

Neenah-Menasha Sewerage Commission  
Menasha, Wisconsin

**ANNUAL FINANCIAL REPORT**

December 31, 2017

# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

DECEMBER 31, 2017

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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 (the "Commission") as of and for the year ended December 31, 2017, and the related notes to the 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 auditors consider internal control relevant to the 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 the 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 the Commission as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **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 3 through 6 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Commission's financial statements. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 is fairly stated in all material respects in relation to the financial statements as a whole.

## **REPORT ON SUMMARIZED FINANCIAL INFORMATION**

We have previously audited the Commission's 2016 financial statements, and our report dated March 15, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 March 6, 2018, 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  
March 6, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

### MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

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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, 2017.

#### **Financial Highlights**

- The assets of the Commission exceeded its liabilities as of December 31, 2017 by \$9,566,532 (*net position*).
- The Commission's total net position decreased by \$939,511. Several factors contributed to the overall decrease as follows:
  1. The Commission charges to its users for operation and maintenance costs are adjusted at year end to equal final expenses less other operating revenues generated and a receivable or payable is established. In 2011, the Commissioners decided to build an operating reserve by retaining \$2,000 annually.
  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. Depreciation expense and interest and fiscal charges exceeded user charges for debt retirement by \$1,938,208. The Commission allocated the plant upgrade costs to specific assets during 2017, increasing depreciation expense in the current year.
  3. Commission users contribute to equipment replacement and depreciation funds for replacement or significant repairs to existing equipment. For the year ended December 31, 2017, charges exceeded depreciation and equipment maintenance costs by \$931,910.
- The Commission's total long-term debt decreased by \$577,673 during 2017 as principal retired (\$941,412) exceeded debt issued (\$363,739) as the Commission's wastewater treatment facilities modification project was completed in 2017.

#### **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. An enterprise fund is 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.

# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

### MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

#### 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 \$9,566,532 at the close of 2017.

Neenah-Menasha Sewerage Commission's Net Position		
	2017	2016
Current and other assets	\$ 127,282	\$ 255,558
Restricted assets	5,320,568	4,498,977
Capital assets	22,200,901	24,433,615
Total assets	<u>27,648,751</u>	<u>29,188,150</u>
Long-term liabilities outstanding	17,927,028	18,504,701
Other liabilities	155,191	177,406
Total liabilities	<u>18,082,219</u>	<u>18,682,107</u>
Net position		
Net investment in capital assets	4,273,873	5,928,914
Restricted	5,322,992	4,619,293
Unrestricted	<u>(30,333)</u>	<u>(42,164)</u>
Total net position	<u>\$ 9,566,532</u>	<u>\$ 10,506,043</u>

By far the largest portion of the Commission's net position (45%) 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 its contract users; 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 (55%) represents resources that are subject to external restrictions on how they may be used.

# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

### MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2017

Change in net position. The Commission's net position decreased by \$939,511. Key elements of this decrease are as follows:

Neenah-Menasha Sewerage Commission, Wisconsin's Change in Net Position		
	2017	2016
Operating Revenues		
User charges		
Measured service	\$ 2,989,698	\$ 2,964,501
Capital charges	1,428,005	1,452,244
Depreciation fund charges	200,005	200,004
Replacement fund charges	777,988	778,005
Interceptor cleaning and maintenance charges	14,067	-
Other charges	117,373	99,561
Total operating revenues	<u>5,527,136</u>	<u>5,494,315</u>
Operating Expenses		
Operation and maintenance	3,105,170	3,062,161
Interceptor cleaning and maintenance	14,067	-
Depreciation	2,895,076	1,681,785
Depreciation fund	32,106	57,326
Total operating expenses	<u>6,046,419</u>	<u>4,801,272</u>
Operating income (loss)	(519,283)	693,043
Nonoperating revenues (expenses)	(420,228)	(467,852)
Change in net position	<u>(939,511)</u>	<u>225,191</u>
Net position - beginning balance	10,506,043	10,280,852
Net position - ending balance	<u>\$ 9,566,532</u>	<u>\$ 10,506,043</u>



# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

### MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2017

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

Capital assets. The Commission's investment in capital assets as of December 31, 2017 amounts to \$22,200,901 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, improvements other than buildings, machinery and equipment and construction in progress. The total decrease in the Commission's investment in capital assets for the current year was \$2,232,714 or 9.14% over last year as depreciation expense exceeded capital asset additions. In addition, the Commission classified all plant upgrade costs, resulting in accumulated depreciation amounts by asset as of December 31, 2017. In 2015 and 2016, the Commission booked an estimated depreciation expense to reflect the assets were placed in service.

Long-term debt. At the end of the current fiscal year, the Commission had total bonded debt outstanding of \$17,877,060.

The Commission's total debt decreased by \$577,673 during the current fiscal year due to repayment of debt proceeds received for plant upgrade improvements.

The Commission has restricted assets of \$1,111,555 in the Principal and Interest Redemption Fund, consisting of \$1,085,477 of cash and investments and \$26,078 due from users.

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

The 2018 net operation and maintenance budget increased 1.6%, equipment replacement fund budget remained the same, depreciation fund decreased 50%, and the capital budget increased 1.0%. The overall rates to the users will result in an overall increase of .6%.

#### **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, Paul Much or the plant accountant, Roger Voigt.

## FINANCIAL STATEMENTS

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# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

STATEMENT OF NET POSITION  
 DECEMBER 31, 2017  
 WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016

	2017	2016
<b>ASSETS</b>		
Current assets		
Cash and investments	\$ 100	\$ 100
Receivables		
Accounts	7,245	4,861
Due from users	50,195	204,347
Due from users - year-end settlement	50,144	44,988
Prepaid items	19,598	1,262
Total current assets	<u>127,282</u>	<u>255,558</u>
Noncurrent assets		
Restricted assets		
Cash and investments	5,279,744	4,320,231
Due from users, net	40,824	178,746
Total restricted assets	<u>5,320,568</u>	<u>4,498,977</u>
Capital assets		
Nondepreciable	126,463	682,111
Depreciable	22,074,438	23,751,504
Net capital assets	<u>22,200,901</u>	<u>24,433,615</u>
Total assets	<u>27,648,751</u>	<u>29,188,150</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	65,112	88,890
Due to users - year-end settlement	15,231	6,520
Accrued and other current liabilities	152	642
Payable from restricted assets		
Current portion of long-term debt - general obligation notes	188,894	180,280
Current portion of long-term debt - revenue bonds	797,498	761,132
Accrued interest	74,696	81,354
Total current liabilities	<u>1,141,583</u>	<u>1,118,818</u>
Long-term obligations, less current portion		
General obligation debt	3,234,562	3,353,801
Revenue bonds	13,656,106	14,159,520
Town of Neenah construction deposit	49,968	49,968
Total long-term liabilities	<u>16,940,636</u>	<u>17,563,289</u>
Total liabilities	<u>18,082,219</u>	<u>18,682,107</u>
<b>NET POSITION</b>		
Net investment in capital assets	4,273,873	5,928,914
Restricted	5,322,992	4,619,293
Unrestricted	(30,333)	(42,164)
Total net position	<u>\$ 9,566,532</u>	<u>\$ 10,506,043</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, 2017  
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
User charges		
Measured service	\$ 2,989,698	\$ 2,964,501
Capital charges	1,428,005	1,452,244
Depreciation fund charges	200,005	200,004
Replacement fund charges	777,988	778,005
Interceptor cleaning and maintenance charges	14,067	-
Other	<u>117,373</u>	<u>99,561</u>
Total operating revenues	<u>5,527,136</u>	<u>5,494,315</u>
<b>OPERATING EXPENSES</b>		
Operation and maintenance	3,105,170	3,062,161
Interceptor cleaning and maintenance	14,067	-
Depreciation	2,895,076	1,681,785
Depreciation fund	<u>32,106</u>	<u>57,326</u>
Total operating expenses	<u>6,046,419</u>	<u>4,801,272</u>
Operating income (loss)	<u>(519,283)</u>	<u>693,043</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	47,409	28,018
Gain on disposal of capital assets	3,500	-
Interest and fiscal charges	<u>(471,137)</u>	<u>(495,870)</u>
Total nonoperating revenues (expenses)	<u>(420,228)</u>	<u>(467,852)</u>
<b>Change in net position</b>	(939,511)	225,191
<b>Net position - January 1</b>	<u>10,506,043</u>	<u>10,280,852</u>
<b>Net position - December 31</b>	<u><u>\$ 9,566,532</u></u>	<u><u>\$ 10,506,043</u></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, 2017**  
**WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 5,820,381	\$ 5,184,386
Cash paid for employee wages and benefits	(5,598)	(4,724)
Cash paid to suppliers	<u>(3,188,349)</u>	<u>(3,150,527)</u>
Net cash provided by operating activities	<u>2,626,434</u>	<u>2,029,135</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(662,362)	(187,361)
Proceeds from sale of capital assets	3,500	-
Proceeds from issuance of debt	363,739	22,231
Principal paid on long-term debt	(941,412)	(916,039)
Interest paid on long-term debt	<u>(477,795)</u>	<u>(499,843)</u>
Net cash flows used by capital and related financing activities	<u>(1,714,330)</u>	<u>(1,581,012)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>47,409</u>	<u>28,018</u>
<b>Change in cash and investments</b>	959,513	476,141
<b>Cash and investments - January 1</b>	<u>4,320,331</u>	<u>3,844,190</u>
<b>Cash and investments - December 31</b>	<u>\$ 5,279,844</u>	<u>\$ 4,320,331</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (519,283)	\$ 693,043
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	2,895,076	1,681,785
Change in operating assets and liabilities		
Accounts receivables	(2,384)	10,930
Due from users	292,074	(298,215)
Due from users - year end settlement	(5,156)	37,119
Prepaid items	(18,336)	(1,262)
Refunds due users	8,711	(59,763)
Accounts payable	(23,778)	(34,502)
Accrued and other current liabilities	(490)	-
Net cash provided by operating activities	<u>\$ 2,626,434</u>	<u>\$ 2,029,135</u>
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents in current assets	\$ 100	\$ 100
Cash and cash equivalents in restricted assets	<u>5,279,744</u>	<u>4,320,231</u>
Total cash and investments	<u>\$ 5,279,844</u>	<u>\$ 4,320,331</u>
Noncash capital and related financing activities		
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, 2017

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#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Neenah-Menasha Sewerage Commission, Menasha, Wisconsin (the "Commission") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Commission are described below:

##### **A. 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, Village of Fox Crossing Utility District, Waverly Sanitary District of the Village 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 Village of Fox Crossing Utility District, and the President of the Village 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.

##### **A. ENTERPRISE FUND**

The accounts of the Commission are accounted for as an enterprise fund as required by GAAP. An enterprise fund is used to account for government operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes.

##### **B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. An enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities, and deferred inflows and outflows of resources 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 position.

The accrual basis of accounting is utilized by an enterprise fund. 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, 2017

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#### C. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION

##### 1. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from date of acquisition are considered to be cash equivalents.

##### 2. Accounts Receivable

Accounts receivable are recorded at gross amounts 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.

##### 3. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items and are accounted for on the consumption method.

##### 4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the Commission as assets with an initial, individual costs of \$5,000 or higher and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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.

Capital assets of the Commission are depreciated using the straight-line method over the following estimated useful lives:

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

##### 5. Deferred Outflows/Inflows of Resources

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net position by the government that is applicable to a future reporting period. The recognition of those outflows and inflows as expenses or expenditures and revenues are deferred until the future periods to which the outflows and inflows are applicable. The Commission currently does not have any items that qualify for reporting as deferred outflows and inflows of resources at year end.

##### 6. 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 are expensed as incurred.

# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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#### 7. Net Position

Net position is classified as net position and displayed in three components:

- ▶ **Net investment in capital assets.** Amount of capital assets, net of accumulated depreciation, and capital related deferred outflows of resources less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and any capital related deferred inflows of resources.
- ▶ **Restricted net position.** Amount of net position that is subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- ▶ **Unrestricted net position.** Net position that is neither classified as restricted nor as net investment in capital assets.

#### D. 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.

#### E. PRIOR YEAR INFORMATION

Comparative amounts for the prior year have been presented in the financial statements to provide an understanding of changes in the Commission's financial position and operations.

#### F. RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements with no change in previously reported net position or changes in net position.

### NOTE 2: STEWARDSHIP AND COMPLIANCE

#### A. 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:

- ▶ 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.
- ▶ 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.
- ▶ 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.
- ▶ The Commission refunds any operating surplus or charges back any operating deficit to the contracting municipalities and industry after each annual audit.



# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE 3: DETAILED NOTES ON ALL FUNDS**

**A. CASH AND INVESTMENTS**

The Commission maintains various cash and investment accounts which are displayed on the financial statements as "Cash and investments".

Invested cash consists of deposits and investments that are restricted by 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; and the Wisconsin local government investment pool.

The carrying amount of the Commission's cash and investments totaled \$5,279,844 on December 31, 2017 as summarized below:

Petty cash and cash on hand	\$ 100
Deposits with financial institutions	5,186,774
Investments	
Wisconsin local government investment pool	92,970
	<u>\$ 5,279,844</u>

Reconciliation to the financial statements:

Statement of Net Position	
Cash and investments	\$ 100
Restricted cash and investments	5,279,744
	<u>\$ 5,279,844</u>

**Fair Value Measurements**

The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs; Level 3 inputs are significant unobservable inputs. The Commission currently has no investments that are subject to fair value measurement.

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

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Commission does not have an additional custodial credit 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

# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

\$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. This coverage has been considered in determining custodial credit risk.

As of December 31, 2017, none of the Commission's deposits with financial institutions were in excess of federal and state depository insurance limits.

#### Investment in Wisconsin Local Government Investment Pool

The Commission has investments in the Wisconsin local government investment pool of \$92,970 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, 2017, 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.

#### B. RESTRICTED ASSETS

Restricted assets on December 31, 2017 totaled \$5,320,568 and consisted of cash and investments of \$5,279,744 and amounts due from users of \$40,824 held for the following purposes:

Funds	Amount	Purpose
Depreciation fund	\$ 438,304	To be used for additions to and betterments of the sewerage treatment plant.
Bond principal and interest redemption fund	1,111,555	To be used for subsequent year payments of principal and interest on long-term debt
DNR equipment replacement fund	3,847,830	To be used for the replacement of certain assets of the sewerage treatment plant in accordance with Wisconsin Department of Natural Resources requirements.
Less: Cash temporarily borrowed to finance operating expenses	<u>(77,121)</u>	
Total	<u>\$ 5,320,568</u>	

# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2017

#### C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 126,463	\$ -	\$ -	\$ 126,463
Construction in progress	555,648	551,877	1,107,525	-
Total capital assets, not being depreciated	<u>682,111</u>	<u>551,877</u>	<u>1,107,525</u>	<u>126,463</u>
Capital assets, being depreciated:				
Land improvements	156,114	-	-	156,114
Buildings	16,130,222	14,958,065	-	31,088,287
Improvements other than buildings	4,007,452	-	-	4,007,452
Machinery and equipment	8,996,698	7,135,547	-	16,132,245
Completed construction	20,875,602	-	20,875,602	-
Subtotals	<u>50,166,088</u>	<u>22,093,612</u>	<u>20,875,602</u>	<u>51,384,098</u>
Less accumulated depreciation for:				
Land improvements	117,086	7,805	-	124,891
Buildings	15,032,959	3,223,783	-	18,256,742
Improvements other than buildings	1,346,004	40,075	-	1,386,079
Machinery and equipment	7,595,228	1,946,720	-	9,541,948
Completed construction	2,323,307	-	2,323,307	-
Subtotals	<u>26,414,584</u>	<u>5,218,383</u>	<u>2,323,307</u>	<u>29,309,660</u>
Total capital assets, being depreciated, net	<u>23,751,504</u>	<u>16,875,229</u>	<u>18,552,295</u>	<u>22,074,438</u>
Capital assets, net	<u>\$ 24,433,615</u>	<u>\$ 17,427,106</u>	<u>\$ 19,659,820</u>	22,200,901
Less: Capital related debt				17,877,060
Less: Town of Neenah construction deposit				<u>49,968</u>
Net investment in capital assets				<u>\$ 4,273,873</u>

#### D. LONG-TERM OBLIGATIONS

The Cities of Neenah and Menasha, Village of Fox Crossing and the Waverly Sanitary District of the Village of Harrison have issued Clean Water Fund bonds, which the Commission, as agent, has the responsibility for administering the proceeds and subsequent debt retirement. Accordingly, the Clean Water Fund bonds are reported as liabilities of the Commission in their annual financial report. The following is a summary of long-term liability transactions of the Commission for the year ended December 31, 2017:

	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
Clean Water Fund					
General obligation bonds	\$ 3,534,081	\$ 69,656	\$ 180,280	\$ 3,423,457	\$ 188,894
Revenue bonds	14,920,652	294,083	761,132	14,453,603	797,498
Long-term obligations	<u>\$ 18,454,733</u>	<u>\$ 363,739</u>	<u>\$ 941,412</u>	<u>\$ 17,877,060</u>	<u>\$ 986,392</u>

Total interest paid during the year on long-term debt totaled \$477,795.

# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### Clean Water Fund Bonds

Clean water fund bonds outstanding on December 31, 2017 totaled \$17,877,060 and were comprised of the following issues:

	Authorizer	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/17
General obligation bonds	Village of Fox Crossing	2/13/13	5/1/32	2.65%	\$ 3,288,363	\$ 2,742,341
General obligation bonds	Waverly Sanitary District	2/13/13	5/1/32	2.65%	816,732	<u>681,116</u>
Total outstanding general obligation debt						<u>\$ 3,423,457</u>
Revenue bonds	City of Neenah	2/13/13	5/1/32	2.65%	\$ 11,192,015	\$ 9,333,613
Revenue bonds	City of Menasha	2/13/13	5/1/32	2.65%	6,140,505	<u>5,119,990</u>
Total outstanding revenue bonds						<u>\$ 14,453,603</u>

Annual principal and interest maturities of the outstanding clean water fund bonds of \$17,877,060 on December 31, 2017 are detailed below:

Year Ended December 31,	General Obligation		Revenue Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 188,894	\$ 87,917	\$ 797,498	\$ 371,178	\$ 986,392	\$ 459,095
2019	193,892	83,021	818,600	350,510	1,012,492	433,531
2020	199,023	77,823	840,260	328,564	1,039,283	406,387
2021	204,289	72,487	862,493	306,036	1,066,782	378,523
2022	209,694	67,010	885,315	282,913	1,095,009	349,923
2023 - 2027	1,134,694	247,688	4,790,600	1,045,721	5,925,294	1,293,409
2028 - 2032	1,292,971	87,316	5,458,837	368,644	6,751,808	455,960
	<u>\$ 3,423,457</u>	<u>\$ 723,262</u>	<u>\$ 14,453,603</u>	<u>\$ 3,053,566</u>	<u>\$ 17,877,060</u>	<u>\$ 3,776,828</u>

#### Revenues Pledged

The Commission, by agency agreement with issuing communities, has pledged future revenues to repay the Clean Water Fund bonds (revenue and general obligation). 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 \$21,653,888. Principal and interest paid for the current year and total customer net revenues were \$1,419,207 and \$2,230,395, respectively.

#### E. FUND EQUITY

##### Net Position

The Commission reports restricted net position at December 31, 2017 as follows:

Restricted for	
Plant replacement	\$ 4,286,133
Debt service	<u>1,036,859</u>
Total Restricted Net Position	<u>\$ 5,322,992</u>

# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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### **NOTE 4: OTHER INFORMATION**

#### **A. 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. Payment of premiums for these policies are recorded as expenses of the Commission.

#### **B. CONTINGENCIES**

From time to time, the Commission is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and the Commission that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Commission's financial position or results of operations.

## SUPPLEMENTARY INFORMATION

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# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

**SCHEDULE OF OPERATION AND MAINTENANCE EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2017  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budget	Actual	Variance with Budget - Positive (Negative)	2016
<b>Operation</b>				
Salaries and wages	\$ 6,600	\$ 4,240	\$ 2,360	\$ 3,777
Employee benefits	1,148	868	280	947
Professional fees and contracted services	1,676,100	1,654,930	21,170	1,629,296
Power	535,500	459,223	76,277	483,582
Gas	60,000	41,808	18,192	37,285
Stormwater charges	6,300	7,069	(769)	6,621
Water	23,000	15,675	7,325	16,773
Public fire protection	4,000	3,857	143	3,857
Telephone	6,000	6,379	(379)	5,916
Chemicals				
Ferric chloride	-	-	-	61,830
Polymer	80,500	84,715	(4,215)	76,444
Sodium bisulfate	48,650	45,275	3,375	42,690
Chlorine	10,500	-	10,500	-
Salt	35,000	23,032	11,968	22,446
Aluminum sulfate	21,875	-	21,875	7,929
Miscellaneous	90,000	150,597	(60,597)	26,369
Sludge disposal	171,250	180,942	(9,692)	170,843
Industrial metering and sampling	15,000	2,587	12,413	18,279
Lab supplies	32,500	24,876	7,624	25,713
Other operating supplies	30,600	20,812	9,788	28,072
Transportation	6,750	5,774	976	6,069
Administration	73,900	59,739	14,161	71,129
Office supplies	26,250	17,248	9,002	22,450
General insurance	85,100	77,657	7,443	77,642
<b>Total operation</b>	<u>3,046,523</u>	<u>2,887,303</u>	<u>159,220</u>	<u>2,845,959</u>
<b>Maintenance</b>				
Equipment	144,000	141,871	2,129	140,452
General plant	93,000	72,517	20,483	69,863
Cleaning supplies	8,000	3,479	4,521	5,887
<b>Total maintenance</b>	<u>245,000</u>	<u>217,867</u>	<u>27,133</u>	<u>216,202</u>
<b>Total operation and maintenance expenses</b>	<u>\$ 3,291,523</u>	<u>\$ 3,105,170</u>	<u>\$ 186,353</u>	<u>\$ 3,062,161</u>

# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

### Calculation of Payable (Receivable) From Users for 2017 Operations December 31, 2017

	Total	City of Neenah	City of Menasha
Revenues received during year for 2017 operation and maintenance	\$ 3,932,778	\$ 1,669,308	\$ 732,915
Percentage of net expenses allocated for 2017 <sup>(1)</sup>	100.00%	42.26%	19.09%
Actual operation and maintenance expenses	\$ 3,105,170		
Deposit to depreciation fund	200,005		
Deposit to replacement fund	777,988		
Deposit to O/M cash surplus	2,000		
Less:			
MCO income sharing	30,176		
Industrial metering and sampling	3,495		
WPPI standby service	57,072		
Pretreatment administrative fees	4,725		
Pretreatment permit fees	21,600		
Other operating revenues	305		
Interest income	99		
Net expenditures allocated for 2017*	3,967,691	1,676,835	757,538
Payable (receivable) from users for 2017 operations	(34,913)	(7,527)	(24,623)
Payable (receivable) from users - December 31	\$ (34,913)	\$ (7,527)	\$ (24,623)

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

* Measured service to municipalities and industries	\$ 2,989,698
Deposit to depreciation fund	200,005
Deposit to replacement fund	777,988
Net 2017 allocated expenses	\$ 3,967,691

<sup>(1)</sup> Net expenditures allocated for 2017 may differ slightly from the percentages based on rounding.



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Town of Neenah S.D. 2	Fox Crossing Utility District	Waverly S.D.	Sonoco - US Mills, Inc.
<u>\$ 61,797</u>	<u>\$ 521,453</u>	<u>\$ 168,527</u>	<u>\$ 778,778</u>
<u>1.66%</u>	<u>13.40%</u>	<u>4.35%</u>	<u>19.24%</u>

<u>65,615</u>	<u>531,666</u>	<u>172,490</u>	<u>763,547</u>
<u>(3,818)</u>	<u>(10,213)</u>	<u>(3,963)</u>	<u>15,231</u>
<u>\$ (3,818)</u>	<u>\$ (10,213)</u>	<u>\$ (3,963)</u>	<u>\$ 15,231</u>

ADDITIONAL INDEPENDENT AUDITORS' REPORT  
FOR BASIC FINANCIAL STATEMENTS

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## 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 the Neenah-Menasha Sewerage Commission, Menasha, Wisconsin, (the "Commission") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Commission financial statements, and have issued our report thereon dated March 6, 2018.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the 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 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 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 the 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 responses as item 2017-001 to be a material weakness.

### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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**

The Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The 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 the 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 the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

Green Bay, Wisconsin

March 6, 2018

# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

### SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2017

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#### SECTION I. INTERNAL CONTROL OVER FINANCIAL REPORTING

FINDING NO.	CONTROL DEFICIENCIES
2017-001	<b>Segregation of Duties</b>
	Repeat of Finding 2016-001
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 II. COMPLIANCE AND OTHER MATTERS

There are no findings related to compliance and other matters that are required to be reported under governmental auditing standards generally accepted in the United States of America for the year ended December 31, 2017.

Neenah-Menasha Sewerage Commission  
Menasha, Wisconsin

**MANAGEMENT COMMUNICATIONS**

December 31, 2017

# Neenah-Menasha Sewerage Commission

## Menasha, Wisconsin

DECEMBER 31, 2017

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To the Commissioners  
Neenah-Menasha Sewerage Commission  
Menasha, Wisconsin

We have audited the financial statements of Neenah Menasha Sewerage Commission, Menasha, Wisconsin (the "Commission") for the year ended December 31, 2017. The Commission's financial statements, including our report thereon dated March 6, 2018, 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 AND GOVERNMENT AUDITING STANDARDS**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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.

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. However, providing an opinion on compliance with those provisions is not an objective of our audit.

**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*

**FINANCIAL STATEMENTS**

In planning and performing our audit of the financial statements of the Commission as of and for the year ended December 31, 2017, 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 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 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 21 - 22 of the annual 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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not 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 exist 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 Commission's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in internal control to be a material weakness:

Finding 2017-001                      Segregation of Duties

This finding is described in detail in the schedule of findings and responses on page 23 of the annual report.

The Commission's written response to the material weakness identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no 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 estimate included in the financial statements was:

- ▶ 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 financial statement disclosures are neutral, consistent, and clear.

#### *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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Copies of the audit adjustments are available from management. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 March 6, 2018. 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 auditors' 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 retention as the Commission's auditors. However, 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.

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

### *Other Matters*

We applied certain limited procedures to the management's discussion and analysis, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### *Restriction on Use*

This information is intended solely for the information and use of the Commission, and management of Neenah Menasha Sewerage Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



Certified Public Accountants

Green Bay, Wisconsin  
March 6, 2018

# 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, 2017 with a comparative summary for the year ended December 31, 2016:

	Operation and Maintenance	Depreciation Fund	Replacement Fund	Capital	Totals	
					2017	2016
<b>Resources Provided</b>						
Charges to municipalities and industries	\$2,989,698	\$ 200,005	\$ 777,988	\$1,428,005	\$5,395,696	\$5,394,754
Other charges	117,373	-	-	-	117,373	99,561
Proceeds from disposal of capital assets	-	-	3,500	-	3,500	-
Interest income	99	2,169	40,359	4,782	47,409	28,018
Debt proceeds	-	-	-	363,739	363,739	22,231
<b>Total Resources Provided</b>	<b>3,107,170</b>	<b>202,174</b>	<b>821,847</b>	<b>1,796,526</b>	<b>5,927,717</b>	<b>5,544,564</b>
<b>Resources Extended</b>						
Operating expenses	3,105,170	32,106	-	-	3,137,276	3,119,487
Principal paid on long-term debt	-	-	-	941,412	941,412	916,039
Interest on long-term debt	-	-	-	477,795	477,795	499,843
Transfers (in) out	-	89,870	-	(89,870)	-	-
Acquisition and construction of capital assets	-	24,452	86,034	551,876	662,362	187,361
<b>Total Resources Expended</b>	<b>3,105,170</b>	<b>146,428</b>	<b>86,034</b>	<b>1,881,213</b>	<b>5,218,845</b>	<b>4,722,730</b>
<b>Change in Available Resources</b>	<b>\$ 2,000</b>	<b>\$ 55,746</b>	<b>\$ 735,813</b>	<b>\$ (84,687)</b>	<b>\$ 708,872</b>	<b>\$ 821,834</b>

Additional comments and observations concerning the above operating results follow:

a) Operation and Maintenance

Actual operation and maintenance expenses totaled \$3,105,170 for 2017 while the Commission budgeted operation and maintenance expenses of \$3,291,523. A budget to actual comparison of the Commission's operation and maintenance expenses is located on page 18 of the Commission's annual financial report.

b) Depreciation Fund

The Commission established a separate depreciation fund during 1997 to pay for repairs and capital asset additions not covered under the equipment replacement fund. During the year ended December 31, 2017, the Commission used depreciation fund resources of \$32,106 to pay for maintenance costs, \$24,452 for the acquisition and construction of capital assets, and \$89,870 for plant upgrade costs.

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, 2017, the Commission used replacement fund resources of \$86,034 to acquire capital assets.

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, 2017, the Commission is in compliance with all revenue bond covenants.

## APPENDIX

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**NEENAH-MENASHA SEWERAGE COMMISSION**

101 Garfield Avenue • Menasha, Wisconsin 54952-3397

(920) 751-4760 • Fax (920) 751-4767

e-mail [info@nmsscwwtp.com](mailto:info@nmsscwwtp.com)

March 6, 2018

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 Neenah Menasha Sewerage Commission, Menasha, Wisconsin (the "Commission"), as of December 31, 2017, and the changes in the financial position 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. 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 March 6, 2018, 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 January 30, 2018, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U. S. GAAP 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 financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
3. 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. In regards to accounting estimates:
  - ▶ The measurement processes used by management in determining accounting estimates is appropriate and consistent.
  - ▶ The assumptions appropriately reflect management's intent and ability to carry out specific courses of action.
  - ▶ The disclosures related to accounting estimates are complete and appropriate.
  - ▶ No subsequent event has occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements.
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 U.S. GAAP.
8. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the 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 Commission from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of 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 no knowledge of 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.

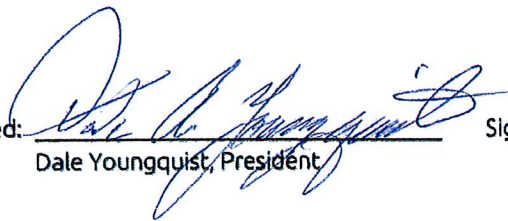
#### **GOVERNMENT - SPECIFIC**

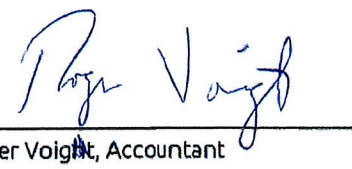
- 18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 19. We have a process to track the status of audit findings and recommendations.
- 20. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 22. 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.
- 23. 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 legal and contractual provisions for reporting specific activities in separate funds.
- 24. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 25. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 26. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 27. 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.

28. As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
29. 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, except for utility assets pledged as collateral for the revenue bonds.
30. 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.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. 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.
33. Components of net position (net investment in capital assets, restricted, and unrestricted) are properly classified and, if applicable, approved.
34. Provisions for uncollectible receivables have been properly identified and recorded.
35. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
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 is properly recognized under the policy.
38. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
39. 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.
40. 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.



41. 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.
42. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
43. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been reduced to their estimated net realizable value.
44. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
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 Voight, Accountant