrestricted net assets	<u>5,384,516</u>	<u>(16,082,981)</u>	<u>(10,698,465)</u>
TOTAL NET ASSETS	<u>\$ 32,016,728</u>	<u>\$ 10,534,243</u>	<u>\$ 42,550,971</u>

See accompanying notes to financial statements.

CITY OF MEQUON

STATEMENT OF ACTIVITIES For the Year Ended December 31, 2006

<u>Functions/Programs</u>	Program Revenues			
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government				
Governmental Activities				
General government	\$ 2,371,545	\$ 426,733	\$ -	\$ -
Public safety	6,344,911	1,193,138	159,440	56,323
Public works	5,934,382	367,974	1,122,577	1,078,029
Health and human services	27,040	-	13,764	-
Community enrichment services	1,715,473	162,757	180,092	146,241
Conservation and development	578,174	-	-	1,157,285
Interest and fiscal charges	<u>467,978</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>17,439,503</u>	<u>2,150,602</u>	<u>1,475,873</u>	<u>2,437,878</u>
Business-type Activities				
Sewer Utility	<u>9,131,324</u>	<u>2,167,798</u>	<u>-</u>	<u>253,060</u>
Total Business-type Activities	<u>9,131,324</u>	<u>2,167,798</u>	<u>-</u>	<u>253,060</u>
Total Primary Government	<u>\$ 26,570,827</u>	<u>\$ 4,318,400</u>	<u>\$ 1,475,873</u>	<u>\$ 2,690,938</u>
General Revenues				
Taxes				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Property taxes, levied for other purposes				
Intergovernmental revenues not restricted to specific programs				
Investment income				
Gain on disposal of assets				
Miscellaneous				
Total General Revenues				
Change in net assets				
NET ASSETS - Beginning of Year				
NET ASSETS - END OF YEAR				

See accompanying notes to financial statements.

Net (Expenses) Revenues and Changes in Net Assets
Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
\$ (1,944,812)	\$ -	\$ (1,944,812)
(4,936,010)	-	(4,936,010)
(3,365,802)	-	(3,365,802)
(13,276)	-	(13,276)
(1,226,383)	-	(1,226,383)
579,111	-	579,111
<u>(467,978)</u>	<u>-</u>	<u>(467,978)</u>
<u>(11,375,150)</u>	<u>-</u>	<u>(11,375,150)</u>
-	(6,710,466)	(6,710,466)
-	<u>(6,710,466)</u>	<u>(6,710,466)</u>
<u>(11,375,150)</u>	<u>(6,710,466)</u>	<u>(18,085,616)</u>
10,905,486	7,720,789	18,626,275
1,195,504	-	1,195,504
174,743	-	174,743
498,368	-	498,368
734,174	842,084	1,576,258
21,823	-	21,823
<u>263,644</u>	<u>5,042</u>	<u>268,686</u>
<u>13,793,742</u>	<u>8,567,915</u>	<u>22,361,657</u>
2,418,592	1,857,449	4,276,041
<u>29,598,136</u>	<u>8,676,794</u>	<u>38,274,930</u>
<u>\$ 32,016,728</u>	<u>\$ 10,534,243</u>	<u>\$ 42,550,971</u>

See accompanying notes to financial statements.

CITY OF MEQUON

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006

	General Fund	Debt Service Fund	Capital Projects Fund
ASSETS			
Cash and investments	\$ 2,572,141	\$ 388,331	\$ 3,342,855
Receivables			
Taxes	11,523,566	1,027,521	-
Delinquent personal property tax	33,533	-	-
Special assessments	71,266	-	-
Accrued interest	14,898	2,532	33,787
Other	189,470	-	267,995
Due from other governments	-	-	-
TOTAL ASSETS	\$ 14,404,874	\$ 1,418,384	\$ 3,644,637
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 573,528	\$ 431	\$ 107,867
Accrued liabilities	106,265	-	-
Deferred revenues	11,553,382	1,027,521	-
Total Liabilities	12,233,175	1,027,952	107,867
Fund Balances			
Reserved			
Noncurrent receivables	89,709	-	-
Cemetery	22,327	-	-
Debt service	-	390,432	-
Park	-	-	-
Revolving loan program	-	-	-
Library	-	-	-
Unreserved, reported in:			
General fund designated	2,778	-	-
General fund undesignated	2,056,885	-	-
Special revenue funds undesignated	-	-	-
Capital projects funds undesignated	-	-	3,536,770
Total Fund Balances	2,171,699	390,432	3,536,770
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,404,874	\$ 1,418,384	\$ 3,644,637

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Totals
\$ 2,079,379	\$ 8,382,706
-	12,551,087
-	33,533
-	71,266
13,765	64,982
-	457,465
<u>152,271</u>	<u>152,271</u>
<u>\$ 2,245,415</u>	<u>\$ 21,713,310</u>

\$ 77,492	\$ 759,318
64,771	171,036
-	<u>12,580,903</u>
<u>142,263</u>	<u>13,511,257</u>

-	89,709
-	22,327
-	390,432
229,723	229,723
606,682	606,682
143,431	143,431
-	2,778
-	2,056,885
1,123,316	1,123,316
-	<u>3,536,770</u>
<u>2,103,152</u>	<u>8,202,053</u>
<u>\$ 2,245,415</u>	<u>\$ 21,713,310</u>

See accompanying notes to financial statements.

This page intentionally blank.

CITY OF MEQUON

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS December 31, 2006

Total Fund Balances - Governmental Funds	\$ 8,202,053
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. See Note NOTE III - D.	34,702,057
Special assessments are reported as deferred revenues in the fund financial statements but are recognized as revenue when earned in the government-wide statements.	85,992
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(80,212)
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 NOTE III - F.	<u>(10,893,162)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 32,016,728</u></u>

CITY OF MEQUON

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2006

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
REVENUES			
Taxes	\$ 11,080,229	\$ 1,195,504	\$ -
Intergovernmental	1,754,360	-	323,428
Licenses and permits	1,203,755	-	-
Public charges for services	907,114	-	5,493
Intergovernmental charges for services	-	-	-
Investment income	476,504	30,702	149,922
Miscellaneous	<u>85,168</u>	<u>-</u>	<u>72,483</u>
Total Revenues	<u>15,507,130</u>	<u>1,226,206</u>	<u>551,326</u>
EXPENDITURES			
Current			
General government	2,367,786	-	-
Public safety	5,983,072	-	-
Public works	4,220,771	-	-
Health and human services	27,040	-	-
Community enrichment services	598,021	-	-
Conservation and development	433,019	-	-
Capital Outlay	-	-	1,830,919
Debt Service			
Principal	-	745,000	-
Interest and fiscal charges	<u>-</u>	<u>393,446</u>	<u>-</u>
Total Expenditures	<u>13,629,709</u>	<u>1,138,446</u>	<u>1,830,919</u>
Excess (deficiency) of revenues over expenditures	<u>1,877,421</u>	<u>87,760</u>	<u>(1,279,593)</u>
OTHER FINANCING SOURCES (USES)			
Refunding debt issued	-	1,395,000	-
Transfers in	134,372	11,433	753,216
Transfers out	(1,578,555)	(21,919)	(179,708)
Property sales	-	-	12,615
Debt refunded	<u>-</u>	<u>(1,370,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(1,444,183)</u>	<u>14,514</u>	<u>586,123</u>
Net Change in Fund Balances	433,238	102,274	(693,470)
FUND BALANCES - Beginning of Year	<u>1,738,461</u>	<u>288,158</u>	<u>4,230,240</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,171,699</u>	<u>\$ 390,432</u>	<u>\$ 3,536,770</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Totals
\$ -	\$ 12,275,733
258,371	2,336,159
-	1,203,755
66,127	978,734
101,017	101,017
78,292	735,420
<u>291,998</u>	<u>449,649</u>
<u>795,805</u>	<u>18,080,467</u>
-	2,367,786
14,331	5,997,403
379,412	4,600,183
-	27,040
1,005,442	1,603,463
20,296	453,315
56,021	1,886,940
90,850	835,850
<u>8,413</u>	<u>401,859</u>
<u>1,574,765</u>	<u>18,173,839</u>
<u>(778,960)</u>	<u>(93,372)</u>
82,942	1,477,942
1,032,973	1,931,994
(151,812)	(1,931,994)
-	12,615
<u>-</u>	<u>(1,370,000)</u>
<u>964,103</u>	<u>120,557</u>
185,143	27,185
<u>1,918,009</u>	<u>8,174,868</u>
<u>\$ 2,103,152</u>	<u>\$ 8,202,053</u>

See accompanying notes to financial statements.

This page intentionally blank.

CITY OF MEQUON

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, 2006

Net change in fund balances - total governmental funds	\$	27,185
--	----	--------

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

Governmental funds report capital outlays as expenditures. However, in the statement of net assets 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 is reported as an expenditure in the fund financial statements but is capitalized in the government-wide financial statements		1,886,940
Some items reported as capital outlay were not capitalized		(216,688)
Some items reported as operating expenditures in the fund financial statements but are capitalized in the government-wide statements		839,432
Depreciation is reported in the government-wide financial statements		(2,712,827)

Contributed capital assets are reported as revenues in the government-wide financial statements.		1,796,146
--	--	-----------

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.		
Special assessments		(29,887)
Interest on special assessments		(1,246)

Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Debt issued		(1,477,942)
Principal repaid		2,240,971

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		61,079
Unfunded prior service cost		(25,412)
Accrued interest on debt		30,841

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>2,418,592</u>
--	-----------	-------------------------

CITY OF MEQUON

STATEMENT OF NET ASSETS PROPRIETARY FUND December 31, 2006

	Business-type Activities - Enterprise Funds <u>Sewer Utility</u>
ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 2,323,040
Receivables	
Taxes	6,207,900
Accounts	542,111
Accrued interest	23,017
Other	116,887
Restricted Assets	
Cash and investments	17,669,032
Accrued interest receivable	<u>219,858</u>
Total Current Assets	<u>27,101,845</u>
NONCURRENT ASSETS	
Restricted Assets	
Equipment replacement	134,359
Capital Assets	
Property and equipment	39,833,255
Construction in progress	50,046
Less: Accumulated depreciation	(13,315,526)
Other Assets	
Special assessments receivable	<u>51,247</u>
Total Non-Current Assets	<u>26,753,381</u>
Total Assets	<u>53,855,226</u>

See accompanying notes to financial statements.

CITY OF MEQUON

STATEMENT OF NET ASSETS
PROPRIETARY FUND
December 31, 2006

	Business-type Activities - Enterprise Funds <u>Sewer Utility</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Current portion of general obligation debt	\$ 1,100,000
Accounts payable	193,270
Accrued wages	5,350
Accrued interest	323,769
Deferred revenues	6,267,167
Other current liabilities	1,201
Liabilities Payable from Restricted Assets	
Current portion of GO debt payable from restricted	17,575,000
Accrued interest payable	<u>248,800</u>
Total Current Liabilities	<u>25,714,557</u>
NON-CURRENT LIABILITIES	
Long-Term Debt	
General obligation debt payable	<u>17,606,426</u>
Total Non-Current Liabilities	<u>17,606,426</u>
Total Liabilities	<u>43,320,983</u>
NET ASSETS	
Investment in general fixed assets	26,417,775
Restricted for	
Equipment replacement	134,359
Debt service	65,090
Unrestricted net assets	<u>(16,082,981)</u>
TOTAL NET ASSETS	<u>\$ 10,534,243</u>

This page intentionally blank.

CITY OF MEQUON

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended December 31, 2006**

	Business-type Activities - Enterprise Funds <u>Sewer Utility</u>
OPERATING REVENUES	<u>\$ 2,167,798</u>
OPERATING EXPENSES	
MMSD charges for treatment	5,538,305
Operation and maintenance	1,159,792
Depreciation expense	<u>710,901</u>
Total Operating Expenses	<u>7,408,998</u>
 Operating Income (Loss)	 <u>(5,241,200)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	842,084
Taxes	7,720,789
Miscellaneous	5,042
Interest and fiscal charges	<u>(1,722,326)</u>
Total Nonoperating Revenues (Expenses)	 <u>6,845,589</u>
 Income Before Contributions	 <u>1,604,389</u>
CONTRIBUTIONS	
Capital contributions	<u>253,060</u>
Total Contributions	<u>253,060</u>
 Change in net assets	 1,857,449
 NET ASSETS - Beginning of Year	 <u>8,676,794</u>
 NET ASSETS - END OF YEAR	 <u><u>\$ 10,534,243</u></u>

See accompanying notes to financial statements.

CITY OF MEQUON

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS For the Year Ended December 31, 2006

	Business-type Activites - Enterprise Funds <u>Sewer Utility</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers	\$ 2,120,566
Paid to suppliers for goods and services	(6,395,890)
Paid to employees for services	<u>(573,356)</u>
Net Cash Flows From Operating Activities	<u>(4,848,680)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investments sold and matured	128,179
Investment income	<u>993,078</u>
Net Cash Flows From Investing Activities	<u>1,121,257</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	7,720,789
Principal paid on noncapital long-term debt	(2,025,000)
Interest paid on noncapital long-term debt	<u>(1,988,388)</u>
Net Cash Flows From Noncapital Financing Activities	<u>3,707,401</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Debt retired	(140,000)
Interest paid	(9,063)
Special assessments received	19,423
Acquisition and construction of capital assets	<u>(55,044)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(184,684)</u>
Net (Decrease) in Cash and Cash Equivalents	(204,706)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>2,662,105</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,457,399</u></u>

See accompanying notes to financial statements.

CITY OF MEQUON

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS For the Year Ended December 31, 2006

	Business-type Activites - Enterprise Funds <u>Sewer Utility</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income (loss)	\$ (5,241,200)
Nonoperating revenue	5,042
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows From Operating Activities	
Depreciation	710,901
Changes in assets and liabilities	
Taxes receivable	1,509,374
Customer receivables	(17,015)
Accounts payable and other current liabilities	(271,149)
Deferred revenue	<u>(1,544,633)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (4,848,680)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS - PROPRIETARY FUNDS	
Cash and investments - statement of net assets	\$ 2,323,040
Restricted cash and investments - statement of net assets	<u>17,803,391</u>
Total Cash and Investments	20,126,431
Less: Noncash equivalents	<u>17,669,032</u>
CASH AND CASH EQUIVALENTS	<u>\$ 2,457,399</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Cost of utility plant additions financed by others	<u>\$ 253,060</u>

See accompanying notes to financial statements.

CITY OF MEQUON

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2006

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ 37,551,680
Receivables - (net)	
Taxes	13,578,721
Other	<u>113,840</u>
Total Assets	<u>51,244,241</u>
LIABILITIES	
Due to other taxing units	<u>51,244,241</u>
Total Liabilities	<u>51,244,241</u>
TOTAL NET ASSETS	<u><u>\$ -</u></u>

CITY OF MEQUON

INDEX TO NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE	<u>Page</u>
I Summary of Significant Accounting Policies	31
A. Reporting Entity	31
B. Government-Wide and Fund Financial Statements	32
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	34
D. Assets, Liabilities, and Net Assets or Equity	36
1. Deposits and Investments	36
2. Receivables	37
3. Inventories and Prepaid Items	38
4. Restricted Assets	38
5. Capital Assets	39
6. Other Assets	40
7. Compensated Absences	40
8. Long-Term Obligations/Conduit Debt	40
9. Claims and Judgments	41
10. Equity Classifications	41
II Stewardship, Compliance, and Accountability	42
A. Budgetary Information	42
B. Excess Expenditures Over Appropriations	42
C. Limitations on the City Tax Levy	43
III Detailed Notes on All Funds	43
A. Deposits and Investments	43
B. Receivables	45
C. Restricted Assets	46
D. Capital Assets	47
E. Interfund Receivables/Payables, Advances and Transfers	49
F. Long-Term Obligations	50
G. Lease Disclosures	53
H. Net Assets/Fund Balances	53
IV Other Information	55
A. Employees' Retirement System	55
B. Risk Management	56
C. Commitments and Contingencies	56
D. Other Postemployment Benefits	57

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Mequon, Wisconsin conform to accounting principles generally accepted in the United States 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 Mequon. 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 for 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. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the primary government.

Discretely Presented Component Unit

Component Unit Not Presented

Weyenburg Public Library Foundation Inc.

The government-wide financial statements do not include the Weyenburg Public Library Foundation Inc. ("Foundation") as a component unit. The Foundation is a legally separate, tax exempt organization which should be reported as a component unit based on criteria noted in previous paragraphs. The Foundation is not audited and financial information for the year ended December 31, 2006 is not available.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The statement of net assets 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 nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 assets/fund equity, revenues, and expenditure/expenses.

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.

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, liabilities, 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 fund 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.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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

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

Fund Financial Statements (cont.)

- 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.

The city reports the following major governmental funds:

General Fund - accounts for the city's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - accounts for resources accumulated and payments made for principal and interest on long-term debt other than enterprise fund debt.

Capital Projects Fund - accounts for resources legally restricted to supporting expenditures for the acquisition of equipment or construction of major capital facilities.

The city reports the following major enterprise funds:

Sewer Utility - accounts for operations of the sanitary sewer system

The city reports the following non-major governmental funds:

Special Revenue Funds - used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Park
Revolving Loan Program
Non Lapsing Appropriations
Frank L. Weyenberg Library

In addition, the city reports the following fund types:

Agency funds are used to account for assets held by the city in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

Tax Collection

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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

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

Government-Wide Financial Statements

The government-wide statement of net assets 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.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the city's sewer 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.

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 unmatured 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 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.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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

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

Fund Financial Statements (cont.)

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 a 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.

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 enterprise fund follows all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. 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 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 MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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

D. ASSETS, LIABILITIES, AND NET ASSETS 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:

- a. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
- b. 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, or by the University of Wisconsin Hospitals and Clinics Authority.
- c. Bonds or securities issued or guaranteed by the federal government.
- d. The local government investment pool.
- e. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- f. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
- g. Repurchase agreements with public depositories, with certain conditions.

The city has adopted an investment policy. That policy contains the following guidelines for allowable investments.

- a. Investments for all operating funds shall be made in maturities of twelve months or less.
- b. Investments for any reserve funds may be made for up to five years.
- c. Investment securities shall be held in third-party safekeeping by an institution designated as primary agent.
- d. Deposit type securities (i.e., certificates of deposit, etc.) shall be collateralized at 110% of the face value.
- e. Other investments shall be collateralized by the actual security held in safekeeping by the primary agent.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

1. Deposits and Investments (cont.)

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 average balances. 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, 2006, the fair value of the city's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

See Note III. A. for further information.

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 assets.

Property tax calendar - 2006 tax roll:

Lien date and levy date	December 2006
Tax bills mailed	December 2006
Payment in full, or	January 31, 2007
First installment due	January 31, 2007
Second installment due	July 31, 2007
Personal property taxes in full	January 31, 2007
Tax sale - 2006 delinquent real estate taxes	October 2009

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 sewer utility because they have the right by law to place substantially all delinquent bills on the tax roll, and other delinquent bills are generally not significant.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

2. Receivables (cont.)

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. 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 city does not have any outstanding economic development loans at year end..

It is the city's policy to record deferred revenue for the net amount of the receivable balance. As loans are repaid, revenue is recognized. When new loans are made from the repayments, expenditures are recorded. Interest received from loan repayments is recognized as revenue when received in cash. Any unspent loan repayments at year end are presented as designated fund balance in the fund financial statements.

3. Inventories and Prepaid Items

Governmental fund inventory items are charged to expenditure accounts when purchased. Year-end inventory was not significant.

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 earnings, is shown as restricted net assets.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

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 \$5,000 for infrastructure assets, and an estimated useful life in excess of 1 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.

Prior to January 2004, infrastructure assets of governmental funds were not capitalized. Upon implementing GASB No. 34, governmental units are required to account for all capital assets, including infrastructure, in the government-wide statements prospectively from the date of implementation. Retroactive reporting of all major general infrastructure assets is encouraged but not required until , when GASB No. 34 requires the city to retroactively report all major general infrastructure assets acquired since January 1, 1980. As of December 31, 2006, the city has retroactively reported all infrastructure acquired by its governmental fund types.

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 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.

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 assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	50 Years
Machinery and Equipment	7 Years
Utility System	7-80 Years
Infrastructure	20-50 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.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

6. Other Assets

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

Sick leave is earned at the rate of one working day for each month of service. Employees are compensated for sick leave days accumulated over 180 days at a defined rate per day. Certain employees are eligible to have their accumulated sick leave converted to a termination benefit and payable to employees in accordance with the terms of the applicable contract upon an employee's retirement or death.

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, 2006 are determined on the basis of current salary rates and include salary related payments.

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 (plus any premiums) are 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 government-wide statements and proprietary fund statements, bond premiums and discounts are deferred and amortized over the life of the issue using the straight-line method. Gains or losses on prior 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 both premiums/discounts and gains/losses, as applicable, is shown as an increase or decrease in the liability section of the statement of net assets.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

8. Long-Term Obligations/Conduit Debt (cont.)

The city has approved 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 year end, the aggregate principal amount for the 1999 and 2003 series outstanding could not be determined; however, their original issue amounts totaled \$17,200,000.

9. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. 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.

10. Equity Classifications

Government-Wide Statements

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

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (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 assets - Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debt."

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.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

10. Equity Classifications (cont.)

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled "designated". The balance of unreserved fund balance is labeled "undesignated", which indicates it is available for appropriation. Proprietary fund equity is classified the same as in the government-wide statements.

NOTE II - 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, Frank L. Weyenberg Library special revenue fund and the debt service fund. Budgets have not been formally adopted for the park, revolving loan program and non lapsing appropriations special revenue funds. Wisconsin Statute 65.90 requires that an annual budget be adopted for all funds.

The budgeted amounts presented include any amendments made. The city may authorize transfers of budgeted amounts within departments. Transfers between departments and changes to the overall budget must be approved by a two-thirds council action.

Appropriations lapse at year end unless specifically carried over. There were no carryovers to the following year. Budgets are adopted at the fund level of expenditure.

B. EXCESS EXPENDITURES AND OTHER FINANCING USES OVER APPROPRIATIONS

Budgeted expenditures and other financing uses in the debt service fund fund (including amendments) were \$1,164,319. Total expenditures were \$2,508,446. This results in excess expenditures of \$1,344,127.

The city controls expenditures at the function level. Some individual functions experienced expenditures which exceeded appropriations. The detail of those items can be found in the city's year-end budget to actual report.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE II - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)

C. LIMITATIONS ON THE City's TAX LEVY

As part of Wisconsin's Act 25 (2005), new 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 2%. Changes in debt service from one year to the next are generally exempt from this limit. The levy limit begins with the 2005 levy collected in 2006, and is set to expire after the 2006 levy.

NOTE III - DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The city's deposits and investments at year end were comprised of the following:

	Carrying Value	Statement Balance	Associated Risks
Deposits	\$39,608,665	\$34,637,221	Custodial credit risk
US agencies	8,475,878	8,477,587	Custodial credit and interest rate risk
US treasuries	17,669,063	17,669,063	Custodial credit and interest rate risk
LGIP	305,811	305,811	Credit and interest rate risk
Petty cash	1,400	1,400	N/A
Total Deposits and Investments	<u>\$66,060,817</u>	<u>\$61,091,082</u>	
Reconciliation to financial statements			
Per statement of net assets			
Unrestricted cash and investments	\$10,705,746		
Restricted cash and investments	17,803,391		
Per statement of net assets- fiduciary funds			
Agency	37,551,680		
Total Deposits and Investments	<u>\$66,060,817</u>		

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

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 not been considered in computing custodial credit risk.

Investments in the LGIP are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool except U.S. Government and agency securities. The bond provides unlimited coverage on principal losses, reduced by any FDIC and State of Wisconsin Guarantee Fund insurance.

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, 2006 \$34,437,221 of the city's total bank balances were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 34,437,221</u>
Total	<u><u>\$ 34,437,221</u></u>

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 obligations.

As of December 31, 2006 the city's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poors</u>	<u>Moody's Investors Services</u>
US agencies	AAA	Aaa
US treasuries	AAA	Aaa

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Credit Risk (cont.)

The city also held investments in the following external pool which is not rated:

LGIP

Interest Rate Risk

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

As of December 31, 2006 the city's investments were as follows:

Investment Type	Fair Value	Maturity (In Years)		
		Less than 1 year	1 year - 3 years	3 years - 9 years
US treasuries	\$ 17,669,063	\$ 17,669,063	\$ -	\$ -
US agencies	8,475,878	-	7,454,006	1,021,872
Totals	<u>\$ 26,144,941</u>	<u>\$ 17,669,063</u>	<u>\$ 7,454,006</u>	<u>\$ 1,021,872</u>

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

B. RECEIVABLES

All of the receivables on the balance sheet are expected to be collected within one year except for \$28,915 of delinquent personal property taxes reported in the general fund.

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 of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned	Totals
Property taxes receivable for subsequent year	\$ 14,726	\$ 12,494,911	\$ 12,509,637
Special assessments not yet due	<u>71,266</u>	-	<u>71,266</u>
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$ 85,992</u>	<u>\$ 12,494,911</u>	<u>\$ 12,580,903</u>

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

B. RECEIVABLES (cont.)

For economic development loans, the city is limited by the Wisconsin Department of Commerce to the amount of program income from economic development loans that it may retain and loan to other businesses. Program income includes the principal and interest received from economic development loans repayments. Based upon its current population, the city may generally retain \$750,000.

At December 31, 2006, the city has not exceeded its maximum retention cap. When it does, a liability to the state will be recorded.

C. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

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.

Debt Service

The sewer utility has deposited funds from its 2005 borrowing with an escrow agent in conjunction with a crossover refunding of the outstanding 1997 general obligation promissory notes. These funds will finance the interest payments of the 2005 general obligation refunding bonds which financed the escrow until September 1, 2007 at which time the outstanding 1997 general obligation promissory notes will be called and paid by the escrow agent and the sewer utility will begin paying the debt service of the 2005 general obligation refunding bonds.

Following is a list of restricted assets at December 31, 2006:

	Restricted Assets	Liabilities Payable from Restricted Assets	Restricted Net Assets
Equipment replacement account	\$ 134,359	\$ -	\$ 134,359
Debt service	17,888,890	17,823,800	65,090
 Total Restricted Assets	 <u>\$ 18,023,249</u>	 <u>\$ 17,823,800</u>	 <u>\$ 199,449</u>

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 5,012,660	\$ 1,447,020	\$ -	\$ 6,459,680
Total Capital Assets Not Being Depreciated	5,012,660	1,447,020	-	6,459,680
Capital assets being depreciated				
Buildings	14,361,864	121,045	-	14,482,909
Roads	33,584,535	1,593,134	-	35,177,669
Bridges	2,578,031	-	-	2,578,031
Library Collection	3,564,929	43,590	71,206	3,537,313
Equipment, Vehicles, and Miscellaneous	5,023,801	1,101,041	93,038	6,031,804
Total Capital Assets Being Depreciated	59,113,160	2,858,810	164,244	61,807,726
Total Capital Assets	64,125,820	4,305,830	164,244	68,267,406
Less: Accumulated depreciation for				
Buildings	(6,613,166)	(245,042)	-	(6,858,208)
Roads	(17,291,447)	(1,758,881)	-	(19,050,328)
Bridges	(455,730)	(56,751)	-	(512,481)
Library Collection	(3,258,242)	(71,862)	71,206	(3,258,898)
Equipment, Vehicles, and Miscellaneous	(3,398,181)	(580,291)	93,038	(3,885,434)
Total Accumulated Depreciation	(31,016,766)	(2,712,827)	164,244	(33,565,349)
Net Capital Assets Being Depreciated	28,096,394	145,983	-	28,242,377
Total Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 33,109,054	\$ 1,593,003	\$ -	\$ 34,702,057

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

Depreciation expense was charged to functions as follows:

Governmental Activities

General government	\$ 78,099
Public Safety	407,753
Public Works	2,071,773
Culture, education and recreation	<u>155,202</u>
Total Governmental Activities Depreciation Expense	<u><u>\$ 2,712,827</u></u>

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type Activities				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 87,328	\$ 37,282	\$ 50,046
Total Capital Assets Not Being Depreciated	-	87,328	37,282	50,046
Capital assets being depreciated				
Structure improvements	3,545,731	5,000	-	3,550,731
Sewer collection system	32,556,760	253,058	-	32,809,818
Machinery and equipment	3,472,706	-	-	3,472,706
Total Capital Assets Being Depreciated	39,575,197	258,058	-	39,833,255
Total Capital Assets	39,575,197	345,386	37,282	39,883,301
Less: Accumulated depreciation for				
Structure improvements	(329,073)	(69,672)	-	(398,745)
Sewer collection system	(10,284,863)	(477,495)	-	(10,762,358)
Machinery and equipment	(1,990,689)	(163,734)	-	(2,154,423)
Total Accumulated Depreciation	(12,604,625)	(710,901)	-	(13,315,526)
Net Capital Assets Being Depreciated	26,970,572	968,959	-	26,517,729
Business-type Capital Assets, Net of Accumulated Depreciation	\$ 26,970,572	\$ 1,056,287	\$ 37,282	\$ 26,567,775

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

Business-type Activities

Depreciation expense was charged to functions as follows:

Business-type Activities	
Sewer	\$ <u>710,901</u>
 Total Business-type Activities Depreciation Expense	 \$ <u><u>710,901</u></u>

E. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS

The following is a schedule of interfund transfers:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Principal Purpose</u>
Non lapsing appropriations special revenue	General	\$ 181,054	Budget appropriations for specific projects
General fund	Capital projects fund	70,888	Budget appropriation for specific projects
General fund	Non lapsing appropriations special revenue	63,484	Budget appropriation for specific projects
Frank L. Weyenberg Library special revenue fund	General fund	830,000	Budget appropriation for specific projects
Capital projects fund	Capital projects fund	108,820	Budget appropriation for specific projects
Capital projects fund	General fund	567,501	Budget appropriation for specific projects
Debt service fund	Non lapsing appropriations special revenue	11,433	Budget appropriation for specific projects
Library special revenue	Debt service fund	21,919	Budget appropriation for specific projects
Capital projects fund	Non lapsing appropriations special revenue	<u>76,895</u>	Budget appropriation for specific projects
 Total - Fund Financial Statements		 1,931,994	
Less: Fund eliminations		<u>(1,931,994)</u>	
 Total Transfers - Government-Wide Statement of Activities		 \$ <u><u>-</u></u>	

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS (cont.)

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, interfund transfers within the governmental activities or business-type activities are netted and eliminated.

F. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds and Notes Payable					
General obligation debt	\$ 9,721,090	\$ 1,477,942	\$ 2,205,850	\$ 8,993,182	\$ 812,403
Sub-totals	<u>9,721,090</u>	<u>1,477,942</u>	<u>2,205,850</u>	<u>8,993,182</u>	<u>812,403</u>
Other Liabilities					
Unfunded retirement liability	1,314,629	96,960	71,549	1,340,040	71,000
Capital leases	51,014	-	35,121	15,893	15,893
Compensated absences	605,126	-	61,080	544,046	374,764
Total Other Liabilities	<u>1,970,769</u>	<u>96,960</u>	<u>167,750</u>	<u>1,899,979</u>	<u>461,657</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 11,691,859</u>	<u>\$ 1,574,902</u>	<u>\$ 2,373,600</u>	<u>\$ 10,893,161</u>	<u>\$ 1,274,060</u>
Business-type Activities					
Bonds and Notes Payable					
General obligation debt	\$ 37,805,000	\$ -	\$ 2,165,000	\$ 35,640,000	\$ 18,675,000
Add/(Subtract) Deferred Amounts For					
(Discounts)/Premiums	696,146	-	54,720	641,426	-
Sub-totals	<u>38,501,146</u>	<u>-</u>	<u>2,219,720</u>	<u>36,281,426</u>	<u>18,675,000</u>
Total Business-type Activities Long-Term Liabilities	<u>\$ 38,501,146</u>	<u>\$ -</u>	<u>\$ 2,219,720</u>	<u>\$ 36,281,426</u>	<u>\$ 18,675,000</u>

General Obligation Debt

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.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

In accordance with Wisconsin Statutes, total general obligation indebtedness of the city may not exceed five percent of the equalized value of taxable property within the city's jurisdiction. The debt limit as of December 31, 2006, was \$210,745,190. Total general obligation debt outstanding at year end was \$44,633,182. Cash and investments totalling \$17,669,032 has been restricted for the payment of \$17,575,000 outstanding general obligation debt and interest on September 1, 2007.

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/06</u>
Governmental Activities					
General Obligation Debt					
Open Space Preservation					
2002	3/12/02	10/1/11	3.0-4.3%	\$ 2,040,000	\$ 1,210,000
Refunding & New Projects					
2002	7/9/02	10/1/11	2.0-4.0	2,030,000	835,000
Tax incremental					
Improvements Bonds					
2003	3/11/03	10/1/18	2.3-3.75	3,925,000	3,925,000
Land Refunding 2003	7/5/03	7/5/18	5.35	79,759	65,982
G.O. Promissory Notes					
2005	6/18/05	10/1/14	3.25-3.875	1,645,000	1,645,000
Library Refunding Issue					
2006	1/15/06	10/1/11	3.3-3.7	1,395,000	1,230,000
Stetter Property 2006	11/12/06	6/12/10	7.50	82,942	<u>82,200</u>
 Total Governmental Activities - General Obligation Debt					 <u><u>\$ 8,993,182</u></u>
	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/06</u>
Business-type Activities					
General Obligation Debt					
1997 General Obligation			4.85-		
Promissory Notes	9/1/97	9/1/07	5.35%	\$ 25,650,000	\$ 18,525,000
2002 Current Refunding	7/9/02	10/1/11	2.0-4.0	2,850,000	150,000
2005 General Obligation					
Refunding Bonds	6/1/05	9/1/17	3.5-5.0	16,965,000	<u>16,965,000</u>
 Total Business-type Activities General Obligation Debt					 <u><u>\$ 35,640,000</u></u>

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

Debt service requirements to maturity are as follows:

Years	Governmental Activities General Obligation Debt		Business-type Activities General Obligation Debt	
	Principal	Interest	Principal	Interest
2007	\$ 812,403	\$ 325,687	\$ 18,675,000	\$ 1,708,263
2008	852,875	297,783	1,820,000	746,400
2009	923,398	267,690	1,800,000	682,700
2010	978,947	234,944	1,780,000	685,200
2011	1,059,532	198,971	1,735,000	544,000
2012-2016	3,142,906	533,197	8,205,000	1,615,000
2017-2018	<u>1,223,121</u>	<u>73,846</u>	<u>1,625,000</u>	<u>81,250</u>
Totals	<u>\$ 8,993,182</u>	<u>\$ 1,932,118</u>	<u>\$ 35,640,000</u>	<u>\$ 6,062,813</u>

Capital Leases

Refer to Note III. G.

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 liquidated primarily by the general fund.

There are a number of limitations and restrictions contained in the various bond indentures and loan agreements. The city believes it is in compliance with all significant limitations and restrictions, including federal arbitrage regulations.

Current Refunding

On 1/26/2006, the city issued \$1,395,000 in general obligation bonds with an average interest rate of 3.56 percent to current refund \$1,370,000 of outstanding bonds with an average interest rate of 4.61 percent. The net proceeds of \$1,370,000 (after payment of \$25,000 in underwriting fees, insurance and other issuance costs) plus an additional \$ of \$23,505 sinking fund monies were used to prepay the outstanding debt service requirements on the old bonds.

The cash flow requirements on the refunded bonds prior to the current refunding was \$1,602,490 from 2006 through 2011. The cash flow requirements on the 2006 refunding bonds are \$1,587,374 from 2006 through 2011. The current refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$18,412.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

G. LEASE DISCLOSURES

Lessee - Capital Leases

In 2004 the city acquired capital assets through a lease/purchase agreement. The gross amount of these assets under capital leases is \$109,722, which are included in capital assets in the governmental activities. The future minimum lease obligations and the net present value on these minimum lease payments as of December 31, 2006, are as follows:

<u>Years</u>	Governmental Activities		
	Principal	Interest	Totals
2007	\$ 15,893	\$ 361	\$ 16,254
Totals	<u>\$ 15,893</u>	<u>\$ 361</u>	<u>\$ 16,254</u>

H. NET ASSETS/FUND BALANCES

Net assets reported on the government wide statement of net assets at December 31, 2006 includes the following:

Governmental Activities

Invested in Capital Assets, Net of Related Debt	
Land	\$ 6,459,680
Other capital assets, net of accumulated depreciation	28,242,377
Less: Long-term debt outstanding	<u>(9,009,074)</u>
Total Invested in Capital Assets, Net of Related Debt	<u>\$ 25,692,983</u>

Governmental Funds

Governmental fund balances reported on the fund financial statements at December 31, 2006 include the following:

Reserved	
Major Funds	
General Fund	
Cemetery Reserve	\$ 22,327
Noncurrent receivables	<u>89,709</u>
Total	<u>\$ 112,036</u>

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

H. NET ASSETS/FUND BALANCES (cont.)

Governmental Funds (cont.)

Reserved (cont.)

Debt Service Funds
Reserved for debt service \$ 390,432

Total \$ 390,432

Non-Major Funds

Special Revenue Funds
Park fund \$ 229,723
Library fund 143,431
Revolving loan program fund 606,682

Sub-Total 979,836

Total Non-Major Funds \$ 979,836

Unreserved (designated)

Major Funds
General fund
Designated for cemetery \$ 2,778

Total \$ 2,778

Non-Major Fund

Non-lapsing Appropriations special revenue fund 1,123,316

Total \$ 1,123,316

Unreserved (undesignated)

Major Funds
General fund \$ 2,056,885
Capital projects fund 3,536,770

Total \$ 5,593,655

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

Business-type Activities

Invested in capital assets, net of related debt	
Construction in progress	\$ 50,046
Other capital assets, net of accumulated depreciation	26,517,729
Less: Long-term debt outstanding	<u>(150,000)</u>
 Total Invested in Capital Assets, Net of Related Debt	 <u>26,417,775</u>
 Restricted	
Equipment replacement	134,359
Debt service	<u>65,090</u>
 Total Restricted	 <u>199,449</u>
 Unrestricted (deficit)	 <u>(16,082,981)</u>
 Total Business-type Activities Net Assets	 <u>\$ 10,534,243</u>

NOTE IV - OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

All eligible city employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the General category are required by statute to contribute 5.9% of their salary (2.9% for Executives and Elected Officials, 5.0% for Protective Occupations with Social Security, and 3.3% for Protective Occupations without Social Security) to the plan. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for city employees covered by the system for the year ended December 31, 2006 was \$7,138,757; the employer's total payroll was \$7,864,552. The total required contribution for the year ended December 31, 2006 was \$1,078,232 or 15.1 percent of covered payroll. Of this amount, 100 percent was contributed by the employer for the current year. Total contributions for the years ending December 31, 2005 and 2004 were \$1,054,680 and \$822,586, respectively, equal to the required contributions for each year.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE IV - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Employees who retire at or after age 65 (62 for elected officials and 55 for protective occupation employees) 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. Final average earnings is the average of the employee's three highest years earnings. Employees terminating covered employment 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 are immediately vested.

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 pension-related debt for the city as of December 31, 2006, was \$1,340,040. This liability was determined in accordance with provisions of GASB Statement No. 27 regarding pension-related debt. Depending on actuarial assumptions, this estimate can vary significantly.

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; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

C. COMMITMENTS AND 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 and the city attorney 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 requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

CITY OF MEQUON

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE IV - OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES (cont.)

The 1997 General Obligation Promissory Notes resolution includes a covenant requiring an annual calculation to determine whether excess revenues have been generated by the sewer utility during the prior fiscal year. Each year, a calculation is made and excess revenues from the prior fiscal year must be applied to the redemption of the notes in inverse order on the next available redemption date. Excess revenues calculated, are added to the subsequent year's current portion of long-term debt payable. The 2006 calculation resulted in no excess revenues being generated in 2006.

D. OTHER POSTEMPLOYMENT BENEFITS

The city provides postemployment health insurance benefits for all eligible employees. Eligibility is based on attaining retirement age. The benefits are based on contractual agreements with employee groups, local ordinances, or employee benefit policies. The cost of those premiums is recognized as an expenditure as the premiums are paid. The entire cost is paid by the city. Funding for those costs is provided out of the current operating budget of the city. The contributions are financed on a pay as you go basis. Total expenditures for such premiums during the year were \$45,718. The number of participants currently eligible to receive benefits is 21.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MEQUON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 11,079,419	\$ 11,079,419	\$ 11,080,229	\$ 810
Intergovernmental	1,671,679	1,671,679	1,754,360	82,681
Licenses and permits	1,269,300	1,269,300	1,203,755	(65,545)
Public charges for services	848,689	848,689	907,114	58,425
Investment income	182,260	182,260	476,504	294,244
Miscellaneous	<u>30,000</u>	<u>30,000</u>	<u>85,168</u>	<u>55,168</u>
Total Revenues	<u>15,081,347</u>	<u>15,081,347</u>	<u>15,507,130</u>	<u>425,783</u>
EXPENDITURES				
Current:				
General government	2,718,157	2,497,426	2,367,786	129,640
Public safety	6,139,195	5,978,094	5,983,072	(4,978)
Public works	4,433,934	4,096,114	4,220,771	(124,657)
Health and human services	28,012	28,012	27,040	972
Community enrichment services	617,328	598,393	598,021	372
Conservation and development	<u>447,161</u>	<u>441,494</u>	<u>433,019</u>	<u>8,475</u>
Debt Service				
Total Expenditures	<u>14,383,787</u>	<u>13,639,533</u>	<u>13,629,709</u>	<u>9,824</u>
Excess of revenues over expenditures	<u>697,560</u>	<u>1,441,814</u>	<u>1,877,421</u>	<u>435,607</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	132,440	132,440	134,372	1,932
Transfers out	<u>(830,000)</u>	<u>(1,574,254)</u>	<u>(1,578,555)</u>	<u>(4,301)</u>
Total Other Financing Sources (Uses)	<u>(697,560)</u>	<u>(1,441,814)</u>	<u>(1,444,183)</u>	<u>(2,369)</u>
Net Change in Fund Balance	-	-	433,238	433,238
FUND BALANCE - Beginning of Year	<u>1,738,461</u>	<u>1,738,461</u>	<u>1,738,461</u>	-
FUND BALANCE - END OF YEAR	<u>\$ 1,738,461</u>	<u>\$ 1,738,461</u>	<u>\$ 2,171,699</u>	<u>\$ 433,238</u>

See accompanying notes to required supplementary information.

CITY OF MEQUON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION December 31, 2006

BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using generally accepted accounting principles and the modified accrual basis of accounting.

This page intentionally blank.

SUPPLEMENTARY INFORMATION

CITY OF MEQUON

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2006

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Park Fund	Revolving Loan Program Fund	Non Lapsing Appropriations Fund	Frank L. Weyenberg Library Fund	
ASSETS					
Cash and investments	\$ 227,691	\$ 601,315	\$ 1,081,147	\$ 169,226	\$ 2,079,379
Receivables					
Accrued interest	2,032	5,367	6,356	10	13,765
Due from other governments	-	-	152,271	-	152,271
TOTAL ASSETS	<u>\$ 229,723</u>	<u>\$ 606,682</u>	<u>\$ 1,239,774</u>	<u>\$ 169,236</u>	<u>\$ 2,245,415</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 56,222	\$ 21,270	\$ 77,492
Accrued liabilities	-	-	60,236	4,535	64,771
Total Liabilities	-	-	116,458	25,805	142,263
Fund Balances					
Reserved					
Park	229,723	-	-	-	229,723
Revolving loan program	-	606,682	-	-	606,682
Library	-	-	-	143,431	143,431
Unreserved, designated for, reported in:					
Special revenue funds non-lapsing appropriations	-	-	1,123,316	-	1,123,316
Total Fund Balances	<u>229,723</u>	<u>606,682</u>	<u>1,123,316</u>	<u>143,431</u>	<u>2,103,152</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 229,723</u>	<u>\$ 606,682</u>	<u>\$ 1,239,774</u>	<u>\$ 169,236</u>	<u>\$ 2,245,415</u>

CITY OF MEQUON

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Park Fund	Revolving Loan Program Fund	Non Lapsing Appropriations Fund	Frank L. Weyenberg Library Fund	
REVENUES					
Intergovernmental	\$ -	\$ -	\$ 258,371	\$ -	\$ 258,371
Public charges for services	-	-	-	66,127	66,127
Intergovernmental charges for services	-	-	-	101,017	101,017
Investment income	9,201	24,301	39,141	5,649	78,292
Miscellaneous	<u>39,000</u>	-	<u>237,903</u>	<u>15,095</u>	<u>291,998</u>
Total Revenues	<u>48,201</u>	<u>24,301</u>	<u>535,415</u>	<u>187,888</u>	<u>795,805</u>
EXPENDITURES					
Current					
Public safety	-	-	14,331	-	14,331
Public works	-	-	379,412	-	379,412
Community enrichment services	-	-	34,738	970,704	1,005,442
Conservation and development	18,489	1,807	-	-	20,296
Capital Outlay	-	-	56,021	-	56,021
Debt Service					
Principal	-	-	90,850	-	90,850
Interest and fiscal charges	-	-	<u>8,413</u>	-	<u>8,413</u>
Total Expenditures	<u>18,489</u>	<u>1,807</u>	<u>583,765</u>	<u>970,704</u>	<u>1,574,765</u>
Excess (deficiency) of revenues over expenditures	<u>29,712</u>	<u>22,494</u>	<u>(48,350)</u>	<u>(782,816)</u>	<u>(778,960)</u>
OTHER FINANCING SOURCES (USES)					
General obligation debt issued	-	-	82,942	-	82,942
Transfers in	-	-	181,054	851,919	1,032,973
Transfers out	-	-	<u>(151,812)</u>	-	<u>(151,812)</u>
Total Other Financing Sources (Uses)	-	-	<u>112,184</u>	<u>851,919</u>	<u>964,103</u>
Net Change in Fund Balances	29,712	22,494	63,834	69,103	185,143
FUND BALANCES - Beginning of Year	<u>200,011</u>	<u>584,188</u>	<u>1,059,482</u>	<u>74,328</u>	<u>1,918,009</u>
FUND BALANCES - END OF YEAR	<u>\$ 229,723</u>	<u>\$ 606,682</u>	<u>\$ 1,123,316</u>	<u>\$ 143,431</u>	<u>\$ 2,103,152</u>