

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2003**

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Annual Financial Report

December 31, 2003

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## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Commissioners  
Neenah-Menasha Sewerage Commission, Wisconsin

We have audited the accompanying financial statements of Neenah-Menasha Sewerage Commission, Wisconsin, as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of Neenah-Menasha Sewerage Commission, Wisconsin's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neenah-Menasha Sewerage Commission, Wisconsin, as of December 31, 2003, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2004 on our consideration of Neenah-Menasha Sewerage Commission, Wisconsin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of Neenah-Menasha Sewerage Commission, Wisconsin, taken as a whole. The financial information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Certified Public Accountants  
Green Bay, Wisconsin  
February 6, 2004

## **FINANCIAL STATEMENTS**

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Balance Sheet

December 31, 2003

With Comparative Amounts for December 31, 2002

	2003	2002
<b>ASSETS</b>		
Current Assets		
Cash and investments	\$ 100	\$ 100
Receivable from users	477,882	124,328
Other accounts receivable	33,341	8,908
Prepaid items	18,503	3,610
Total Current Assets	<u>529,826</u>	<u>136,946</u>
Other Cash and Investments		
Cash and investments	521,803	389,488
Accrued interest receivable	1,094	-
Total Other Cash and Investments	<u>522,897</u>	<u>389,488</u>
Restricted Assets		
Cash and investments	2,181,152	2,454,172
Accrued interest receivable	15,840	14,227
Total Restricted Assets	<u>2,196,992</u>	<u>2,468,399</u>
Fixed Assets		
Utility plant in service	34,894,968	34,840,909
Less: Accumulated depreciation	20,742,163	19,243,427
Net Fixed Assets	<u>14,152,805</u>	<u>15,597,482</u>
Deferred Debits		
Unamortized debt discount	117,794	49,452
Unamortized loss on refinancing	258,656	206,371
Total Deferred Debits	<u>376,450</u>	<u>255,823</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 17,778,970</u></u>	<u><u>\$ 18,848,138</u></u>

(Continued)

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

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Balance Sheet (Continued)

December 31, 2003

With Comparative Amounts for December 31, 2002

	2003	2002
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities		
Current Liabilities		
Refunds due users	\$ 378,980	\$ 74,706
Accounts payable	103,691	85,640
Accrued vacation	5,419	8,479
Total Current Liabilities	<u>488,090</u>	<u>168,825</u>
Payable from Restricted and Other Assets		
Current maturities of revenue bonds	490,000	485,000
Accounts payable	32,746	141,196
Interest accrued	65,284	33,236
Total Payable From Restricted Assets	<u>588,030</u>	<u>659,432</u>
Long-term Obligations, less current maturities		
Revenue bonds	6,885,000	7,505,000
Accrued sick leave	26,736	35,733
Total Long-term Obligations	<u>6,911,736</u>	<u>7,540,733</u>
Deferred Credits		
Other deferred credits	32,396	36,737
Total Liabilities	<u>8,020,252</u>	<u>8,405,727</u>
Fund Equity		
Contributions in Aid of Construction		
Federal and state grants	3,265,747	4,188,207
Municipalities and industries	1,905,208	2,500,574
Total Contributions in Aid of Construction	<u>5,170,955</u>	<u>6,688,781</u>
Retained Earnings		
Reserved for debt service	-	95,140
Reserved for plant replacement	1,684,732	1,537,149
Unreserved	2,903,031	2,121,341
Total Retained Earnings	<u>4,587,763</u>	<u>3,753,630</u>
Total Fund Equity	<u>9,758,718</u>	<u>10,442,411</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u><b>\$ 17,778,970</b></u>	<u><b>\$ 18,848,138</b></u>

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
Statement of Revenues, Expenses and Changes in Retained Earnings  
Year Ended December 31, 2003  
With Comparative Amounts for Year Ended December 31, 2002

	2003	2002
Operating Revenues		
Charges to Municipalities and Industries		
Measured service	\$ 2,084,866	\$ 1,910,769
Capital charges	890,998	893,278
Depreciation fund charges	176,256	135,194
Replacement fund charges	219,939	219,949
Total Charges to Municipalities and Industries	<u>3,372,059</u>	<u>3,159,190</u>
Industrial metering and sampling	9,219	7,545
WPPI standby service	78,336	74,995
Other operating revenues	36,036	33,433
Total Operating Revenues	<u>3,495,650</u>	<u>3,275,163</u>
Operating Expenses		
Operation and maintenance	2,208,472	2,026,812
Depreciation	1,517,826	1,621,674
Depreciation fund	29,790	210,901
Replacement fund	45,271	75,362
Total Operating Expenses	<u>3,801,359</u>	<u>3,934,749</u>
Operating Loss	<u>(305,709)</u>	<u>(659,586)</u>
Nonoperating Revenues (Expenses)		
Interest on long-term debt	(352,308)	(416,575)
Amortization of debt expense	(20,202)	(8,246)
Amortization of refinancing loss	(51,090)	(34,392)
Interest income	75,658	71,469
Amortization of grants and contributions	1,517,826	1,621,674
Loss on disposal of fixed assets	(30,042)	(10,898)
Total Nonoperating Revenues (Expenses)	<u>1,139,842</u>	<u>1,223,032</u>
Net Income	834,133	563,446
Retained Earnings - January 1	<u>3,753,630</u>	<u>3,190,184</u>
Retained Earnings - December 31	<u>\$ 4,587,763</u>	<u>\$ 3,753,630</u>

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

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Statement of Cash Flows

Year Ended December 31, 2003

With Comparative Amounts for Year Ended December 31, 2002

	2003	2002
Cash Flows from Operating Activities		
Operating loss	\$ (305,709)	\$ (659,586)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	1,517,826	1,621,674
Changes in assets and liabilities		
Receivables from users	(353,554)	(73,895)
Other accounts receivable	(24,433)	8,405
Prepaid items	(14,893)	(3)
Refunds due users	304,274	(88,948)
Accounts payable	(90,399)	105,874
Accrued vacation	(3,060)	526
Accrued sick leave	(8,997)	16,429
Deferred credits	(4,341)	(8,743)
Net Cash Provided by Operating Activities	<u>1,016,714</u>	<u>921,733</u>
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	(5,825,000)	(465,000)
Interest paid on long-term debt	(320,710)	(420,579)
Proceeds of long-term debt	7,825,000	-
Payment to escrow agent	(2,718,375)	-
Debt issuance costs paid	(88,544)	-
Acquisition and construction of fixed assets	(103,191)	(215,687)
Net Cash Used by Capital and Related Financing Activities	<u>(1,230,820)</u>	<u>(1,101,266)</u>
Cash Flows from Investing Activities		
(Purchase) redemption of long-term investments	(500,000)	6,067
Interest income received	73,401	73,726
Net Cash Provided (Used) by Investing Activities	<u>(426,599)</u>	<u>79,793</u>
Decrease in Cash and Cash Equivalents	(640,705)	(99,740)
Cash and Cash Equivalents - January 1	<u>2,143,760</u>	<u>2,243,500</u>
Cash and Cash Equivalents - December 31	<u>\$ 1,503,055</u>	<u>\$ 2,143,760</u>
Reconciliation of cash and cash equivalents to balance sheet:		
Cash and investments in current assets	\$ 100	\$ 100
Cash and investments in other cash and investments	521,803	389,488
Restricted cash and investments	2,181,152	2,454,172
Less: Long-term investments	(1,200,000)	(700,000)
Total cash and cash equivalents	<u>\$ 1,503,055</u>	<u>\$ 2,143,760</u>
Noncash Investing, Capital and Financing Activities		
None		

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



# NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2003

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Neenah-Menasha Sewerage Commission (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:

### 1. Reporting Entity

The Neenah-Menasha Sewerage Commission was organized on September 30, 1982, under Section 66.0301 of the Wisconsin State Statutes to construct and operate wastewater transportation and treatment facilities. The Commission was not created for profit and no part of the net income or profits will be remitted or transferred to any private individual or any organization created for profit. Pursuant to contract, the Commission serves the City of Neenah, City of Menasha, Town of Neenah Sanitary District No. 1, Town of Neenah Sanitary District No. 1-1, Town of Neenah Sanitary District No. 2, Town of Menasha Utility District, Town of Harrison Waverly Sanitary District, Town of Menasha, Town of Harrison, Mead Corporation, and Sonoco/US Mills Corporation.

The Commission has seven members selected for three year staggered terms. The Mayors of Neenah and Menasha each appoint two members of the Commission who must be confirmed by a majority vote of their respective Common Councils. The President of the Town of Neenah Sanitary District Nos. 1, 1-1, and 2, the President of the Town of Menasha Utility District, and the President of the Town of Harrison Waverly Sanitary District each appoint one member, with such appointment being confirmed by the governing bodies of those respective municipalities.

In accordance with GAAP, the financial statements are required to include the Commission and any separate component units that have a significant operational or financial relationship with the Commission. The Commission has not identified any component units that are required to be included in the financial statements in accordance with standards established in GASB Statement No. 14.

### 2. Fund Accounting

The accounts of the Commission are accounted for in an enterprise fund as required by GAAP. Enterprise funds are used to account for governmental 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 received 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 or other purposes.

### 3. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Unpaid enterprise fund service receivables are recorded at year-end. All fixed assets are capitalized at historical cost and depreciated over their useful lives.

# NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2003

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4. Enterprise Fund Accounting Principles

The Governmental Accounting Standards Board (GASB) issued Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". This statement provides that an enterprise fund may apply all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. The Commission has elected to apply only FASB, APB and ARB materials issued on or before November 30, 1989 to the enterprise fund.

### 5. Budgets and Budgetary Accounting

The Commission prepares an annual budget for use as a guide to operations and to determine estimated amounts due from contracting municipalities and industries. Formal budgetary integration is not completed and, accordingly, the budget is not presented in the financial statements. The Commission follows these procedures in establishing the annual budget:

- a. Prior to September 30, the Commission must prepare a budget and formally present it at a public hearing. The budget includes an estimate of each contracting municipality and industry's annual charges payable to the Commission in the following year.
- b. Each contracting municipality and industry agrees to include its estimated annual charges payable to the Commission in its budget for the following year. Each contracting municipality also agrees to adopt a local ordinance which provides for the recovery of its share of the Commission's annual charges from its users. To the extent that its share of the Commission's annual charges are not paid from user fees, each contracting municipality is required to otherwise provide for such payment by other means, including, but not limited to, its general fund or property tax levies.
- c. The Commission bills monthly, in advance, each contracting municipality and industry for its share of one-twelfth of the annual budget based on its proportionate use of the System. These monthly billings are due on the 10th of the month they are billed.
- d. The Commission refunds any operating surplus or charges back any operating deficit to the contracting municipalities and industries after each annual audit.

### 6. Cash and Investments

Cash and investments are combined on the balance sheet. 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 amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For purposes of the statement of cash flows, all cash deposits and highly liquid investments with an original maturity of three months or less (including restricted assets) are considered to be cash equivalents.

### 7. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2003

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

8. Fixed Assets

Fixed assets of the Commission are recorded at either historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20 years
Improvements other than buildings	20 - 100 years
Machinery and equipment	5 - 20 years

Net interest costs during construction periods are capitalized for fixed assets acquired by the issuance of long-term debt. Major additions and betterments are capitalized while expenditures for maintenance and repairs that do not add to the value of the asset or materially extend assets lives are charged to operations as incurred.

9. Deferred Debits

Deferred debits include unamortized debt discount related to the 2003 revenue bond issue which is being amortized on the straight-line basis over the life of the bonds.

Deferred debits also includes unamortized loss related to the 2003 advance refunding of the callable portion of the 1993 revenue bonds and is being amortized on a straight-line basis over the life of the 2003 revenue bond issue.

10. Compensated Absences

Commission employees earn 12 days of sick leave per year and may accumulate up to 150 days. Employees who retire from the Commission are paid up to 72 days of accumulated sick pay at their current rate of pay. No payment is made if the employee resigns or is terminated.

Commission employees earn vacation days on their anniversary date based on their length of service to the Commission. Vacation benefits must be utilized in the year in which the employee becomes eligible.

11. Deferred Credits

Deferred credits consist of amounts received from two contracting municipalities to finance their share of capacity in the wastewater treatment plant and is being amortized over the life of the plant.

12. Contributions in Aid of Construction

The Commission has received federal and state grants to pay a portion of the construction costs of the wastewater treatment plant. In addition, the Commission receives contributions from contracting municipalities and industries to finance plant construction, principal payments on outstanding long-term debt, and equipment acquisitions which are reported as operating revenues from contracting municipalities and industries.

The Commission currently amortizes contributions in aid of construction on a straight-line basis over the life of the related fixed assets.

13. Fund Equity

Under the provisions of GASB Statement No. 1, the Commission may establish reserves for those portions of fund equity which are legally segregated for a specific future use.

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Notes to Financial Statements

December 31, 2003

**NOTE B - CASH AND INVESTMENTS**

The Commission maintains various cash and investment accounts. These accounts are displayed on the balance sheet 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 \$2,703,055 on December 31, 2003 as summarized below:

Petty cash funds	\$ 100
Deposits with financial institutions	1,656,591
Investments	
Wisconsin local government investment pool	1,046,346
U.S. Treasury Fund	18
	<u>\$2,703,055</u>

Additional information on the above deposits and investments follows:

Deposits - Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts. Deposits with credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF) in the amount of \$100,000 per credit union member. In addition, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available. At year end, the bank balance of the Commission's deposits totaled \$1,678,950. Of this amount, \$300,000 was covered by FDIC insurance, \$1,277,448 was insured by the State Guarantee Fund, \$100,000 was covered by NCUSIF, and \$1,502 was uninsured.

Investments - The Commission's investments are not required to be categorized in accordance with GASB Statement No. 3. The Commission has investments in the Wisconsin local government investment pool 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, 2003 the fair value of the Commission's share of the LGIP's assets was substantially equal to the carrying value.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2003

**NOTE C - OTHER CASH AND INVESTMENTS**

Other cash and investments on December 31, 2003 totaled \$522,897 and consisted of cash and investments of \$521,803 and accrued interest receivable of \$1,094. The Commission internally restricted the amounts for the following purposes:

	<u>Amount</u>	<u>Purpose</u>
Depreciation Account	\$ 672,844	To be used for additions to and betterments of the sewage treatment plant.
Capital Outlay Accounts	232	To be used to finance future fixed asset acquisitions.
Less: Cash temporarily advanced to finance operating expenses	<u>(150,179)</u>	
	<u>\$ 522,897</u>	

**NOTE D - RESTRICTED ASSETS**

Restricted assets on December 31, 2003, totaled \$2,196,992 and consisted of cash and investments of \$2,181,152 and accrued interest receivable of \$15,840 held for the following purposes:

	<u>Amount</u>	<u>Purpose</u>
Principal and Interest Redemption Fund	\$ 92,767	To be used for subsequent year payments of principal and interest on revenue bonds. Required monthly deposits must equal one-sixth of the next interest payment and one-twelfth of the next principal payment.
Reserve Fund	388,062	To reserve additional funds for debt retirement; to be used if sufficient funds are not available in the Principal and Interest Redemption Fund. A balance of \$260,000 is required to be maintained in this account.
Surplus Fund	4,527	To be used if sufficient funds are not available in the Principal and Interest Redemption Fund. Any money in the Reserve Fund in excess of the minimum requirement shall be transferred to the Surplus Fund.
DNR Replacement Account	1,711,636	To be used for the replacement of certain assets for the sewerage treatment plant in accordance with Wisconsin Department of Natural Resources requirements.
	<u>\$2,196,992</u>	

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Notes to Financial Statements

December 31, 2003

**NOTE E - FIXED ASSETS**

The following is a summary of fixed assets at December 31, 2003:

Land and land rights	\$ 64,039
Land improvements	156,114
Buildings	16,095,177
Improvements other than buildings and land	5,156,285
Machinery and equipment	13,423,353
Total Utility Plant in Service	<u>34,894,968</u>
Less: Accumulated depreciation	20,742,163
Net Fixed Assets	<u><u>\$14,152,805</u></u>

**NOTE F - LONG-TERM OBLIGATIONS**

The following is a summary of changes in long-term obligations of the Commission for the year ended December 31, 2003:

	Outstanding 1/1/03	Issued	Retired	Outstanding 12/31/03
Revenue bonds	\$2,615,000	\$7,825,000	\$3,065,000	\$7,375,000
Revenue bond anticipation notes	5,375,000	-	5,375,000	-
Accrued sick leave	35,733	-	8,997	26,736
	<u>\$8,025,733</u>	<u>\$7,825,000</u>	<u>\$8,448,997</u>	7,401,736
Less: Current maturities				<u>490,000</u>
				<u><u>\$6,911,736</u></u>

Detail of the above outstanding revenue bonds follows:

Revenue Bonds

\$2,800,000 issued 2/1/03; \$445,000 to \$495,000 due annually through 2008; interest at 2.00% to 3.00%	\$2,350,000
\$5,025,000 issued 9/1/03; \$45,000 to \$730,000 due annually through 2015; interest at 2.00% to 4.00%	5,025,000
	<u><u>\$7,375,000</u></u>

Annual principal and interest maturities of the above outstanding long-term debt are shown below:

Due	Revenue Bonds	
	Principal	Interest
2004	\$ 490,000	\$ 282,853
2005	540,000	227,549
2006	555,000	216,749
2007	565,000	204,966
2008	580,000	190,116
2009-2013	3,210,000	624,170
2014-2015	1,435,000	80,306
	<u><u>\$7,375,000</u></u>	<u><u>\$1,826,709</u></u>

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Notes to Financial Statements

December 31, 2003

**NOTE F - LONG-TERM OBLIGATIONS (Continued)**

Advance Refunding

On February 1, 2003, the Commission advance refunded a revenue bond issue from 1993. The Commission issued \$2,800,000 of revenue refunding bonds to provide resources to purchase U.S. Government and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. This advance refunding was undertaken to reduce total debt service payments over the next six years by \$71,678 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$68,456.

**NOTE G - RETIREMENT COMMITMENTS**

All eligible Commission employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system. All permanent employees expected to work over 600 hours a year (440 hours for teachers) are eligible to participate in the System. Covered employees in the General/Teacher/Educational Support Personnel category are required by statute to contribute 5.4% of their salary (2.6% for Executives and Elected Officials, 4.0% for Protective Occupations with Social Security, and 2.4% for Protective Occupations without Social Security) to the plan. Employers may make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for Commission employees covered by the system for the year ended December 31, 2003 was \$148,248; the employer's total payroll was \$186,811. The total required contribution for the year ended December 31, 2003 was \$15,418, which consisted of \$7,412, or 5.0% of covered payroll from the employer and \$8,006, or 5.4% of covered payroll from employees. The required contribution of \$8,006 from employees was financed entirely by the Commission. Total contributions for the years ending December 31, 2002 and 2001 were \$18,468 and \$16,575, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 (62 for elected officials and 55 for protective occupation employees) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. Final average earnings is the average of the employee's three highest year's earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested.

The System also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes. The System issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Notes to Financial Statements

December 31, 2003

**NOTE H - UNRESERVED RETAINED EARNINGS**

The Commission has internally restricted a portion of the unreserved retained earnings at year-end for specific future uses. Detail of the unreserved retained earnings balance follows:

	12/31/03	12/31/02
Designated for plant replacement	\$ 667,234	\$ 313,822
Undesignated	2,235,797	1,807,519
	<u>\$2,903,031</u>	<u>\$2,121,341</u>

**NOTE I - RISK MANAGEMENT**

The Commission has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the Commission.

**NOTE J - CONTINGENT LIABILITIES**

The U.S. Fish & Wildlife Service and the Wisconsin Department of Natural Resources are in the process of preparing Natural Resource Damage Assessments to determine the level of damages to Lower Fox River and Green Bay natural resources resulting from PCB contamination, and the Wisconsin Department of Natural Resources is in the process of preparing a plan for the cleanup of PCB-contaminated sediments in the Lower Fox River. Although none of the state or federal agencies has designated the Commission as a responsible party with respect to the natural resource damages or PCB cleanup costs, the seven Fox River Valley paper mills that have been designated as responsible parties have indicated that they may seek contribution toward such damages and costs from the POTWs on the Lower Fox River, including the Commission. The currently available information is insufficient to estimate the amount of such damages or costs, if any, that could be assessed against the Commission.



## **SUPPLEMENTAL INFORMATION**

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
Schedule of Operation and Maintenance Expenses - Budget and Actual  
Year Ended December 31, 2003  
With Comparative Actual Amounts for Year Ended December 31, 2002

	Budget	Actual	Variance Favorable (Unfavorable)	2002 Actual
<b>Operation</b>				
Salaries and wages	\$ 187,240	\$ 176,059	\$ 11,181	\$ 202,636
Employee benefits	78,471	64,725	13,746	69,062
Professional fees and contracted services	852,970	907,850	(54,880)	821,899
Power	281,750	365,277	(83,527)	298,832
Gas	105,000	105,429	(429)	110,643
Water	12,000	11,074	926	10,009
Telephone	3,000	2,619	381	2,856
<b>Chemicals</b>				
Polymer	57,600	55,770	1,830	45,173
Sodium bisulfite	16,000	17,826	(1,826)	12,520
Chlorine	-	3,122	(3,122)	-
Salt	20,000	24,007	(4,007)	15,787
Aluminum sulfate	16,250	24,137	(7,887)	26,295
Miscellaneous	500	3,225	(2,725)	536
Sludge disposal	183,625	202,045	(18,420)	172,099
Industrial metering and sampling	5,000	4,112	888	3,844
Lab supplies	12,900	9,783	3,117	11,131
Other operating supplies	38,800	33,497	5,303	30,194
Transportation	5,150	5,350	(200)	4,954
Administration	52,250	49,344	2,906	48,837
Office supplies	11,700	11,353	347	9,635
General insurance	57,525	57,932	(407)	46,344
<b>Total Operation</b>	<b>1,997,731</b>	<b>2,134,536</b>	<b>(136,805)</b>	<b>1,943,286</b>
<b>Maintenance</b>				
Equipment	55,750	47,333	8,417	58,078
General plant	24,500	19,938	4,562	20,888
Cleaning supplies	6,900	6,665	235	4,560
<b>Total Maintenance</b>	<b>87,150</b>	<b>73,936</b>	<b>13,214</b>	<b>83,526</b>
<b>Total Operation and Maintenance Expenses</b>	<b>\$ 2,084,881</b>	<b>\$ 2,208,472</b>	<b>\$ (123,591)</b>	<b>\$ 2,026,812</b>

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
 Calculation of Payable (Receivable) From Users for 2003 Operations  
 December 31, 2003

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

\$ 2,391,029	\$ 1,076,170	\$ 532,942	\$ 23,588	\$ 305,883	\$ 51,803	\$ 400,643
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100.00%	45.12%	22.72%	0.99%	12.94%	2.16%	16.07%
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Actual operation and maintenance expenses \$ 2,208,472

Deposits to depreciation fund 176,256

Deposits to replacement fund 219,939

Less:

Industrial metering and sampling 9,219

WPPI standby service 78,336

Other operating revenues 36,036

Interest income 15

Net Expenditures Allocated for 2003 \* 2,481,061 1,119,522 563,665 24,570 321,031 53,598 398,675

Payable (Receivable) From Users for 2003 Operations \$ (90,032) \$ (43,352) \$ (30,723) \$ (982) \$ (15,148) \$ (1,795) \$ 1,968

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

\* Measured service to municipalities and industries

Deposits to depreciation fund	\$ 2,084,866
Deposits to replacement fund	176,256
Net 2003 Allocated Expenses	<u>219,939</u>
	<u>\$ 2,481,061</u>

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Information Required by Sewer Revenue Bonds

December 31, 2003

Insurance Coverage		
Expiration Date	Type of Coverage	Amount of Coverage
1/1/2004	Worker's compensation	Statutory Benefits
1/1/2004	Public officials and employee liability	\$1,000,000
1/1/2004	Automobile	\$1,000,000
1/1/2004	Boiler and machinery	\$1,000,000
1/1/2004	Umbrella liability	\$2,000,000
1/1/2004	Property	\$42,689,745 valued at replacement cost of treatment plant (100% coinsurance)
1/1/2004	General liability	\$1,000,000
1/1/2004	Commercial crime	Employee \$100,000 Other \$10,000
1/1/2004	Inland marine	\$176,388 (100% coinsurance)

Customers

City of Neenah  
 City of Menasha  
 Town of Neenah, Sanitary Districts 1, 1-1, 2  
 Menasha Utility District  
 Waverly Sanitary District  
 Sonoco/US Mills

Net Revenues of System

	2003	2002
Gross revenues	\$ 3,495,650	\$ 3,275,163
Operations and maintenance expenses	2,208,472	2,026,812
Net Revenues	<u>\$ 1,287,178</u>	<u>\$ 1,248,351</u>

**REPORT ON COMPLIANCE AND INTERNAL CONTROL  
AND  
OTHER COMMENTS AND OBSERVATIONS**

**NEENAH-MENASHA SEWERAGE  
COMMISSION, WISCONSIN**

**DECEMBER 31, 2003**

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
December 31, 2003

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Commissioners  
Neenah-Menasha Sewerage Commission, Wisconsin

We have audited the financial statements of Neenah-Menasha Sewerage Commission as of and for the year ended December 31, 2003 and have issued our report thereon dated February 6, 2004. We conducted our audit in accordance with auditing standards generally accepted by 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Neenah-Menasha Sewerage Commission, Wisconsin'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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Neenah-Menasha Sewerage Commission, Wisconsin's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as follows:

Separation of Duties

Nearly all accounting and cash related functions are currently being handled by one individual. This does not allow for a proper separation of duties for internal control purposes. Management believes that the costs to correct this situation would exceed the benefits derived.

We also concur with management's conclusion that the cost of complete segregation of duties would outweigh the benefits received. We also believe that management should make attempts to achieve any internal controls possible in the circumstances.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described above is a material weakness.

Presented on the following pages is information and comments about financial and administrative matters that came to our attention during our audit of the Commission's financial statements. The basic purpose of the enclosed is to provide recommendations for improving the internal control structure and to provide financial information to assist management in the decision making process.

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



Certified Public Accountants  
Green Bay, Wisconsin  
February 6, 2004



## OTHER COMMENTS AND OBSERVATIONS

### Comparative Summary of Operating Results

Commission charges to municipalities and industries are based on an operation and maintenance budget, a depreciation fund budget, a replacement fund budget, and a capital budget approved by the Commission. Presented below is a summary of resources provided and expended from the operation and maintenance, depreciation fund, replacement fund and capital budgets for the year ended December 31, 2003 with a comparative summary for the year ended December 31, 2002:

	Operation and Maintenance	Depreciation Fund	Replacement Fund	Capital	Totals	
					2003	2002
<b>Resources Provided</b>						
Charges to municipalities and industries	\$2,084,866	\$176,256	\$219,939	\$890,998	\$3,372,059	\$3,159,190
Other charges	123,591	-	-	-	123,591	115,973
Interest income	15	6,100	37,610	31,933	75,658	71,469
<b>Total Resources Provided</b>	<b>2,208,472</b>	<b>182,356</b>	<b>257,549</b>	<b>922,931</b>	<b>3,571,308</b>	<b>3,346,632</b>
<b>Resources Expended</b>						
Operating expenses	2,208,472	29,790	45,271	-	2,283,533	2,176,239
Principal paid on long-term debt	-	-	-	800,000	800,000	465,000
Interest paid on long-term debt	-	-	-	352,308	352,308	416,575
Pension related debt	-	-	-	-	-	136,836
Loss on disposal of fixed assets	-	-	-	30,042	30,042	10,898
Acquisition and construction of fixed assets	-	38,496	64,695	-	103,191	215,687
<b>Total Resources Expended</b>	<b>2,208,472</b>	<b>68,286</b>	<b>109,966</b>	<b>1,182,350</b>	<b>3,569,074</b>	<b>3,421,235</b>
<b>Noncash transactions</b>						
Amortization of deferred debits	-	-	-	(71,292)	(71,292)	(42,638)
<b>Bank transfers</b>						
	-	239,110	-	(239,110)	-	-
<b>Increase (Decrease) in Available Resources</b>	<b>\$ -</b>	<b>\$353,180</b>	<b>\$147,583</b>	<b>\$(569,821)</b>	<b>\$ (69,058)</b>	<b>\$ (117,241)</b>

Additional comments and observations concerning the above operating results are presented on the following page.

## OTHER COMMENTS AND OBSERVATIONS

### Comparative Summary of Operating Results (Continued)

a) Operation and Maintenance

Actual operation and maintenance expenses totaled \$2,208,472 for 2003 while the Commission budgeted operation and maintenance expenses of \$2,084,881. A budget to actual comparison of the Commission's operation and maintenance expenses is located on page 14 of the Commission's annual financial report.

b) Depreciation Fund

The Commission established a separate depreciation fund during 1997 to pay for repairs and fixed asset additions not covered under the equipment replacement fund. During the year ended December 31, 2003, the Commission used depreciation fund resources of \$38,496 to acquire fixed assets and \$29,790 to pay for maintenance costs. At December 31, 2003, the Commission had available resources of \$667,002 in the depreciation fund which consisted of cash and investments totaling \$671,750 and accrued interest of \$1,094 less January 2004 depreciation fund payments of \$5,842 which related to 2003 operations.

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, 2003, the Commission used replacement fund resources of \$64,695 to acquire fixed assets and \$45,271 to pay for equipment repairs. At December 31, 2003, the Commission had available resources of \$1,684,732 in the replacement fund which consisted of cash and investments totaling \$1,695,796 and accrued interest of \$15,840 less January 2004 replacement fund payments of \$26,904 which related to 2003 operations.

d) Capital

The Commission's capital budget provides resources to finance principal and interest maturities of long-term debt and to finance fixed asset additions. At December 31, 2003, the Commission is in compliance with all revenue bond covenants.

## OTHER REQUIRED COMMUNICATION

In accordance with the requirements of government auditing standards generally accepted in the United States of America, the following disclosures are presented:

### 1. Significant Accounting Policies

The significant accounting policies used in the preparation of the financial statements are disclosed in Note A to the general-purpose financial statements. There have been no material unusual transactions or controversial accounting issues.

### 2. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. We are not aware of any particularly sensitive accounting estimates used by management in the preparation of the financial statements.

### 3. Significant Audit Adjustments

The financial statements reflect all accounting adjustments proposed during our audit. Copies of the audit adjustments are available from management.

### 4. Other Information in Documents Containing Audited Financial Statements

All the information included in the general-purpose financial statements has been audited. Our responsibilities are addressed in the Independent Auditors' Report.

### 5. Disagreements with Management

We have had no material disagreements with management. For the purposes of this disclosure, professional accounting standards define a disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report.

### 6. Consultations with Other Auditors

To the best of our knowledge, management has not consulted with or obtained opinions from other independent auditors on auditing and accounting matters during the past year.

### 7. Issues Discussed Prior to the Current Audit

We have discussed various accounting and financial issues, including the application of any new and changed accounting principles or auditing standards, with management prior to conducting the audit. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to completing the services as your auditor.

### 8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing the audit.