

**NEENAH-MENASHA
SEWERAGE COMMISSION, WISCONSIN**

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2004

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
December 31, 2004

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Commissioners
Neenah-Menasha Sewerage Commission, Wisconsin

We have audited the accompanying financial statements of the Neenah-Menasha Sewerage Commission, Wisconsin ("the Commission") as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Neenah-Menasha Sewerage Commission's management. Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Neenah-Menasha Sewerage Commission as of December 31, 2004, and the results of its operations and cash flows, for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A to the financial statements, the Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* as of January 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2005, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis
December 31, 2004

As management of the Neenah-Menasha Sewerage Commission, Wisconsin, we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended December 31, 2004. The Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* as of January 1, 2004.

Financial Highlights

- The assets of the Commission exceeded its liabilities as of December 31, 2004 by \$8,966,255 (*net assets*).
- The Commission's total net assets decreased by \$792,463. Several factors contributed to the overall decrease as follows:
 - The Commission charges to its users for operation and maintenance costs are adjusted at year end to equal final expenses less other operating revenues generated and a receivable or payable is established. Therefore, the Commission's operating activities resulted in no change in the Commission's net assets.
 - The Commission does not recover depreciation expense from its users. Rather, the Commission's users are responsible for a portion of the debt service maturities based on usage of the facilities. For 2004, depreciation exceeded amounts contributed for principal retirement by \$1,018,211.
 - Commission users also contribute to equipment replacement and depreciation funds for replacement or significant repairs to existing equipment. For 2004, equipment replacement and depreciation charges exceeded expenses by \$266,442.
- The Commission's total long-term debt decreased by \$490,000 (6.6%) during 2004.

Overview of the Financial Statements

The Commission's annual report includes this management's discussion and analysis, the independent auditors' report and the basic financial statements, including notes. This report also contains supplemental information in addition to the basic financial statements themselves.

The Commission accounts for its operations as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business with the intent that the costs (expenses, including depreciation) of providing services to the general public be financed primarily through user charges.

Financial Analysis

Net assets. Net assets may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded its liabilities by \$8,966,255 at the close of 2004.

Neenah-Menasha Sewerage Commission, Wisconsin's Net Assets		
	2004	2003
Current and other assets	\$ 446,508	\$ 647,620
Restricted assets	2,999,809	2,719,889
Capital assets	12,711,379	14,152,805
Total assets	16,157,696	17,520,314
Long-term liabilities outstanding	6,706,930	7,143,080
Other liabilities	484,511	618,516
Total liabilities	7,191,441	7,761,596
Net assets		
Invested in capital assets, net of related debt	6,065,489	7,016,915
Restricted	2,757,908	2,532,928
Unrestricted	142,858	208,875
Total net assets	\$8,966,255	\$9,758,718

By far the largest portion of the Commission's net assets (68%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, etc.), less any related debt used to acquire those assets that are still outstanding. The Commission uses these capital assets to provide services to customers; consequently, these assets are *not* available for future spending. Although, the Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Commission's net assets (30.7%) represents resources that are subject to external restrictions on how they may be used.

Change in net assets. The Commission's net assets decreased by \$792,463. Key elements of this increase are as follows:

Neenah-Menasha Sewerage Commission, Wisconsin's Change in Net Assets		
	2004	2003
Operating Revenues		
User charges		
Measured service	\$2,266,431	\$2,084,866
Capital charges	738,544	890,998
Depreciation fund charges	176,253	176,256
Replacement fund charges	219,928	219,939
Other charges	130,961	123,591
Total Operating Revenues	3,532,117	3,495,650
Operating Expenses		
Operation and maintenance	2,398,167	2,208,472
Depreciation	1,511,400	1,517,826
Depreciation fund	114,362	29,790
Replacement fund	63,782	45,271
Total Operating Expenses	4,087,711	3,801,359
Operating loss	(555,594)	(305,709)
Nonoperating Revenues (Expenses)	(250,469)	(377,984)
Net loss	(806,063)	(683,693)
Capital contributions	13,600	-
Change in net assets	(792,463)	(683,693)
Net assets - January 1, 2004	9,758,718	10,442,411
Net assets - December 31, 2004	\$8,966,255	\$9,758,718

Capital Asset and Debt Administration

Capital assets. The Commission's investment in capital assets as of December 31, 2004 amounts to \$12,711,379 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, improvements other than buildings, machinery and equipment and construction in progress. The total decrease in the Commission's investment in capital assets for the current year was \$1,441,426 or 10.2% over last year was due to depreciation expense in excess of current year capital additions of \$71,673. Current year additions consisted of replacement of equipment (\$48,508), assets contributed to the Commission (\$13,600) and preliminary construction costs (\$9,565) on the siloxane removal and digester gas mixers projects.

Neenah-Menasha Sewerage Commission, Wisconsin's Capital Assets (net of accumulated depreciation)		
	2004	2003
Land	\$ 64,039	\$ 64,039
Land improvements	132,671	140,482
Buildings	4,867,818	5,626,179
Improvements other than buildings	3,905,640	3,957,203
Machinery and equipment	3,731,647	4,364,902
Construction in progress	9,564	-
Total	\$12,711,379	\$14,152,805

Long-term debt. At the end of the current fiscal year, the Commission had total bonded debt outstanding of \$6,885,000.

Neenah-Menasha Sewerage Commission, Wisconsin's Outstanding Debt Revenue Bonds		
	2004	2003
Revenue bonds	\$6,885,000	\$7,375,000

The Commission's total debt decreased by \$490,000 (6.6%) during the current fiscal year due to principal repayments.

The Commission has restricted cash of \$64,192 in the Principal and Interest Redemption Fund and \$391,451 in the Reserve Fund to be used for subsequent year payments of principal and interest.

Economic Factors and Next Year's Budgets and Rates

The 2005 operations budget will show a 4.1% increase over the 2004 operations budget. The rates to the users will be adjusted accordingly to offset this increase. Major budget increases are anticipated in water usage (+33%), natural gas (+20%), chemicals for plant operations (+37%). Concerns in our chemical usage will especially follow our need for polymer. During 2004 we have seen a lead time from ordering the product to delivery of the product go from 2-3 weeks to 12-16 weeks.

Construction activity is expected in 2005. Replacement of the digester as mixing system will occur with newer technology to replace the current units which are at the end of their useful life. Funding for this will come from the Replacement Fund. The Commission is continuing to explore the need to replace or modify the methane gas engines or boiler system. Decisions made in reviewing these options will dictate the need for the installation of a siloxane removal system for the removal of siloxane from the methane gas produced at the wastewater treatment facility. Funding for these improvements will come from the Replacement Fund and/or the Depreciation Fund.

Contacting the Commission's Financial Management

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to either the General Manager, Randall Much or the plant accountant, Roger Voight.

FINANCIAL STATEMENTS

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Statement of Net Assets

December 31, 2004

With Comparative Totals for December 31, 2003

	2004	2003
ASSETS		
Current Assets		
Cash and investments	\$ 100	\$ 100
Receivables		
Accounts	330,824	511,223
Prepaid items	19,981	18,503
Total Current Assets	<u>350,905</u>	<u>529,826</u>
Noncurrent Assets		
Restricted Assets		
Cash and investments	2,964,569	2,702,955
Accrued interest	35,240	16,934
Total Restricted Assets	<u>2,999,809</u>	<u>2,719,889</u>
Other Assets		
Unamortized debt discount	<u>95,603</u>	<u>117,794</u>
Capital Assets		
Non-depreciable	73,603	64,039
Depreciable	12,637,776	14,088,766
Net Capital Assets	<u>12,711,379</u>	<u>14,152,805</u>
Total Noncurrent Assets	<u>15,806,791</u>	<u>16,990,488</u>
TOTAL ASSETS	<u>16,157,696</u>	<u>17,520,314</u>
LIABILITIES		
Current Liabilities		
Refunds due users	232,427	378,980
Accounts payable	151,235	103,691
Accrued vacation	5,582	5,419
Total Current Liabilities	<u>389,244</u>	<u>488,090</u>
Liabilities Payable from Restricted Assets		
Accounts payable	53,850	32,746
Current maturities of long-term debt	540,000	490,000
Accrued interest	18,962	65,284
Total Liabilities Payable from Restricted Assets	<u>612,812</u>	<u>588,030</u>
Long-term Liabilities		
Revenue bonds, less current maturities	6,345,000	6,885,000
Unamortized loss on refinancing	(206,048)	(258,656)
Accrued sick leave	27,978	26,736
Total Long-term Liabilities	<u>6,166,930</u>	<u>6,653,080</u>
Deferred Credits	<u>22,455</u>	<u>32,396</u>
TOTAL LIABILITIES	<u>7,191,441</u>	<u>7,761,596</u>
NET ASSETS		
Invested in capital assets, net of related debt	6,065,489	7,016,915
Restricted for		
Plant replacement	2,321,226	2,112,856
Debt service	436,682	420,072
Unrestricted	<u>142,858</u>	<u>208,875</u>
TOTAL NET ASSETS	<u>\$ 8,966,255</u>	<u>\$ 9,758,718</u>

The notes to the financial statements are an integral part of this statement.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended December 31, 2004
With Comparative Totals for the Year Ended December 31, 2003

	2004	2003
Operating Revenues		
User Charges		
Measured service	\$ 2,266,431	\$ 2,084,866
Capital charges	738,544	890,998
Depreciation fund charges	176,253	176,256
Replacement fund charges	219,928	219,939
Other charges	130,961	123,591
Total Operating Revenues	<u>3,532,117</u>	<u>3,495,650</u>
Operating Expenses		
Operation and maintenance	2,398,167	2,208,472
Depreciation	1,511,400	1,517,826
Depreciation fund	114,362	29,790
Replacement fund	63,782	45,271
Total Operating Expenses	<u>4,087,711</u>	<u>3,801,359</u>
Operating Loss	<u>(555,594)</u>	<u>(305,709)</u>
Nonoperating Revenues (Expenses)		
Interest income	62,560	75,658
Loss on disposal of capital assets	(1,698)	(30,042)
Interest expense	(236,532)	(352,308)
Amortization of debt expense	(22,191)	(20,202)
Amortization of refinancing loss	(52,608)	(51,090)
Total Nonoperating Revenues (Expenses)	<u>(250,469)</u>	<u>(377,984)</u>
Net Loss	(806,063)	(683,693)
Capital contributions	<u>13,600</u>	<u>-</u>
Change in Net Assets	(792,463)	(683,693)
Net Assets - January 1	<u>9,758,718</u>	<u>10,442,411</u>
Net Assets - December 31	<u>\$ 8,966,255</u>	<u>\$ 9,758,718</u>

The notes to the financial statements are an integral part of this statement.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Statement of Cash Flows

Year Ended December 31, 2004

With Comparative Totals for the Year Ended December 31, 2003

	2004	2003
Cash Flows from Operating Activities		
Cash received from user charges	\$ 3,712,516	\$ 3,117,663
Cash payments to suppliers	(2,449,150)	(1,848,108)
Cash payments to employees	(215,081)	(252,841)
Net Cash Provided by Operating Activities	<u>1,048,285</u>	<u>1,016,714</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(58,072)	(103,191)
Principal payments on long-term debt	(490,000)	(5,825,000)
Debt issued	-	7,825,000
Payment to escrow agent	-	(2,718,375)
Debt issuance costs paid	-	(88,544)
Interest payments on long-term debt	(282,854)	(320,710)
Net Cash Used by Capital and Related Financing Activities	<u>(830,926)</u>	<u>(1,230,820)</u>
Cash Flows from Investing Activities		
Interest received	44,255	73,401
Purchase of long-term investments	(288,768)	(500,000)
Net Cash Used by Investing Activities	<u>(244,513)</u>	<u>(426,599)</u>
Change in Cash and Cash Equivalents	(27,154)	(640,705)
Cash and Cash Equivalents - January 1	<u>1,503,055</u>	<u>2,143,760</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 1,475,901</u></u>	<u><u>\$ 1,503,055</u></u>
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities:		
Operating loss	\$ (555,594)	\$ (305,709)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,511,400	1,517,826
Changes in current assets and liabilities		
Accounts receivable	180,399	(377,987)
Prepaid items	(1,478)	(14,893)
Refunds due users	(146,553)	304,274
Accounts payable	68,648	(90,399)
Accrued vacation	163	(3,060)
Accrued sick leave	1,242	(8,997)
Deferred credits	(9,941)	(4,341)
Net Cash Provided by Operating Activities	<u><u>\$ 1,048,286</u></u>	<u><u>\$ 1,016,714</u></u>
Noncash Capital and Related Financing Activities		
Contributed capital assets	<u><u>\$ 13,600</u></u>	<u><u>\$ -</u></u>
Reconciliation of cash and cash equivalents to statement of net assets:		
Cash and investments	\$ 100	\$ 100
Restricted cash and investments	2,964,569	2,702,955
Less: Long-term investments	(1,488,768)	(1,200,000)
Total cash and cash equivalents	<u><u>\$ 1,475,901</u></u>	<u><u>\$ 1,503,055</u></u>

The notes to the financial statements are an integral part of this statement.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the Neenah-Menasha Sewerage Commission, Wisconsin ("the Commission") conform to accounting principles generally accepted in the United States of America for enterprise funds as defined by the Governmental Accounting Standards Board. A summary of the Commission's accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Reporting Entity

The Neenah-Menasha Sewerage Commission was organized on September 30, 1982, under Section 66.0301 of the Wisconsin State Statutes to construct and operate wastewater transportation and treatment facilities. The Commission was not created for profit and no part of the net income or profits will be remitted or transferred to any private individual or any organization created for profit. Pursuant to contract, the Commission serves the City of Neenah, City of Menasha, Town of Neenah Sanitary District No. 1, Town of Neenah Sanitary District No. 1-1, Town of Neenah Sanitary District No. 2, Town of Menasha Utility District, Town of Harrison Waverly Sanitary District, Town of Menasha, Town of Harrison, Mead Corporation, and Sonoco/US Mills Corporation.

The Commission has seven members selected for three year staggered terms. The Mayors of Neenah and Menasha each appoint two members of the Commission who must be confirmed by a majority vote of their respective Common Councils. The President of the Town of Neenah Sanitary District Nos. 1, 1-1, and 2, the President of the Town of Menasha Utility District, and the President of the Town of Harrison Waverly Sanitary District each appoint one member, with such appointment being confirmed by the governing bodies of those respective municipalities.

In accordance with GAAP, the financial statements are required to include the Commission and any separate component units that have a significant operational or financial relationship with the Commission. The Commission has not identified any component units that are required to be included in the financial statements in accordance with standards established in GASB Statement Nos. 14 and 39.

2. Enterprise Funds

The Commission accounts for its operations as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business with the intent that the costs (expenses, including depreciation) of providing services to the general public be financed primarily through user charges.

Certain private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following certain subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Commission has elected not to follow subsequent private-sector guidance.

3. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the Statement of Net Assets. Enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Unpaid enterprise fund service receivables are recorded at year-end. All capital assets are capitalized at historical cost and depreciated over their useful lives.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

4. Budgets and Budgetary Accounting

The Commission prepares an annual budget for use as a guide to operations and to determine estimated amounts due from contracting municipalities and industries. Formal budgetary integration is not completed and, accordingly, the budget is not presented in the financial statements. The Commission follows these procedures in establishing the annual budget:

- a. Prior to September 30, the Commission must prepare a budget and formally present it at a public hearing. The budget includes an estimate of each contracting municipality and industry's annual charges payable to the Commission in the following year.
- b. Each contracting municipality and industry agrees to include its estimated annual charges payable to the Commission in its budget for the following year. Each contracting municipality also agrees to adopt a local ordinance which provides for the recovery of its share of the Commission's annual charges from its users. To the extent that its share of the Commission's annual charges are not paid from user fees, each contracting municipality is required to otherwise provide for such payment by other means, including, but not limited to, its general fund or property tax levies.
- c. The Commission bills monthly, in advance, each contracting municipality and industry for its share of one-twelfth of the annual budget based on its proportionate use of the System. These monthly billings are due on the 10th of the month they are billed.
- d. The Commission refunds any operating surplus or charges back any operating deficit to the contracting municipalities and industries after each annual audit.

5. Assets, Liabilities and Net Assets

a. Cash and Investments

Cash and investments are combined on the statement of net assets and consist of deposits with financial institutions. Deposits are carried at cost. For purposes of the statement of cash flows, all cash and investments (including restricted assets) with an original maturity of three months or less are considered to be cash equivalents.

b. Accounts Receivable

Accounts receivable are recorded at gross amount with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the financial statements.

c. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items.

d. Capital Assets

Capital assets, which include property, plant and equipment assets, are reported in the financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of \$500 or higher and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, and equipment of the Commission are depreciated using the straight-line method over the following estimated useful lives:

	Years
<u>Assets</u>	
Buildings	20
Improvements other than buildings	20 - 100
Machinery and equipment	5 - 20

e. Long-term Obligations

Long-term obligations are accounted for in the enterprise fund.

f. Compensated Absences

Commission employees earn 12 days of sick leave per year and may accumulate up to 150 days. Employees who retire or resign in good standing from the Commission are paid for their accumulated sick leave up to a maximum of 72 days at their current rate of pay. No payment is made if the employee resigns or is terminated.

Commission employees earn vacation days on their anniversary date based on their length of service. Vacation benefits must be utilized in the year in which the employee becomes eligible.

g. Net Assets

GASB Statement No. 34 requires the classification of net assets into three components. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "invested in capital assets, net of related debt". Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

6. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

7. Change in Accounting Principles

The Commission adopted GASB Statements No. 34, 37 and 38 effective January 1, 2004. The principal effects of adopting these statements were (1) the accounting treatment for capital contributions as a component of the Statement of Revenues, Expenses and Changes in Net Assets, and (2) starting in calendar year 2004 and prospectively, the reclassification of elements of the total of Net Assets (in the form of previously entitled Fund Equity).

8. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Commission's financial position and operations.

NOTE B - DETAILED NOTES ON ALL FUNDS

1. Cash and Investments

Invested cash consists of deposits and investments which are restricted by the Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state and local governmental entities; statutorily authorized commercial paper and corporate securities; Wisconsin local government investment pool.

The carrying amount of the Commission's cash and investments totaled \$2,964,669 on December 31, 2004 as summarized below:

Petty cash fund	\$ 100
Deposits with financial institutions	2,289,154
Deposits with state investment pool	675,415
	<u>\$2,964,669</u>

Deposits with banks are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts. Deposits with credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF) in the amount of \$100,000 per credit union member. In addition, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available.

The Commission's balance with financial institutions is categorized below in accordance with GASB Statement No. 3 as either (1) insured or collateralized with securities held by the Commission or by its agent in the Commission's name or (2) collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name or (3) uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Commission's name.

	Category			Bank Balance
	1	2	3	
Total	\$1,700,000	\$ -	\$631,708	\$2,331,708

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2004

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

The Commission has investments in the Wisconsin local government investment pool at year-end. 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, 2004, the fair value of the Commission's share of the LGIP's assets was substantially equal to the carrying value.

Investments in the Wisconsin Local Government Investment Pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool. The bond provides unlimited coverage on principal losses, reduced by any FDIC, State of Wisconsin Guarantee Fund insurance, and income on the investment during the calendar quarter a loss occurs.

2. Restricted Assets

Restricted assets of the Commission on December 31, 2004 totaled \$2,999,809 and consisted of cash and investments of \$2,964,569 and accrued interest receivable of \$35,240 held for the following purposes:

	<u>Amount</u>	<u>Purpose</u>
Principal and Interest Redemption Fund	\$ 64,192	To be used for subsequent year payments of principal and interest on revenue bonds. Required monthly deposits must equal 1/6 of the next interest payment and 1/12 of the next principal payment.
DNR Equipment Replacement Fund	1,848,615	To be used for the replacement of certain assets for the sewerage treatment plant in accordance with Wisconsin Department of Natural Resources requirements.
Reserve Fund	391,451	To reserve additional funds for debt retirement; to be used if sufficient funds are not available in the Principal and Interest Redemption Fund. A balance of \$365,000 is required to be maintained in this account.
Depreciation Account	770,315	To be used for additions to and betterments of the sewage treatment plant.
Capital Outlay Accounts	232	To be used to finance future fixed asset acquisitions.
Less: Cash temporarily advanced to finance operating expenses	<u>(74,996)</u>	
	<u>\$2,999,809</u>	

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2004

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable:				
Land	\$ 64,039	\$ -	\$ -	\$ 64,039
Construction in progress	-	9,564	-	9,564
Total capital assets, non-depreciable	64,039	9,564	-	73,603
Capital assets, depreciable:				
Land improvements	156,114	-	-	156,114
Buildings	16,095,176	-	-	16,095,176
Improvements other than buildings	5,156,285	-	-	5,156,285
Machinery and equipment	13,423,353	62,108	88,743	13,396,718
Subtotals	34,830,928	62,108	88,743	34,804,293
Less accumulated depreciation for:				
Land improvements	15,632	7,811	-	23,443
Buildings	10,468,997	758,361	-	11,227,358
Improvements other than buildings	1,199,082	51,563	-	1,250,645
Machinery and equipment	9,058,451	693,665	87,045	9,665,071
Subtotals	20,742,162	1,511,400	87,045	22,166,517
Net capital assets, depreciable	14,088,766	(1,449,292)	1,698	12,637,776
Net capital assets	\$14,152,805	\$(1,439,728)	\$ 1,698	12,711,379
Less related long-term debt outstanding, less available debt proceeds of \$239,110				(6,645,890)
Investment in capital assets, net of				\$ 6,065,489

4. Long-term Liabilities

The following is a summary of long-term liability transactions of the Commission for the year ended December 31, 2004:

	Outstanding 1/1/04	Issued	Retired	Outstanding 12/31/04	Amount Due in One Year
Revenue bonds	\$7,375,000	\$ -	\$490,000	\$6,885,000	\$540,000
Accrued sick leave	26,736	1,242	-	27,978	-
	\$7,401,736	\$1,242	\$490,000	\$6,912,978	\$540,000

Revenue bonds outstanding at December 31, 2004 consists of the following:

\$2,800,000 issued 2/1/03; \$455,000 to \$495,000 due annually through 2008; interest at 2.00% - 3.00%	\$1,905,000
\$5,025,000 issued 9/1/03; \$85,000 to \$730,000 due annually through 2015; interest at 2.00 - 4.00%	4,980,000
	<u>\$6,885,000</u>

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2004

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

Annual principal and interest maturities of the above outstanding revenue bonds are shown below:

Due	Total	Principal	Interest
2005	\$ 767,549	\$ 540,000	\$ 227,549
2006	771,749	555,000	216,749
2007	769,966	565,000	204,966
2008	770,116	580,000	190,116
2009	772,716	600,000	172,716
2010-2014	3,819,386	3,315,000	504,386
2015	757,375	730,000	27,375
	<u>\$8,428,857</u>	<u>\$6,885,000</u>	<u>\$1,543,857</u>

NOTE C - OTHER INFORMATION**1. Retirement Commitments**

All eligible Commission employees participate in the Wisconsin Retirement System (System), at cost-sharing multiple-employer defined benefit public employee retirement system. All permanent employees expected to work over 600 hours a year (440 hours for teachers) are eligible to participate in the System. Covered employees in the General/Teacher/Educational Support Personnel category are required by statute to contribute 5.6% of their salary (2.6% for Executives and Elected Officials, 4.5% for Protective Occupations with Social Security, and 3.2% for Protective Occupations without Social Security) to the plan. Employers may 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 Commission employees covered by the System for the year ended December 31, 2004 was \$148,910 the employer's total payroll was \$159,172. The total required contribution for the year ended December 31, 2004 was \$14,593, which consisted of \$5,956, or 4.0% of covered payroll from the employer and \$8,637, or 5.8% of covered payroll from employees. The required contribution of \$23,195 from employees was financed entirely by the Commission. Total contributions for the years ending December 31, 2003 and 2002 were \$14,593 and \$16,575, respectively, equal to the required contributions for each year.

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 and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes. The System issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2004

NOTE C - OTHER INFORMATION (Continued)

2. Risk Management

The Commission has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the Commission.

3. Contingent Liabilities

The Commission has identified the following items as potential liabilities not recorded on the financial statements:

The U.S. Fish & Wildlife Service and the Wisconsin Department of Natural Resources are in the process of preparing Natural Resource Damage Assessments to determine the level of damages to the Lower Fox River and Green Bay natural resources resulting from PCB contamination, and the Wisconsin Department of Natural Resources is in the process of preparing a plan for the cleanup of PCB contaminated sediments in the Lower Fox River. Although none of the state or federal agencies has designated the Commission as a responsible party with respect to the natural resource damages or PCB cleanup costs, the seven Fox River Valley paper mills that have been designated as responsible parties have the ability to seek contribution toward such damages and costs from the POTWs (Publicly Owned Treatment Works) on the Lower Fox River, including the Commission. The currently available information indicates that the Commission bears virtually no responsibility for the discharge of PCB's into the Lower Fox River. Therefore, the Commission has a de minimis exposure in the above matters.

SUPPLEMENTAL INFORMATION

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
Schedule of Operation and Maintenance Expenses - Budget and Actual
Year Ended December 31, 2004
With Comparative Actual Amounts for Year Ended December 31, 2003

	Budget	Actual	Variance Positive (Negative)	2003 Actual
Operation				
Salaries and wages	\$ 160,020	\$ 155,776	\$ 4,244	\$ 176,059
Employee benefits	63,203	60,709	2,494	64,725
Professional fees and contracted services	972,620	958,677	13,943	907,850
Power	420,000	393,455	26,545	365,277
Gas	120,000	201,187	(81,187)	105,429
Water	12,000	14,435	(2,435)	11,074
Telephone	3,000	2,455	545	2,619
Chemicals				
Ferric chloride	2,800	12,334	(9,534)	2,603
Polymer	56,350	55,820	530	55,770
Sodium bisulfite	16,000	20,056	(4,056)	17,826
Salt	20,000	30,554	(10,554)	24,007
Aluminum sulfate	26,900	31,181	(4,281)	24,137
Carbon	7,500	2,954	4,546	-
Miscellaneous	500	-	500	3,744
Sludge disposal	190,000	184,550	5,450	202,045
Industrial metering and sampling	5,000	2,124	2,876	4,112
Lab supplies	12,250	10,933	1,317	9,783
Other operating supplies	39,800	41,920	(2,120)	33,497
Transportation	5,650	3,880	1,770	5,350
Administration	53,250	51,842	1,408	49,344
Office supplies	12,550	10,024	2,526	11,353
General insurance	61,825	58,034	3,791	57,932
Total Operation	2,261,218	2,302,900	(41,682)	2,134,536
Maintenance				
Equipment	50,750	64,930	(14,180)	47,333
General plant	25,000	27,091	(2,091)	19,938
Cleaning supplies	4,500	3,246	1,254	6,665
Total Maintenance	80,250	95,267	(15,017)	73,936
Total Operation and Maintenance Expenses	\$ 2,341,468	\$ 2,398,167	\$ (56,699)	\$ 2,208,472

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
 Calculation of Payable (Receivable) From Users for 2004 Operations
 December 31, 2004

	City of Neenah	City of Menasha	Town of Neenah S.D. 1, 1-1 & 2	Menasha Utility District	Waverly S.D.	Sonoco/ US Mills
Total						

\$ 2,627,548	\$ 1,174,990	\$ 682,535	\$ 36,375	\$ 310,472	\$ 65,244	\$ 357,932
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100.00%	44.20%	26.38%	1.36%	11.53%	2.52%	14.01%
---------	--------	--------	-------	--------	-------	--------

\$ 2,398,167

176,253

219,928

7,846
 83,503
 39,612
 775

2,662,612	1,176,842	702,394	36,100	307,098	67,131	373,047
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Net Expenditures Allocated for 2004 *

\$ (35,064)	\$ (1,852)	\$ (19,859)	\$ 275	\$ 3,374	\$ (1,887)	\$ (15,115)
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Payable (Receivable) From Users
 for 2004 Operations

This summary is prepared from the Commission's analysis of flow, BOD, and suspended solids from each user.

2,266,431
176,253
219,928
<u>\$ 2,662,612</u>

* Measured service to municipalities and industries
 Deposits to depreciation fund
 Deposits to replacement fund
 Net 2004 Allocated Expenses

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Information Required by Sewer Revenue Bonds

December 31, 2004

Insurance Coverage		
Expiration Date	Type of Coverage	Amount of Coverage
1/1/2005	Worker's compensation	Statutory Benefits
1/1/2005	Public officials and employee liability	\$1,000,000
1/1/2005	Automobile	\$2,000,000
1/1/2005	Boiler and machinery	\$1,000,000
1/1/2005	Umbrella liability	\$2,000,000
1/1/2005	Property	\$40,287,457 valued at replacement cost of treatment plant (100% coinsurance)
1/1/2005	General liability	\$2,000,000
1/1/2005	Commercial crime	Employee \$100,000 Other \$10,000
1/1/2005	Inland marine	\$250,000 (100% coinsurance)

Customers

City of Neenah
City of Menasha
Town of Neenah, Sanitary Districts 1, 1-1, 2
Menasha Utility District
Waverly Sanitary District
Sonoco/US Mills

Net Revenues of System

	2004	2003
Gross revenues	\$ 3,532,117	\$ 3,495,650
Operations and maintenance expenses	2,398,167	2,208,472
Net Revenues	<u>\$ 1,133,950</u>	<u>\$ 1,287,178</u>

ADDITIONAL INDEPENDENT AUDITORS' REPORT

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Commissioners
Neenah-Menasha Sewerage Commission, Wisconsin

We have audited the financial statements of the Neenah-Menasha Sewerage Commission, Wisconsin, as of and for the year ended December 31, 2004, and have issued our report thereon dated February 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Neenah-Menasha Sewerage Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Neenah-Menasha Sewerage Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted is set forth below.

Segregation of Duties

Nearly all accounting and cash related functions are currently handled by one individual. This does not allow for a proper segregation of duties for internal control purposes. Management believes that the costs to correct this situation would exceed the benefits derived.

We also concur with management's conclusion that the cost of complete segregation of duties would outweigh the benefits received. We also believe that management should make attempts to achieve any internal controls possible in the circumstances.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described above is a material weakness.

OTHER COMMENTS AND OBSERVATIONS

**NEENAH-MENASHA SEWERAGE
COMMISSION, WISCONSIN**

DECEMBER 31, 2004

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
December 31, 2004

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OTHER COMMENTS AND OBSERVATIONS

Comparative Summary of Operating Results

Commission charges to municipalities and industries are based on an operation and maintenance budget, a depreciation fund budget, a replacement fund budget, and a capital budget approved by the Commission. Presented below is a summary of resources provided and expended from the operation and maintenance, depreciation fund, replacement fund and capital budgets for the year ended December 31, 2004 with a comparative summary for the year ended December 31, 2003:

	Operation and Maintenance	Depreciation Fund	Replacement Fund	Capital	Totals	
					2004	2003
Resources Provided						
Charges to municipalities and industries	\$2,266,437	\$176,253	\$219,928	\$ 738,538	\$3,401,156	\$3,372,059
Other charges	130,961	-	-	-	130,961	123,591
Interest income	768	10,527	37,879	13,387	62,561	75,658
Total Resources Provided	2,398,166	186,780	257,807	751,925	3,594,678	3,571,308
Resources Expended						
Operating expenses	2,398,166	114,362	63,782	-	2,576,310	2,283,533
Principal paid on long-term debt	-	-	-	490,000	490,000	800,000
Interest paid on long-term debt	-	-	-	236,532	236,532	352,308
Loss on disposal of capital assets	-	-	-	1,698	1,698	30,042
Acquisition and construction of fixed assets	-	11,274	38,820	-	50,094	103,191
Total Resources Expended	2,398,166	125,636	102,602	728,230	3,354,634	3,569,074
Noncash transactions						
Amortization of deferred debits	-	-	-	(74,799)	(74,799)	(71,292)
Increase (Decrease) in Available Resources	\$ -	\$ 61,144	\$155,205	\$(51,104)	\$ 165,245	\$ (69,058)

Additional comments and observations concerning the above operating results follow:

a) **Operation and Maintenance**

Actual operation and maintenance expenses totaled \$2,398,166 for 2004 while the Commission budgeted operation and maintenance expenses of \$2,341,468. A budget to actual comparison of the Commission's operation and maintenance expenses is located on page 14 of the Commission's annual financial report.

b) **Depreciation Fund**

The Commission established a separate depreciation fund during 1997 to pay for repairs and capital asset additions not covered under the equipment replacement fund. During the year ended December 31, 2004, the Commission used depreciation fund resources of \$11,274 to acquire capital assets and \$114,362 to pay for maintenance costs. At December 31, 2004, the Commission had available resources of \$728,146 in the depreciation fund which consisted of cash and investments totaling \$671,750 and accrued interest of \$3,581 less 2005 depreciation fund payments of \$42,169 which related to 2004 operations.

OTHER COMMENTS AND OBSERVATIONS

Comparative Summary of Operating Results (Continued)

c) Replacement Fund

The Commission is required by federal and state regulations to maintain an equipment replacement fund to finance acquisitions and repairs of mechanical equipment. During the year ended December 31, 2004, the Commission used replacement fund resources of \$38,820 to acquire capital assets and \$63,782 to pay for equipment repairs. At December 31, 2004, the Commission had available resources of \$1,839,937 in the replacement fund which consisted of cash and investments totaling \$1,816,956 and accrued interest of \$31,659 less 2005 replacement fund payments of \$8,678 which related to 2004 operations.

d) Capital

The Commission's capital budget provides resources to finance principal and interest maturities of long-term debt and to finance capital asset additions. At December 31, 2004, the Commission is in compliance with all revenue bond covenants.

OTHER REQUIRED COMMUNICATION

In accordance with the requirements of government auditing standards generally accepted in the United States of America, the following disclosures are presented:

1. **Significant Accounting Policies**

The significant accounting policies used in the preparation of the financial statements are disclosed in Note A to the financial statements. There have been no material unusual transactions or controversial accounting issues.

2. **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. We are not aware of any particularly sensitive accounting estimates used by management in the preparation of the financial statements.

3. **Significant Audit Adjustments**

The financial statements reflect all accounting adjustments proposed during our audit. Copies of the audit adjustments are available from management.

4. **Other Information in Documents Containing Audited Financial Statements**

All the information included in the financial statements has been audited. Our responsibilities are addressed in the Independent Auditors' Report.

5. **Disagreements with Management**

We have had no material disagreements with management. For the purposes of this disclosure, professional accounting standards define a disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report.

6. **Consultations with Other Auditors**

To the best of our knowledge, management has not consulted with or obtained opinions from other independent auditors on auditing and accounting matters during the past year.

7. **Issues Discussed Prior to the Current Audit**

We have discussed various accounting and financial issues, including the application of any new and changed accounting principles or auditing standards, with management prior to conducting the audit. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to completing the services as your auditor.

8. **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing the audit.