

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2013**



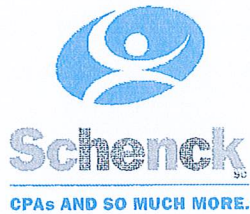
**Schenck**

**CPAs AND SO MUCH MORE.**

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
December 31, 2013

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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
Neenah-Menasha Sewerage Commission  
Menasha, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Neenah-Menasha Sewerage Commission, Menasha, Wisconsin as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Neenah-Menasha Sewerage Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Neenah-Menasha Sewerage Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neenah-Menasha Sewerage Commission as of December 31, 2013, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



**Emphasis of Matter**

As described in Note C.2, Neenah-Menasha Sewerage Commission entered into a settlement related to a Natural Resource Damage Assessment, prepared by the Wisconsin Department of Natural Resources and U.S. Fish & Wildlife Service, on damages to the lower Fox River and Green Bay due to PCB contamination. The Neenah-Menasha Sewerage Commission's share of the settlement will be covered by the Neenah-Menasha Sewerage Commission's primary and excess insurance carriers and the Cities of Neenah and Menasha.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Neenah-Menasha Sewerage Commission's basic financial statements. The financial information listed in the table of contents as supplementary information and the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, the schedules of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Report on Summarized Financial Information**

We have previously audited the Neenah-Menasha Sewerage Commission's 2012 financial statements, and our report dated March 9, 2013, expressed an unmodified opinion on those respective financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2014, on our consideration of the Commission's internal control over financial reporting and on 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* in considering the Commission's internal control over financial reporting and compliance.



Certified Public Accountants  
Green Bay, Wisconsin  
April 30, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
**Management's Discussion and Analysis**  
December 31, 2013

As management of the Neenah-Menasha Sewerage Commission, Menasha, 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, 2013.

**Financial Highlights**

- The assets of the Commission exceeded its liabilities as of December 31, 2013 by \$9,121,324 (*net position*).
- The Commission's total net position increased by \$868,696. 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. In 2011, the Commissioners decided to begin building an operating reserve of \$10,000 over five years, retaining \$2,000 in 2013.
  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.
  3. Commission users also contribute to equipment replacement and depreciation funds for replacement or significant repairs to existing equipment.
- The Commission's total long-term debt increased by \$12,831,616 during 2013 as the Commission's wastewater treatment facilities modification project continued during 2013.

**Overview of the Financial Statements**

The Commission's annual report includes this management's discussion and analysis, the independent auditors' report and the financial statements, including notes. This report also contains supplementary information in addition to the 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 position may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded its liabilities by \$9,121,324 at the close of 2013.

<b>Neenah-Menasha Sewerage Commission, Wisconsin's Net Position</b>		
	2013	2012
Current and other assets	\$ 898,178	\$ 1,483,513
Restricted assets	2,624,188	2,455,274
Capital assets	25,968,853	11,483,556
Total assets	29,491,219	15,422,343
Long-term liabilities outstanding	18,474,563	5,592,979
Other liabilities	1,895,332	1,576,736
Total liabilities	20,369,895	7,169,715
Net position		
Net investment in capital assets	6,762,548	6,516,393
Restricted	2,405,467	1,688,141
Unrestricted	(46,691)	48,094
Total net position	\$ 9,121,324	\$ 8,252,628

By far the largest portion of the Commission's net position (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 position (26%) represents resources that are subject to external restrictions on how they may be used.



Change in net position. The Commission's net position increased by \$868,696. Key elements of this increase are as follows:

<b>Neenah-Menasha Sewerage Commission, Wisconsin's Change in Net Position</b>		
	2013	2012
<b>Operating Revenues</b>		
User charges		
Measured service	\$ 3,131,893	\$ 3,397,903
Capital charges	1,740,323	1,546,888
Replacement fund charges	302,398	302,401
Other charges	136,716	161,915
<b>Total Operating Revenues</b>	<b>5,311,330</b>	<b>5,409,107</b>
<b>Operating Expenses</b>		
Operation and maintenance	3,267,913	3,558,871
Depreciation	507,750	618,833
Depreciation fund	58,619	9,354
Replacement fund	20,401	72,541
<b>Total Operating Expenses</b>	<b>3,854,683</b>	<b>4,259,599</b>
<b>Operating Income</b>	<b>1,456,647</b>	<b>1,149,508</b>
<b>Nonoperating Revenues (Expenses)</b>	<b>(1,003,228)</b>	<b>(214,123)</b>
<b>Net income</b>	<b>453,419</b>	<b>935,385</b>
Capital contributions	415,277	-
Cumulative effect of change in accounting principle	-	(4,862)
<b>Change in net position</b>	<b>868,696</b>	<b>930,523</b>
Net position - beginning balance	8,252,628	7,322,105
<b>Net position - ending balance</b>	<b>\$ 9,121,324</b>	<b>\$ 8,252,628</b>

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

Capital assets. The Commission's investment in capital assets as of December 31, 2013 amounts to \$25,968,853 (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 increase in the Commission's investment in capital assets for the current year was \$14,485,297 or 126% over last year was due to current year capital additions in excess of depreciation expense, primarily construction in progress due to wastewater treatment facilities modification project.

Long-term debt. At the end of the current fiscal year, the Commission had total bonded debt outstanding of \$18,424,595.

The Commission's total debt increased by \$12,831,616 during the current fiscal year due to debt proceeds received for plant upgrade improvements.

The Commission has restricted cash of \$962,472 in the Principal and Interest Redemption Fund.

### **Economic Factors and Next Year's Budgets and Rates**

The 2014 operations and maintenance budget decreased 7.7%, equipment replacement fund budget increased 157.3% and the capital budget decreased 18.5%. The overall rates to the users will result in an overall decrease of 2.2%.

### **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**  
**MENASHA, WISCONSIN**  
Statement of Net Position  
December 31, 2013  
With Comparative Totals as of December 31, 2012

	2013	2012
<b>ASSETS</b>		
Current Assets		
Cash and investments	\$ 643,666	\$ 304,096
Receivables		
Accounts	13,767	32,388
Due from users	64,191	65,844
Due from Menasha Utilities	149,887	900,599
Construction escrow held by Menasha	26,667	29,617
Prepaid items	-	889
Total Current Assets	<u>898,178</u>	<u>1,333,433</u>
Restricted and Noncurrent Assets		
Restricted Assets		
Cash and investments	2,583,024	2,417,529
Due from users	41,164	37,745
Total Restricted Assets	<u>2,624,188</u>	<u>2,455,274</u>
Other Assets		
Due from Menasha Utilities	-	150,080
Capital Assets		
Non-depreciable	19,515,232	4,024,385
Depreciable	6,453,621	7,459,171
Net Capital Assets	<u>25,968,853</u>	<u>11,483,556</u>
Total Restricted and Noncurrent Assets	<u>28,593,041</u>	<u>14,088,910</u>
<b>TOTAL ASSETS</b>	<u>29,491,219</u>	<u>15,422,343</u>
<b>LIABILITIES</b>		
Current Liabilities		
Revenue bond anticipation notes	-	4,202,979
Refunds due users	681,731	384,215
Refunds due users from Menasha Utilities	149,887	900,599
Accounts payable	844,993	129,635
Total Current Liabilities	<u>1,676,611</u>	<u>5,617,428</u>
Liabilities Payable from Restricted Assets		
Accounts payable	59,119	8,077
Current maturities of revenue bonds	758,808	685,000
Accrued interest	159,602	4,130
Total Liabilities Payable from Restricted Assets	<u>977,529</u>	<u>697,207</u>
Long-term Liabilities		
Revenue bonds, less current maturities	17,665,787	705,000
Town of Neenah construction deposit	49,968	-
Refunds due users from Menasha Utilities	-	150,080
Total Long-term Liabilities	<u>17,715,755</u>	<u>855,080</u>
<b>TOTAL LIABILITIES</b>	<u>20,369,895</u>	<u>7,169,715</u>
<b>NET POSITION</b>		
Net investment in capital assets	6,762,548	6,516,393
Restricted for		
Plant replacement	1,567,130	1,291,779
Debt service	838,337	396,362
Unrestricted	(46,691)	48,094
<b>TOTAL NET POSITION</b>	<u>\$ 9,121,324</u>	<u>\$ 8,252,628</u>

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

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended December 31, 2013  
With Comparative Totals for the Year Ended December 31, 2012

	2013	2012
Operating Revenues		
User Charges		
Measured service	\$ 3,131,893	\$ 3,397,903
Capital charges	1,740,323	1,546,888
Replacement fund charges	302,398	302,401
Other charges	136,716	161,915
Total Operating Revenues	<u>5,311,330</u>	<u>5,409,107</u>
Operating Expenses		
Operation and maintenance	3,267,913	3,558,871
Depreciation	507,750	618,833
Depreciation fund	58,619	9,354
Replacement fund	20,401	72,541
Total Operating Expenses	<u>3,854,683</u>	<u>4,259,599</u>
Operating Income	<u>1,456,647</u>	<u>1,149,508</u>
Nonoperating Revenues (Expenses)		
Interest income	12,493	21,445
Gain (loss) on disposal of assets	(621,173)	(140,217)
Interest expense	(394,548)	(95,351)
Total Nonoperating Revenues (Expenses)	<u>(1,003,228)</u>	<u>(214,123)</u>
Net Income	453,419	935,385
Capital contributions	<u>415,277</u>	-
Change in Net Position	868,696	935,385
Cumulative effect of change in accounting principle	-	(4,862)
Net Position - January 1	<u>8,252,628</u>	<u>7,322,105</u>
Net Position - December 31	<u>\$ 9,121,324</u>	<u>\$ 8,252,628</u>

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

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Statement of Cash Flows  
For the Year Ended December 31, 2013  
With Comparative Totals for the Year Ended December 31, 2012

	2013	2012
<b>Cash Flows from Operating Activities</b>		
Cash received from user charges	\$ 5,625,701	\$ 5,565,201
Cash payments to suppliers	(3,354,042)	(3,855,623)
Cash payments to employees	(5,436)	(6,353)
Net Cash Provided by Operating Activities	<u>2,266,223</u>	<u>1,703,225</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital contributions	465,245	-
Construction escrow held by Menasha	-	(29,617)
Acquisition of capital assets	(14,832,054)	(2,820,147)
Proceeds from sale of capital assets	618	14,355
Proceeds from issuance of debt	18,424,595	6,452,275
Principal payments on long-term debt	(5,592,979)	(5,895,000)
Interest payments on long-term debt	(239,076)	(202,190)
Net Cash Used by Capital and Related Financing Activities	<u>(1,773,651)</u>	<u>(2,480,324)</u>
<b>Cash Flows from Investing Activities</b>		
Interest received	12,493	21,445
<b>Change in Cash and Cash Equivalents</b>	505,065	(755,654)
<b>Cash and Cash Equivalents - January 1</b>	<u>2,721,625</u>	<u>3,477,279</u>
<b>Cash and Cash Equivalents - December 31</b>	<u>\$ 3,226,690</u>	<u>\$ 2,721,625</u>
<b>Reconciliation of cash and cash equivalents to statement of net position:</b>		
Cash and investments	\$ 643,666	\$ 304,096
Restricted cash and investments	2,583,024	2,417,529
Total cash and cash equivalents	<u>\$ 3,226,690</u>	<u>\$ 2,721,625</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income	\$ 1,456,647	\$ 1,149,508
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	507,750	618,833
Changes in current assets and liabilities		
Accounts receivable	18,621	113,719
Due from users	(1,766)	61,673
Due from Menasha Utilities	900,792	(900,599)
Construction escrow held by Menasha	2,950	-
Prepaid items	889	(468)
Refunds due users	297,516	(19,298)
Refunds due users from Menasha Utilities	(900,792)	900,599
Accounts payable	766,400	(220,742)
Less: Accounts payable related to capital acquisitions	(782,784)	-
Net Cash Provided by Operating Activities	<u>\$ 2,266,223</u>	<u>\$ 1,703,225</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**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2013

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

The accounting policies of the Neenah-Menasha Sewerage Commission, Menasha, 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. 2, Town of Menasha Utility District, Town of Harrison Waverly Sanitary District, Town of Menasha, Town of Harrison, 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 No. 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 No. 61.

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.

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 Position. 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**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2013

**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 industry. 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 industry after each annual audit.

5. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

a. Cash and Investments

Cash and investments are combined on the statement of net position 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 are defined by the Commission as assets with an initial, individual cost of \$5,000 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.

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.



**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2013

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)**

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

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

e. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Commission currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Commission currently does not have any items that qualify for reporting in this category.

f. Long-term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as nonoperating expenses when issued.

g. Net Position

Net position is classified into the following three components:

- *Net investment in capital assets* - This component of net position consists of 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 "net investment in capital assets". Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted net position* - This component of net position consists of constraints placed on net position 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 net position* - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2013

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)**

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.

**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 \$3,226,690 on December 31, 2013 as summarized below:

Petty cash and cash on hand	\$ 100
Deposits with financial institutions	3,134,982
Investments	91,608
	\$ 3,226,690

Reconciliation to the financial statements:

Statement of Net Position	
Cash and investments	\$ 643,666
Restricted cash and investments	2,583,024
	\$ 3,226,690

Deposits of the Commission are subject to various risks Presented below is a discussion of the Commission's deposits and investments and the related risks.

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2013

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

Deposits With Financial Institutions

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 risk policy.

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for the combined amount of all time and savings deposits and \$250,000 for interest-bearing and noninterest-bearing demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 for the combined amount of all deposit accounts per official custodian per depository institution. Deposits with credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF) in the amount of \$250,000 per credit union member. Also, 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, 2013, \$145,416 of the Commission's deposits with financial institutions were in excess of federal and state depository insurance limits. No amounts were collateralized.

Investment in Wisconsin Local Government Investment Pool

The Commission has investments in the Wisconsin local government investment pool of \$91,608 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, 2013, 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.

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2013

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

2. Restricted Assets

Restricted assets of the Commission on December 31, 2013 totaled \$2,624,188 consisting of cash and investments of \$2,583,024 and amounts due from users of \$41,164 held for the following purposes:

Fund	Amount	Purpose
Bond Depreciation Fund	\$ 635,972	To be used for additions to and betterments of the sewerage treatment plant.
Bond Principal and Interest Redemption Fund	997,939	To be used for subsequent year payments of principal and interest on revenue bonds.
Plant Upgrade Fund	161,468	To be used for plant upgrade project.
DNR Equipment Replacement Fund	828,809	To be used for the replacement of certain assets of the sewerage treatment plant in accordance with Wisconsin Department of Natural Resources requirements.
Total	<u>\$ 2,624,188</u>	

3. Menasha Utilities Refund

Menasha Utilities discovered an electric meter multiplier error used to calculate the Commission's monthly electricity costs resulting in an overpayment of \$1,799,139. Menasha Utilities is refunding this overpayment, plus interest, over 24 months at a rate of \$75,042 per month. At December 31, 2013, the Commission is owed \$149,887 which will be received in 2014.

In prior years, the Commission's electricity costs were allocated to Commission users based on each user's plant loadings. The Commission has determined each user's share of the overpayment and refunds the monthly payment received from Menasha Utilities to each user when received.

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2013

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

4. Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 63,539	\$ -	\$ -	\$ 63,539
Construction in progress	3,960,846	15,490,847	-	19,451,693
Total capital assets, not being depreciated	<u>4,024,385</u>	<u>15,490,847</u>	<u>-</u>	<u>19,515,232</u>
Capital assets, being depreciated:				
Land improvements	156,114	-	-	156,114
Buildings	16,517,985	-	500,946	16,017,039
Improvements other than buildings	4,007,452	-	-	4,007,452
Machinery and equipment	13,789,686	123,991	5,124,299	8,789,378
Subtotals	<u>34,471,237</u>	<u>123,991</u>	<u>5,625,245</u>	<u>28,969,983</u>
Less accumulated depreciation for:				
Land improvements	85,863	7,806	-	93,669
Buildings	14,498,942	243,081	427,477	14,314,546
Improvements other than buildings	1,185,706	40,075	-	1,225,781
Machinery and equipment	11,241,555	216,788	4,575,977	6,882,366
Subtotals	<u>27,012,066</u>	<u>507,750</u>	<u>5,003,454</u>	<u>22,516,362</u>
Total capital assets, being depreciated, net	<u>7,459,171</u>	<u>(383,759)</u>	<u>621,791</u>	<u>6,453,621</u>
Capital assets, net	<u>\$ 11,483,556</u>	<u>\$ 15,107,088</u>	<u>\$ 621,791</u>	<u>25,968,853</u>
Less: Related long-term debt outstanding				(18,424,595)
Less: Town of Neenah construction deposit				(49,968)
Less: Accounts payable paid using 2014 debt proceeds				<u>(731,742)</u>
Net investment in capital assets				<u>\$ 6,762,548</u>

Construction Commitments

The Commission's wastewater treatment facilities modification project estimated budget was \$21.8 million. At December 31, 2013, the Commission has entered into contracts including change orders totaling \$21.6 million and has paid \$18.7 million using Clean Water Fund debt proceeds and available resources.

Future anticipated payments total \$2.9 million which may vary based on future change orders authorized by the Commission. At December 31, 2013, the Commission has available additional debt proceeds of \$3.0 million from the amount authorized by the Clean Water Fund program.

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2013

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

5. Long-term Liabilities

The following is a summary of long-term liability transactions of the Commission for the year ended December 31, 2013:

	Outstanding 1/1/13	Issued	Retired	Outstanding 12/31/13	Due Within One Year
Revenue bonds	\$ 1,390,000	\$ -	\$ 1,390,000	\$ -	\$ -
Clean water fund bonds	-	18,424,595	-	18,424,595	758,808
Revenue bond anticipation notes	4,202,979	-	4,202,979	-	-
	<u>\$ 5,592,979</u>	<u>\$ 18,424,595</u>	<u>\$ 5,592,979</u>	<u>\$ 18,424,595</u>	<u>\$ 758,808</u>

Clean water fund bonds outstanding at December 31, 2013 consist of the following:

\$21,440,310 authorized 2/13/2013; \$18,424,595 issued as of December 31, 2013;  
\$758,808 to \$1,214,195 due annually through 2032; interest 2.646%

\$ 18,424,595

Annual principal and interest maturities of the above outstanding clean water fund bonds are shown below:

Year Ended December 31	Clean Water Fund Bonds		
	Principal	Interest	Total
2014	\$ 758,808	\$ 473,121	\$ 1,231,929
2015	778,886	457,132	1,236,018
2016	799,496	436,250	1,235,746
2017	820,650	414,816	1,235,466
2018	842,365	392,814	1,235,179
2019-2023	4,558,190	1,613,120	6,171,310
2024-2028	5,194,008	968,891	6,162,899
2029-2032	4,672,192	251,287	4,923,479
	<u>\$ 18,424,595</u>	<u>\$ 5,007,431</u>	<u>\$ 23,432,026</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 2032. The total principal and interest remaining to be paid on the bonds is \$23,432,026. Principal and interest paid for the current year and total customer net revenues were \$1,261,595 and \$1,741,019, respectively.

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2013

**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 a 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 prepared Natural Resource Damage Assessments to determine the level of 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. Appleton Paper, Inc. and NCR commenced CERCLA contribution action 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. The defendants, including the Commission, filed a counterclaim for contributions from plaintiffs for past costs and declaratory relief and future site costs. On February 28, 2011, the Court issued a decision and order which held that the plaintiffs were responsible for all the defendants' costs incurred – past and future – for OUs 2-5 but not liable for costs of OU1. Subsequent to this decision and order, the defendants have filed a motion seeking clarification of the decision, while the plaintiffs filed motions seeking reconsideration of the Court's conclusion that its liability under CERCLA was uncontested and entry of partial final judgment. From February 21, 2012 to February 29, 2012, the Court conducted a trial related to arranger liability, potential insurance offsets to certain counterclaims of defendants (not the Commission), and Fox River Group costs incurred by some defendants (not the Commission). On July 3, 2012, the Court issued a Decision and Order on all issues. Shortly thereafter, the Commission stipulated to the dismissal of its state law counterclaims against NCR, which allowed the Court to order judgment entered in the Commission's favor in the amount of \$37,042.

On October 4, 2012, the Court granted Appleton Paper, Inc.'s motion for summary judgment dismissing all CERCLA counterclaims against it based on the Court's ruling in a related case (see the United States case below) that Appleton Paper, Inc. is not liable under CERCLA. The Court also dismissed all state law counterclaims against the Plaintiffs (finding them pre-empted by CERCLA) and allowed Appleton Paper, Inc. to file an Eighth Amended Complaint against NCR alleging subrogation should the Court's ruling on contribution responsibility be overturned. The Commission timely answered Appleton Paper, Inc.'s Eighth Amended Complaint, although the allegations contained therein do not directly implicate the Commission. The Court ordered the parties to file a proposed final judgment, which they did. The Court then decided to wait to enter judgment until it issues its Decision in the United States case, as some of the issues decided therein might have an impact on decisions made in the Whiting case.

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2013

**NOTE C - OTHER INFORMATION (Continued)**

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"). On October 14, 2010, the United States and the State of Wisconsin filed a civil action in US District Court to recover federal and state oversight costs and natural resource damages and to compel the paper mill defendants to comply with a previous EPA Unilateral Administrative Order (UAO) to perform the site remedy. The United States and the State of Wisconsin have subsequently filed a motion to dismiss. On March 29, 2011, the United States moved for a preliminary injunction requiring Appleton Paper, Inc. and NCR to continue to perform remediation work required under the UAO while the parties litigate the merits of the United States' UAO enforcement claim. On April 4, 2011, the Court approved a consent decree settling Georgia Pacific Corporation's liability to the United States for PCB contamination of the Fox River. On April 10, 2012, the Court dismissed the CERCLA claims against Appleton Paper, Inc. On March 19, 2012, before CERCLA claims against Appleton Paper, Inc. were dismissed, the United States filed another motion for a preliminary injunction to compel NCR and APT to perform the remediation work required under the UAO. The Court granted the motion as to NCR on April 27, 2012 (CERCLA claims against APT having been dismissed). NCR appealed the decision. Both the Court and the Seventh Circuit denied NCR's requests to stay the remediation pending appeal. The Seventh Circuit upheld the Court's decision to compel NCR to perform the work.

On May 4, 2012, the Court entered a scheduling order setting forth deadlines for witness disclosures, motions, and discovery, and setting a trial date in the United States case of December 3, 2012 on the United States and State of Wisconsin's UAO claim. The parties commenced discovery, including written requests and numerous depositions, and an 11 day trial was held in Milwaukee December 3-19, 2012. Because the trial did not involve the Commission's liability or rights, the Commission stipulated that it would not object to any evidence presented at trial, but that evidence and arguments presented would not have a preclusive effect against it in any future proceeding. The Commission monitored the trial, but did not participate. On May 1, 2013, the Court issued a Decision and Order rejecting the defense asserted by NCR and some defendants that the site was divisible and the remediation costs could be apportioned. The Court determined that the parties to the UAO were jointly and severally liable for the remediation costs. This allowed the Court to maintain its equitable allocation in the Whiting case, allocating all costs to NCR as discussed above. NCR and several defendants, not including the Commission, appealed the Decision. The Seventh Circuit heard an argument on February 28, 2014. The Court deferred issuing a scheduling order on additional phases of the United States case to allow the parties to dismiss settlement.

On March 26, 2014, the United States lodged with the Court a consent decree between it and the Commission, Menasha Corporation, WTM I Company, City of Appleton, CBC Coating, Inc., U.S. Paper Mills Corp. (Settling Defendants) resolving all claims asserted against the Settling Defendants in the United States case by the United States, Wisconsin and natural resources trustees of the site for a combined cash payment of \$54,000,000. The Commission's share of the settlement is \$5,200,000. The Commission entered into a settlement agreement with its primary and excess insurance carriers whereby its insurers are paying \$4,675,000 of the Commission's share. The Commission's remaining share of the settlement totaling \$525,000 was paid by the Cities of Neenah and Menasha. The consent decree is subject to a 30-day public comment period. The USDOJ and the Court will review the comments received, the USDOJ will respond to the comments, and then the United States will move the Court for entry of the consent decree. If the Court grants the motion, it will enter the consent decree as a final judgment in the case. The consent decree then is subject to appeal to the Seventh Circuit. The United States also lodged consent decrees with NewPage Wisconsin System, Inc. and Kimberly-Clark Corporation on March 26, 2014.



## **SUPPLEMENTARY INFORMATION**

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Schedule of Operation and Maintenance Expenses - Budget and Actual  
For the Year Ended December 31, 2013  
With Comparative Actual Amounts for the Year Ended December 31, 2012

	Budget	2013 Actual	Variance Positive (Negative)	2012 Actual
<b>Operation</b>				
Salaries and wages	\$ 5,600	\$ -	\$ 5,600	\$ 5,479
Employee benefits	1,120	386	734	874
Professional fees and contracted services	1,670,100	1,593,418	76,682	1,773,114
Power	825,000	580,343	244,657	735,641
Gas	85,000	35,223	49,777	52,150
Stormwater charges	5,230	4,849	381	5,228
Water	40,250	25,885	14,365	28,800
Telephone	1,600	1,957	(357)	1,615
<b>Chemicals</b>				
Ferric chloride	-	156	(156)	-
Polymer	72,900	90,200	(17,300)	60,720
Sodium bisulfate	50,000	59,329	(9,329)	41,908
Chlorine	1,000	8,353	(7,353)	14,966
Salt	45,900	45,996	(96)	34,280
Aluminum sulfate	112,000	80,134	31,866	77,999
Sludge disposal	409,500	407,716	1,784	403,858
Industrial metering and sampling	7,500	4,038	3,462	5,780
Lab supplies	25,100	17,516	7,584	19,395
Other operating supplies	31,600	13,632	17,968	16,164
Transportation	7,750	6,007	1,743	6,728
Administration	78,250	78,829	(579)	69,091
Office supplies	11,025	12,122	(1,097)	13,436
General insurance	78,035	75,650	2,385	72,214
<b>Total Operation</b>	<b>3,564,460</b>	<b>3,141,739</b>	<b>422,721</b>	<b>3,439,440</b>
<b>Maintenance</b>				
Equipment	59,250	66,225	(6,975)	82,306
General plant	41,300	53,876	(12,576)	33,109
Cleaning supplies	6,000	6,073	(73)	4,016
<b>Total Maintenance</b>	<b>106,550</b>	<b>126,174</b>	<b>(19,624)</b>	<b>119,431</b>
<b>Total Operation and Maintenance Expenses</b>	<b>\$ 3,671,010</b>	<b>\$ 3,267,913</b>	<b>\$ 403,097</b>	<b>\$ 3,558,871</b>

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
 Calculation of Payable (Receivable) From Users for 2013 Operations  
 December 31, 2013

	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	\$ 1,698,354	\$ 959,597	\$ 32,766	\$ 478,761	\$ 119,914	\$ 826,630

	100.00%	41.57%	22.76%	0.80%	11.68%	2.93%	20.26%
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Revenues received during year for 2013 operation and maintenance

Percentage of net expenses allocated for 2013

Actual operation and maintenance expenses  
 Deposit to replacement fund  
 Deposit to O/M cash surplus

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

Net Expenditures Allocated for 2013\*  
 Payable (Receivable) From Users - December 31

	3,434,291	1,427,635	781,645	27,473	401,125	100,625	695,788
	\$ 681,731	\$ 270,719	\$ 177,952	\$ 5,293	\$ 77,636	\$ 19,289	\$ 130,842

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 replacement fund  
 Net 2013 Allocated Expenses

	\$ 3,131,893
	<u>302,398</u>
	<u>\$ 3,434,291</u>

**ADDITIONAL INDEPENDENT AUDITORS' REPORT  
FOR FINANCIAL STATEMENTS**



**INDEPENDENT AUDITORS' 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  
Menasha, Wisconsin

We have audited 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, the financial statements of Neenah-Menasha Sewerage Commission, Menasha, Wisconsin, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Neenah-Menasha Sewerage Commission's basic financial statements, and have issued our report thereon which included an emphasis of matter paragraph as indicated on page 2 dated April 30, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Neenah-Menasha Sewerage Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Neenah-Menasha Sewerage Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Neenah-Menasha Sewerage Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control 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 Neenah-Menasha Sewerage Commission's 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 questioned costs as item 2013-001 to be a material weakness.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Neenah-Menasha Sewerage Commission'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 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's Response to Finding**

Neenah-Menasha Sewerage Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Neenah-Menasha Sewerage Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Neenah-Menasha Sewerage Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Neenah-Menasha Sewerage Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants  
Green Bay, Wisconsin  
April 30, 2014

## **FEDERAL AWARDS**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Commissioners  
Neenah-Menasha Sewerage Commission  
Menasha, Wisconsin

**Report on Compliance for Each Major Federal Program**

We have audited Neenah-Menasha Sewerage Commission's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on Neenah-Menasha Sewerage Commission's major federal program for the year ended December 31, 2013. The Neenah-Menasha Sewerage Commission's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for Neenah-Menasha Sewerage Commission's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Neenah-Menasha Sewerage Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Neenah-Menasha Sewerage Commission's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Neenah-Menasha Sewerage Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect its major federal program for the year ended December 31, 2013.



## Report on Internal Control Over Compliance

Management of Neenah-Menasha Sewerage Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Neenah-Menasha Sewerage Commission's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Neenah-Menasha Sewerage Commission's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants  
Green Bay, Wisconsin  
April 30, 2014

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2013

Grantor Agency/Federal Program Title	Pass-through Agency	Federal Catalog Number	Revenues			Total Expenditures
			(Accrued) or Deferred Revenue 1/1/13	Amount Received	Accrued or (Deferred) Revenue 12/31/13	
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>						
Capitalization Grants for Clean Water State Revolving Funds	WDNR	66.458	\$ -	\$ 6,568,170	\$ -	\$ 6,568,170
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ -</b>	<b>\$ 6,568,170</b>	<b>\$ -</b>	<b>\$ 6,568,170</b>

WDNR - Wisconsin Department of Natural Resources

See notes to Schedule of Expenditures of Federal Awards.

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Note to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2013

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Neenah-Menasha Sewerage Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2013

**Section I - Summary of Auditors' Results**

Basic Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiencies identified?	None reported
Noncompliance material to basic financial statements noted?	No

Federal Awards

Internal control over major program:	
• Material weakness(es) identified?	No
• Significant deficiencies identified?	None Reported
Type of auditors' report issued on compliance for major program	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(1) of Circular A-133?	No
Auditee qualified as low-risk auditee?	No

Identification of major federal program:

CFDA Number	Name of Federal Program
66.458	Capitalization Grants for Clean Water

Audit threshold used to determine between Type A and Type B federal programs:	\$300,000
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**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2013

**Section II - Financial Statement Findings**

Finding No.	Control Deficiencies
<b>2013-001</b>	<b>Segregation of Duties</b>
Condition:	The Neenah-Menasha Sewerage 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 size of Commission's operations.
Effect:	Errors or intentional fraud could occur and not be detected timely by the Commissioners or other employees in the normal course of their responsibilities as a result of the lack of segregation of duties.
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 III - Federal Awards Findings and Questioned Costs**

There are no findings or questioned costs noted for the year ended December 31, 2013.

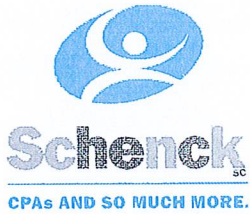
**MANAGEMENT COMMUNICATIONS**  
**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**

**DECEMBER 31, 2013**

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
December 31, 2013

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To the Commissioners  
Neenah-Menasha Sewerage Commission  
Menasha, 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, 2013. The Commission's financial statements, including our report thereon dated April 30, 2014, 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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Commission's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to its major federal program for the purpose of expressing an opinion on the Commission's compliance with those requirements. 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, 2013, 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 opinions 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. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 23 - 24 of the annual financial report.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control 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 following deficiency in the Commission's internal control to be a material weakness:

#### Finding 2013-001 Segregation of Duties

These findings are described in detail in the schedule of findings and questioned costs on page 30 of the annual financial report.

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no significant transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. To the best of our knowledge, all significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates included in the financial statements were:

Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.

The Commission's share of the settlement related to the Fox River PCB remediation project agreed to by the settling defendants will be approved of by the Court following a period of public comment and the primary and excess insurance carriers and the Cities of Neenah and Menasha will pay the Commission's portion of the settlement, which equals \$5,420,000. The settlement is discussed on pages 19 and 20 of the Commission's annual financial report.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The financial statements reflect all accounting adjustments proposed during our audit. The adjustments included various end of year payable, receivable and reclassification entries. These entries are considered routine in nature and normally do not vary significantly from year to year. Copies of the audit adjustments are available from management.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 30, 2014. The management representation letter follows this communication.

### *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, to the best of our knowledge, our responses were not a condition to our retention.

This communication, which does not affect our report dated April 30, 2014 on the financial statements of the Commission, is intended solely for the information and use of the Commission Council, 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  
April 30, 2014

## 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, 2013 with a comparative summary for the year ended December 31, 2012:

	Operation and Maintenance	Depreciation Fund	Replacement Fund	Capital	Totals	
					2013	2012
<b>Resources Provided</b>						
Charges to municipalities and industries	\$ 3,131,893	\$ -	\$ 302,398	\$ 1,740,323	\$ 5,174,614	\$ 5,247,192
Other charges	136,716	-	-	-	136,716	161,915
Capital contributions	-	-	-	465,245	465,245	-
Interest income	1,304	2,142	2,451	6,596	12,493	21,445
Debt proceeds	-	-	-	18,424,595	18,424,595	6,452,275
<b>Total Resources Provided</b>	<b>3,269,913</b>	<b>2,142</b>	<b>304,849</b>	<b>20,636,759</b>	<b>24,213,663</b>	<b>11,882,827</b>
<b>Resources Extended</b>						
Operating expenses	3,267,913	58,619	20,401	-	3,346,933	3,640,766
Principal paid on long-term debt	-	117,000	-	5,475,979	5,592,979	5,895,000
Interest on long-term debt	-	-	-	394,548	394,548	198,025
Proceeds from disposal of capital assets	-	-	-	618	618	14,355
Acquisition and construction of capital assets	-	-	123,991	14,708,063	14,832,054	2,820,147
<b>Total Resources Expended</b>	<b>3,267,913</b>	<b>175,619</b>	<b>144,392</b>	<b>20,579,208</b>	<b>24,167,132</b>	<b>12,568,293</b>
<b>Change in Available Resources</b>	<b>\$ 2,000</b>	<b>\$ (173,477)</b>	<b>\$ 160,457</b>	<b>\$ 57,551</b>	<b>\$ 46,531</b>	<b>\$ (685,466)</b>

### **Additional comments and observations concerning the above operating results follow:**

a) **Operation and Maintenance**

Actual operation and maintenance expenses totaled \$3,267,913 for 2013 while the Commission budgeted operation and maintenance expenses of \$3,671,010. A budget to actual comparison of the Commission's operation and maintenance expenses is located on page 21 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, 2013, the Commission used depreciation fund resources of \$58,619 to pay for maintenance costs and \$117,000 for debt payments.

## 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, 2013, the Commission used replacement fund resources of \$123,991 to acquire capital assets and \$20,401 to pay for maintenance costs.

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, 2013, the Commission is in compliance with all revenue bond covenants.

## **APPENDIX**



**NEENAH-MENASHA SEWERAGE COMMISSION**

101 Garfield Avenue • Menasha, Wisconsin 54952-3397

(920) 751-4760 • Fax (920) 751-4767 • e-mail [info@nmscwwtp.com](mailto:info@nmscwwtp.com)

April 30, 2014

Schenck SC  
2200 Riverside Drive  
P.O. Box 23819  
Green Bay, WI 54305-3819

This representation letter is provided in connection with your audit of the financial statements of the Neenah-Menasha Sewerage Commission, ("the Commission") as of December 31, 2013, and the results of its operations and cash flows for the year then ended, and the related notes to the financial statements for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Certain representations in this letter are described as being limited to matters that are material. Items in No. 44 are considered material based on the materiality criteria specified in OMB Circular A-133. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of April 30, 2014, the following representations made to you during your audit.

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 12, 2014, including our responsibility for the preparation and fair presentation of the financial statements and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
3. In regards to accounting estimates:
  - a. The measurement processes used by management in determining accounting estimates is appropriate and consistent.
  - b. The assumptions appropriately reflect management's intent and ability to carry out specific courses of action.

- c. The disclosures related to accounting estimates are complete and appropriate.
  - d. No subsequent event has occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
  5. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
  6. Significant assumptions we used in making accounting estimates are reasonable.
  7. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
  8. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
  9. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the Commission's accounts.
  10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
  11. Guarantees, whether written or oral, under which the Commission is contingently liable, if any, have been properly recorded or disclosed.

**Information Provided**

12. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the Commission or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

14. We made an assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed the results of our assessment as follows:
  - a. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
    - i. Management,
    - ii. Employees who have significant roles in internal control, or
    - iii. Others where the fraud could have a material effect on the financial statements.
  - b. We have no knowledge of any allegations of fraud or suspected fraud affecting the Commission's financial statements communicated by employees, former employees, regulators, or others.
15. We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the Commission's related parties and all the related party relationships and transactions of which we are aware.

**Government - specific**

18. We have made available to you all financial records and related data.
19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
23. The Commission has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred inflows/outflows of resources, or equity.
24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
25. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.



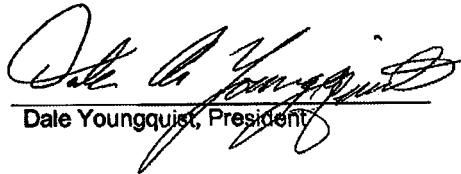
26. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
27. In regards to the reconciliation services performed by you, we have –
  - a. Made all management decisions and performed all management functions.
  - b. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
  - c. Evaluated the adequacy and results of the services performed.
  - d. Accepted responsibility for the results of the services.
28. The Commission has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
29. The Commission has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
30. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
31. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
32. Components of net position (net investment in capital assets, restricted, and unrestricted) are properly classified and, if applicable, approved.
33. Provisions for uncollectible receivables have been properly identified and recorded.
34. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
35. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
36. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
37. We have appropriately disclosed the Commission's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position were properly recognized under the policy.
38. We acknowledge our responsibility for presenting the supporting schedules (the supplementary information) in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

39. The fact that the amount of "uncollateralized" deposits or "uninsured, unregistered securities held by the counterparty, or by its trust department or agent but not in the Commission's name" during the period significantly exceeded the amounts in those categories as of the balance sheet was properly disclosed in the financial statements.
40. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
41. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
42. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
43. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
44. With respect to the federal award program:
  - a. We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of federal awards.
  - b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
  - c. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and included in the SEFA made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
  - d. We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to our federal program and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on the major federal program.

- e. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to our federal program that provide reasonable assurance that we are managing our federal award in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal program. We believe the internal control system is adequate and is functioning as intended.
- f. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to our federal program and related activities.
- g. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- h. We have complied with the direct and material compliance requirements, (except for noncompliance disclosed to you) including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal awards.
- i. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- j. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- k. Amounts claimed or used for matching were determined in accordance with relevant guidelines in *OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments*, and *OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- l. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- m. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- n. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- o. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- p. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.

- q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
  - r. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
  - s. We have charged costs to federal awards in accordance with applicable cost principles.
  - t. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
  - u. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
  - v. We are responsible for preparing and implementing a corrective action plan for each audit finding.
45. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Signed:

  
Dale Youngquist, President

Signed:

  
Roger Voigt, Accountant