

Neenah-Menasha Sewerage Commission
Menasha, Wisconsin

ANNUAL FINANCIAL REPORT

December 31, 2018



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CONSULTING

Neenah-Menasha Sewerage
Commission
Menasha, Wisconsin

MANAGEMENT COMMUNICATIONS

December 31, 2018

Neenah-Menasha Sewerage Commission Menasha, Wisconsin

DECEMBER 31, 2018

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CliftonLarsonAllen LLP
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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") as of and for the year ended December 31, 2018. The Commission's financial statements, including our report thereon dated March 4, 2019, 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, 2018, 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 XX - XX 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 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 following deficiency in internal control to be a material weakness:

Finding 2018-001 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 2018. 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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements. 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 the 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 4, 2019. 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.

Other Matters

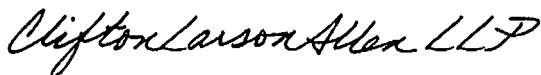
We applied certain limited procedures to the management's discussion and analysis, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information 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. We have issued our report thereon dated March 4, 2019.

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,



CliftonLarsonAllen LLP

Green Bay, Wisconsin
March 4, 2019

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, 2018 with a comparative summary for the year ended December 31, 2017:

	Operation and Maintenance	Depreciation Fund	Replacement Fund	Capital	Totals	
					2018	2017
Resources Provided						
Charges to municipalities and industries	\$3,041,910	\$ 99,999	\$ 778,000	\$1,441,924	\$5,361,833	\$5,395,696
Other charges	99,173	-	-	-	99,173	117,373
Proceeds from disposal of capital assets	-	-	-	-	-	3,500
Interest income	577	7,651	64,161	11,228	83,617	47,409
Debt proceeds	-	-	-	-	-	363,739
Total Resources Provided	<u>3,141,660</u>	<u>107,650</u>	<u>842,161</u>	<u>1,453,152</u>	<u>5,544,623</u>	<u>5,927,717</u>
Resources Extended						
Operating expenses	3,141,660	5,586	-	-	3,147,246	3,137,276
Principal paid on long-term debt	-	-	-	986,392	986,392	941,412
Interest on long-term debt	-	-	-	459,095	459,095	477,795
Acquisition and construction of capital assets	-	123,081	330,285	-	453,366	662,362
Total Resources Expended	<u>3,141,660</u>	<u>128,667</u>	<u>330,285</u>	<u>1,445,487</u>	<u>5,046,099</u>	<u>5,218,845</u>
Change in Available Resources	<u>\$ -</u>	<u>\$ (21,017)</u>	<u>\$ 511,876</u>	<u>\$ 7,665</u>	<u>\$ 498,524</u>	<u>\$ 708,872</u>

Additional comments and observations concerning the above operating results follow:

a) Operation and Maintenance

Actual operation and maintenance expenses totaled \$3,141,660 for 2018 while the Commission budgeted operation and maintenance expenses of \$3,353,083. 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, 2018, the Commission used depreciation fund resources of \$5,584 to pay for maintenance costs and \$123,081 for the acquisition of capital assets.

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, 2018, the Commission used replacement fund resources of \$330,285 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, 2018, the Commission is in compliance with all revenue bond covenants.

APPENDIX



NEENAH-MENASHA SEWERAGE COMMISSION

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(920) 751-4760 • Fax (920) 751-4767
e-mail info@nmsscwwtp.com

March 4, 2019

CliftonLarsonAllen LLP
2200 Riverside Drive
PO 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, as of December 31, 2018 and the changes in 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 on 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.

We confirm, to the best of our knowledge and belief, as of March 4, 2019, 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 November 16, 2018, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
2. We acknowledge and have fulfilled 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates are reasonable.
5. Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.
6. Related party relationships and transactions, including, but not limited to, 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.

7. All events occurring subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed..
8. We have not identified or been notified of any uncorrected financial statement misstatements.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.
11. 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 entity's name" during the period significantly exceeded the amounts in those categories as of the financial statement date was properly disclosed in the financial statements.
12. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
14. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.

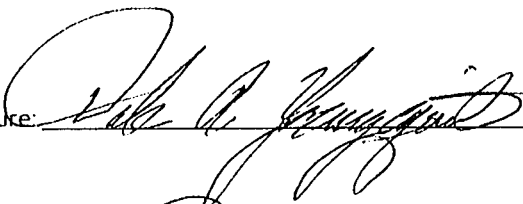
Information Provided

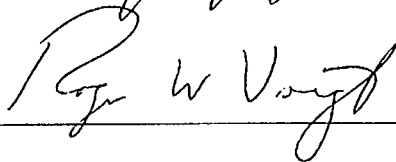
1. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of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

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts or abuse whose effects should be considered when preparing financial statements.
7. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
8. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
9. The entity 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.
10. We have a process to track the status of audit findings and recommendations.
11. 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.
12. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
13. We are responsible for compliance with the laws, regulations, and provisions of contracts applicable to Neenah-Menasha Sewerage Commission, including 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.

14. 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.
15. The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
16. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
17. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
18. Provisions for uncollectible receivables have been properly identified and recorded.
19. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.
20. Capital assets, including infrastructure, are properly capitalized, reported, and, if applicable, depreciated.
21. We have appropriately disclosed the entity'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.
22. 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.
23. We acknowledge our responsibility for presenting the supporting schedules (the supplementary information) in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. 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.
24. As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee your services; have made all management judgments and decisions; and have assumed all management responsibilities. We have evaluated the adequacy and results of the service. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

25. In regards to the proposing of routine adjusting, correcting, and closing journal entry services performed by you, we have:
- a. Made all management judgments and decisions and assumed all management responsibilities.
 - b. Designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee the services.
 - c. Evaluated the adequacy and results of the services performed.
 - d. Accepted responsibility for the results of the services.

Signature:  Title: PRESIDENT

Signature:  Title: ACCOUNTANT

Neenah-Menasha Sewerage Commission
Menasha, Wisconsin

ANNUAL FINANCIAL REPORT

December 31, 2018

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

DECEMBER 31, 2018

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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 ("the Commission") as of and for the year ended December 31, 2018, 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 respective financial position of the Commission as of December 31, 2018, and the changes in its financial position and its cash flows 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.

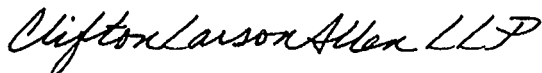
The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements 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.

Prior Year Summarized Financial information

The 2017 financial statements were audited by Schenck SC, whose practice became part of CliftonLarsonAllen LLP as of January 1, 2019, and whose report dated March 6, 2018, expressed an unmodified opinion on those respective financial statements from which the prior year summarized financial information was derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2019, 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.



CliftonLarsonAllen LLP

Green Bay, Wisconsin

March 4, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2018

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, 2018.

Financial Highlights

- The assets of the Commission exceeded its liabilities as of December 31, 2018 by \$9,825,602 (*net position*).
- The Commission's total net position increased by \$259,070. 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.
 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 \$696,385. Depreciation expense decreased in 2018 compared to 2017, as the Commission reclassified the plant upgrade during 2017 from completed construction in progress to individual plant accounts, and adjusted the estimated depreciation expense to the calculated depreciated value as of December 31, 2017.
 3. Commission users contribute to equipment replacement and depreciation funds for replacement or significant repairs to existing equipment. For the year ended December 31, 2018, charges exceeded depreciation and equipment maintenance costs by \$872,415.
- The Commission's total long-term debt decreased by \$986,392 during 2018 due to principal retired as no debt was issued during the year.

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, 2018

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 \$9,825,602 at the close of 2018.

Neenah-Menasha Sewerage Commission's Net Position		
	2018	2017
Current and other assets	\$ 237,256	\$ 127,282
Restricted assets	5,933,886	5,320,568
Capital assets	20,974,845	22,200,901
Total assets	<u>27,145,987</u>	<u>27,648,751</u>
Long-term liabilities outstanding	16,940,636	17,927,028
Other liabilities	379,749	155,191
Total liabilities	<u>17,320,385</u>	<u>18,082,219</u>
Net position		
Net investment in capital assets	4,034,209	4,273,873
Restricted	5,821,752	5,322,992
Unrestricted	<u>(30,359)</u>	<u>(30,333)</u>
Total net position	<u>\$ 9,825,602</u>	<u>\$ 9,566,532</u>

By far the largest portion of the Commission's net position (41%) 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 (59%) 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, 2018

Change in net position. The Commission's net position increased by \$259,070. Key elements of this increase are as follows:

Neenah-Menasha Sewerage Commission's Change in Net Position		
	2018	2017
Operating Revenues		
User charges		
Measured service	\$ 3,041,910	\$ 2,989,698
Capital charges	1,441,924	1,428,005
Depreciation fund charges	99,999	200,005
Replacement fund charges	778,000	777,988
Interceptor cleaning and maintenance charges	12,832	14,067
Other charges	99,173	117,373
Total operating revenues	<u>5,473,838</u>	<u>5,527,136</u>
Operating Expenses		
Operation and maintenance	3,141,660	3,105,170
Interceptor cleaning and maintenance	12,832	14,067
Depreciation	1,679,420	2,895,076
Depreciation fund	5,586	32,106
Total operating expenses	<u>4,839,498</u>	<u>6,046,419</u>
Operating income (loss)	634,340	(519,283)
Nonoperating revenues (expenses)	<u>(375,270)</u>	<u>(420,228)</u>
Change in net position	259,070	(939,511)
Net position - beginning balance	9,566,532	10,506,043
Net position - ending balance	<u>\$ 9,825,602</u>	<u>\$ 9,566,532</u>

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2018

Capital Asset and Debt Administration

Capital assets. The Commission's investment in capital assets as of December 31, 2018 amounts to \$20,974,845 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, improvements other than buildings, machinery and equipment and construction in progress. The total decrease in the Commission's investment in capital assets for the current year was \$1,226,056 or 5.52% over last year as depreciation expense exceeded capital asset additions.

Long-term debt. At the end of the current fiscal year, the Commission had total bonded debt outstanding of \$16,890,668.

The Commission's total debt decreased by \$986,392 during the current fiscal year based on scheduled debt repayments related to the plant upgrade improvements. The Commission includes the anticipated principal retirement in its capital charges to its users.

The Commission has restricted assets of \$861,125 in the Principal and Interest Redemption Fund, consisting of \$833,716 of cash and investments and \$27,409 due from users.

Economic Factors and Next Year's Budgets and Rates

The 2019 net operation and maintenance budget decreased 3.6%, equipment replacement fund and depreciation fund budgets remained the same, and the capital budget decreased 4.0%. The overall rates to the users will result in an overall decrease of 3.6%.

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

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

STATEMENT OF NET POSITION
DECEMBER 31, 2018
WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash and investments	\$ 198,786	\$ 100
Receivables		
Accounts	8,137	7,245
Due from users	11,536	50,195
Due from users - year-end settlement	-	50,144
Prepaid items	<u>18,797</u>	<u>19,598</u>
Total current assets	<u>237,256</u>	<u>127,282</u>
Noncurrent assets		
Restricted assets		
Cash and investments	5,892,503	5,279,744
Accrued interest	523	-
Due from users, net	<u>40,860</u>	<u>40,824</u>
Total restricted assets	<u>5,933,886</u>	<u>5,320,568</u>
Capital assets		
Nondepreciable	430,247	126,463
Depreciable	<u>20,544,598</u>	<u>22,074,438</u>
Net capital assets	<u>20,974,845</u>	<u>22,200,901</u>
Total assets	<u>27,145,987</u>	<u>27,648,751</u>
LIABILITIES		
Current liabilities		
Accounts payable	83,436	65,112
Due to users - year-end settlement	183,965	15,231
Accrued and other current liabilities	214	152
Payable from restricted assets		
Accounts payable	37,646	-
Current portion of long-term debt - general obligation notes	193,892	188,894
Current portion of long-term debt - revenue bonds	818,600	797,498
Accrued interest	<u>74,488</u>	<u>74,696</u>
Total current liabilities	<u>1,392,241</u>	<u>1,141,583</u>
Long-term obligations, less current portion		
General obligation debt	3,040,671	3,234,562
Revenue bonds	12,837,505	13,656,106
Town of Neenah construction deposit	<u>49,968</u>	<u>49,968</u>
Total long-term liabilities	<u>15,928,144</u>	<u>16,940,636</u>
Total liabilities	<u>17,320,385</u>	<u>18,082,219</u>
NET POSITION		
Net investment in capital assets	4,034,209	4,273,873
Restricted	5,821,752	5,322,992
Unrestricted	<u>(30,359)</u>	<u>(30,333)</u>
Total net position	<u>\$ 9,825,602</u>	<u>\$ 9,566,532</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, 2018
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
User charges		
Measured service	\$ 3,041,910	\$ 2,989,698
Capital charges	1,441,924	1,428,005
Depreciation fund charges	99,999	200,005
Replacement fund charges	778,000	777,988
Interceptor cleaning and maintenance charges	12,832	14,067
Other	<u>99,173</u>	<u>117,373</u>
Total operating revenues	<u>5,473,838</u>	<u>5,527,136</u>
OPERATING EXPENSES		
Operation and maintenance	3,141,660	3,105,170
Interceptor cleaning and maintenance	12,832	14,067
Depreciation	1,679,420	2,895,076
Depreciation fund	<u>5,586</u>	<u>32,106</u>
Total operating expenses	<u>4,839,498</u>	<u>6,046,419</u>
Operating income (loss)	<u>634,340</u>	<u>(519,283)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	83,617	47,409
Gain on disposal of capital assets	-	3,500
Interest and fiscal charges	<u>(458,887)</u>	<u>(471,137)</u>
Total nonoperating revenues (expenses)	<u>(375,270)</u>	<u>(420,228)</u>
Change in net position	259,070	(939,511)
Net position - January 1	<u>9,566,532</u>	<u>10,506,043</u>
Net position - December 31	<u>\$ 9,825,602</u>	<u>\$ 9,566,532</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, 2018
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 5,730,447	\$ 5,820,381
Cash paid for employee wages and benefits	(7,050)	(5,598)
Cash paid to suppliers	(3,133,841)	(3,188,349)
Net cash provided by operating activities	<u>2,589,556</u>	<u>2,626,434</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(415,718)	(662,362)
Proceeds from sale of capital assets	-	3,500
Proceeds from issuance of debt	-	363,739
Principal paid on long-term debt	(986,392)	(941,412)
Interest paid on long-term debt	(459,095)	(477,795)
Net cash flows used by capital and related financing activities	<u>(1,861,205)</u>	<u>(1,714,330)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>83,094</u>	<u>47,409</u>
Change in cash and investments	811,445	959,513
Cash and investments - January 1	<u>5,279,844</u>	<u>4,320,331</u>
Cash and investments - December 31	<u>\$ 6,091,289</u>	<u>\$ 5,279,844</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 634,340	\$ (519,283)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	1,679,420	2,895,076
Change in operating assets and liabilities		
Accounts receivables	(892)	(2,384)
Due from users	38,623	292,074
Due from users - year end settlement	50,144	(5,156)
Prepaid items	801	(18,336)
Refunds due users	168,734	8,711
Accounts payable	18,324	(23,778)
Accrued and other current liabilities	62	(490)
Net cash provided by operating activities	<u>\$ 2,589,556</u>	<u>\$ 2,626,434</u>
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents in current assets	\$ 198,786	\$ 100
Cash and cash equivalents in restricted assets	<u>5,892,503</u>	<u>5,279,744</u>
Total cash and investments	<u>\$ 6,091,289</u>	<u>\$ 5,279,844</u>
Noncash capital and related financing activities		
None		

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

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Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

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, Harrison Utilities, 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 Harrison Utilities 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.

B. 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.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The Commission's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

An enterprise fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Commission are charges to municipalities and industries for services recorded monthly based on plant loadings received from the municipality and industry. Operating expenses include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. 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 cost 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. 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, 2018

6. 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.

E. 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.

F. 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.

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, 2018

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 \$6,091,289 on December 31, 2018 as summarized below:

Petty cash and cash on hand	\$	100
Deposits with financial institutions		5,996,454
Investments		
Wisconsin local government investment pool		94,735
	\$	<u>6,091,289</u>

Reconciliation to the financial statements:

Statement of Net Position		
Cash and investments	\$	198,786
Restricted cash and investments		5,892,503
	\$	<u>6,091,289</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 \$250,000 for the combined amount of all deposit accounts per official custodian per depository institution. Deposits

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

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, 2018, 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 \$94,735 at year-end. The 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, 2018, 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, 2018 totaled \$5,933,886 and consisted of cash and investments of \$5,892,503, accrued interest of \$523 and amounts due from users of \$40,860 held for the following purposes:

Funds	Amount	Purpose
Depreciation fund	\$ 695,049	To be used for additions to and betterments of the sewerage treatment plant.
Bond principal and interest redemption fund	861,125	To be used for subsequent year payments of principal and interest on long-term debt
DNR equipment replacement fund	<u>4,377,712</u>	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>\$ 5,933,886</u>	

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Land	\$ 126,463	\$ 101,583	\$ -	\$ 228,046
Construction in progress	-	202,201	-	202,201
Total capital assets, nondepreciable	<u>126,463</u>	<u>303,784</u>	<u>-</u>	<u>430,247</u>
Capital assets, depreciable:				
Land improvements	156,114	-	-	156,114
Buildings	31,088,287	37,160	-	31,125,447
Improvements other than buildings	4,007,452	-	-	4,007,452
Machinery and equipment	16,132,245	112,420	-	16,244,665
Subtotals	<u>51,384,098</u>	<u>149,580</u>	<u>-</u>	<u>51,533,678</u>
Less accumulated depreciation for:				
Land improvements	124,891	7,805	-	132,696
Buildings	18,256,742	980,327	-	19,237,069
Improvements other than buildings	1,386,079	40,075	-	1,426,154
Machinery and equipment	9,541,948	651,213	-	10,193,161
Subtotals	<u>29,309,660</u>	<u>1,679,420</u>	<u>-</u>	<u>30,989,080</u>
Total capital assets, depreciable, net	<u>22,074,438</u>	<u>(1,529,840)</u>	<u>-</u>	<u>20,544,598</u>
Capital assets, net	<u>\$ 22,200,901</u>	<u>\$ (1,226,056)</u>	<u>\$ -</u>	<u>20,974,845</u>
Less: Capital related debt				16,890,668
Less: Town of Neenah construction deposit				<u>49,968</u>
Net investment in capital assets				<u>\$ 4,034,209</u>

D. LONG-TERM OBLIGATIONS

The Cities of Neenah and Menasha, Village of Fox Crossing and Harrison Utilities 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, 2018:

	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
Clean Water Fund					
General obligation bonds	\$ 3,423,457	\$ -	\$ 188,894	\$ 3,234,563	\$ 193,892
Revenue bonds	<u>14,453,603</u>	<u>-</u>	<u>797,498</u>	<u>13,656,105</u>	<u>818,600</u>
Long-term obligations	<u>\$ 17,877,060</u>	<u>\$ -</u>	<u>\$ 986,392</u>	<u>\$ 16,890,668</u>	<u>\$ 1,012,492</u>

Total interest paid during the year on long-term debt totaled \$459,095.

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

Clean Water Fund Bonds

Clean water fund bonds outstanding on December 31, 2018 totaled \$16,890,668 and were comprised of the following issues:

	Authorizer	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/18
General obligation bonds	Village of Fox Crossing	02/13/13	05/01/32	2.65%	\$ 3,288,363	\$ 2,591,029
General obligation bonds	Harrison Utilities	02/13/13	05/01/32	2.65%	816,732	643,534
Total outstanding general obligation debt						<u>\$ 3,234,563</u>
Revenue bonds	City of Neenah	02/13/13	05/01/32	2.65%	\$ 11,192,015	\$ 8,818,617
Revenue bonds	City of Menasha	02/13/13	05/01/32	2.65%	6,140,505	4,837,488
Total outstanding revenue bonds						<u>\$13,656,105</u>

Annual principal and interest maturities of the outstanding clean water fund bonds of \$16,890,668 on December 31, 2018 are detailed below:

Year Ended December 31,	General Obligation		Revenue Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
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	215,243	61,388	908,740	259,177	1,123,983	320,565
2024 - 2028	1,164,718	217,267	4,917,360	917,285	6,082,078	1,134,552
2029 - 2032	1,047,704	56,349	4,423,337	237,903	5,471,041	294,252
	<u>\$ 3,234,563</u>	<u>\$ 635,345</u>	<u>\$13,656,105</u>	<u>\$ 2,682,388</u>	<u>\$16,890,668</u>	<u>\$ 3,317,733</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 \$20,208,401. Principal and interest paid for the current year and total customer net revenues were \$1,445,487 and \$2,313,760, respectively.

E. FUND EQUITY

Net Position

The Commission reports restricted net position at December 31, 2018 as follows:

Restricted for	
Plant replacement	\$ 5,035,115
Debt service	<u>786,637</u>
Total Restricted Net Position	<u>\$ 5,821,752</u>

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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.

C. SUBSEQUENT EVENT

On January 22, 2019, the Commission accepted a settlement offer of \$233,125 from the Wisconsin Insurance Security Fund (WISF) for reimbursement of prior year costs incurred by the Cities of Neenah and Menasha related in the Fox River cleanup. The settlement is pending approval of the related assignment from the Commission to WISF by the liquidator for the Home Insurance Company. Upon receipt in 2019, the Commission will remit payment to the Cities of Neenah and Menasha and the settlement will have no impact on the Commission's reported net position.

SUPPLEMENTARY INFORMATION

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

**SCHEDULE OF OPERATION AND MAINTENANCE EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget	Actual	Variance with Budget - Positive (Negative)	2017
Operation				
Salaries and wages	\$ 6,600	\$ 5,967	\$ 633	\$ 4,240
Employee benefits	1,148	1,145	3	868
Professional fees and contracted services	1,706,500	1,706,867	(367)	1,654,930
Power	501,500	472,561	28,939	459,223
Gas	55,000	11,695	43,305	41,808
Stormwater charges	7,500	7,146	354	7,069
Water	19,110	16,898	2,212	15,675
Public fire protection	4,000	4,320	(320)	3,857
Telephone	6,000	5,978	22	6,379
Chemicals				
Polymer	104,000	145,677	(41,677)	84,715
Sodium bisulfate	44,950	50,586	(5,636)	45,275
Chlorine	-	22,845	(22,845)	-
Salt	31,675	24,178	7,497	23,032
Poly-aluminum chloride (Hyper Ion)	175,000	52,619	122,381	-
Miscellaneous	-	-	-	150,597
Sludge disposal	178,700	195,993	(17,293)	180,942
Industrial metering and sampling	6,000	2,525	3,475	2,587
Lab supplies	33,000	26,347	6,653	24,876
Other operating supplies	32,000	24,718	7,282	20,812
Transportation	6,750	7,027	(277)	5,774
Administration	67,900	65,082	2,818	59,739
Office supplies	18,000	14,538	3,462	17,248
General insurance	81,175	79,200	1,975	77,657
Total operation	<u>3,086,508</u>	<u>2,943,912</u>	<u>142,596</u>	<u>2,887,303</u>
Maintenance				
Equipment	147,500	100,683	46,817	141,871
General plant	113,325	92,496	20,829	72,517
Cleaning supplies	5,750	4,569	1,181	3,479
Total maintenance	<u>266,575</u>	<u>197,748</u>	<u>68,827</u>	<u>217,867</u>
Total operation and maintenance expenses	<u>\$ 3,353,083</u>	<u>\$ 3,141,660</u>	<u>\$ 211,423</u>	<u>\$ 3,105,170</u>

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

CALCULATIONS OF PAYABLE (RECEIVABLE) FROM USERS FOR 2018 OPERATIONS DECEMBER 31, 2018

	<u>Total</u>	<u>City of Neenah</u>
Revenues received during year for 2018 operation and maintenance	<u>\$ 4,103,874</u>	<u>\$ 1,817,665</u>
Percentage of net expenses allocated for 2018 ⁽¹⁾	<u>100.00%</u>	<u>44.62%</u>
Actual operation and maintenance expenses	\$ 3,141,660	
Deposit to depreciation fund	99,999	
Deposit to replacement fund	778,000	
Less:		
MCO income sharing	32,532	
Industrial metering and sampling	3,064	
WPPI standby service	57,168	
Pretreatment administrative fees	4,950	
Pretreatment permit fees	300	
Other operating revenues	1,159	
Interest income	<u>577</u>	
Net expenditures allocated for 2018*	<u>3,919,909</u>	<u>1,748,995</u>
Payable (receivable) from users for 2018 operations	<u>183,965</u>	<u>68,670</u>
Payable (receivable) from users - December 31	<u>\$ 183,965</u>	<u>\$ 68,670</u>

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

* Measured service to municipalities and industries	\$ 3,041,910
Deposit to depreciation fund	99,999
Deposit to replacement fund	778,000
Net 2018 allocated expenses	<u>\$ 3,919,909</u>

⁽¹⁾ Net expenditures allocated for 2018 may differ slightly from the percentages based on rounding.

City of Menasha	Town of Neenah S.D. 2	Fox Crossing Utility District	Harrison Utilities	Sonoco - US Mills, Inc.
<u>\$ 720,218</u>	<u>\$ 39,311</u>	<u>\$ 553,569</u>	<u>\$ 172,838</u>	<u>\$ 800,273</u>
<u>18.12%</u>	<u>0.95%</u>	<u>13.60%</u>	<u>4.17%</u>	<u>18.54%</u>

<u>710,302</u>	<u>37,407</u>	<u>533,021</u>	<u>163,327</u>	<u>726,857</u>
<u>9,916</u>	<u>1,904</u>	<u>20,548</u>	<u>9,511</u>	<u>73,416</u>
<u>\$ 9,916</u>	<u>\$ 1,904</u>	<u>\$ 20,548</u>	<u>\$ 9,511</u>	<u>\$ 73,416</u>

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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 the Neenah-Menasha Sewerage Commission, Wisconsin, (the "Commission") as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Commission's financial statements, and have issued our report thereon dated March 4, 2019.

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 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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-00, that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

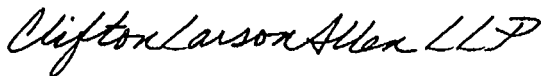
As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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.



CliftonLarsonAllen LLP

Green Bay, Wisconsin
March 4, 2019

Neenah-Menasha Sewerage Commission

Menasha, Wisconsin

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2018

SECTION I. INTERNAL CONTROL OVER FINANCIAL REPORTING

FINDING NO.	CONTROL DEFICIENCIES
2018-001	Segregation of Duties Repeat of Finding 2017-001
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, 2018.