

OTHER COMMENTS AND OBSERVATIONS

**NEENAH-MENASHA SEWERAGE
COMMISSION, WISCONSIN**

DECEMBER 31, 2008



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**NEENAH-MENASHA
SEWERAGE COMMISSION, WISCONSIN**

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2008

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

December 31, 2008

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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 the Neenah-Menasha Sewerage Commission, Wisconsin ("the Commission") as of and for the year ended December 31, 2008, 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. The prior year summarized comparative information has been derived from the Commission's 2007 financial statements and, in our report dated April 18, 2008 we expressed an unqualified opinion on the financial statements.

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, 2008, 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 June 19, 2009 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
Management's Discussion and Analysis
December 31, 2008

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, 2008.

Financial Highlights

- The assets of the Commission exceeded its liabilities as of December 31, 2008 by \$6,297,802 (*net assets*).
- The Commission's total net assets decreased by \$460,356. 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 2008, depreciation exceeded amounts contributed for principal retirement by \$1,008,003.
 3. Commission users also contribute to equipment replacement and depreciation funds for replacement or significant repairs to existing equipment. For 2008, equipment replacement and depreciation charges exceeded expenses by \$331,174.
- The Commission's total long-term debt decreased by \$580,000 (11.1%) during 2008.

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 \$6,297,802 at the close of 2008.

Neenah-Menasha Sewerage Commission, Wisconsin's Net Assets		
	2008	2007
Current and other assets	\$ 259,002	\$ 105,736
Restricted assets	2,037,517	2,354,099
Capital assets	8,981,365	9,698,940
Total assets	11,277,884	12,158,775
Long-term liabilities outstanding	4,045,000	4,596,776
Other liabilities	935,082	803,841
Total liabilities	4,980,082	5,400,617
Net assets		
Invested in capital assets, net of related debt	4,701,365	4,838,940
Restricted	1,451,691	1,727,797
Unrestricted (deficit)	144,746	191,421
Total net assets	\$ 6,297,802	\$ 6,758,158

By far the largest portion of the Commission's net assets (75%) 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 (25%) represents resources that are subject to external restrictions on how they may be used.

Change in net assets. The Commissions net assets decreased by \$460,356. Key elements of this decrease are as follows:

Neenah-Menasha Sewerage Commission, Wisconsin's Change in Net Assets		
	2008	2007
Operating Revenues		
User charges		
Measured service	\$ 2,718,597	\$ 2,607,673
Capital charges	770,339	775,118
Depreciation fund charges	176,261	176,256
Replacement fund charges	219,935	219,932
Other charges	172,511	123,573
Total Operating Revenues	4,057,643	3,902,552
Operating Expenses		
Operation and maintenance	2,892,282	2,736,026
Depreciation	673,251	1,573,003
Depreciation fund	635	55,290
Replacement fund	64,387	55,329
Total Operating Expenses	3,630,555	4,419,648
Operating loss	427,088	(517,096)
Nonoperating Revenues (Expenses)	(887,444)	(210,481)
Change in net assets	(460,356)	(727,577)
Net assets - beginning balance	6,758,158	7,485,735
Net assets - ending balance	\$ 6,297,802	\$ 6,758,158

Capital Asset and Debt Administration

Capital assets. The Commission's investment in capital assets as of December 31, 2008 amounts to \$8,981.365 (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 \$717,575 or 7.4% over last year was due to depreciation expense in excess of current year capital additions.

Neenah-Menasha Sewerage Commission, Wisconsin's Capital Assets (net of accumulated depreciation)		
	2008	2007
Land	\$ 63,539	\$ 63,539
Land improvements	101,474	109,280
Buildings	2,783,463	2,816,086
Improvements other than buildings	2,982,044	3,750,951
Machinery and equipment	3,048,005	2,846,292
Construction in progress	2,840	112,792
Total	\$ 8,981,365	\$ 9,698,940

Long-term debt. At the end of the current fiscal year, the Commission had total bonded debt outstanding of \$4,645,000.

Neenah-Menasha Sewerage Commission, Wisconsin's Outstanding Debt		
Revenue Bonds		
	2008	2007
Revenue bonds	\$ 4,645,000	\$ 5,225,000

The Commission's total debt decreased by \$580,000 (11.1%) during the current fiscal year due to principal repayments.

The Commission has restricted cash of \$96,788 in the Principal and Interest Redemption Fund and \$462,826 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 2009 operations budget will show a 12.8% increase over the 2008 operations budget. The rates to the users will be adjusted accordingly to offset this increase. Major budget increases are anticipated in Repairs and Maintenance (7.4%).

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, 2008

With Comparative Totals for December 31, 2007

	2008	2007
ASSETS		
Current Assets		
Cash and investments	\$ 100	\$ 100
Receivables		
Accounts	249,944	76,222
Prepaid items	373	384
Total Current Assets	<u>250,417</u>	<u>76,706</u>
Noncurrent Assets		
Restricted Assets		
Cash and investments	2,033,299	2,343,971
Accrued interest	4,218	10,128
Total Restricted Assets	<u>2,037,517</u>	<u>2,354,099</u>
Other Assets		
Unamortized debt discount	<u>8,585</u>	<u>29,030</u>
Capital Assets		
Non-depreciable	66,378	176,331
Depreciable	8,914,987	9,522,609
Net Capital Assets	<u>8,981,365</u>	<u>9,698,940</u>
Total Noncurrent Assets	<u>11,027,467</u>	<u>12,082,069</u>
TOTAL ASSETS	<u>11,277,884</u>	<u>12,158,775</u>
LIABILITIES		
Current Liabilities		
Refunds due users	120,292	71,725
Accounts payable	190,816	110,443
Total Current Liabilities	<u>311,108</u>	<u>182,168</u>
Liabilities Payable from Restricted Assets		
Accounts payable	9,579	25,828
Current maturities of long-term debt	600,000	580,000
Accrued interest	14,395	15,845
Total Liabilities Payable from Restricted Assets	<u>623,974</u>	<u>621,673</u>
Long-term Liabilities		
Revenue bonds, less current maturities	4,045,000	4,645,000
Unamortized loss on refinancing	-	(48,224)
Total Long-term Liabilities	<u>4,045,000</u>	<u>4,596,776</u>
TOTAL LIABILITIES	<u>4,980,082</u>	<u>5,400,617</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,701,365	4,838,940
Restricted for		
Plant replacement	1,271,472	1,556,332
Debt service	180,219	171,465
Unrestricted	<u>144,746</u>	<u>191,421</u>
TOTAL NET ASSETS	<u>\$ 6,297,802</u>	<u>\$ 6,758,158</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, 2008
With Comparative Totals for the Year Ended December 31, 2007

	2008	2007
Operating Revenues		
User Charges		
Measured service	\$ 2,718,597	\$ 2,607,673
Capital charges	770,339	775,118
Depreciation fund charges	176,261	176,256
Replacement fund charges	219,935	219,932
Other charges	172,511	123,573
Total Operating Revenues	<u>4,057,643</u>	<u>3,902,552</u>
Operating Expenses		
Operation and maintenance	2,892,282	2,736,026
Depreciation	673,251	1,573,003
Depreciation fund	635	55,290
Replacement fund	64,387	55,329
Total Operating Expenses	<u>3,630,555</u>	<u>4,419,648</u>
Operating Income (Loss)	<u>427,088</u>	<u>(517,096)</u>
Nonoperating Revenues (Expenses)		
Interest income	79,249	127,568
Loss on disposal of assets	(709,357)	(59,521)
Interest expense	(188,667)	(203,729)
Amortization of debt expense	(20,445)	(22,191)
Amortization of refinancing loss	(48,224)	(52,608)
Total Nonoperating Revenues (Expenses)	<u>(887,444)</u>	<u>(210,481)</u>
Change in Net Assets	<u>(460,356)</u>	<u>(727,577)</u>
Net Assets - January 1	<u>6,758,158</u>	<u>7,485,735</u>
Net Assets - December 31	<u>\$ 6,297,802</u>	<u>\$ 6,758,158</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, 2008

With Comparative Totals for the Year Ended December 31, 2007

	2008	2007
Cash Flows from Operating Activities		
Cash received from user charges	\$ 3,932,488	\$ 4,018,678
Cash payments to suppliers	(2,890,252)	(2,829,707)
Cash payments to employees	(2,917)	(3,176)
Net Cash Provided by Operating Activities	1,039,319	1,185,795
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(673,021)	(581,783)
Proceeds from sale of capital assets	7,988	500
Principal payments on long-term debt	(580,000)	(565,000)
Interest payments on long-term debt	(190,117)	(204,966)
Net Cash Used by Capital and Related Financing Activities	(1,435,150)	(1,351,249)
Cash Flows from Investing Activities		
Interest received	85,159	129,829
Redemption of long-term investments	-	1,038,511
Net Cash Provided by Investing Activities	85,159	1,168,340
Change in Cash and Cash Equivalents	(310,672)	1,002,886
Cash and Cash Equivalents - January 1	2,344,071	1,341,185
Cash and Cash Equivalents - December 31	\$ 2,033,399	\$ 2,344,071
Reconciliation of cash and cash equivalents to statement of net assets:		
Cash and investments	\$ 100	\$ 100
Restricted cash and investments	2,033,299	2,343,971
Total cash and cash equivalents	\$ 2,033,399	\$ 2,344,071
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ 427,088	\$ (517,096)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	673,251	1,573,003
Changes in current assets and liabilities		
Accounts receivable	(173,722)	2,328
Due from users	-	53,069
Prepaid items	11	401
Refunds due users	48,567	69,137
Accounts payable	64,124	13,361
Deferred credits	-	(8,408)
Net Cash Provided by Operating Activities	\$ 1,039,319	\$ 1,185,795
Noncash Capital and Related 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, 2008

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, 2008

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, 2008

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:

	Years
<u>Assets</u>	
Buildings	20
Land improvements	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. Net Assets

Net assets are classified into the following three components:

- *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.

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.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2008

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 \$2,033,399 on December 31, 2008 as summarized below:

Petty cash fund	\$ 100
Deposits with financial institutions	1,245,073
Deposits with state investment pool	788,226
	<u>\$ 2,033,399</u>

Basic financial statements	
Cash and investments	\$ 100
Restricted cash and investments	2,033,299
	<u>\$ 2,033,399</u>

Deposits of the Commission are subject to various risks. Presented below is a discussion of the specific risks and the Commission's policy related to the risk.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Wisconsin statutes require repurchase agreements to be fully collateralized by bonds or securities issued or guaranteed by the federal government or its instrumentalities. The Commission does not have an additional custodial credit policy.

Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 per official custodian through December 31, 2009. In addition, the City's non-interest bearing transaction accounts are fully insured under the Temporary Liquidity Guarantee Program through December 31, 2009. On January 1, 2010, the coverage limit for all accounts will return to \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts. 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.

As of December 31, 2008, \$231,969 of the Commission's deposits with financial institutions were in excess of federal depository insurance limits and uncollateralized.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2008

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)Investment in Wisconsin Local Government Investment Pool

The Commission has investments in the Wisconsin local government investment pool of \$788,226 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, 2008, the fair value of the Commission's share of the LGIP's assets was substantially equal to the carrying value.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The Commission does not have an additional credit risk policy. The Commission's investment in the Wisconsin local government investment pool is not rated. Investments in the Wisconsin Local Government Investment Pool are covered under a surety bond issued by Financial Security Assurance, Inc., which is in effect through February 15, 2009. 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.

2. Restricted Assets

Restricted assets of the Commission on December 31, 2008 totaled \$2,037,517 and consisted of cash and investments of \$2,033,299 and accrued interest receivable of \$4,218 held for the following purposes:

Fund	Amount	Purpose
Bond Depreciation Fund	\$ 809,256	To be used for additions to and betterments of the sewerage treatment plant
Bond Principal and Interest Redemption Fund	96,788	To be used for subsequent year payments of principal and interest on revenue bonds.
Bond Reserve Fund	462,826	To reserve additional funds for debt retirement; to be used if sufficient funds are not available in the Bond Principal and Interest Redemption Fund. A balance of \$365,000 is required to be maintained in this account.
DNR Equipment Replacement Fund	711,542	To be used for the replacement of certain assets of the sewerage treatment plant in accordance with Wisconsin Department of Natural Resources requirements.
Less: Cash temporarily advanced to finance operating expenses	(42,895)	
Total	<u>\$ 2,037,517</u>	

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2008

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 63,539	\$ -	\$ -	\$ 63,539
Construction in progress	112,792	605,923	715,876	2,839
Total capital assets, not being depreciated	176,331	605,923	715,876	66,378
Capital assets, being depreciated:				
Land improvements	156,114	-	-	156,114
Buildings	16,263,845	214,955	222,429	16,256,371
Improvements other than buildings	5,156,285	-	1,148,833	4,007,452
Machinery and equipment	13,927,353	568,019	372,558	14,122,814
Subtotals	35,503,597	782,974	1,743,820	34,542,751
Less accumulated depreciation for:				
Land improvements	46,834	7,806	-	54,640
Buildings	13,447,759	247,578	222,429	13,472,908
Improvements other than buildings	1,405,334	51,563	431,489	1,025,408
Machinery and equipment	11,081,061	366,304	372,557	11,074,808
Subtotals	25,980,988	673,251	1,026,475	25,627,764
Total capital assets, being depreciated, net	9,522,609	109,723	717,345	8,914,987
Capital assets, net	<u>\$ 9,698,940</u>	<u>\$ 715,646</u>	<u>\$ 1,433,221</u>	8,981,365
Less related long-term debt outstanding (net of available bond proceeds of \$365,000)				<u>4,280,000</u>
Investment in capital assets, net of related debt				<u>\$ 4,701,365</u>

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2008

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, 2008:

	Outstanding 1/1/08	Issued	Retired	Outstanding 12/31/08	Due Within One Year
Revenue bonds	\$ 5,225,000	\$ -	\$ 580,000	\$ 4,645,000	\$ 600,000

Revenue bonds outstanding at December 31, 2008 consist of the following:

\$5,025,000 issued 9/1/03; \$600,000 to \$730,000 due annually through 2015; interest 3.8% to 4.0%

\$ 4,635,000

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

Year Ended December 31	Revenue Bonds		
	Principal	Interest	Total
2009	\$ 600,000	\$ 172,716	\$ 772,716
2010	620,000	149,916	769,916
2011	640,000	125,116	765,116
2012	665,000	99,516	764,516
2013	685,000	76,906	761,906
2014-2015	1,435,000	80,307	1,515,307
	<u>\$ 4,645,000</u>	<u>\$ 704,477</u>	<u>\$ 5,349,477</u>

Utility Revenues Pledged

The Commission has pledged future revenues, net of specified operating expenses, to repay the sewerage system revenue bonds. Proceeds from the bonds provided financing for the construction or acquisition of capital assets used with the system. The bonds are payable solely from Commission net revenues and are payable through 2015. The total principal and interest remaining to be paid on the bonds is \$5,349,477. Principal and interest paid for the current year and total customer net revenues were \$770,117 and \$1,165,361, respectively.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2008

NOTE C - OTHER INFORMATION

1 Risk Management

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

2. Contingent Liabilities

The Commission has identified the following item as potential liability not recorded on the financial statements:

The U.S. Fish & Wildlife Service and the Wisconsin Department of Natural Resources ("WDNR") acting on behalf of the Natural Resource Trustees have prepared Natural Resource Damage Assessments to determine the level of such damages to the Lower Fox River and Green Bay resulting from PCB contamination. The U.S. Environmental Protection Agency ("EPA") and the WDNR have conducted a Feasibility Study and issued two Records of Decision ("RODs") (which have been subsequently modified) selecting dredging and capping of PCB contaminated sediments in the Fox River together with long-term monitoring in the Fox River and Green Bay as remedies to eliminate, reduce, or control risks to human health and the environment associated with the PCB contaminated sediments in the Lower Fox River and Green Bay. To date US EPA has not formally designated the Commission as a potentially responsible party ("PRP") with respect to the natural resource damages, past and future, remediation and oversight costs. Appleton Paper, Inc. and NCR have commenced CERCLA contribution actions for past and future remediation and oversight costs and natural resource damages against thirty-three defendants including the Commission. The Commission has been served with the complaint, has answered the complaint and is vigorously defending the action. Representatives of the federal and state agencies have advised that they also have claims against the POTWs (Publicly Owned Treatment Works) related to contamination of the Lower Fox River, including against the Commission and other PRPs, and the federal and state agencies have stated that at this time the total net present value of the past and future remediation costs including agency oversight costs, operation and maintenance costs and natural resource damages, is \$1.5 billion dollars (collectively "Estimated Remediation Costs"). Based on the information provided to us to date, we are not able to provide an opinion as to the likelihood that any such claims against the Commission would be successful or the magnitude of any liability of the Commission if such claims were successful; however, if any such claims were successfully pursued against the Commission, the Commission could potentially be jointly and severally liable for all Estimated Remediation Costs.

The Commission has put its insurance carriers on notice but they have denied a duty to indemnify. The Commission is currently litigating with one of its carriers over its duty to defend and indemnify. The Commission may seek to recover any judgment from its insurance carriers and/or the municipal entities within its service areas.

SUPPLEMENTAL INFORMATION

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
Schedule of Operation and Maintenance Expenses - Budget and Actual
Year Ended December 31, 2008
With Comparative Actual Amounts for Year Ended December 31, 2007

	Budget	Actual	Variance Positive (Negative)	2007 Actual
Operation				
Salaries and wages	\$ 4,800	\$ 2,457	\$ 2,343	\$ 2,671
Employee benefits	367	460	(93)	505
Professional fees and contracted services	1,405,860	1,458,909	(53,049)	1,350,843
Power	610,000	697,928	(87,928)	627,945
Gas	135,000	16,892	118,108	41,618
Water	20,000	20,402	(402)	16,967
Telephone	2,000	991	1,009	2,148
Chemicals				
Polymer	73,500	44,694	28,806	72,544
Sodium bisulfite	30,750	28,755	1,995	27,899
Chlorine	4,800	-	4,800	151
Salt	47,200	37,078	10,122	37,102
Aluminum sulfate	45,000	64,646	(19,646)	45,308
Carbon	10,500	-	10,500	-
Sludge disposal	217,750	201,079	16,671	204,810
Industrial metering and sampling	7,500	3,475	4,025	15,555
Lab supplies	21,750	16,894	4,856	15,582
Other operating supplies	48,750	50,790	(2,040)	35,457
Transportation	5,750	6,473	(723)	5,339
Administration	61,250	55,770	5,480	57,949
Office supplies	11,250	8,612	2,638	12,987
General insurance	61,054	61,293	(239)	58,079
Total Operation	2,824,831	2,777,598	47,233	2,631,459
Maintenance				
Equipment	68,250	71,567	(3,317)	57,771
General plant	40,000	37,427	2,573	42,282
Cleaning supplies	7,750	5,690	2,060	4,514
Total Maintenance	116,000	114,684	1,316	104,567
Total Operation and Maintenance Expenses	\$ 2,940,831	\$ 2,892,282	\$ 48,549	\$ 2,736,026

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
Calculation of Payable (Receivable) From Users for 2008 Operations
December 31, 2008

	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						

Revenues received during year for 2008
operations and maintenance

\$ 3,235,085	\$ 1,416,920	\$ 695,844	\$ 60,556	\$ 442,032	\$ 96,298	\$ 523,435
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Percentage of net expenses allocated
for 2008

100.00%	43.48%	21.32%	1.91%	13.58%	2.98%	16.74%
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Actual operation and maintenance
expenses
Deposits to depreciation fund
Deposits to replacement fund

\$ 2,892,282
176,261
219,935

Less:

MCO income sharing
High strength waste income
Industrial metering and sampling
WPPI standby service
Pretreatment administrative fees
Pretreatment permit fees
Other operating revenues
Interest income

31,367
6,461
5,634
75,179
6,075
700
47,095
1,174

Net Expenditures Allocated for 2008*

3,114,793	1,354,194	664,024	59,467	422,840	92,782	521,486
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Payable (Receivable) From Users
for 2008 Operations

\$ 120,292	\$ 62,726	\$ 31,820	\$ 1,089	\$ 19,192	\$ 3,516	\$ 1,949
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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	\$ 2,718,597
Deposits to replacement fund	176,261
Net 2008 Allocated Expenses	219,935
	<u>\$ 3,114,793</u>

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Information Required by Sewer Revenue Bonds

December 31, 2008

Insurance Coverage		
Expiration Date	Type of Coverage	Amount of Coverage
1/1/2009	Worker's compensation	Statutory Benefits
1/1/2009	Public officials and employee liability	\$1,000,000
1/1/2009	Automobile	\$2,000,000
1/1/2009	Boiler and machinery	Included in property limits
1/1/2009	Umbrella liability	\$2,000,000
1/1/2009	Property	\$58,441,519 valued at replacement cost of treatment plant (100% coinsurance)
1/1/2009	General liability	\$2,000,000
1/1/2009	Commercial crime/faithful performance	Employee \$100,000 per employee Other \$10,000
1/1/2009	Inland marine	\$55,000 (100% coinsurance)

Customers

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

Net Revenues of System

	2008	2007
Gross revenues	\$ 4,057,643	\$ 3,902,552
Operations and maintenance expenses	2,892,282	2,736,026
Net Revenues	<u>\$ 1,165,361</u>	<u>\$ 1,166,526</u>

OTHER COMMENTS AND OBSERVATIONS

**NEENAH-MENASHA SEWERAGE
COMMISSION, WISCONSIN**

DECEMBER 31, 2008

To the Commissioners
Neenah-Menasha Sewerage Commission, Wisconsin

We have completed our audit of the basic financial statements of Neenah-Menasha Sewerage Commission (the "Commission") for the year ended December 31, 2008. The Commission's financial statements, including our report thereon dated June 19, 2009, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, noncompliance with the provisions of laws, regulations, contracts and grants or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Commission's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

Significant Audit Findings

Consideration of Internal Control

In planning and performing our audit of the financial statements of the Commission as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to conducting the audit. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to completing the services as your auditor.

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

This communication, which does not affect our report dated June 19, 2009 on the financial statements of the Commission, is intended solely for the information and use of the Commissioners, management, and others within the Commission, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Certified Public Accountants
Green Bay, Wisconsin
June 19, 2009

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

December 31, 2008

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**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 (Commission), as of and for the year ended December 31, 2008, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated June 19, 2009. 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, Wisconsin's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Neenah-Menasha Sewerage Commission, Wisconsin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Neenah-Menasha Sewerage Commission, Wisconsin's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2008-1 to be a material weakness.



NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Schedule of Findings and Responses
For the Year Ended December 31, 2008

Section I - Internal Control Over Financial Reporting

Finding No.	Control Deficiencies
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2008-01 Segregation of Duties

Condition: The Commission has one individual essentially complete all financial and recordkeeping duties of the Commission's operations. Accordingly, this does not allow for a proper segregation of duties for internal control purposes.

Criteria: Segregation of duties is an internal control intended to prevent or decrease the occurrence of errors or intentional fraud. Segregation of duties ensures that no single employee has control over all phases of a transaction.

Cause: The lack of segregation of duties is due to the limited number of employees and the size of Commission's operations.

Recommendation: We recommend the Commissioners continue to monitor the transactions and the financial records of the Commission.

Management Response: Management believes that the cost of segregating cash receipts and cash disbursement duties from the related recording functions outweigh the benefits to be received.

Section II - Compliance and Other Matters

There are no findings related to compliance and other matters that are required to be reported under governmental auditing standards generally accepted in the United States of America for the year ended December 31, 2008.

SUMMARY FINANCIAL INFORMATION

Comparative Summary of Operating Results

Commission charges to municipalities and industries are based on an operation and maintenance budget, a depreciation fund budget, a replacement fund budget, and a capital budget approved by the Commission. Presented below is a summary of resources provided and expended from the operation and maintenance, depreciation fund, replacement fund and capital budgets for the year ended December 31, 2008 with a comparative summary for the year ended December 31, 2007:

	Operation and Maintenance	Depreciation Fund	Replacement Fund	Capital	Totals	
					2007	2008
Resources Provided						
Charges to municipalities and industries	\$ 2,718,597	\$ 176,261	\$ 219,935	\$ 770,339	\$ 3,885,132	\$ 3,778,979
Other charges	172,511	-	-	-	172,511	123,573
Interest income	1,174	21,622	32,499	23,954	79,249	127,568
Total Resources Provided	2,892,282	197,883	252,434	794,293	4,136,892	4,030,120
Resources Extended						
Operating expenses	2,892,282	635	64,387	-	2,957,304	2,846,645
Principal paid on long-term debt	-	-	-	580,000	580,000	565,000
Interest paid on long-term debt	-	-	-	188,667	188,667	203,729
Loss on disposal of capital assets	-	-	-	709,357	709,357	59,521
Acquisition and construction of capital assets	-	26,482	646,539	-	673,021	581,783
Total Resources Expended	2,892,282	27,117	710,926	1,478,024	5,108,349	4,256,678
Noncash transactions						
Amortization of deferred debits	-	-	-	(68,669)	(68,669)	(74,799)
Change in Available Resources	\$ -	\$ 170,766	\$ (458,492)	\$ (752,400)	\$ (1,040,126)	\$ (301,357)

Additional comments and observations concerning the above operating results follow:

a) **Operation and Maintenance**

Actual operation and maintenance expenses totaled \$2,892,282 for 2008 while the Commission budgeted operation and maintenance expenses of \$2,940,831. A budget to actual comparison of the Commission's operation and maintenance expenses is located on page 18 of the Commission's annual financial report.

b) **Depreciation Fund**

The Commission established a separate depreciation fund during 1997 to pay for repairs and capital asset additions not covered under the equipment replacement fund. During the year ended December 31, 2008, the Commission used depreciation fund resources of \$26,482 to acquire capital assets and \$635 to pay for maintenance costs. At December 31, 2008, the Commission had available resources of \$811,822 in the depreciation fund which consisted of cash and investments totaling \$807,805 and accrued interest and other receivables of \$4,017.

SUMMARY FINANCIAL INFORMATION (Continued)

Comparative Summary of Operating Results (Continued)

c) Replacement Fund

The Commission is required by federal and state regulations to maintain an equipment replacement fund to finance acquisitions and repairs of mechanical equipment. During the year ended December 31, 2008, the Commission used replacement fund resources of \$646,539 to acquire capital assets and \$64,387 to pay for equipment repairs. At December 31, 2008, the Commission had available resources of \$698,761 in the replacement fund which consisted of cash and investments totaling \$708,775 and accrued interest of \$2,767 less 2008 replacement fund payments of \$12,781 which related to 2008 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, 2008, the Commission is in compliance with all revenue bond covenants.