

**NEENAH-MENASHA
SEWERAGE COMMISSION, WISCONSIN**

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2006



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**NEENAH-MENASHA
SEWERAGE COMMISSION, WISCONSIN**

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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, 2006, 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. The prior year summarized comparative information has been derived from the Commission's 2005 financial statements and, in our report dated March 17, 2006, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

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, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2007 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.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis
December 31, 2006

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, 2006.

Financial Highlights

- The assets of the Commission exceeded its liabilities as of December 31, 2006 by \$7,485,735 (*net assets*).
- The Commission's total net assets decreased by \$787,932. Several factors contributed to the overall decrease as follows:
 1. 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.
 2. 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 2006, depreciation exceeded amounts contributed for principal retirement by \$1,101,724.
 3. Commission users also contribute to equipment replacement and depreciation funds for replacement or significant repairs to existing equipment. For 2006, equipment replacement and depreciation charges exceeded expenses by \$280,752.
- The Commission's total long-term debt decreased by \$555,000 (8.7%) during 2006.

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 \$7,485,735 at the close of 2006.

Neenah-Menasha Sewerage Commission, Wisconsin's Net Assets		
	2006	2005
Current and other assets	\$ 183,725	\$ 431,696
Restricted assets	2,391,985	2,379,363
Capital assets	10,750,181	11,993,086
Total assets	13,325,891	14,804,145
Long-term liabilities outstanding	5,124,168	5,647,650
Other liabilities	715,988	882,828
Total liabilities	5,840,156	6,530,478
Net assets		
Invested in capital assets, net of related debt	5,564,291	6,243,196
Restricted	2,194,639	1,897,628
Unrestricted (deficit)	(273,195)	132,843
Total net assets	\$ 7,485,735	\$ 8,273,667

By far the largest portion of the Commission's net assets (74%) 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 (29%) represents resources that are subject to external restrictions on how they may be used.

Change in net assets. The Commissions net assets decreased by \$787,932. Key elements of this decrease are as follows:

Neenah-Menasha Sewerage Commission, Wisconsin's Change in Net Assets		
	2006	2005
Operating Revenues		
User charges		
Measured service	\$ 2,624,161	\$ 2,547,425
Capital charges	779,448	775,719
Depreciation fund charges	176,258	176,256
Replacement fund charges	219,931	219,938
Other charges	109,339	114,455
Total Operating Revenues	3,909,137	3,833,793
Operating Expenses		
Operation and maintenance	2,737,105	2,661,921
Depreciation	1,665,405	1,421,765
Depreciation fund	81,629	211,801
Replacement fund	33,808	24,354
Total Operating Expenses	4,517,947	4,319,841
Operating loss	(608,810)	(486,048)
Nonoperating Revenues (Expenses)	(179,122)	(206,540)
Change in net assets	(787,932)	(692,588)
Net assets - beginning balance	8,273,667	8,966,255
Net assets - ending balance	\$ 7,485,735	\$ 8,273,667

Capital Asset and Debt Administration

Capital assets. The Commission's investment in capital assets as of December 31, 2006 amounts to \$10,750,181 (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 \$1,242,905 or 10.3% over last year was due to depreciation expense in excess of current year capital additions of \$1,085,967. Current year additions consisted of replacement of equipment (\$35,469), improvement of structures (\$184,644) consisting of a backup gas boiler and roof replacement, and preliminary construction costs (\$214,330) on polymer system and electronic door access projects.

Neenah-Menasha Sewerage Commission, Wisconsin's Capital Assets (net of accumulated depreciation)		
	2006	2005
Land	\$ 64,039	\$ 64,039
Land improvements	117,050	124,861
Buildings	3,524,480	4,206,767
Improvements other than buildings	3,802,514	3,854,077
Machinery and equipment	3,027,138	3,725,809
Construction in progress	214,960	17,533
Total	\$ 10,750,181	\$ 11,993,086

Long-term debt. At the end of the current fiscal year, the Commission had total bonded debt outstanding of \$5,790,000.

Neenah-Menasha Sewerage Commission, Wisconsin's Outstanding Debt Revenue Bonds		
	2006	2005
Revenue bonds	\$ 5,790,000	\$ 6,345,000

The Commission's total debt decreased by \$555,000 (8.7%) during the current fiscal year due to principal repayments.

The Commission has restricted cash of \$76,556 in the Principal and Interest Redemption Fund and \$427,144 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 2007 operations budget will show a 1.9% increase over the 2006 operations budget. The rates to the users will be adjusted accordingly to offset this increase. Major budget increases are anticipated in natural gas (8.4%), Salt (34.9%), and Repairs and Maintenance (9.5%).

Construction activity is expected in 2007. The Commission will continue to investigate the installation of a sludge-to-sludge heat exchanger to improve the efficiency of heating sludge in the digesters. Funding for this improvement will come from the Depreciation Fund. The Commission will look at rebuilding/renovating one of the final clarifiers and its mechanisms. Funding for this improvement will come from the Replacement Fund and 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 Voigt.

FINANCIAL STATEMENTS

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Statement of Net Assets

December 31, 2006

With Comparative Totals for December 31, 2005

	2006	2005
ASSETS		
Current Assets		
Cash and investments	\$ 100	\$ 100
Receivables		
Accounts	78,550	63,001
Due from users	53,069	278,046
Prepaid items	785	17,136
Total Current Assets	<u>132,504</u>	<u>358,283</u>
Noncurrent Assets		
Restricted Assets		
Cash and investments	2,380,285	2,367,298
Accrued interest	11,700	12,065
Total Restricted Assets	<u>2,391,985</u>	<u>2,379,363</u>
Other Assets		
Unamortized debt discount	<u>51,221</u>	<u>73,413</u>
Capital Assets		
Non-depreciable	278,999	81,572
Depreciable	10,471,182	11,911,514
Net Capital Assets	<u>10,750,181</u>	<u>11,993,086</u>
Total Noncurrent Assets	<u>13,193,387</u>	<u>14,445,862</u>
TOTAL ASSETS	<u>13,325,891</u>	<u>14,804,145</u>
LIABILITIES		
Current Liabilities		
Refunds due users	2,588	62,743
Accounts payable	100,539	132,880
Accrued vacation	-	1,917
Total Current Liabilities	<u>103,127</u>	<u>197,540</u>
Liabilities Payable from Restricted Assets		
Accounts payable	22,371	98,309
Current maturities of long-term debt	565,000	555,000
Accrued interest	17,082	18,064
Total Liabilities Payable from Restricted Assets	<u>604,453</u>	<u>671,373</u>
Long-term Liabilities		
Revenue bonds, less current maturities	5,225,000	5,790,000
Unamortized loss on refinancing	(100,832)	(153,440)
Accrued sick leave	-	11,090
Total Long-term Liabilities	<u>5,124,168</u>	<u>5,647,650</u>
Deferred Credits	<u>8,408</u>	<u>13,915</u>
TOTAL LIABILITIES	<u>5,840,156</u>	<u>6,530,478</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,564,291	6,243,196
Restricted for		
Plant replacement	2,064,021	1,793,358
Debt service	130,618	104,270
Unrestricted (deficit)	<u>(273,195)</u>	<u>132,843</u>
TOTAL NET ASSETS	<u>\$ 7,485,735</u>	<u>\$ 8,273,667</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 Net Assets

Year Ended December 31, 2006

With Comparative Totals for the Year Ended December 31, 2005

	2006	2005
Operating Revenues		
User Charges		
Measured service	\$ 2,624,161	\$ 2,547,425
Capital charges	779,448	775,719
Depreciation fund charges	176,258	176,256
Replacement fund charges	219,931	219,938
Other charges	109,339	114,455
Total Operating Revenues	<u>3,909,137</u>	<u>3,833,793</u>
Operating Expenses		
Operation and maintenance	2,737,105	2,661,921
Depreciation	1,665,405	1,421,765
Depreciation fund	81,629	211,801
Replacement fund	33,808	24,354
Total Operating Expenses	<u>4,517,947</u>	<u>4,319,841</u>
Operating Loss	<u>(608,810)</u>	<u>(486,048)</u>
Nonoperating Revenues (Expenses)		
Interest income	123,387	78,527
Gain (loss) on disposal of assets	(11,943)	16,382
Interest expense	(215,767)	(226,650)
Amortization of debt expense	(22,191)	(22,191)
Amortization of refinancing loss	(52,608)	(52,608)
Total Nonoperating Revenues (Expenses)	<u>(179,122)</u>	<u>(206,540)</u>
Change in Net Assets	(787,932)	(692,588)
Net Assets - January 1	<u>8,273,667</u>	<u>8,966,255</u>
Net Assets - December 31	<u>\$ 7,485,735</u>	<u>\$ 8,273,667</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, 2006

With Comparative Totals for the Year Ended December 31, 2005

	2006	2005
Cash Flows from Operating Activities		
Cash received from user charges	\$ 4,052,903	\$ 3,660,630
Cash payments to suppliers	(2,853,435)	(2,759,174)
Cash payments to employees	(104,042)	(145,790)
Net Cash Provided by Operating Activities	<u>1,095,426</u>	<u>755,666</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(434,442)	(750,102)
Proceeds from sale of capital assets	-	26,511
Proceeds from insurance claims	-	36,500
Principal payments on long-term debt	(555,000)	(540,000)
Interest payments on long-term debt	(216,749)	(227,548)
Net Cash Used by Capital and Related Financing Activities	<u>(1,206,191)</u>	<u>(1,454,639)</u>
Cash Flows from Investing Activities		
Interest received	123,752	101,702
Redemption of long-term investments	1,489,766	-
Purchase of long-term investments	(638,448)	(401,750)
Net Cash Provided (Used) by Investing Activities	<u>975,070</u>	<u>(300,048)</u>
Change in Cash and Cash Equivalents	864,305	(999,021)
Cash and Cash Equivalents - January 1	476,880	1,475,901
Cash and Cash Equivalents - December 31	<u>\$ 1,341,185</u>	<u>\$ 476,880</u>
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities:		
Operating loss	\$ (608,810)	\$ (486,048)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,665,405	1,421,765
Changes in current assets and liabilities		
Accounts receivable	(15,549)	(173,162)
Due from users	224,977	-
Prepaid items	16,351	2,845
Refunds due users	(60,155)	(6,745)
Accounts payable	(108,279)	26,104
Accrued vacation	(1,917)	(3,665)
Accrued sick leave	(11,090)	(16,888)
Deferred credits	(5,507)	(8,540)
Net Cash Provided by Operating Activities	<u>\$ 1,095,426</u>	<u>\$ 755,666</u>
Noncash Capital and Related Financing Activities		
None		
Reconciliation of cash and cash equivalents to statement of net assets:		
Cash and investments	\$ 100	\$ 100
Restricted cash and investments	2,380,285	2,367,298
Less: Long-term investments	(1,039,200)	(1,890,518)
Total cash and cash equivalents	<u>\$ 1,341,185</u>	<u>\$ 476,880</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, 2006

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, 2006

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, 2006

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:

<u>Assets</u>	<u>Years</u>
Buildings	20
Land improvements	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, 2006

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

7. 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 \$2,380,385 on December 31, 2006 as summarized below:

Petty cash fund	\$ 100
Deposits with financial institutions	1,648,728
Deposits with state investment pool	731,557
	<u>\$ 2,380,385</u>

Basic financial statements	
Cash and investments	\$ 100
Restricted cash and investments	2,380,285
	<u>\$ 2,380,385</u>

Deposits of the Commission are subject to custodial credit risk. Presented below is a discussion of the Commission's deposits and the related risk.

Deposits with Financial Institutions

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.

On December 31, 2006, \$31,928 of the Commission's deposits with financial institutions were in excess of federal and state depository insurance limits and uncollateralized.

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Commission does not have an additional custodial credit policy.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2006

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

Investments

The Commission has investments in the Wisconsin local government investment pool of \$731,557 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, 2006, the fair value of the Commission's share of the LGIP's assets was substantially equal to the carrying value.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The Commission does not have an additional credit risk policy. The City's investment in the Wisconsin local government investment pool is not rated. 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.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investments held by the Wisconsin local government investment pool mature in 12 months or less.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2006

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)**2. Restricted Assets**

Restricted assets of the Commission on December 31, 2005 totaled \$2,391,985 and consisted of cash and investments of \$2,380,285 and accrued interest receivable of \$11,700 held for the following purposes:

Fund	Amount	Purpose
Bond Depreciation Fund	\$ 637,444	To be used for additions to and betterments of the sewerage treatment plant
Bond Principal and Interest Redemption Fund	76,556	To be used for subsequent year payments of principal and interest on revenue bonds.
Bond Reserve Fund	427,144	To reserve additional funds for debt retirement; to be used if sufficient funds are not available in the Bond Principal and Interest Redemption Fund. A balance of \$365,000 is required to be maintained in this account.
DNR Equipment Replacement Fund	1,388,059	To be used for the replacement of certain assets of the sewerage treatment plant in accordance with Wisconsin Department of Natural Resources requirements.
Less: Cash temporarily advanced to finance operating expenses	<u>(137,218)</u>	
Total	<u>\$ 2,391,985</u>	

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2006

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

3. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 64,039	\$ -	\$ -	\$ 64,039
Construction in progress	17,533	342,422	144,995	214,960
Total capital assets, not being depreciated	81,572	342,422	144,995	278,999
Capital assets, being depreciated:				
Land improvements	156,114	-	-	156,114
Buildings	16,105,156	184,644	99,868	16,189,932
Improvements other than buildings	5,156,285	-	-	5,156,285
Machinery and equipment	13,863,674	52,372	252,690	13,663,356
Subtotals	35,281,229	237,016	352,558	35,165,687
Less accumulated depreciation for:				
Land improvements	31,253	7,811	-	39,064
Buildings	11,898,389	866,932	99,869	12,665,452
Improvements other than buildings	1,302,208	51,563	-	1,353,771
Machinery and equipment	10,137,865	739,099	240,746	10,636,218
Subtotals	23,369,715	1,665,405	340,615	24,694,505
Total capital assets, being depreciated, net	11,911,514	(1,428,389)	11,943	10,471,182
Capital assets, net	<u>\$ 11,993,086</u>	<u>\$ (1,085,967)</u>	<u>\$ 156,938</u>	10,750,181
Less related long-term debt outstanding (net of available bond proceeds of \$604,110)				<u>5,185,890</u>
Investment in capital assets, net of related debt				<u>\$ 5,564,291</u>

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2006

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

4. Long-term Liabilities

The following is a summary of long-term liability transactions of the Commission for the year ended December 31, 2006:

	Outstanding 1/1/06	Issued	Retired	Outstanding 12/31/06	Due Within One Year
Revenue bonds	\$ 6,345,000	\$ -	\$ 555,000	\$ 5,790,000	\$ 565,000
Accrued sick leave	11,090	-	11,090	-	-
	<u>\$ 6,356,090</u>	<u>\$ -</u>	<u>\$ 566,090</u>	<u>\$ 5,790,000</u>	<u>\$ 565,000</u>

Revenue bonds outstanding at December 31, 2006 consist of the following:

\$2,800,000 issued 2/1/03; \$485,000 to \$495,000 due annually through 2008; interest 2.6% to 3.0%	\$ 980,000
\$5,025,000 issued 9/1/03; \$80,000 to \$730,000 due annually through 2015; interest 2.8% to 4.0%	4,810,000
	<u>\$ 5,790,000</u>

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

Year Ended December 31	Revenue Bonds		
	Principal	Interest	Total
2007	\$ 565,000	\$ 204,966	\$ 769,966
2008	580,000	190,116	770,116
2009	600,000	172,716	772,716
2010	620,000	149,916	769,916
2011	640,000	125,116	765,116
2012-2015	2,785,000	256,729	3,041,729
	<u>\$ 5,790,000</u>	<u>\$ 1,099,559</u>	<u>\$ 6,889,559</u>

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2006

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. The Commission's remaining eligible employee resigned as of December 31, 2006 eliminating future contributions to the System by the Commission.

All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees of the Commission are required by statute to contribute 5.4% of their salary. 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, 2006 was \$56,991 the employer's total payroll was \$82,643. The total required contribution for the year ended December 31, 2006 was \$5,926, which consisted of \$2,845, or 5.0% of covered payroll from the employer and \$3,081, or 5.4% of covered payroll from employees. The required contribution of \$3,081 from employees was financed entirely by the Commission. Total contributions for the years ending December 31, 2005 and 2004 were \$10,746 and \$14,593, 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, 2006

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, 2006
With Comparative Actual Amounts for Year Ended December 31, 2005

	Budget	Actual	Variance Positive (Negative)	2005 Actual
Operation				
Salaries and wages	\$ 60,800	\$ 66,071	\$ (5,271)	\$ 89,316
Employee benefits	24,119	24,964	(845)	35,921
Professional fees and contracted services	1,224,816	1,215,169	9,647	1,138,493
Power	522,500	562,530	(40,030)	566,982
Gas	161,500	196,532	(35,032)	145,632
Water	15,945	14,672	1,273	12,239
Telephone	2,700	2,529	171	2,749
Chemicals				
Polymer	90,300	54,428	35,872	70,764
Sodium bisulfite	25,900	26,287	(387)	30,083
Chlorine	4,725	-	4,725	4,740
Salt	31,875	43,639	(11,764)	33,981
Aluminum sulfate	41,800	37,734	4,066	43,604
Carbon	10,500	-	10,500	3,216
Miscellaneous	-	-	-	4,198
Sludge disposal	198,500	198,321	179	227,682
Industrial metering and sampling	5,000	5,501	(501)	2,483
Lab supplies	19,000	12,993	6,007	13,683
Other operating supplies	44,800	53,942	(9,142)	37,329
Transportation	5,200	5,716	(516)	4,302
Administration	57,000	54,068	2,932	52,040
Office supplies	11,750	11,380	370	8,210
General insurance	61,625	55,038	6,587	59,009
Total Operation	2,620,355	2,641,514	(21,159)	2,586,656
Maintenance				
Equipment	55,000	48,686	6,314	46,016
General plant	26,250	38,891	(12,641)	22,513
Cleaning supplies	9,400	8,014	1,386	6,736
Total Maintenance	90,650	95,591	(4,941)	75,265
Total Operation and Maintenance Expenses	\$ 2,711,005	\$ 2,737,105	\$ (26,100)	\$ 2,661,921

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
Calculation of Payable (Receivable) From Users for 2006 Operations
December 31, 2006

	City of Neenah	City of Menasha	Town of Neenah S.D. 1, 1-1 & 2	Menasha Utility District	Waverly S.D.	Sonoco/ US Mills
Revenues received during year for 2006 operations and maintenance						
	\$ 1,318,000	\$ 670,014	\$ 25,313	\$ 376,876	\$ 85,840	\$ 493,826
Percentage of net expenses allocated for 2006	44.63%	22.50%	0.86%	12.81%	2.93%	16.26%
Actual operation and maintenance expenses	\$ 2,737,105					
Deposits to depreciation fund	1,318,000	670,013	25,313	376,876	85,840	493,826
Deposits to replacement fund						
Less:						
Industrial metering and sampling	7,331					
WPPI standby service	57,903					
Equipment rental	-					
Pretreatment administrative fees	6,750					
Other operating revenues	37,355					
Interest income	3,605					
Net Expenditures Allocated for 2006 *	3,020,350	1,348,075	679,674	25,969	88,434	491,238
Payable (Receivable) From Users for 2006 Operations	\$ (50,481)	\$ (30,075)	\$ (9,660)	\$ (656)	\$ (2,594)	\$ 2,588

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

* Measured service to municipalities and industries
Deposits to depreciation fund \$ 2,624,161
Deposits to replacement fund 176,258
Net 2006 Allocated Expenses 219,931
\$ 3,020,350

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Information Required by Sewer Revenue Bonds

December 31, 2006

Insurance Coverage		
Expiration Date	Type of Coverage	Amount of Coverage
1/1/2007	Worker's compensation	Statutory Benefits
1/1/2007	Public officials and employee liability	2000000
1/1/2007	Automobile	\$2,000,000
1/1/2007	Boiler and machinery	\$1,000,000
1/1/2007	Umbrella liability	\$2,000,000
1/1/2007	Property	\$43,957,410 valued at replacement cost of treatment plant (100% coinsurance)
1/1/2007	General liability	\$2,000,000
1/1/2007	Commercial crime	Employee \$100,000 Other \$10,000
1/1/2007	Inland marine	\$255,000 (100% coinsurance)

Customers

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

Net Revenues of System

	2006	2005
Gross revenues	\$ 3,909,137	\$ 3,833,793
Operations and maintenance expenses	2,737,105	2,661,921
Net Revenues	<u>\$ 1,172,032</u>	<u>\$ 1,171,872</u>

OTHER COMMENTS AND OBSERVATIONS

**NEENAH-MENASHA SEWERAGE
COMMISSION, WISCONSIN**

DECEMBER 31, 2006

To the Commissioners
Neenah-Menasha Sewerage Commission, Wisconsin

We have completed our audit of the basic financial statements of the Neenah-Menasha Sewerage Commission, Wisconsin (Commission) for the year ended December 31, 2006. The Commission's financial statements, including our report thereon, are presented in a separate audit report document. Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, noncompliance with the provisions of laws, regulations, contracts and grants or other illegal acts may exist and not be detected by us.

Professional standards require us to consider the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Commission's financial statements but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. As part of our audit, we have not performed procedures specifically to identify deficiencies in internal control or to express an opinion on the effectiveness of your internal control.

Audit standards were changed in 2006 by the American Institute of Certified Public Accountants (AICPA) to lower the definition of control deficiencies that we must communicate to management and the Commissioners as part of our audit. In addition, the revised standard clarifies that the significance of a control deficiency is dependent on the *potential* for misstatement, not whether a misstatement actually occurred. As a result, the number of control deficiencies reported by auditors will significantly increase.

Statement of Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to:

- a. Evaluate identified control deficiencies and determine whether these deficiencies, individually or in combination, are significant deficiencies or material weaknesses.
- b. Communicate in writing to management and the Commissioners control deficiencies that are considered significant deficiencies or material weaknesses, including those identified in previous audits that have not yet been corrected.

Responsibility of Management and the Auditor

The new standard is expected to generate additional discussion of internal controls and their importance between management and the auditors. The Commission is responsible for establishing, maintaining and monitoring internal controls, and for the fair presentation of the Commission's financial statements, including notes, in conformity with accounting principles generally accepted in the United States of America. An effective internal control system includes anti-fraud controls, controls to ensure accurate and timely financial reporting and to ensure safeguarding of the Commission's assets.

Management is responsible for making decisions concerning costs to be incurred to provide internal control and related benefits of these controls. We are responsible for communicating significant deficiencies and material weaknesses in accordance with professional standards, regardless of management's decisions.

We understand that not all control deficiencies can be corrected by the Commission without incurring significant additional costs. The Commission may already know of the existence of significant deficiencies or material weaknesses and may have made a conscious decision to accept that degree of risk because of cost or other considerations. For example, the Commission annually contracts with us to make various routine adjusting and closing entries and prepare your financial statements in conformity with generally accepted accounting principles. The new standard indicates that we cannot be considered part of your internal controls.

Summary of Internal Control Communications

Included in this document is the following auditors' report required by government auditing standards.

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

The above report states that nothing came to our attention to indicate that the Commission was not in compliance with laws, regulations, contracts and grants for which noncompliance with could have a material effect on the Commission's financial statements. The above report also discloses the following control deficiency:

Finding 2006-1: Segregation of Duties

It is important to realize that the control deficiency reported during our current year audit may have existed in prior years; however, prior auditing standards did not require us to communicate this control deficiency to you.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Commission personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, Commissioners, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Certified Public Accountants
Green Bay, Wisconsin
March 17, 2007

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
December 31, 2006

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**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 (Commission), as of and for the year ended December 31, 2006, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 17, 2007. 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, Wisconsin's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Neenah-Menasha Sewerage Commission, Wisconsin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Neenah-Menasha Sewerage Commission, Wisconsin's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2006-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Neenah-Menasha Sewerage Commission, Wisconsin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Neenah-Menasha Sewerage Commission, Wisconsin's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Neenah-Menasha Sewerage Commission, Wisconsin's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants
Green Bay, Wisconsin
March 17, 2007

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
Schedule of Findings and Responses
For the Year Ended December 31, 2006

Section I - Internal Control Over Financial Reporting

Finding No.	Control Deficiencies
2006-01	Segregation of Duties
Condition:	The Commission has one individual essentially complete all financial and recordkeeping duties of the Commission's operations. Accordingly, this does not allow for a proper segregation of duties for internal control purposes.
Criteria:	Segregation of duties is an internal control intended to prevent or decrease the occurrence of errors or intentional fraud. Segregation of duties ensures that no single employee has control over all phases of a transaction.
Cause:	The lack of segregation of duties is due to the limited number of employees and the size of Commission's operations.
Recommendation:	We recommend the Commissioners continue to monitor the transactions and the financial records of the Commission.
Management Response:	Management believes that the cost of segregating cash receipts and cash disbursement duties from the related recording functions outweigh the benefits to be received.

Section II - Compliance and Other Matters

There are no findings related to compliance and other matters that are required to be reported under governmental auditing standards generally accepted in the United States of America for the year ended December 31, 2006.

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, 2006 with a comparative summary for the year ended December 31, 2005:

	Operation and Maintenance	Depreciation Fund	Replacement Fund	Capital	Totals	
					2006	2005
Resources Provided						
Charges to municipalities and industries	\$ 2,624,161	\$ 176,258	\$ 219,931	\$ 779,448	\$ 3,799,798	\$ 3,719,338
Other charges	109,339	-	-	-	109,339	114,455
Interest income	3,605	30,303	64,916	24,563	123,387	78,527
Total Resources Provided	2,737,105	206,561	284,847	804,011	4,032,524	3,912,320
Resources Extended						
Operating expenses	2,737,105	81,629	33,808	-	2,852,542	2,898,076
Principal paid on long-term debt	-	-	-	555,000	555,000	540,000
Interest paid on long-term debt	-	-	-	215,767	215,767	226,650
(Gain) loss on disposal of capital assets	-	-	-	11,943	11,943	(16,382)
Acquisition and construction of capital assets	-	179,804	254,639	-	434,443	247,233
Total Resources Expended	2,737,105	261,433	288,447	782,710	4,069,695	3,895,577
Noncash transactions						
Amortization of deferred debits	-	-	-	(74,799)	(74,799)	(74,799)
Change in Available Resources						
	\$ -	\$ (54,872)	\$ (3,600)	\$ (53,498)	\$ (111,970)	\$ (58,056)

Additional comments and observations concerning the above operating results follow:

a) **Operation and Maintenance**

Actual operation and maintenance expenses totaled \$2,737,105 for 2006 while the Commission budgeted operation and maintenance expenses of \$2,711,005. A budget to actual comparison of the Commission's operation and maintenance expenses is located on page 20 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, 2006, the Commission used depreciation fund resources of \$179,804 to acquire capital assets and \$81,629 to pay for maintenance costs. At December 31, 2006, the Commission had available resources of \$624,944 in the depreciation fund which consisted of cash and investments totaling \$633,230 and accrued interest of \$4,214 less 2007 depreciation fund payments of \$12,500 which related to 2006 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, 2006, the Commission used replacement fund resources of \$254,639 to acquire capital assets and \$33,808 to pay for equipment repairs. At December 31, 2006, the Commission had available resources of \$1,378,188 in the replacement fund which consisted of cash and investments totaling \$1,380,573 and accrued interest of \$7,486 less 2007 replacement fund payments of \$9,871 which related to 2006 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, 2006, 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.