

**NEENAH-MENASHA  
SEWERAGE COMMISSION, WISCONSIN**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2005**



**Schenck**

Government & Not-For-Profit Solutions

FOR PEOPLE, BETTER RESULTS

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
December 31, 2005

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 6
FINANCIAL STATEMENTS	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10 - 19
SUPPLEMENTAL INFORMATION	
Schedule of Operation and Maintenance Expenses - Budget and Actual	20
Calculation of Payable (Receivable) From Users for 2005 Operations	21
Information Required by Sewer Revenue Bonds	22
ADDITIONAL INDEPENDENT AUDITORS' REPORT	
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	23 - 24



## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Commissioners  
Neenah-Menasha Sewerage Commission, Wisconsin

We have audited the accompanying financial statements of the Neenah-Menasha Sewerage Commission, Wisconsin ("the Commission") as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Neenah-Menasha Sewerage Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Neenah-Menasha Sewerage Commission as of December 31, 2005, and the results of its operations and cash flows, for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2006, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the Commission's financial statements. 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.

*Schmidt SC*

Certified Public Accountants  
Green Bay, Wisconsin  
March 17, 2006

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



**NEENAH-MENASHA SEWERAGE COMMISSION** 101 Garfield Avenue • Menasha, Wisconsin 54952-3397

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

Management's Discussion and Analysis  
December 31, 2005

As management of the Neenah-Menasha Sewerage Commission, Wisconsin, we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended December 31, 2005.

**Financial Highlights**

- The assets of the Commission exceeded its liabilities as of December 31, 2005 by \$8,273,667 (*net assets*).
- The Commission's total net assets decreased by \$692,588. Several factors contributed to the overall decrease as follows:
  1. The Commission charges to its users for operation and maintenance costs are adjusted at year end to equal final expenses less other operating revenues generated and a receivable or payable is established. Therefore, the Commission's operating activities resulted in no change in the Commission's net assets.
  2. The Commission does not recover depreciation expense from its users. Rather, the Commission's users are responsible for a portion of the debt service maturities based on usage of the facilities. For 2005, depreciation exceeded amounts contributed for principal retirement by \$646,046.
  3. Commission users also contribute to equipment replacement and depreciation funds for replacement or significant repairs to existing equipment. For 2005, equipment replacement and depreciation charges exceeded expenses by \$160,039.
- The Commission's total long-term debt decreased by \$540,000 (7.8%) during 2005.

**Overview of the Financial Statements**

The Commission's annual report includes this management's discussion and analysis, the independent auditors' report and the basic financial statements, including notes. This report also contains supplemental information in addition to the basic financial statements themselves.

The Commission accounts for its operations as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business with the intent that the costs (expenses, including depreciation) of providing services to the general public be financed primarily through user charges.

## Financial Analysis

Net assets. Net assets may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded its liabilities by \$8,273,667 at the close of 2005.

Neenah-Menasha Sewerage Commission, Wisconsin's Net Assets		
	2005	2004
Current and other assets	\$ 594,635	\$ 446,508
Restricted assets	2,379,363	2,999,809
Capital assets	11,993,086	12,711,379
Total assets	14,967,084	16,157,696
Long-term liabilities outstanding	6,202,650	6,706,930
Other liabilities	490,767	484,511
Total liabilities	6,693,417	7,191,441
Net assets		
Invested in capital assets, net of related debt	5,887,196	6,065,489
Restricted	2,253,628	2,757,908
Unrestricted	132,843	142,858
Total net assets	\$8,273,667	\$8,966,255

By far the largest portion of the Commission's net assets (71%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, etc.), less any related debt used to acquire those assets that are still outstanding. The Commission uses these capital assets to provide services to customers; consequently, these assets are *not* available for future spending. Although, the Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Commission's net assets (27%) represents resources that are subject to external restrictions on how they may be used.

Change in net assets. The Commission's net assets decreased by \$692,588. Key elements of this decrease are as follows:

Neenah-Menasha Sewerage Commission, Wisconsin's Change in Net Assets		
	2005	2004
Operating Revenues		
User charges		
Measured service	\$2,547,425	\$2,266,431
Capital charges	775,719	738,544
Depreciation fund charges	176,256	176,253
Replacement fund charges	219,938	219,928
Other charges	114,455	130,961
Total Operating Revenues	3,833,793	3,532,117
Operating Expenses		
Operation and maintenance	2,661,921	2,398,167
Depreciation	1,421,765	1,511,400
Depreciation fund	211,801	114,362
Replacement fund	24,354	63,782
Total Operating Expenses	4,319,841	4,087,711
Operating loss	(486,048)	(555,594)
Nonoperating Revenues (Expenses)	(206,540)	(250,469)
Net loss	(692,588)	(806,063)
Capital contributions	-	13,600
Change in net assets	(692,588)	(792,463)
Net assets - January 1, 2005	8,966,255	9,758,718
Net assets - December 31, 2005	\$8,273,667	\$8,966,255

**Capital Asset and Debt Administration**

Capital assets. The Commission's investment in capital assets as of December 31, 2005 amounts to \$5,648,086 (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 \$417,403 or 6.9% over last year was due to depreciation expense in excess of current year capital additions of \$750,102. Current year additions consisted of replacement of equipment (\$722,589), improvement of structures (\$9,980) and preliminary construction costs (\$17,533) on the backup gas boiler project.

<b>Neenah-Menasha Sewerage Commission, Wisconsin's Capital Assets</b> (net of accumulated depreciation)		
	2005	2004
Land	\$ 64,039	\$ 64,039
Land improvements	124,861	132,671
Buildings	4,206,767	4,867,818
Improvements other than buildings	3,854,077	3,905,640
Machinery and equipment	3,725,809	3,731,647
Construction in progress	17,533	9,564
<b>Total</b>	<b>\$11,993,086</b>	<b>\$12,711,379</b>

Long-term debt. At the end of the current fiscal year, the Commission had total bonded debt outstanding of \$6,345,000.

<b>Neenah-Menasha Sewerage Commission, Wisconsin's Outstanding Debt</b> Revenue Bonds		
	2005	2004
Revenue bonds	\$6,345,000	\$6,885,000

The Commission's total debt decreased by \$540,000 (7.8%) during the current fiscal year due to principal repayments.

The Commission has restricted cash of \$68,312 in the Principal and Interest Redemption Fund and \$410,022 in the Reserve Fund to be used for subsequent year payments of principal and interest.



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

The 2006 operations budget will show a 12.3% increase over the 2005 operations budget. The rates to the users will be adjusted accordingly to offset this increase. Major budget increases are anticipated in electricity (24.4%), natural gas (12.2%), chemicals (14.8%), building and grounds (13.1%), and professional fees (20.3%). Major budget decreases are expected in wages (58.1%), pension costs (55.6%), social security taxes (58.1%), and health insurance (65.8%). Concerns in our chemical usage will especially follow our need for polymer. We have seen a lead time from ordering the product to delivery of the product of 12-16 weeks.

Construction activity is expected in 2006. The Commission will be investigating the installation of a sludge-to-sludge heat exchanger to improve the efficiency of heating sludge in the digesters. Funding for this improvement will come from the Depreciation Fund.

### Contacting the Commission's Financial Management

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to either the General Manager Randall Much or the plant accountant, Roger Voigt.

## **FINANCIAL STATEMENTS**

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Statement of Net Assets

December 31, 2005

With Comparative Totals for December 31, 2004

	2005	2004
<b>ASSETS</b>		
Current Assets		
Cash and investments	\$ 100	\$ 100
Receivables		
Accounts	503,986	330,824
Prepaid items	17,136	19,981
Total Current Assets	<u>521,222</u>	<u>350,905</u>
Noncurrent Assets		
Restricted Assets		
Cash and investments	2,367,298	2,964,569
Accrued interest	12,065	35,240
Total Restricted Assets	<u>2,379,363</u>	<u>2,999,809</u>
Other Assets		
Unamortized debt discount	73,413	95,603
Capital Assets		
Non-depreciable	81,572	73,603
Depreciable	11,911,514	12,637,776
Net Capital Assets	<u>11,993,086</u>	<u>12,711,379</u>
Total Noncurrent Assets	<u>14,445,862</u>	<u>15,806,791</u>
<b>TOTAL ASSETS</b>	<u>14,967,084</u>	<u>16,157,696</u>
<b>LIABILITIES</b>		
Current Liabilities		
Refunds due users	225,682	232,427
Accounts payable	181,533	151,235
Accrued vacation	1,917	5,582
Total Current Liabilities	<u>409,132</u>	<u>389,244</u>
Liabilities Payable from Restricted Assets		
Accounts payable	49,656	53,850
Current maturities of long-term debt	555,000	540,000
Accrued interest	18,064	18,962
Total Liabilities Payable from Restricted Assets	<u>622,720</u>	<u>612,812</u>
Long-term Liabilities		
Revenue bonds, less current maturities	5,790,000	6,345,000
Unamortized loss on refinancing	(153,440)	(206,048)
Accrued sick leave	11,090	27,978
Total Long-term Liabilities	<u>5,647,650</u>	<u>6,166,930</u>
Deferred Credits	13,915	22,455
<b>TOTAL LIABILITIES</b>	<u>6,693,417</u>	<u>7,191,441</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	5,887,196	6,065,489
Restricted for		
Plant replacement	1,793,358	2,321,226
Debt service	460,270	436,682
Unrestricted	132,843	142,858
<b>TOTAL NET ASSETS</b>	<u>\$ 8,273,667</u>	<u>\$ 8,966,255</u>

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

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended December 31, 2005  
With Comparative Totals for the Year Ended December 31, 2004

	2005	2004
Operating Revenues		
User Charges		
Measured service	\$ 2,547,425	\$ 2,266,431
Capital charges	775,719	738,544
Depreciation fund charges	176,256	176,253
Replacement fund charges	219,938	219,928
Other charges	114,455	130,961
Total Operating Revenues	<u>3,833,793</u>	<u>3,532,117</u>
Operating Expenses		
Operation and maintenance	2,661,921	2,398,167
Depreciation	1,421,765	1,511,400
Depreciation fund	211,801	114,362
Replacement fund	24,354	63,782
Total Operating Expenses	<u>4,319,841</u>	<u>4,087,711</u>
Operating Loss	<u>(486,048)</u>	<u>(555,594)</u>
Nonoperating Revenues (Expenses)		
Interest income	78,527	62,560
Gain (loss) on disposal of assets	16,382	(1,698)
Interest expense	(226,650)	(236,532)
Amortization of debt expense	(22,191)	(22,191)
Amortization of refinancing loss	(52,608)	(52,608)
Total Nonoperating Revenues (Expenses)	<u>(206,540)</u>	<u>(250,469)</u>
Net Loss	(692,588)	(806,063)
Capital contributions	-	13,600
Change in Net Assets	(692,588)	(792,463)
Net Assets - January 1	<u>8,966,255</u>	<u>9,758,718</u>
Net Assets - December 31	<u>\$ 8,273,667</u>	<u>\$ 8,966,255</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, 2005

With Comparative Totals for the Year Ended December 31, 2004

	2005	2004
Cash Flows from Operating Activities		
Cash received from user charges	\$ 3,660,630	\$ 3,712,516
Cash payments to suppliers	(2,759,174)	(2,449,150)
Cash payments to employees	(145,790)	(215,081)
Net Cash Provided by Operating Activities	<u>755,666</u>	<u>1,048,285</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(750,102)	(58,072)
Proceeds from sale of capital assets	26,511	-
Proceeds from insurance claims	36,500	-
Principal payments on long-term debt	(540,000)	(490,000)
Interest payments on long-term debt	(227,548)	(282,854)
Net Cash Used by Capital and Related Financing Activities	<u>(1,454,639)</u>	<u>(830,926)</u>
Cash Flows from Investing Activities		
Interest received	101,702	44,255
Purchase of long-term investments	(401,750)	(288,768)
Net Cash Used by Investing Activities	<u>(300,048)</u>	<u>(244,513)</u>
Change in Cash and Cash Equivalents	(999,021)	(27,154)
Cash and Cash Equivalents - January 1	<u>1,475,901</u>	<u>1,503,055</u>
Cash and Cash Equivalents - December 31	<u>\$ 476,880</u>	<u>\$ 1,475,901</u>
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities:		
Operating loss	\$ (486,048)	\$ (555,594)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,421,765	1,511,400
Changes in current assets and liabilities		
Accounts receivable	(173,162)	180,399
Prepaid items	2,845	(1,478)
Refunds due users	(6,745)	(146,553)
Accounts payable	26,104	68,648
Accrued vacation	(3,665)	163
Accrued sick leave	(16,888)	1,242
Deferred credits	(8,540)	(9,941)
Net Cash Provided by Operating Activities	<u>\$ 755,666</u>	<u>\$ 1,048,286</u>
Noncash Capital and Related Financing Activities		
Contributed capital assets	<u>\$ -</u>	<u>\$ 13,600</u>
Reconciliation of cash and cash equivalents to statement of net assets:		
Cash and investments	\$ 100	\$ 100
Restricted cash and investments	2,367,298	2,964,569
Less: Long-term investments	(1,890,518)	(1,488,768)
Total cash and cash equivalents	<u>\$ 476,880</u>	<u>\$ 1,475,901</u>

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

## NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2005

### NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the Neenah-Menasha Sewerage Commission, Wisconsin ("the Commission") conform to accounting principles generally accepted in the United States of America for enterprise funds as defined by the Governmental Accounting Standards Board. A summary of the Commission's accounting policies consistently applied in the preparation of the accompanying financial statements follows:

#### 1. Reporting Entity

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

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

In accordance with GAAP, the financial statements are required to include the Commission and any separate component units that have a significant operational or financial relationship with the Commission. The Commission has not identified any component units that are required to be included in the financial statements in accordance with standards established in GASB Statement Nos. 14 and 39.

#### 2. Enterprise Funds

The Commission accounts for its operations as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business with the intent that the costs (expenses, including depreciation) of providing services to the general public be financed primarily through user charges.

Certain private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following certain subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Commission has elected not to follow subsequent private-sector guidance.

#### 3. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the Statement of Net Assets. Enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2005

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

4. Budgets and Budgetary Accounting

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

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

5. Assets, Liabilities and Net Assets

a. Cash and Investments

Cash and investments are combined on the statement of net assets and consist of deposits with financial institutions. Deposits are carried at cost. For purposes of the statement of cash flows, all cash and investments (including restricted assets) with an original maturity of three months or less are considered to be cash equivalents.

b. Accounts Receivable

Accounts receivable are recorded at gross amount with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the financial statements.

c. Prepaid Items

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

d. Capital Assets

Capital assets, which include property, plant and equipment assets, are reported in the financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of \$500 or higher and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Notes to Financial Statements

December 31, 2005

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

e. Long-term Obligations

Long-term obligations are accounted for in the enterprise fund.

f. Compensated Absences

Commission employees earn 12 days of sick leave per year and may accumulate up to 150 days. Employees who retire or resign in good standing from the Commission are paid for their accumulated sick leave up to a maximum of 72 days 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. Vacation benefits must be utilized in the year in which the employee becomes eligible.

g. Net Assets

GASB Statement No. 34 requires the classification of net assets into three components. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "invested in capital assets, net of related debt". Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

6. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.



NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2005

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

7. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Commission's financial position and operations.

NOTE B - DETAILED NOTES ON ALL FUNDS

1. Cash and Investments

Invested cash consists of deposits and investments which are restricted by the Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state and local governmental entities; statutorily authorized commercial paper and corporate securities; Wisconsin local government investment pool.

The carrying amount of the Commission's cash and investments totaled \$2,367,398 on December 31, 2005 as summarized below:

Petty cash fund	\$	100
Deposits with financial institutions		1,670,663
Deposits with state investment pool		696,635
		<u>\$ 2,367,398</u>
Basic financial statements		
Cash and investments	\$	100
Restricted cash and investments		2,367,298
		<u>\$ 2,367,398</u>

Deposits of the Commission are subject to custodial credit risk. Presented below is a discussion of the Commission's deposits and the related risk.

Deposits with Financial Institutions

Deposits with banks 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.

On December 31, 2005, \$416,911 of the Commission's deposits with financial institutions were in excess of federal and state depository insurance limits and uncollateralized.

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Commission does not have an additional custodial credit policy.

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Notes to Financial Statements

December 31, 2005

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

Investments

The Commission has investments in the Wisconsin local government investment pool of \$696,635 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, 2005, the fair value of the Commission's share of the LGIP' 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 City's investment in the Wisconsin local government investment pool is not rated. Investments in the Wisconsin Local Government Investment Pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool. The bond provides unlimited coverage on principal losses, reduced by any FDIC, State of Wisconsin Guarantee Fund insurance, and income on the investment during the calendar quarter a loss occurs.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investments held by the Wisconsin local government investment pool mature in 12 months or less.

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Notes to Financial Statements

December 31, 2005

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

2. Restricted Assets

Restricted assets of the Commission on December 31, 2005 totaled \$2,379,363 and consisted of cash and investments of \$2,367,298 and accrued interest receivable of \$12,065 held for the following purposes:

	<u>Amount</u>	<u>Purpose</u>
Principal and Interest Redemption Fund	\$ 68,312	To be used for subsequent year payments of principal and interest on revenue bonds. Required monthly deposits must equal 1/6 of the next interest payment and 1/12 of the next principal payment.
DNR Equipment Replacement Fund	1,460,333	To be used for the replacement of certain assets for the sewerage treatment plant in accordance with Wisconsin Department of Natural Resources requirements.
Reserve Fund	410,022	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 \$365,000 is required to be maintained in this account.
Depreciation Account	699,523	To be used for additions to and betterments of the sewerage treatment plant.
Capital Outlay Accounts	2,162	To be used to finance future fixed asset acquisitions.
Less: Cash temporarily advanced to finance operating expenses	(273,054)	
	<hr/>	
	<u>\$2,367,298</u>	

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Notes to Financial Statements

December 31, 2005

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

3. Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 64,039	\$ -	\$ -	\$ 64,039
Construction in progress	9,564	680,185	672,216	17,533
Total capital assets, not being depreciated	<u>73,603</u>	<u>680,185</u>	<u>672,216</u>	<u>81,572</u>
Capital assets, being depreciated:				
Land improvements	156,114	-	-	156,114
Buildings	16,095,176	9,980	-	16,105,156
Improvements other than buildings	5,156,285	-	-	5,156,285
Machinery and equipment	13,396,718	732,153	265,197	13,863,674
Subtotals	<u>34,804,293</u>	<u>742,133</u>	<u>265,197</u>	<u>35,281,229</u>
Less accumulated depreciation for:				
Land improvements	23,443	7,810	-	31,253
Buildings	11,227,358	671,031	-	11,898,389
Improvements other than buildings	1,250,645	51,563	-	1,302,208
Machinery and equipment	9,665,071	691,361	218,567	10,137,865
Subtotals	<u>22,166,517</u>	<u>1,421,765</u>	<u>218,567</u>	<u>23,369,715</u>
Total capital assets, being depreciated, net	<u>12,637,776</u>	<u>(679,632)</u>	<u>46,630</u>	<u>11,911,514</u>
Capital assets, net	<u>\$ 12,711,379</u>	<u>\$ 553</u>	<u>\$ 718,846</u>	<u>11,993,086</u>
Less related long-term debt outstanding (net of available bond proceeds of \$239,110)				<u>6,105,890</u>
Investment in capital assets, net of related debt				<u>\$ 5,887,196</u>

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
Notes to Financial Statements  
December 31, 2005

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

4. Long-term Liabilities

The following is a summary of long-term liability transactions of the Commission for the year ended December 31, 2005:

	Outstanding 1/1/05	Issued	Retired	Outstanding 12/31/05	Due Within One Year
Revenue bonds	\$ 6,885,000	\$ -	\$ 540,000	\$ 6,345,000	\$ 555,000
Accrued sick leave	27,978	-	16,888	11,090	-
	<u>\$ 6,912,978</u>	<u>\$ -</u>	<u>\$ 556,888</u>	<u>\$ 6,356,090</u>	<u>\$ 555,000</u>

Revenue bonds outstanding at December 31, 2005 consist of the following:

\$2,800,000 issued 2/1/03; \$470,000 to \$495,000 due annually through 2008; interest 2.0% to 3.0%	\$ 1,450,000
\$5,025,000 issued 9/1/03; \$80,000 to \$730,000 due annually through 2015; interest 2.0% to 4.0%	4,895,000
	<u>\$ 6,345,000</u>

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

Year Ended December 31	Governmental Activities		
	Principal	Interest	Total
2006	\$ 555,000	\$ 216,749	\$ 771,749
2007	565,000	204,966	769,966
2008	580,000	190,116	770,116
2009	600,000	172,716	772,716
2010	620,000	149,916	769,916
2011-2015	3,425,000	381,845	3,806,845
	<u>\$ 6,345,000</u>	<u>\$ 1,316,308</u>	<u>\$ 7,661,308</u>

## NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2005

### NOTE C - OTHER INFORMATION

1. Retirement Commitments

All eligible Commission employees participate in the Wisconsin Retirement System (System), at 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 5.8% of their salary (2.8% for Executives and Elected Officials, 4.9% for Protective Occupations with Social Security, and 3.3% 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, 2005 was \$105,349 the employer's total payroll was \$113,618. The total required contribution for the year ended December 31, 2005 was \$10,746, which consisted of \$4,635, or 4.4% of covered payroll from the employer and \$6,111, or 5.8% of covered payroll from employees. The required contribution of \$6,111 from employees was financed entirely by the Commission. Total contributions for the years ending December 31, 2004 and 2003 were \$14,593 and \$14,593, 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 years 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, 2005

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

2. 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.

3. Contingent Liabilities

The Commission has identified the following items as potential liabilities not recorded on the financial statements:

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 the 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 the ability to seek contribution toward such damages and costs from the POTWs (Publicly Owned Treatment Works) on the Lower Fox River, including the Commission. The currently available information indicates that the Commission bears virtually no responsibility for the discharge of PCB's into the Lower Fox River. Therefore, the Commission has a de minimis exposure in the above matters.

## **SUPPLEMENTAL INFORMATION**



**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
Schedule of Operation and Maintenance Expenses - Budget and Actual  
Year Ended December 31, 2005  
With Comparative Actual Amounts for Year Ended December 31, 2004

	Budget	Actual	Variance Positive (Negative)	2004 Actual
<b>Operation</b>				
Salaries and wages	\$ 145,260	\$ 89,316	\$ 55,944	\$ 155,776
Employee benefits	63,773	35,921	27,852	60,709
Professional fees and contracted services	1,017,950	1,138,493	(120,543)	958,677
Power	420,000	566,982	(146,982)	393,455
Gas	144,000	145,632	(1,632)	201,187
Water	16,000	12,239	3,761	14,435
Telephone	2,700	2,749	(49)	2,455
<b>Chemicals</b>				
Ferric chloride	16,500	-	16,500	12,334
Polymer	73,100	70,764	2,336	55,820
Sodium bisulfite	20,000	30,083	(10,083)	20,056
Chlorine	-	4,740	(4,740)	30,554
Salt	30,000	33,981	(3,981)	30,554
Aluminum sulfate	26,250	43,604	(17,354)	31,181
Carbon	12,500	3,216	9,284	2,954
Miscellaneous	250	4,198	(3,948)	-
Sludge disposal	189,500	227,682	(38,182)	184,550
Industrial metering and sampling	5,000	2,483	2,517	2,124
Lab supplies	13,750	13,683	67	10,933
Other operating supplies	42,800	37,329	5,471	41,920
Transportation	5,150	4,302	848	3,880
Administration	53,500	52,040	1,460	51,842
Office supplies	11,750	8,210	3,540	10,024
General insurance	66,600	59,009	7,591	58,034
<b>Total Operation</b>	<b>2,376,333</b>	<b>2,586,656</b>	<b>(210,323)</b>	<b>2,333,454</b>
<b>Maintenance</b>				
Equipment	53,750	46,016	7,734	64,930
General plant	25,000	22,513	2,487	27,091
Cleaning supplies	4,500	6,736	(2,236)	3,246
<b>Total Maintenance</b>	<b>83,250</b>	<b>75,265</b>	<b>7,985</b>	<b>95,267</b>
<b>Total Operation and Maintenance Expenses</b>	<b>\$ 2,459,583</b>	<b>\$ 2,661,921</b>	<b>\$ (202,338)</b>	<b>\$ 2,428,721</b>

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
 Calculation of Payable (Receivable) From Users for 2005 Operations  
 December 31, 2005

	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	\$ 1,150,964	\$ 606,696	\$ 33,157	\$ 331,845	\$ 76,377	\$ 466,534
	43.41%	23.00%	1.27%	12.72%	2.90%	16.70%

Revenues received during year for 2005 operations and maintenance

Percentage of net expenses allocated for 2005

Actual operation and maintenance expenses

Deposits to depreciation fund

Deposits to replacement fund

Less:

- Industrial metering and sampling
- WPPI standby service
- Equipment rental
- Pretreatment administrative fees
- Other operating revenues
- Interest income

Net Expenditures Allocated for 2005 \*

Payable (Receivable) From Users for 2005 Operations

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
- Deposits to replacement fund
- Net 2005 Allocated Expenses

\$ 2,661,921

176,256

219,938

- 7,687
- 58,534
- 12,443
- 6,975
- 28,816
- 41

2,943,619

\$ (278,046)

- \$ 2,547,425
- 176,256
- 219,938
- \$ 2,943,619

1,277,707      676,888      37,522      374,502      85,501      491,499

(126,743)      (70,192)      (4,365)      (42,657)      (9,124)      (24,965)

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**

Information Required by Sewer Revenue Bonds

December 31, 2005

Insurance Coverage		
Expiration Date	Type of Coverage	Amount of Coverage
1/1/2006	Worker's compensation	Statutory Benefits
1/1/2006	Public officials and employee liability	\$1,000,000
1/1/2006	Automobile	\$2,000,000
1/1/2006	Boiler and machinery	\$1,000,000
1/1/2006	Umbrella liability	\$2,000,000
1/1/2006	Property	\$40,287,457 valued at replacement cost of treatment plant (100% coinsurance)
1/1/2006	General liability	\$2,000,000
1/1/2006	Commercial crime	Employee \$100,000 Other \$10,000
1/1/2006	Inland marine	\$250,000 (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

	2005	2004
Gross revenues	\$ 3,833,793	\$ 3,532,117
Operations and maintenance expenses	2,661,921	2,398,167
Net Revenues	<u>\$ 1,171,872</u>	<u>\$ 1,133,950</u>

## **ADDITIONAL INDEPENDENT AUDITORS' REPORT**



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

To the Commissioners  
Neenah-Menasha Sewerage Commission, Wisconsin

We have audited the financial statements of the Neenah-Menasha Sewerage Commission, Wisconsin, as of and for the year ended December 31, 2005, and have issued our report thereon dated March 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Neenah-Menasha Sewerage Commission'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's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted is set forth below.

### Segregation of Duties

Nearly all accounting and cash related functions are currently handled by one individual. This does not allow for a proper segregation 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.

Compliance and Other Matters

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

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

*Schenck SC*

Certified Public Accountants  
Green Bay, Wisconsin  
March 17, 2006

**OTHER COMMENTS AND OBSERVATIONS**

**NEENAH-MENASHA SEWERAGE  
COMMISSION, WISCONSIN**

**DECEMBER 31, 2005**

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN  
December 31, 2005

TABLE OF CONTENTS

	<u>Page No.</u>
OTHER COMMENTS AND OBSERVATIONS	
Comparative Summary of Operating Results	1 - 2
OTHER REQUIRED COMMUNICATION	3



## 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, 2005 with a comparative summary for the year ended December 31, 2004:

	Operation and Maintenance	Depreciation Fund	Replacement Fund	Capital	Totals	
					2005	2004
<b>Resources Provided</b>						
Charges to municipalities and industries	\$2,547,425	\$176,256	\$219,938	\$ 775,719	\$3,719,338	\$3,401,156
Other charges	114,455	-	-	-	114,455	130,961
Interest income	41	18,373	42,888	17,225	78,527	62,561
<b>Total Resources Provided</b>	<b>2,661,921</b>	<b>194,629</b>	<b>262,826</b>	<b>792,944</b>	<b>3,912,320</b>	<b>3,594,678</b>
<b>Resources Expended</b>						
Operating expenses	2,661,921	211,801	24,354	-	2,898,076	2,576,310
Principal paid on long-term debt	-	-	-	540,000	540,000	490,000
Interest paid on long-term debt	-	-	-	226,650	226,650	236,532
Loss on disposal of capital assets	-	-	-	(16,382)	(16,382)	1,698
Acquisition and construction of fixed assets	-	16,304	230,929	-	247,233	50,094
<b>Total Resources Expended</b>	<b>2,661,921</b>	<b>228,105</b>	<b>255,283</b>	<b>750,268</b>	<b>3,895,577</b>	<b>3,354,634</b>
<b>Noncash transactions</b>						
Amortization of deferred debits	-	-	-	(74,799)	(74,799)	(74,799)
<b>Increase (Decrease) in Available Resources</b>	<b>\$ -</b>	<b>\$(33,476)</b>	<b>\$ 7,543</b>	<b>\$(32,123)</b>	<b>\$ (58,056)</b>	<b>\$ 165,245</b>

Additional comments and observations concerning the above operating results follow:

a) **Operation and Maintenance**

Actual operation and maintenance expenses totaled \$2,661,921 for 2005 while the Commission budgeted operation and maintenance expenses of \$2,459,583. A budget to actual comparison of the Commission's operation and maintenance expenses is located on page 20 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, 2005, the Commission used depreciation fund resources of \$16,304 to acquire capital assets and \$211,801 to pay for maintenance costs. At December 31, 2005, the Commission had available resources of \$691,165 in the depreciation fund which consisted of cash and investments totaling \$699,523 and accrued interest of \$6,004 less 2006 depreciation fund payments of \$14,362 which related to 2005 operations.

## OTHER COMMENTS AND OBSERVATIONS

### Comparative Summary of Operating Results (Continued)

#### c) Replacement Fund

The Commission is required by federal and state regulations to maintain an equipment replacement fund to finance acquisitions and repairs of mechanical equipment. During the year ended December 31, 2005, the Commission used replacement fund resources of \$230,929 to acquire capital assets and \$24,354 to pay for equipment repairs. At December 31, 2005, the Commission had available resources of \$1,440,673 in the replacement fund which consisted of cash and investments totaling \$1,460,333 and accrued interest of \$6,061 less 2006 replacement fund payments of \$25,721 which related to 2005 operations.

#### 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, 2005, 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 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 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.