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**NEENAH-MENASHA  
SEWERAGE COMMISSION, WISCONSIN**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2009**

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
December 31, 2009

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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, 2009, 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 2008 financial statements and, in our report dated June 19, 2009 we expressed an unqualified opinion on the financial statements.

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, 2009, 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 23, 2010 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**

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
**Management's Discussion and Analysis**  
December 31, 2009

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, 2009.

**Financial Highlights**

- The assets of the Commission exceeded its liabilities as of December 31, 2009 by \$6,489,895 (*net assets*).
- The Commission's total net assets increased by \$192,093. Several factors contributed to the overall increase 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 2009, depreciation exceeded amounts contributed for principal retirement by \$117,999.
  3. Commission users also contribute to equipment replacement and depreciation funds for replacement or significant repairs to existing equipment. For 2009, equipment replacement and depreciation charges exceeded expenses by \$316,370.
- The Commission's total long-term debt decreased by \$600,000 (12.9%) during 2009.

**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 \$6,489,896 at the close of 2009.

<b>Neenah-Menasha Sewerage Commission, Wisconsin's Net Assets</b>		
	2009	2008
Current and other assets	\$ 332,014	\$ 259,002
Restricted assets	1,773,133	2,037,517
Capital assets	8,611,160	8,981,365
Total assets	10,716,307	11,277,884
Long-term liabilities outstanding	3,425,000	4,045,000
Other liabilities	801,412	935,082
Total liabilities	4,226,412	4,980,082
Net assets		
Invested in capital assets, net of related debt	4,931,160	4,701,365
Restricted	1,587,067	1,451,691
Unrestricted (deficit)	(28,332)	144,746
Total net assets	\$ 6,489,895	\$ 6,297,802

By far the largest portion of the Commission's net assets (76%) 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 (24%) represents resources that are subject to external restrictions on how they may be used.

Change in net assets. The Commissions net assets increased by \$192,094. Key elements of this increase are as follows:

<b>Neenah-Menasha Sewerage Commission, Wisconsin's Change in Net Assets</b>		
	2009	2008
Operating Revenues		
User charges		
Measured service	\$ 3,135,159	\$ 2,718,597
Capital charges	772,489	770,339
Depreciation fund charges	184,991	176,261
Replacement fund charges	240,000	219,935
Other charges	117,959	172,511
Total Operating Revenues	4,450,598	4,057,643
Operating Expenses		
Operation and maintenance	3,253,158	2,892,282
Depreciation	719,666	673,251
Depreciation fund	104,627	635
Replacement fund	3,994	64,387
Total Operating Expenses	4,081,445	3,630,555
Operating loss	369,153	427,088
Nonoperating Revenues (Expenses)	(177,060)	(887,444)
Change in net assets	192,093	(460,356)
Net assets - beginning balance	6,297,802	6,758,158
Net assets - ending balance	\$ 6,489,895	\$ 6,297,802

#### **Capital Asset and Debt Administration**

Capital assets. The Commission's investment in capital assets as of December 31, 2009 amounts to \$8,611,160 (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 \$370,205 or 4.1% over last year was due to depreciation expense in excess of current year capital additions.

<b>Neenah-Menasha Sewerage Commission, Wisconsin's Capital Assets</b> (net of accumulated depreciation)		
	2009	2008
Land	\$ 63,539	\$ 63,539
Land improvements	93,668	101,474
Buildings	2,628,444	2,783,463
Improvements other than buildings	2,941,969	2,982,044
Machinery and equipment	2,883,540	3,048,006
Construction in progress	-	2,839
Total	\$ 8,611,160	\$ 8,981,365



Long-term debt. At the end of the current fiscal year, the Commission had total bonded debt outstanding of \$4,045,000.

<b>Neenah-Menasha Sewerage Commission, Wisconsin's Outstanding Debt</b>			
<b>Revenue Bonds</b>			
	<b>2009</b>		<b>2008</b>
Revenue bonds	\$	4,045,000	\$ 4,645,000

The Commission's total debt decreased by \$600,000 (12.9%) during the current fiscal year due to principal repayments.

The Commission has restricted cash of \$67,097 in the Principal and Interest Redemption Fund and \$477,331 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 2010 operations budget will show a 5.4% increase over the 2009 operations budget. The rates to the users will be adjusted accordingly to offset this increase. Major budget increases are anticipated in Chemicals (53.0%); particularly with the increased cost of alum. Additionally in the chemicals category, there is also the added cost for media to clean and condition methane gas generated and used on-site which is a source of green power to reduce our purchase of electricity and natural gas.

#### **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, 2009

With Comparative Totals for December 31, 2008

	2009	2008
<b>ASSETS</b>		
Current Assets		
Cash and investments	\$ 100	\$ 100
Receivables		
Accounts	24,957	249,944
Due from users	298,890	-
Prepaid items	723	373
Total Current Assets	<u>324,670</u>	<u>250,417</u>
Noncurrent Assets		
Restricted Assets		
Cash and investments	1,767,679	2,033,299
Accrued interest	5,454	4,218
Total Restricted Assets	<u>1,773,133</u>	<u>2,037,517</u>
Other Assets		
Unamortized debt discount	<u>7,344</u>	<u>8,585</u>
Capital Assets		
Non-depreciable	63,539	66,378
Depreciable	8,547,621	8,914,987
Net Capital Assets	<u>8,611,160</u>	<u>8,981,365</u>
Total Noncurrent Assets	<u>10,391,637</u>	<u>11,027,467</u>
<b>TOTAL ASSETS</b>	<u>10,716,307</u>	<u>11,277,884</u>
<b>LIABILITIES</b>		
Current Liabilities		
Refunds due users	21,957	120,292
Accounts payable	142,560	190,816
Total Current Liabilities	<u>164,517</u>	<u>311,108</u>
Liabilities Payable from Restricted Assets		
Accounts payable	4,400	9,579
Current maturities of long-term debt	620,000	600,000
Accrued interest	12,495	14,395
Total Liabilities Payable from Restricted Assets	<u>636,895</u>	<u>623,974</u>
Long-term Liabilities		
Revenue bonds, less current maturities	<u>3,425,000</u>	<u>4,045,000</u>
<b>TOTAL LIABILITIES</b>	<u>4,226,412</u>	<u>4,980,082</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	4,931,160	4,701,365
Restricted for		
Plant replacement	1,420,134	1,271,472
Debt service	166,933	180,219
Unrestricted	<u>(28,332)</u>	<u>144,746</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 6,489,895</u>	<u>\$ 6,297,802</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, 2009  
With Comparative Totals for the Year Ended December 31, 2008

	2009	2008
<b>Operating Revenues</b>		
User Charges		
Measured service	\$ 3,135,159	\$ 2,718,597
Capital charges	772,489	770,339
Depreciation fund charges	184,991	176,261
Replacement fund charges	240,000	219,935
Other charges	117,959	172,511
<b>Total Operating Revenues</b>	<b>4,450,598</b>	<b>4,057,643</b>
<b>Operating Expenses</b>		
Operation and maintenance	3,253,158	2,892,282
Depreciation	719,666	673,251
Depreciation fund	104,627	635
Replacement fund	3,994	64,387
<b>Total Operating Expenses</b>	<b>4,081,445</b>	<b>3,630,555</b>
<b>Operating Income</b>	<b>369,153</b>	<b>427,088</b>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	38,453	79,249
Loss on disposal of assets	(43,456)	(709,357)
Interest expense	(170,816)	(188,667)
Amortization of debt expense	(1,241)	(20,445)
Amortization of refinancing loss	-	(48,224)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(177,060)</b>	<b>(887,444)</b>
<b>Change in Net Assets</b>	<b>192,093</b>	<b>(460,356)</b>
<b>Net Assets - January 1</b>	<b>6,297,802</b>	<b>6,758,158</b>
<b>Net Assets - December 31</b>	<b>\$ 6,489,895</b>	<b>\$ 6,297,802</b>

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, 2009

With Comparative Totals for the Year Ended December 31, 2008

	2009	2008
<b>Cash Flows from Operating Activities</b>		
Cash received from user charges	\$ 4,278,360	\$ 3,932,488
Cash payments to suppliers	(3,408,181)	(2,890,252)
Cash payments to employees	(7,383)	(2,917)
Net Cash Provided by Operating Activities	<u>862,796</u>	<u>1,039,319</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition of capital assets	(392,917)	(673,021)
Proceeds from sale of capital assets	-	7,988
Principal payments on long-term debt	(600,000)	(580,000)
Interest payments on long-term debt	(172,716)	(190,117)
Net Cash Used by Capital and Related Financing Activities	<u>(1,165,633)</u>	<u>(1,435,150)</u>
<b>Cash Flows from Investing Activities</b>		
Interest received	<u>37,217</u>	<u>85,159</u>
<b>Change in Cash and Cash Equivalents</b>	<u>(265,620)</u>	<u>(310,672)</u>
<b>Cash and Cash Equivalents - January 1</b>	<u>2,033,399</u>	<u>2,344,071</u>
<b>Cash and Cash Equivalents - December 31</b>	<u>\$ 1,767,779</u>	<u>\$ 2,033,399</u>
<b>Reconciliation of cash and cash equivalents to statement of net assets:</b>		
Cash and investments	\$ 100	\$ 100
Restricted cash and investments	1,767,679	2,033,299
Total cash and cash equivalents	<u>\$ 1,767,779</u>	<u>\$ 2,033,399</u>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities:</b>		
Operating income	\$ 369,153	\$ 427,088
Adjustments to reconcile operating income (loss)		
to net cash provided by operating activities:		
Depreciation	719,666	673,251
Changes in current assets and liabilities		
Accounts receivable	224,987	(173,722)
Due from users	(298,890)	-
Prepaid items	(350)	11
Refunds due users	(98,335)	48,567
Accounts payable	(53,435)	64,124
Net Cash Provided by Operating Activities	<u>\$ 862,796</u>	<u>\$ 1,039,319</u>
<b>Noncash Capital and Related Financing Activities</b>		
None		

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

## NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

### Notes to Financial Statements

December 31, 2009

#### 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, 2009

### 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, 2009

### 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
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. Net Assets

Net assets are classified into the following three components:

- *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.

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.



# NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

## Notes to Financial Statements

December 31, 2009

### 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 \$1,767,779 on December 31, 2009 as summarized below:

Petty cash fund	\$ 100
Deposits with financial institutions	1,676,626
Deposits with state investment pool	91,053
	<u>\$ 1,767,779</u>

Basic financial statements	
Cash and investments	\$ 100
Restricted cash and investments	1,767,679
	<u>\$ 1,767,779</u>

Deposits of the Commission are subject to various risks. Presented below is a discussion of the specific risks and the Commission's policy related to the risk.

#### Custodial Credit Risk

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 custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Wisconsin statutes require repurchase agreements to be fully collateralized by bonds or securities issued or guaranteed by the federal government or its instrumentalities. The Commission does not have an additional custodial credit risk policy.

Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 per official custodian through December 31, 2013. In addition, the Commission's non-interest bearing transaction accounts are fully insured under the Temporary Liquidity Guarantee Program through June 30, 2010. On January 1, 2014, the coverage limit for all accounts will return to \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts. 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.

As of December 31, 2009, \$20,483 of the Commission's deposits with financial institutions were in excess of federal depository insurance limits and uncollateralized.

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

## Notes to Financial Statements

December 31, 2009

**NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)****Investment in Wisconsin Local Government Investment Pool**

The Commission has investments in the Wisconsin local government investment pool of \$91,053 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, 2009, 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 Commission's investment in the Wisconsin local government investment pool is not rated.

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.

**2. Restricted Assets**

Restricted assets of the Commission on December 31, 2009 totaled \$1,773,133 and consisted of cash and investments of \$1,767,679 and accrued interest receivable of \$5,454 held for the following purposes:

Funds	Amount	Purpose
Depreciation Fund	\$ 727,030	To be used for additions to and betterments of the sewerage treatment plant
Bond Principal and Interest Redemption Fund	67,097	To be used for subsequent year payments of principal and interest on revenue bonds.
Bond Reserve Fund	477,331	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	718,784	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>(217,109)</u>	
Total	<u>\$ 1,773,133</u>	

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Notes to Financial Statements

December 31, 2009

**NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)**

**3. Capital Assets**

Capital asset activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Government activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 63,539	\$ -	\$ -	\$ 63,539
Construction in progress	2,839	185,647	188,486	-
Total capital assets, not being depreciated	66,378	185,647	188,486	63,539
Capital assets, being depreciated:				
Land improvements	156,114	-	-	156,114
Buildings	16,256,371	107,461	25,206	16,338,626
Improvements other than buildings	4,007,452	-	-	4,007,452
Machinery and equipment	14,122,814	288,295	607,188	13,803,921
Subtotals	34,542,751	395,756	632,394	34,306,113
Less accumulated depreciation for:				
Land improvements	54,640	7,806	-	62,446
Buildings	13,472,908	262,480	25,206	13,710,182
Improvements other than buildings	1,025,408	40,075	-	1,065,483
Machinery and equipment	11,074,808	409,305	563,732	10,920,381
Subtotals	25,627,764	719,666	588,938	25,758,492
Total capital assets, being depreciated, net	8,914,987	(323,910)	43,456	8,547,621
Capital assets, net	<u>\$ 8,981,365</u>	<u>\$ (138,263)</u>	<u>\$ 231,942</u>	8,611,160
Less related long-term debt outstanding (net of available bond proceeds of \$365,000)				<u>3,680,000</u>
Investment in capital assets, net of related debt				<u><u>\$ 4,931,160</u></u>

# NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2009

## 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, 2009:

	Outstanding 1/1/09	Issued	Retired	Outstanding 12/31/09	Due Within One Year
Revenue bonds	\$ 4,645,000	\$ -	\$ 600,000	\$ 4,045,000	\$ 620,000

Revenue bonds outstanding at December 31, 2009 consist of the following:

\$5,025,000 issued 9/1/03; \$620,000 to \$730,000 due annually through 2015; interest 3.8% to 4.0%

\$ 4,045,000

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

Year Ended December 31	Revenue Bonds		
	Principal	Interest	Total
2010	\$ 620,000	\$ 149,916	\$ 769,916
2011	640,000	125,116	765,116
2012	665,000	99,516	764,516
2013	685,000	76,906	761,906
2014	705,000	52,931	757,931
2015	730,000	27,377	757,377
	<u>\$ 4,045,000</u>	<u>\$ 531,762</u>	<u>\$ 4,576,762</u>

### Utility Revenues Pledged

The Commission has pledged future revenues, net of specified operating expenses, to repay the sewerage system revenue bonds. Proceeds from the bonds provided financing for the construction or acquisition of capital assets used with the system. The bonds are payable solely from Commission net revenues and are payable through 2015. The total principal and interest remaining to be paid on the bonds is \$4,576,762. Principal and interest paid for the current year and total customer net revenues were \$772,716 and \$1,088,819, respectively.

# NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

## Notes to Financial Statements

December 31, 2009

### NOTE C - OTHER INFORMATION

1. 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.

2. Contingent Liabilities

The Commission has identified the following item as potential liability not recorded on the financial statements:

The U.S. Fish & Wildlife Service and the Wisconsin Department of Natural Resources ("WDNR") acting on behalf of the Natural Resource Trustees have prepared Natural Resource Damage Assessments to determine the level of such damages to the Lower Fox River and Green Bay resulting from PCB contamination. The U.S. Environmental Protection Agency ("EPA") and the WDNR have conducted a Feasibility Study and issued two Records of Decision ("RODs") (which have been subsequently modified) selecting dredging and capping of PCB contaminated sediments in the Fox River together with long-term monitoring in the Fox River and Green Bay as remedies to eliminate, reduce, or control risks to human health and the environment associated with the PCB contaminated sediments in the Lower Fox River and Green Bay. To date US EPA has not formally designated the Commission as a potentially responsible party ("PRP") with respect to the natural resource damages, past and future, remediation and oversight costs. Appleton Paper, Inc. and NCR commenced CERCLA contribution actions for past and future remediation and oversight costs and natural resource damages against thirty-three defendants including the Commission. On December 16, 2009, a U.S. District Court Decision and Order held that Appleton Paper, Inc. and NCR were not entitled to recover any contribution from the defendants. The Court has denied Appleton Paper, Inc. and NCR's motion to enter judgment against them to permit an interlocutory appeal. Currently, the Court has pending before it defendants' counterclaims for contribution from plaintiffs for past costs and declaratory relief and future site costs. After the Court acts on the defendants' claim, the Judgment will be entered and Appleton Paper, Inc. and NCR will be able to, and will, appeal the Court's December 16, 2009 Decision and Order. Based on the information currently available to the Commission, it is more probable but not certain that the claims of Appleton Paper, Inc. and NCR will ultimately be denied. The Commission is vigorously defending the action.

Representatives of the federal and state agencies have advised that they also have claims against the POTWs (Publicly Owned Treatment Works) related to contamination of the Lower Fox River, including against the Commission and other PRPs, and the federal and state agencies have stated that at this time the total net present value of the past and future remediation costs including agency oversight costs, operation and maintenance costs and natural resource damages, is \$1.5 billion dollars (collectively "Estimated Remediation Costs"). The Court has entered an order reserving these claims and staying the running of the statute of limitations to permit the United States a period of time not to exceed until October 15, 2010 to permit it to attempt to negotiate a compromise settlement with the defendants. Based on the information provided to the Commission to date, we are not able to provide an opinion as to the likelihood that any such claims against the Commission would be successful or the magnitude of any liability of the Commission if such claims were successful; however, if any such claims were successfully pursued against the Commission, the Commission could potentially be jointly and severally liable for all Estimated Remediation Costs.

The Commission has put its insurance carriers on notice but they have denied a duty to indemnify. Three carriers have accepted the Commission tender of defense but have asserted a claim that they may seek to recover defense costs which they pay, a claim the Commission vigorously disputes. The Commission may seek to recover any judgment from its insurance carriers and/or the municipal entities within its service areas.

## **SUPPLEMENTAL INFORMATION**

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
**Schedule of Operation and Maintenance Expenses - Budget and Actual**  
**Year Ended December 31, 2009**  
**With Comparative Actual Amounts for Year Ended December 31, 2008**

	Budget	Actual	Variance Positive (Negative)	2008 Actual
<b>Operation</b>				
Salaries and wages	\$ 4,800	\$ 6,570	\$ (1,770)	\$ 2,457
Employee benefits	711	813	(102)	460
Professional fees and contracted services	1,601,850	1,581,382	20,468	1,458,909
Power	732,000	849,171	(117,171)	697,928
Gas	112,500	7,141	105,359	16,892
Stormwater Charges	-	5,151	(5,151)	-
Water	25,700	20,577	5,123	20,402
Telephone	1,500	1,379	121	991
Chemicals				
Polymer	66,000	55,084	10,916	44,694
Sodium bisulfate	32,500	29,560	2,940	28,755
Chlorine	5,000	-	5,000	-
Salt	50,000	42,149	7,851	37,078
Aluminum sulfate	52,875	131,975	(79,100)	64,646
Carbon	2,500	-	2,500	-
Miscellaneous	-	1,640	(1,640)	-
Sludge disposal	226,000	197,628	28,372	201,079
Industrial metering and sampling	7,500	5,401	2,099	3,475
Lab supplies	23,500	17,211	6,289	16,894
Other operating supplies	54,750	34,629	20,121	50,790
Transportation	6,000	8,106	(2,106)	6,473
Administration	63,250	53,582	9,668	55,770
Office supplies	11,500	8,991	2,509	8,612
General insurance	72,035	66,022	6,013	61,293
<b>Total Operation</b>	<b>3,152,471</b>	<b>3,124,162</b>	<b>28,309</b>	<b>2,777,598</b>
<b>Maintenance</b>				
Equipment	74,750	52,223	22,527	71,567
General plant	40,500	70,443	(29,943)	37,427
Cleaning supplies	7,500	6,330	1,170	5,690
<b>Total Maintenance</b>	<b>122,750</b>	<b>128,996</b>	<b>(6,246)</b>	<b>114,684</b>
<b>Total Operation and Maintenance Expenses</b>	<b>\$ 3,275,221</b>	<b>\$ 3,253,158</b>	<b>\$ 22,063</b>	<b>\$ 2,892,282</b>

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
**Calculation of Payable (Receivable) From Users for 2009 Operations**  
**December 31, 2009**

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

\$ 3,511,855	\$ 1,529,277	\$ 771,583	\$ 59,785	\$ 494,425	\$ 125,377	\$ 531,408
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100.00%	43.76%	22.27%	1.72%	14.36%	3.58%	14.31%
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Actual operation and maintenance expenses  
Deposit to depreciation fund  
Deposit to replacement fund

Less:  
MCO income sharing  
High strength waste income  
Industrial metering and sampling  
WPPI standby service  
Pretreatment administrative fees  
Pretreatment permit fees  
Other operating revenues  
Interest income

Net Expenditures Allocated for 2009*	3,560,150	1,557,922	792,845	61,235	511,238	127,453	509,457
--------------------------------------	-----------	-----------	---------	--------	---------	---------	---------

Payable (Receivable) From Users for 2009 Operations	\$ (48,295)	\$ (28,645)	\$ (21,262)	\$ (1,450)	\$ (16,813)	\$ (2,076)	\$ 21,951
-----------------------------------------------------	-------------	-------------	-------------	------------	-------------	------------	-----------

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

\* Measured service to municipalities and industries  
Deposit to depreciation fund  
Deposit to replacement fund  
Net 2009 Allocated Expenses



**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Information Required by Sewer Revenue Bonds

December 31, 2009

Insurance Coverage		
Expiration Date	Type of Coverage	Amount of Coverage
1/1/2010	Worker's compensation	Statutory Benefits
1/1/2010	Public officials and employee liability	\$1,000,000
1/1/2010	Automobile	\$2,000,000
1/1/2010	Boiler and machinery	Included in property limits
1/1/2010	Umbrella liability	\$2,000,000
1/1/2010	Property	\$58,898,010 valued at replacement cost of treatment plant (100% coinsurance)
1/1/2010	General liability	\$2,000,000
1/1/2010	Commercial crime/faithful performance	Employee \$100,000 per employee Other \$10,000
1/1/2010	Inland marine	\$55,000 (100% coinsurance)

Customers

City of Neenah  
City of Menasha  
Town of Neenah Sanitary District No. 2  
Town of Menasha Utility District  
Waverly Sanitary District  
Sonoco - US Mills, Inc.

Net Revenues of System

	2009	2008
Gross revenues	\$ 4,450,598	\$ 4,057,643
Operation and maintenance expenses	3,253,158	2,892,282
Net Revenues	<u>\$ 1,197,440</u>	<u>\$ 1,165,361</u>

**OTHER COMMENTS AND OBSERVATIONS**

**NEENAH-MENASHA SEWERAGE  
COMMISSION, WISCONSIN**

**DECEMBER 31, 2009**

To the Commissioners  
Neenah-Menasha Sewerage Commission, Wisconsin

We have completed our audit of the basic financial statements of the Neenah-Menasha Sewerage Commission (the "Commission") for the year ended December 31, 2009. The Commission's financial statements, including our report thereon dated March 23, 2010, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibilities Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, 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.

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Commission's compliance with those requirements.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

#### Significant Audit Findings

##### *Consideration of Internal Control*

In planning and performing our audit of the financial statements of the Commission as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year 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.

In addition, during our audit, we noted certain other matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these matters in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized in the memorandum attached to this letter.

This communication, which does not affect our report dated March 23, 2010 on the financial statements of the Commission, is intended solely for the information and use of the Commissioners, management, and others within the Commission, 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 23, 2010

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
December 31, 2009

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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, 2009, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 23, 2010. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and response we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses, as item 2009-01 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**

Schedule of Findings and Responses  
For the Year Ended December 31, 2009

**Section I - Internal Control Over Financial Reporting**

Finding No.	Control Deficiencies
-------------	----------------------

**2009-01                      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, 2009.

## SUMMARY FINANCIAL INFORMATION

### 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, 2009 with a comparative summary for the year ended December 31, 2008:

	Operation and Maintenance	Depreciation Fund	Replacement Fund	Capital	Totals	
					2009	2008
<b>Resources Provided</b>						
Charges to municipalities and industries	\$ 3,135,159	\$ 184,991	\$ 240,000	\$ 772,489	\$ 4,332,639	\$ 3,885,132
Other charges	117,959	-	-	-	117,959	172,511
Interest income	40	11,554	10,303	16,556	38,453	79,249
Total Resources Provided	3,253,158	196,545	250,303	789,045	4,489,051	4,136,892
<b>Resources Extended</b>						
Operating expenses	3,253,158	104,627	3,994	-	3,361,779	2,957,304
Principal paid on long-term debt	-	-	-	600,000	600,000	580,000
Interest paid on long-term debt	-	-	-	170,816	170,816	188,667
Loss on disposal of capital assets	-	-	-	43,456	43,456	709,357
Acquisition and construction of capital assets	-	165,694	227,223	-	392,917	581,783
Total Resources Expended	3,253,158	270,321	231,217	814,272	4,568,968	5,017,111
<b>Noncash transactions</b>						
Amortization of deferred debits	-	-	-	(1,241)	(1,241)	(68,669)
<b>Change in Available Resources</b>						
	\$ -	\$ (73,776)	\$ 19,086	\$ (26,468)	\$ (81,158)	\$ (948,888)

Additional comments and observations concerning the above operating results follow:

a) **Operation and Maintenance**

Actual operation and maintenance expenses totaled \$3,253,159 for 2009 while the Commission budgeted operation and maintenance expenses of \$3,275,221. A budget to actual comparison of the Commission's operation and maintenance expenses is located on page 18 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, 2009, the Commission used replacement fund resources of \$165,694 to acquire capital assets and \$104,627 to pay for maintenance costs. At December 31, 2009, the Commission had available resources of \$727,030 in the depreciation fund which consisted of cash and investments totaling \$725,265 and accrued interest of \$1,765.



## **SUMMARY FINANCIAL INFORMATION (Continued)**

### **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, 2009, the Commission used replacement fund resources of \$227,223 to acquire capital assets and \$3,994 to pay for equipment repairs. At December 31, 2009, the Commission had available resources of \$718,784 in the replacement fund which consisted of cash and investments totaling \$715,095 and accrued interest of \$3,689.

#### **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, 2009, the Commission is in compliance with all revenue bond covenants.

## COMMENTS AND OBSERVATIONS

### **Monitoring Insurance Proceeds Received**

The Commission received insurance payments from several insurance companies for costs related to the NRDA/CERCLA matters. These insurance payments were received by the law firm of Davis & Kuelthau and held in trust and it appears that Davis & Kuelthau are using portions of these funds to reimburse current legal invoices.

Because the financial activity related to the insurance reimbursements and legal costs are significant to the Commission, we believe the Commission should more closely monitor insurance reimbursements received, legal invoices paid, and ending balance of the trust.

We recommend that the Commission request Davis & Kuelthau to present detailed records of all insurance reimbursements received, legal invoices paid and the remaining trust balance and monitor financial activity on insurance reimbursements more closely in future years.