

**NEENAH-MENASHA
SEWERAGE COMMISSION, WISCONSIN**

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2010



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**NEENAH-MENASHA
SEWERAGE COMMISSION, WISCONSIN**

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DECEMBER 31, 2010

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

December 31, 2010

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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, 2010, 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 comparative information has been derived from the Commission's 2009 financial statements and, in our report dated March 23, 2010 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no opinion. An audit also 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, 2010, 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 April 8, 2011 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
Management's Discussion and Analysis
December 31, 2010

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, 2010.

Financial Highlights

- The assets of the Commission exceeded its liabilities as of December 31, 2010 by \$6,889,300 (*net assets*).
- The Commission's total net assets increased by \$399,405. Several factors contributed to the overall increase as follows:
 1. The Commission charges to its users for operation and maintenance costs are adjusted at year end to equal final expenses less other operating revenues generated and a receivable or payable is established. 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 2010, depreciation exceeded amounts contributed for principal retirement by \$117,999.
 3. Commission users also contribute to equipment replacement and depreciation funds for replacement or significant repairs to existing equipment. For 2010, equipment replacement and depreciation charges exceeded expenses by \$451,820.
- The Commission's total long-term debt decreased by \$620,000 (15.3%) during 2010.

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 \$6,889,300 at the close of 2010.

| Neenah-Menasha Sewerage Commission, Wisconsin's Net Assets | | |
|---|--------------|--------------|
| | 2010 | 2009 |
| Current and other assets | \$ 133,417 | \$ 332,014 |
| Restricted assets | 1,593,623 | 1,773,133 |
| Capital assets | 8,939,064 | 8,611,160 |
| Total assets | 10,666,104 | 10,716,307 |
| Long-term liabilities outstanding | 2,785,000 | 3,425,000 |
| Other liabilities | 991,804 | 801,412 |
| Total liabilities | 3,776,804 | 4,226,412 |
| Net assets | | |
| Invested in capital assets, net of related debt | 5,879,064 | 4,931,160 |
| Restricted | 880,251 | 1,390,121 |
| Unrestricted (deficit) | 129,985 | 168,614 |
| Total net assets | \$ 6,889,300 | \$ 6,489,895 |

By far the largest portion of the Commission's net assets (85%) 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 (13%) represents resources that are subject to external restrictions on how they may be used.

Change in net assets. The Commission's net assets increased by \$399,405. Key elements of this increase are as follows:

| Neenah-Menasha Sewerage Commission, Wisconsin's Change in Net Assets | | |
|---|--------------|--------------|
| | 2010 | 2009 |
| Operating Revenues | | |
| User charges | | |
| Measured service | \$ 3,301,787 | \$ 3,135,159 |
| Capital charges | 769,683 | 772,489 |
| Depreciation fund charges | 194,010 | 184,991 |
| Replacement fund charges | 287,996 | 240,000 |
| Other charges | 167,382 | 117,959 |
| Total Operating Revenues | 4,720,858 | 4,450,598 |
| Operating Expenses | | |
| Operation and maintenance | 3,469,503 | 3,253,158 |
| Depreciation | 703,765 | 719,666 |
| Depreciation fund | 29,051 | 104,627 |
| Replacement fund | 1,135 | 3,994 |
| Total Operating Expenses | 4,203,454 | 4,081,445 |
| Operating Income | 517,404 | 369,153 |
| Nonoperating Revenues (Expenses) | (117,999) | (177,060) |
| Change in net assets | 399,405 | 192,093 |
| Net assets - beginning balance | 6,489,895 | 6,297,802 |
| Net assets - ending balance | \$ 6,889,300 | \$ 6,489,895 |

Capital Asset and Debt Administration

Capital assets. The Commission's investment in capital assets as of December 31, 2010 amounts to \$8,939,064 (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 increase in the Commission's investment in capital assets for the current year was \$327,904 or 3.8% over last year was due to current year capital additions in excess of depreciation expense.

| Neenah-Menasha Sewerage Commission, Wisconsin's Capital Assets (net of accumulated depreciation) | | |
|--|--------------|--------------|
| | 2010 | 2009 |
| Land | \$ 63,539 | \$ 63,539 |
| Land improvements | 85,863 | 93,668 |
| Buildings | 2,550,066 | 2,628,444 |
| Improvements other than buildings | 2,901,896 | 2,941,969 |
| Machinery and equipment | 3,239,863 | 2,883,540 |
| Construction in progress | 97,837 | - |
| Total | \$ 8,939,064 | \$ 8,611,160 |

Long-term debt. At the end of the current fiscal year, the Commission had total bonded debt outstanding of \$3,425,000.

| Neenah-Menasha Sewerage Commission, Wisconsin's Outstanding Debt | | |
|---|--------------|--------------|
| Revenue Bonds | | |
| | 2010 | 2009 |
| Revenue bonds | \$ 3,425,000 | \$ 4,045,000 |

The Commission's total debt decreased by \$620,000 (15.3%) during the current fiscal year due to principal repayments.

The Commission has restricted cash of \$107,492 in the Principal and Interest Redemption Fund and \$489,177 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 2011 operations budget will show a 3.8% increase over the 2010 operations budget. The rates to the users will be adjusted accordingly to offset this increase. Major budget increases are anticipated in Utilities (15.3%), particularly with the increased cost and usage of both electricity and water, and Sewerage System Repairs and Maintenance (5.6%).

Contacting the Commission's Financial Management

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

FINANCIAL STATEMENTS

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Statement of Net Assets

December 31, 2010

With Comparative Totals for December 31, 2009

| | 2010 | 2009 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and investments | \$ 87,608 | \$ 100 |
| Receivables | | |
| Accounts | 22,426 | 24,957 |
| Due from users | 16,894 | 298,890 |
| Prepaid items | 386 | 723 |
| Total Current Assets | <u>127,314</u> | <u>324,670</u> |
| Noncurrent Assets | | |
| Restricted Assets | | |
| Cash and investments | 1,591,297 | 1,767,679 |
| Accrued interest | 2,326 | 5,454 |
| Total Restricted Assets | <u>1,593,623</u> | <u>1,773,133</u> |
| Other Assets | | |
| Unamortized debt discount | <u>6,103</u> | <u>7,344</u> |
| Capital Assets | | |
| Non-depreciable | 161,376 | 63,539 |
| Depreciable | 8,777,688 | 8,547,621 |
| Net Capital Assets | <u>8,939,064</u> | <u>8,611,160</u> |
| Total Noncurrent Assets | <u>10,538,790</u> | <u>10,391,637</u> |
| TOTAL ASSETS | <u>10,666,104</u> | <u>10,716,307</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Refunds due users | 110,743 | 21,957 |
| Accounts payable | 131,789 | 142,560 |
| Total Current Liabilities | <u>242,532</u> | <u>164,517</u> |
| Liabilities Payable from Restricted Assets | | |
| Accounts payable | 98,843 | 4,400 |
| Current maturities of long-term debt | 640,000 | 620,000 |
| Accrued interest | 10,429 | 12,495 |
| Total Liabilities Payable from Restricted Assets | <u>749,272</u> | <u>636,895</u> |
| Long-term Liabilities | | |
| Revenue bonds, less current maturities | <u>2,785,000</u> | <u>3,425,000</u> |
| TOTAL LIABILITIES | <u>3,776,804</u> | <u>4,226,412</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 5,879,064 | 4,931,160 |
| Restricted for | | |
| Plant replacement | 659,010 | 1,223,188 |
| Debt service | 221,241 | 166,933 |
| Unrestricted | <u>129,985</u> | <u>168,614</u> |
| TOTAL NET ASSETS | <u>\$ 6,889,300</u> | <u>\$ 6,489,895</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, 2010
With Comparative Totals for the Year Ended December 31, 2009

| | 2010 | 2009 |
|--|---------------------|---------------------|
| Operating Revenues | | |
| User Charges | | |
| Measured service | \$ 3,301,787 | \$ 3,135,159 |
| Capital charges | 769,683 | 772,489 |
| Depreciation fund charges | 194,010 | 184,991 |
| Replacement fund charges | 287,996 | 240,000 |
| Other charges | 167,382 | 117,959 |
| Total Operating Revenues | <u>4,720,858</u> | <u>4,450,598</u> |
| Operating Expenses | | |
| Operation and maintenance | 3,469,503 | 3,253,158 |
| Depreciation | 703,765 | 719,666 |
| Depreciation fund | 29,051 | 104,627 |
| Replacement fund | 1,135 | 3,994 |
| Total Operating Expenses | <u>4,203,454</u> | <u>4,081,445</u> |
| Operating Income | <u>517,404</u> | <u>369,153</u> |
| Nonoperating Revenues (Expenses) | | |
| Interest income | 29,092 | 38,453 |
| Gain (loss) on disposal of assets | 2,000 | (43,456) |
| Interest expense | (147,850) | (170,816) |
| Amortization of debt expense | (1,241) | (1,241) |
| Total Nonoperating Revenues (Expenses) | <u>(117,999)</u> | <u>(177,060)</u> |
| Change in Net Assets | 399,405 | 192,093 |
| Net Assets - January 1 | <u>6,489,895</u> | <u>6,297,802</u> |
| Net Assets - December 31 | <u>\$ 6,889,300</u> | <u>\$ 6,489,895</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, 2010

With Comparative Totals for the Year Ended December 31, 2009

| | 2010 | 2009 |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Cash received from user charges | \$ 5,094,171 | \$ 4,278,360 |
| Cash payments to suppliers | (3,412,441) | (3,408,181) |
| Cash payments to employees | (3,239) | (7,383) |
| Net Cash Provided by Operating Activities | 1,678,491 | 862,796 |
| Cash Flows from Capital and Related Financing Activities | | |
| Acquisition of capital assets | (1,031,668) | (392,917) |
| Proceeds from sale of capital assets | 2,000 | - |
| Principal payments on long-term debt | (620,000) | (600,000) |
| Interest payments on long-term debt | (149,916) | (172,716) |
| Net Cash Used by Capital and Related Financing Activities | (1,799,584) | (1,165,633) |
| Cash Flows from Investing Activities | | |
| Interest received | 32,219 | 37,217 |
| Change in Cash and Cash Equivalents | (88,874) | (265,620) |
| Cash and Cash Equivalents - January 1 | 1,767,779 | 2,033,399 |
| Cash and Cash Equivalents - December 31 | \$ 1,678,905 | \$ 1,767,779 |
| Reconciliation of cash and cash equivalents to statement of net assets: | | |
| Cash and investments | \$ 87,608 | \$ 100 |
| Restricted cash and investments | 1,591,297 | 1,767,679 |
| Total cash and cash equivalents | \$ 1,678,905 | \$ 1,767,779 |
| Reconciliation of Operating Income to Net Cash | | |
| Provided by Operating Activities: | | |
| Operating income | \$ 517,404 | \$ 369,153 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 703,765 | 719,666 |
| Changes in current assets and liabilities | | |
| Accounts receivable | 2,531 | 224,987 |
| Due from users | 281,996 | (298,890) |
| Prepaid items | 337 | (350) |
| Refunds due users | 88,786 | (98,335) |
| Accounts payable | 83,672 | (53,435) |
| Net Cash Provided by Operating Activities | \$ 1,678,491 | \$ 862,796 |
| 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, 2010

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, 2010

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, 2010

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

In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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, 2010

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 \$1,678,905 on December 31, 2010 as summarized below:

| | |
|--------------------------------------|---------------------|
| Petty cash and cash on hand | \$ 100 |
| Deposits with financial institutions | 1,587,560 |
| Investments | 91,245 |
| | <u>\$ 1,678,905</u> |
| | |
| Basic financial statements | |
| Cash and investments | \$ 87,608 |
| Restricted cash and investments | 1,591,297 |
| | <u>\$ 1,678,905</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 risk policy.

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for time and savings deposits and \$250,000 for demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 per official custodian per depository institution. Deposits with credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF) in the amount of \$250,000 per credit union member. In addition, the Commission's non-interest bearing transaction accounts are fully insured through December 31, 2012. Also, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available.

As of December 31, 2010, none 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, 2010

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 \$91,245 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, 2010, the fair value of the Commission's share of the LGIP's assets was substantially equal to the carrying value.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The Commission does not have an additional credit risk policy. The Commission's investment in the Wisconsin local government investment pool is not rated.

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

2. Restricted Assets

Restricted assets of the Commission on December 31, 2010 totaled \$1,593,623 and consisted of cash and investments of \$1,591,297 and accrued interest receivable of \$2,326 held for the following purposes:

| Fund | Amount | Purpose |
|---|---------------------|--|
| Bond Depreciation Fund | \$ 618,396 | To be used for additions to and betterments of the sewerage treatment plant |
| Bond Principal and Interest Redemption Fund | 107,492 | To be used for subsequent year payments of principal and interest on revenue bonds. |
| Bond Reserve Fund | 489,177 | 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 | 378,558 | To be used for the replacement of certain assets of the sewerage treatment plant in accordance with Wisconsin Department of Natural Resources requirements. |
| Total | <u>\$ 1,593,623</u> | |

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2010

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-------------------|---------------|---------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 63,539 | \$ - | \$ - | \$ 63,539 |
| Construction in Progress | - | 97,837 | - | 97,837 |
| Total capital assets, not being depreciated | 63,539 | 97,837 | - | 161,376 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 156,114 | - | - | 156,114 |
| Buildings | 16,338,626 | 188,361 | - | 16,526,987 |
| Improvements other than buildings | 4,007,452 | - | - | 4,007,452 |
| Machinery and equipment | 13,803,921 | 745,471 | 29,893 | 14,519,499 |
| Subtotals | 34,306,113 | 933,832 | 29,893 | 35,210,052 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 62,446 | 7,805 | - | 70,251 |
| Buildings | 13,710,182 | 266,739 | - | 13,976,921 |
| Improvements other than buildings | 1,065,483 | 40,073 | - | 1,105,556 |
| Machinery and equipment | 10,920,381 | 389,148 | 29,893 | 11,279,636 |
| Subtotals | 25,758,492 | 703,765 | 29,893 | 26,432,364 |
| Total capital assets, being depreciated, net | 8,547,621 | 230,067 | - | 8,777,688 |
| Capital assets, net | \$ 8,611,160 | \$ 327,904 | \$ - | \$ 8,939,064 |
| Less related long-term debt outstanding (net of available bond proceeds of \$365,000) | | | | 3,060,000 |
| Invested in capital assets, net of related debt | | | | \$ 5,879,064 |

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2010

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, 2010:

| | Outstanding 1/1/10 | Issued | Retired | Outstanding 12/31/10 | Due Within One Year |
|---------------|-----------------------|--------|------------|-------------------------|------------------------|
| Revenue bonds | \$ 4,045,000 | \$ - | \$ 620,000 | \$ 3,425,000 | \$ 640,000 |

Revenue bonds outstanding at December 31, 2010 consist of the following:

\$5,025,000 issued 9/1/03; \$640,000 to \$730,000 due annually through 2015; interest 3.4% to 4.0%

\$ 3,425,000

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

| Year Ended December 31 | Revenue Bonds | | |
|---------------------------|---------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2011 | \$ 640,000 | \$ 125,116 | \$ 765,116 |
| 2012 | 665,000 | 99,516 | 764,516 |
| 2013 | 685,000 | 76,906 | 761,906 |
| 2014 | 705,000 | 52,931 | 757,931 |
| 2015 | 730,000 | 27,376 | 757,376 |
| | <u>\$ 3,425,000</u> | <u>\$ 381,845</u> | <u>\$ 3,806,845</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 \$3,806,845. Principal and interest paid for the current year and total customer net revenues were \$769,916 and \$1,251,355, respectively.

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.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Notes to Financial Statements

December 31, 2010

NOTE C - OTHER INFORMATION (Continued)

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 commenced CERCLA contribution actions for past and future remediation and oversight costs and natural resource damages against thirty-three defendants including the Commission. On December 16, 2009, a U.S. District Court Decision and Order held that Appleton Paper, Inc. and NCR were not entitled to recover any contribution from the defendants. The Court has denied Appleton Paper, Inc. and NCR's motion to enter judgment against them to permit an interlocutory appeal. The defendants, including the Commission, filed a counterclaim for contributions from plaintiffs for past costs and declaratory relief and future site costs. On February 28, 2011, the Court issued a decision and order which held that the plaintiffs were responsible for all the defendants' costs incurred – past and future – for OUs 2-5 but not liable for costs of OU1. Subsequent to this decision and order, the defendants have filed a motion seeking clarification of the decision, while the plaintiffs filed motions seeking reconsideration of the Court's conclusion that its liability under CERCLA was uncontested and entry of partial final judgment. The case is currently in discovery with a trial anticipated in 2012. Based on the information currently available to the Commission, it is more probable but not certain that the claims of Appleton Paper, Inc. and NCR will ultimately be denied. The Commission 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"). On October 14, 2010, the United States and the State of Wisconsin filed a civil action in US District Court to recover federal and state oversight costs and natural resource damages and to compel the paper mill defendants to comply with a previous EPA Unilateral Administrative Order (UAO) to perform the site remedy. The United States and the State of Wisconsin have subsequently filed a motion to dismiss. On March 29, 2011, the United States moved for a preliminary injunction requiring Appleton Paper, Inc. and NCR to continue to perform remediation work required under the UAO while the parties litigate the merits of the United States' UAO enforcement claim. On April 4, 2011, the Court approved a consent decree settling Georgia Pacific Corporation's liability to the United States for PCB contamination of the Fox River. Based on the information provided to the Commission 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. Three carriers have accepted the Commission tender of defense but have asserted a claim that they may seek to recover defense costs which they pay, a claim the Commission vigorously disputes. 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, 2010
With Comparative Actual Amounts for Year Ended December 31, 2009

| | Budget | Actual | Variance Positive (Negative) | 2009 Actual |
|---|---------------------|---------------------|------------------------------------|---------------------|
| Operation | | | | |
| Salaries and wages | \$ 5,400 | \$ 2,739 | \$ 2,661 | \$ 6,570 |
| Employee benefits | 776 | 500 | 276 | 813 |
| Professional fees and contracted services | 1,623,250 | 1,616,056 | 7,194 | 1,581,382 |
| Power | 835,000 | 1,000,353 | (165,353) | 849,171 |
| Gas | 40,000 | 7,925 | 32,075 | 7,141 |
| Stormwater charges | 4,531 | 5,227 | (696) | 5,151 |
| Water | 25,000 | 34,245 | (9,245) | 20,577 |
| Telephone | 1,500 | 1,297 | 203 | 1,379 |
| Chemicals | | | | |
| Polymer | 54,000 | 66,403 | (12,403) | 55,084 |
| Sodium bisulfate | 35,000 | 40,516 | (5,516) | 29,560 |
| Chlorine | 5,000 | 528 | 4,472 | - |
| Salt | 50,625 | 40,055 | 10,570 | 42,149 |
| Aluminum sulfate | 142,500 | 142,793 | (293) | 131,975 |
| Iron sponge | 20,000 | 842 | 19,158 | - |
| Carbon | 12,500 | - | 12,500 | - |
| Miscellaneous | - | - | - | 1,640 |
| Sludge disposal | 220,110 | 205,826 | 14,284 | 197,628 |
| Industrial metering and sampling | 7,500 | 7,869 | (369) | 5,401 |
| Lab supplies | 23,750 | 20,957 | 2,793 | 17,211 |
| Other operating supplies | 54,750 | 22,070 | 32,680 | 34,629 |
| Transportation | 8,700 | 6,424 | 2,276 | 8,106 |
| Administration | 62,750 | 52,877 | 9,873 | 53,582 |
| Office supplies | 12,500 | 8,867 | 3,633 | 8,991 |
| General insurance | 70,960 | 66,953 | 4,007 | 66,022 |
| Total Operation | 3,316,102 | 3,351,322 | (35,220) | 3,124,162 |
| Maintenance | | | | |
| Equipment | 79,750 | 70,090 | 9,660 | 52,223 |
| General plant | 45,500 | 40,872 | 4,628 | 70,443 |
| Cleaning supplies | 12,000 | 7,219 | 4,781 | 6,330 |
| Total Maintenance | 137,250 | 118,181 | 19,069 | 128,996 |
| Total Operation and Maintenance Expenses | \$ 3,453,352 | \$ 3,469,503 | \$ (16,151) | \$ 3,253,158 |

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
Calculation of Payable (Receivable) From Users for 2010 Operations
December 31, 2010

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

Revenues received during year for 2010
operations and maintenance

\$ 3,877,642 \$ 1,804,155 \$ 737,253 \$ 43,121 \$ 545,190 \$ 115,842 \$ 632,081

Percentage of net expenses allocated
for 2010

100.00% 45.89% 19.01% 1.51% 14.15% 2.99% 16.45%

Actual operation and maintenance
expenses

\$ 3,469,503

Deposit to depreciation fund

194,010

Deposit to replacement fund

287,996

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

77,136
5,507
5,334
69,650
6,075
950
2,730
334

Net Expenditures Allocated for 2010*

3,783,793 1,736,219 719,285 57,123 535,549 113,103 622,514

Payable (Receivable) From Users
for 2010 Operations

93,849 67,936 17,968 (14,002) 9,641 2,739 9,567

2010 Billing Correction

- 2,892 - (2,892) - - -

Payable (Receivable) From Users - December 31

\$ 93,849 \$ 70,828 \$ 17,968 \$ (16,894) \$ 9,641 \$ 2,739 \$ 9,567

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

* Measured service to municipalities and industries
Deposit to depreciation fund
Deposit to replacement fund
Net 2010 Allocated Expenses

\$ 3,301,787
194,010
287,996
\$ 3,783,793

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Information Required by Sewer Revenue Bonds

December 31, 2010

| Insurance Coverage | | |
|--------------------|---|---|
| Expiration Date | Type of Coverage | Amount of Coverage |
| 1/1/2011 | Worker's compensation | Statutory Benefits |
| 1/1/2011 | Public officials and employee liability | \$1,000,000 |
| 1/1/2011 | Automobile | \$2,000,000 |
| 1/1/2011 | Boiler and machinery | Included in property limits |
| 1/1/2011 | Umbrella liability | \$2,000,000 |
| 1/1/2011 | Property | \$54,758,054 valued at replacement cost of treatment plant (100% coinsurance) |
| 1/1/2011 | General liability | \$2,000,000 |
| 1/1/2011 | Commercial crime/faithful performance | Employee \$100,000 per employee Other \$10,000 |
| 1/1/2011 | Inland marine | \$55,000 (100% coinsurance) |

Customers

City of Neenah
City of Menasha
Town of Neenah Sanitary District No. 2
Town of Menasha Utility District
Waverly Sanitary District
Sonoco - US Mills, Inc.

Net Revenues of System

| | 2010 | 2009 |
|------------------------------------|---------------------|---------------------|
| Gross revenues | \$ 4,720,858 | \$ 4,450,598 |
| Operation and maintenance expenses | 3,469,503 | 3,253,158 |
| Net Revenues | <u>\$ 1,251,355</u> | <u>\$ 1,197,440</u> |

**ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR FINANCIAL STATEMENTS**

**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, 2010, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated April 8, 2011. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses, as item 2010-01 to be a material weakness.

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

Schedule of Findings and Responses
For the Year Ended December 31, 2010

Section I - Internal Control Over Financial Reporting

| Finding No. | Control Deficiencies |
|-------------|----------------------|
|-------------|----------------------|

2010-01 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.

Effect: Errors or intentional fraud could occur and not be detected timely by other employees in the normal course of their responsibilities as a result of the lack of segregation of duties.

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

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

Section II - Compliance and Other Matters

There are no findings related to compliance and other matters that are required to be reported under governmental auditing standards generally accepted in the United States of America for the year ended December 31, 2010.

MANAGEMENT COMMUNICATIONS

**NEENAH-MENASHA SEWERAGE
COMMISSION, WISCONSIN**

DECEMBER 31, 2010

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN

December 31, 2010

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To the Commissioners
Neenah-Menasha Sewerage Commission, Wisconsin

We have completed our audit of the financial statements of the Neenah-Menasha Sewerage Commission (the "Commission") for the year ended December 31, 2010. The Commission's financial statements, including our report thereon dated April 8, 2011, 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, 2010, 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. Our report on internal control is presented on pages 21 - 22 of the annual report.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will be not be prevented or detected and corrected on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency to be a material weakness in internal control:

Finding 2010-01 Segregation of Duties

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

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no significant transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. We are not aware of any particularly sensitive accounting estimates used by management in the preparation of the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The financial statements reflect all accounting adjustments proposed during our audit. Copies of the audit adjustments are available from management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 8, 2011.

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 comments and observations section of this letter.

This communication, which does not affect our report dated April 8, 2011 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
April 8, 2011



NEENAH-MENASHA SEWERAGE COMMISSION

101 Garfield Avenue • Menasha, Wisconsin 54952-3397

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

April 8, 2011

Schenck SC
2200 Riverside Drive
P.O. Box 23819
Green Bay, WI 54305-3819

We are providing this letter in connection with your audit of the basic financial statements of the Neenah Menasha Sewerage Commission as of December 31, 2010 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the Neenah Menasha Sewerage Commission and the respective changes in the financial position and the cash flows, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of April 8, 2011, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all financial information of the Commission as required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
2. We have made available to you all-
 - a. Financial records and related data.
 - b. Minutes of the meetings of the Commission or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
8. We have a process to track the status of audit findings and recommendations.
9. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
10. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
11. The Commission has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
12. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the Commission is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
 - d. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted).
 - e. Deposit and investment securities risk classifications.
 - f. Provisions for uncollectible receivables.
 - g. Interfund, internal, and intra-Commission activity and balances.
 - h. Capital assets, including infrastructure assets, and applicable depreciation.
13. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
15. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) ASC 450, Contingencies.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, Contingencies.
 - d. Reservations or designations of fund equity that were not properly authorized and approved.
16. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
17. The Commission has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
18. The Commission has complied with all aspects of contractual agreements that would have a material effect on the basic financial statements in the event of noncompliance.
19. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
20. The financial statements properly classify all funds and activities.
21. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
22. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
23. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.

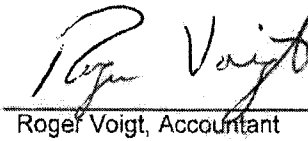
24. Provision has been made for any material loss that is probable from environmental remediation liabilities associated with the Fox River. We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the financial statements.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Signed:


William Zelinski, President

Signed:


Roger Voigt, Accountant

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, 2010 with a comparative summary for the year ended December 31, 2009:

| | Operation and Maintenance | Depreciation Fund | Replacement Fund | Capital | Totals | |
|--|---------------------------------|----------------------|---------------------|------------|--------------|--------------|
| | | | | | 2010 | 2009 |
| Resources Provided | | | | | | |
| Charges to municipalities and industries | \$ 3,301,787 | \$ 194,010 | \$ 287,996 | \$ 769,683 | \$ 4,553,476 | \$ 4,332,639 |
| Other charges | 167,382 | - | - | - | 167,382 | 117,959 |
| Interest income | 334 | 9,785 | 5,886 | 13,087 | 29,092 | 38,453 |
| Total Resources Provided | 3,469,503 | 203,795 | 293,882 | 782,770 | 4,749,950 | 4,489,051 |
| Resources Extended | | | | | | |
| Operating expenses | 3,469,503 | 29,051 | 1,135 | - | 3,499,689 | 3,361,779 |
| Principal paid on long-term debt | - | - | - | 620,000 | 620,000 | 600,000 |
| Interest on long-term debt | - | - | - | 147,850 | 147,850 | 170,816 |
| Loss (gain) on disposal of capital assets | - | - | - | (2,000) | (2,000) | 43,456 |
| Acquisition and construction of capital assets | - | 294,394 | 737,274 | - | 1,031,668 | 392,917 |
| Total Resources Expended | 3,469,503 | 323,445 | 738,409 | 765,850 | 5,297,207 | 4,568,968 |
| Noncash transactions | | | | | | |
| Amortization of deferred debits | - | - | - | (1,241) | (1,241) | (1,241) |
| Change in Available Resources | \$ - | \$ (119,650) | \$ (444,527) | \$ 15,679 | \$ (548,498) | \$ (81,158) |

Additional comments and observations concerning the above operating results follow:

a) **Operation and Maintenance**

Actual operation and maintenance expenses totaled \$3,469,503 for 2010 while the Commission budgeted operation and maintenance expenses of \$3,453,352. 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, 2010, the Commission used replacement fund resources of \$294,394 to acquire capital assets and \$29,051 to pay for maintenance costs. At December 31, 2010, the Commission had available resources of \$618,396 in the depreciation fund which consisted of cash and investments totaling \$616,072 and accrued interest of \$2,324.

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, 2010, the Commission used replacement fund resources of \$737,274 to acquire capital assets and \$1,135 to pay for equipment repairs. At December 31, 2010, the Commission had available resources of \$378,558 in the replacement fund which consisted of cash and investments totaling \$378,556 and accrued interest of \$2.

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, 2010, the Commission is in compliance with all revenue bond covenants.

COMMENTS AND OBSERVATIONS

User Billing Process

During testing of the Commission's user billing process, we noted that two users' suspended solids charges were not being calculated correctly. Upon further investigation, it was determined that a change in the monthly calculation Excel workbook made in January 2010 resulted in incorrect data being used to bill the two users for all of 2010. Although the total amount billed all users was correct, one user was billed too much while another user not enough. The total adjustment was about \$3,000 and was recorded in the Commission's records as of December 31.

Due to the Commission's unique rate structure, appropriate packaged software for use in the billing process has not been identified. The current process involves downloading the usage data from the plant operations system to an Excel workbook and copying it to another Excel workbook where the total loadings and dollar amounts for each user are calculated through a series of formulas. These calculations are then manually entered into another Excel workbook, which generates the monthly invoices for printing. These invoices are then manually entered into the CYMA accounting software. This multi-step process is susceptible to human error, not only from the manual data entry, but also the ability to make changes to the formulas in the workbooks.

Although both the users and the Commission receive the usage and charge data on a monthly basis, the usage data is subject to high levels of variability, both month-to-month and year-to-year for each user and in total. The current reviews of this data may reveal material billing errors, but would not readily reveal smaller errors between users, such as the situation above.

The conditions described above do not permit easy improvement of the billing process; rather, a series of changes by multiple parties may help improve controls so that the risk for error is minimized and more easily detectable. We recommend combining the multiple Excel workbooks into one file to reduce the risk of manual errors. In addition, someone other than the accountant should review the workbook when changes need to be made to ascertain that the formulas are indeed correct. Also, a review of the amount of loadings billed to each user by knowledgeable operations personnel on both a monthly and annual basis may recognize variances in the data that other reviewers may not detect.