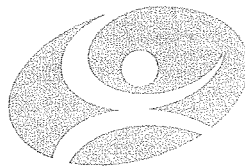


**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2012**



**Schenck**  
SC

CPAs AND SO MUCH MORE.

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
December 31, 2012

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 6
FINANCIAL STATEMENTS	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10 - 20
SUPPLEMENTARY INFORMATION	
Schedule of Operation and Maintenance Expenses - Budget and Actual	21
Calculation of Payable (Receivable) From Users for 2012 Operations	22
Information Required by Sewer Revenue Bonds	23
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	24 - 25
Schedule of Findings and Responses	26



## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
Neenah-Menasha Sewerage Commission  
Menasha, Wisconsin

### Report on the Financial Statements

We have audited the accompanying financial statements of Neenah-Menasha Sewerage Commission, Menasha, Wisconsin ("the Commission") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the Commission's 2011 financial statements and, in our report dated March 19, 2012, we expressed an unqualified opinion on the financial statements of the Commission.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2012, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



## **Emphasis of Matter**

As described in Note A.5.e, the Commission implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2012.

As described in Note C.2, the Commission has identified a potential liability related to a Natural Resource Damage Assessment, prepared by the Wisconsin Department of Natural Resources and U.S. Fish & Wildlife Service, on damages to the lower Fox River and Green Bay due to PCB contamination.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2013, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



Certified Public Accountants  
Green Bay, Wisconsin  
March 9, 2013

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



**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
**Management's Discussion and Analysis**  
December 31, 2012

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, 2012.

**Financial Highlights**

- The assets of the Commission exceeded its liabilities as of December 31, 2012 by \$8,252,628 (*net position*).
- The Commission's total net position increased by \$935,385. 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. In 2011, the Commissioners decided to begin building an operating reserve of \$10,000 over five years, retaining \$2,000 in 2012.
  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 2012, depreciation exceeded amounts contributed for principal retirement by \$61,558.
  3. Commission users also contribute to equipment replacement and depreciation funds for replacement or significant repairs to existing equipment. For 2012, equipment replacement and depreciation charges exceeded expenses by \$220,506.
- The Commission's total long-term debt increased by \$557,275 (11%) during 2012 as the Commission began the construction phase of a plant upgrade and current refunded portions of previous debt issues to structure debt service maturities of the Commission.

**Overview of the Financial Statements**

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

The Commission accounts for its operations as an enterprise fund. 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 position may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded its liabilities by \$8,252,628 at the close of 2012.

<b>Neenah-Menasha Sewerage Commission, Wisconsin's Net Position</b>		
	2012	2011
Current and other assets	\$ 1,483,513	\$ 625,552
Restricted assets	2,455,274	3,168,379
Capital assets	11,483,556	9,334,140
Total assets	15,422,343	13,128,071
Long-term liabilities outstanding	855,080	2,120,000
Other liabilities	6,314,635	3,685,966
Total liabilities	7,169,715	5,805,966
Net position	6,516,393	5,739,680
Net investment in capital assets		
Restricted	1,688,141	1,451,442
Unrestricted	48,094	130,983
Total net position	\$ 8,252,628	\$ 7,322,105

By far the largest portion of the Commission's net position (79%) 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 position (20%) represents resources that are subject to external restrictions on how they may be used.

Change in net position. The Commission's net position increased by \$930,523. Key elements of this increase are as follows:

<b>Neenah-Menasha Sewerage Commission, Wisconsin's Change in Net Position</b>		
	2012	2011
<b>Operating Revenues</b>		
User charges		
Measured service	\$ 3,397,903	\$ 3,477,585
Capital charges	1,546,888	765,256
Depreciation fund charges	-	223,206
Replacement fund charges	302,401	302,397
Other charges	161,915	202,640
<b>Total Operating Revenues</b>	<b>5,409,107</b>	<b>4,971,084</b>
<b>Operating Expenses</b>		
Operation and maintenance	3,558,871	3,679,539
Depreciation	618,833	692,408
Depreciation fund	9,354	6,173
Replacement fund	72,541	37,635
<b>Total Operating Expenses</b>	<b>4,259,599</b>	<b>4,415,755</b>
Operating Income	1,149,508	555,329
Nonoperating Revenues (Expenses)	(214,123)	(122,524)
Net income	935,385	432,805
Cumulative effect of change in accounting principle	(4,862)	-
Net position - beginning balance	7,322,105	6,889,300
<b>Net position - ending balance</b>	<b>\$ 8,252,628</b>	<b>\$ 7,322,105</b>

### **Capital Asset and Debt Administration**

Capital assets. The Commission's investment in capital assets as of December 31, 2012 amounts to \$11,483,556 (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 \$2,149,416 or 23% over last year was due to current year capital additions in excess of depreciation expense, primarily construction in progress due to the ongoing plant upgrade.



Long-term debt. At the end of the current fiscal year, the Commission had total bonded debt outstanding of \$1,390,000 and revenue bond anticipation notes of \$4,202,979. The revenue bond anticipation notes will be refunded in 2013 with revenue bonds.

The Commission's total debt increased by \$557,275 (11%) during the current fiscal year due to debt proceeds received for plant upgrade improvements offset by early retirement of prior debt service maturities to structure the Commission's future debt service payments.

The Commission has restricted cash of \$256,724 in the Principal and Interest Redemption Fund and \$508,768 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 2013 operations and maintenance budget decreased 3.2% over the 2012 budget while the Commission's capital budget increased 12.3% due to the plant upgrade project. The overall rates to the users will result in an overall increase of 1.3%.

#### **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**  
**MENASHA, WISCONSIN**  
Statement of Net Position  
December 31, 2012  
With Comparative Totals as of December 31, 2011

	2012	2011
<b>ASSETS</b>		
Current Assets		
Cash and investments	\$ 304,096	\$ 354,105
Receivables		
Accounts	32,388	146,107
Due from users	65,844	120,057
Due from Menasha Utilities	900,599	-
Construction escrow held by Menasha	29,617	-
Prepaid items	889	421
Total Current Assets	<u>1,333,433</u>	<u>620,690</u>
Restricted and Noncurrent Assets		
Restricted Assets		
Cash and investments	2,417,529	3,123,174
Due from users	37,745	45,205
Total Restricted Assets	<u>2,455,274</u>	<u>3,168,379</u>
Other Assets		
Unamortized debt discount	-	4,862
Due from Menasha Utilities	150,080	-
Total Other Assets	<u>150,080</u>	<u>4,862</u>
Capital Assets		
Non-depreciable	4,024,385	1,238,000
Depreciable	7,459,171	8,096,140
Net Capital Assets	<u>11,483,556</u>	<u>9,334,140</u>
Total Restricted and Noncurrent Assets	<u>14,088,910</u>	<u>12,507,381</u>
<b>TOTAL ASSETS</b>	<u>15,422,343</u>	<u>13,128,071</u>
<b>LIABILITIES</b>		
Current Liabilities		
Revenue bond anticipation notes	4,202,979	2,250,704
Refunds due users	384,215	403,513
Refunds due users from Menasha Utilities	900,599	-
Accounts payable	129,635	330,166
Total Current Liabilities	<u>5,617,428</u>	<u>2,984,383</u>
Liabilities Payable from Restricted Assets		
Accounts payable	8,077	28,288
Current maturities of revenue bonds	685,000	665,000
Accrued interest	4,130	8,295
Total Liabilities Payable from Restricted Assets	<u>697,207</u>	<u>701,583</u>
Long-term Liabilities		
Revenue bonds, less current maturities	705,000	2,120,000
Refunds due users from Menasha Utilities	150,080	-
Total Long-term Liabilities	<u>855,080</u>	<u>2,120,000</u>
<b>TOTAL LIABILITIES</b>	<u>7,169,715</u>	<u>5,805,966</u>
<b>NET POSITION</b>		
Net investment in capital assets	6,516,393	5,739,680
Restricted for		
Plant replacement	1,291,779	1,233,218
Debt service	396,362	218,224
Unrestricted	48,094	130,983
<b>TOTAL NET POSITION</b>	<u>\$ 8,252,628</u>	<u>\$ 7,322,105</u>

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

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended December 31, 2012  
With Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Operating Revenues		
User Charges		
Measured service	\$ 3,397,903	\$ 3,477,585
Capital charges	1,546,888	765,256
Depreciation fund charges	-	223,206
Replacement fund charges	302,401	302,397
Other charges	161,915	202,640
Total Operating Revenues	<u>5,409,107</u>	<u>4,971,084</u>
Operating Expenses		
Operation and maintenance	3,558,871	3,679,539
Depreciation	618,833	692,408
Depreciation fund	9,354	6,173
Replacement fund	72,541	37,635
Total Operating Expenses	<u>4,259,599</u>	<u>4,415,755</u>
Operating Income	<u>1,149,508</u>	<u>555,329</u>
Nonoperating Revenues (Expenses)		
Interest income	21,445	18,116
Gain (loss) on disposal of assets	(140,217)	(916)
Settlement payment	-	(15,500)
Interest expense	(95,351)	(122,983)
Amortization of debt expense	-	(1,241)
Total Nonoperating Revenues (Expenses)	<u>(214,123)</u>	<u>(122,524)</u>
Change in Net Position	935,385	432,805
Cumulative effect of change in accounting principle	(4,862)	-
Net Position - January 1	<u>7,322,105</u>	<u>6,889,300</u>
Net Position - December 31	<u>\$ 8,252,628</u>	<u>\$ 7,322,105</u>

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

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Statement of Cash Flows  
For the Year Ended December 31, 2012  
With Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Cash Flows from Operating Activities		
Cash received from user charges	\$ 5,565,201	\$ 4,991,805
Cash payments to suppliers	(3,855,623)	(3,592,324)
Cash payments to employees	(6,353)	(3,236)
Net Cash Provided by Operating Activities	<u>1,703,225</u>	<u>1,396,245</u>
Cash Flows from Capital and Related Financing Activities		
Settlement payment - refund of capital charges	-	(15,500)
Construction escrow held by Menasha	(29,617)	-
Acquisition of capital assets	(2,820,147)	(1,084,292)
Proceeds from sale of capital assets	14,355	232
Proceeds from issuance of debt	6,452,275	2,250,704
Principal payments on long-term debt	(5,895,000)	(640,000)
Interest payments on long-term debt	(202,190)	(129,457)
Net Cash Used by Capital and Related Financing Activities	<u>(2,480,324)</u>	<u>381,687</u>
Cash Flows from Investing Activities		
Interest received	<u>21,445</u>	<u>20,442</u>
Change in Cash and Cash Equivalents	(755,654)	1,798,374
Cash and Cash Equivalents - January 1	<u>3,477,279</u>	<u>1,678,905</u>
Cash and Cash Equivalents - December 31	<u>\$ 2,721,625</u>	<u>\$ 3,477,279</u>
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and investments	\$ 304,096	\$ 354,105
Restricted cash and investments	2,417,529	3,123,174
Total cash and cash equivalents	<u>\$ 2,721,625</u>	<u>\$ 3,477,279</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating income	\$ 1,149,508	\$ 555,329
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	618,833	692,408
Changes in current assets and liabilities		
Accounts receivable	113,719	(123,681)
Due from users	61,673	(148,368)
Due from Menasha Utilities	(900,599)	-
Prepaid items	(468)	(35)
Refunds due users	(19,298)	292,770
Refunds due users from Menasha Utilities	900,599	-
Accounts payable	(220,742)	127,822
Net Cash Provided by Operating Activities	<u>\$ 1,703,225</u>	<u>\$ 1,396,245</u>
Noncash Capital and Related Financing Activities		
None		

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

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Notes to Financial Statements  
December 31, 2012

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

The accounting policies of the Neenah-Menasha Sewerage Commission, Menasha, 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.

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 Position. 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**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2012

**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 industry. Formal budgetary integration is not completed and, accordingly, the budget is not presented in the financial statements. The Commission follows these procedures in establishing the annual budget:

- 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 industry after each annual audit.

5. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance.

a. Cash and Investments

Cash and investments are combined on the statement of net position 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 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.

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.

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Notes to Financial Statements  
December 31, 2012

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

Interest incurred during the construction phase of capital assets of the Commission is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Commission during the current fiscal year was \$198,025. Of this amount, \$102,674 was included as part of the cost of capital assets under construction in connection with wastewater treatment facilities construction project.

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

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

e. Deferred Outflows/Inflows of Resources

The Commission implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2012. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Commission currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Commission currently does not have any items that qualify for reporting in this category.

f. 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, whether or not withheld from the actual debt proceeds received, are reported as nonoperating expenses when issued.

g. Net Position

Net position is classified into the following three components:

- *Net investment in capital assets* - This component of net position consists of 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 "net investment in capital assets". Rather, that portion of the debt is included in the same net position component as the unspent proceeds.



**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2012

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

- *Restricted net position* - This component of net position consists of constraints placed on net position 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 net position* - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

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.

**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 \$2,721,625 on December 31, 2012 as summarized below:

Petty cash and cash on hand	\$ 100
Deposits with financial institutions	2,630,008
Investments	91,517
	\$ 2,721,625

Reconciliation to the financial statements:

Statement of Net Position	
Cash and investments	\$ 304,096
Restricted cash and investments	2,417,529
	\$ 2,721,625

Deposits of the Commission are subject to various risks Presented below is a discussion of the Commission's deposits and investments and the related risks.

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2012

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

Deposits With Financial Institutions

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Commission does not have an additional custodial credit 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 interest-bearing demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 for all time accounts, savings accounts and interest-bearing demand deposit accounts 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. As of January 1, 2013 the Commission's noninterest-bearing transaction accounts are combined with its interest-bearing demand deposits for FDIC insurance coverage. 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, 2012, none of the Commission's deposits with financial institutions were in excess of federal and state depository insurance limits. No amounts were collateralized.

Investment in Wisconsin Local Government Investment Pool

The Commission has investments in the Wisconsin local government investment pool of \$91,517 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, 2012, 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.

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2012

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

2. Restricted Assets

Restricted assets of the Commission on December 31, 2012 totaled \$2,455,274 held for the following purposes:

Fund	Amount	Purpose
Bond Depreciation Fund	\$ 778,476	To be used for additions to and betterments of the sewerage treatment plant
Bond Principal and Interest Redemption Fund	256,724	To be used for subsequent year payments of principal and interest on revenue bonds.
Plant Upgrade Fund	268,893	Unused debt proceeds for the current plant upgrade project.
Bond Reserve Fund	508,768	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	642,413	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>\$ 2,455,274</u>	

3. Menasha Utilities Refund

Menasha Utilities discovered an electric meter multiplier error used to calculate the Commission's monthly electricity costs resulting in an overpayment of \$1,799,139. Menasha Utilities is refunding this overpayment, plus interest, over 24 months at a rate of \$75,042 per month. At December 31, 2012, the Commission is owed \$1,050,679, with \$900,599 due in 2013 and \$150,080 due in 2014.

In prior years, the Commission's electricity costs were allocated to Commission users based on each user's plant loadings. The Commission has determined each user's share of the overpayment and refunds the monthly payment received from Menasha Utilities to each user when received.

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2012

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

4. Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 63,539	\$ -	\$ -	\$ 63,539
Construction in Progress	1,174,461	2,786,385	-	3,960,846
Total capital assets, not being depreciated	<u>1,238,000</u>	<u>2,786,385</u>	<u>-</u>	<u>4,024,385</u>
Capital assets, being depreciated:				
Land improvements	156,114	-	-	156,114
Buildings	16,526,987	-	9,002	16,517,985
Improvements other than buildings	4,007,452	-	-	4,007,452
Machinery and equipment	14,065,948	136,436	412,698	13,789,686
Subtotals	<u>34,756,501</u>	<u>136,436</u>	<u>421,700</u>	<u>34,471,237</u>
Less accumulated depreciation for:				
Land improvements	78,057	7,806	-	85,863
Buildings	14,256,218	251,726	9,002	14,498,942
Improvements other than buildings	1,145,631	40,075	-	1,185,706
Machinery and equipment	11,180,455	319,226	258,126	11,241,555
Subtotals	<u>26,660,361</u>	<u>618,833</u>	<u>267,128</u>	<u>27,012,066</u>
Total capital assets, being depreciated, net	<u>8,096,140</u>	<u>(482,397)</u>	<u>154,572</u>	<u>7,459,171</u>
Capital assets, net	<u>\$ 9,334,140</u>	<u>\$ 2,303,988</u>	<u>\$ 154,572</u>	<u>\$ 11,483,556</u>
Less related long-term debt outstanding (net of available bond proceeds of \$625,816)				<u>4,967,163</u>
Net investment in capital assets				<u>\$ 6,516,393</u>

Construction Commitments

The Commission has entered into construction commitments totaling \$16,453,239, excluding engineering contracts, related to the plant upgrade construction project. As of December 31, 2012, the Commission has incurred costs of \$1,955,109 with \$14,498,130 due in future years. The project is being funded by debt issued through the Clean Water Fund Program.

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Notes to Financial Statements  
December 31, 2012

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

**5. Long-term Liabilities**

The following is a summary of long-term liability transactions of the Commission for the year ended December 31, 2012:

	Outstanding 1/1/12	Issued	Retired	Outstanding 12/31/11	Due Within One Year
Revenue bonds	\$ 2,785,000	\$ -	\$ 1,395,000	\$ 1,390,000	\$ 685,000
Revenue bond anticipation notes	2,250,704	6,452,275	4,500,000	4,202,979	4,202,979
	<u>\$ 5,035,704</u>	<u>\$ 6,452,275</u>	<u>\$ 5,895,000</u>	<u>\$ 5,592,979</u>	<u>\$ 4,887,979</u>

Revenue bonds outstanding at December 31, 2012 consist of the following:

\$5,025,000 issued 9/1/03; \$685,000 to \$705,000 due annually through 2015; interest 3.4% to 4.0% \$ 1,390,000

Revenue bonds anticipation notes outstanding at December 31, 2012 consist of the following:

\$10,000,000 issued 11/30/12; notes due on 12/1/13; interest 2.5%;  
\$4,202,979 drawn as of 12/31/12 \$ 4,202,979

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

Year Ended December 31	Revenue Bonds		Revenue Bond Anticipation Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 685,000	\$ 49,531	\$ 4,202,979	\$ 7,139	\$ 4,887,979	\$ 56,670
2014	705,000	25,556	-	-	705,000	25,556
	<u>\$ 1,390,000</u>	<u>\$ 75,087</u>	<u>\$ 4,202,979</u>	<u>\$ 7,139</u>	<u>\$ 5,592,979</u>	<u>\$ 82,226</u>

**Subsequent Event Clean Water Fund Financing**

The Commission initiated a plant improvements project during 2010 to meet the present and future needs of the Commission's member communities and their residents. The project received Clean Water Fund ("CWF") funding during 2011 from the State of Wisconsin. Accordingly, member communities issued Taxable Sewerage System Revenue Bonds, Series 2013 or Taxable General Obligation Sewerage System Promissory Notes, Series 2013 (collectively, the "Bonds") totaling \$21,440,312. The Bonds are payable over 20 years and bear an interest rate of 2.646%. Principal payments on these Bonds begin in 2014.

The Commission, through contractual agreement, assumes responsibility for administering these Bonds, including loan disbursements and subsequent debt service payments. On February 13, 2013, the Commission received draws totaling \$4,922,228 to retire the revenue bond anticipation notes issued November 30, 2012 and finance additional project expenditures. Based on the February 13, 2013 draws, annual debt service payments will be approximately \$330,000; however, additional loan disbursements are expected during 2013. The Commission has considered the Bonds in developing their 2013 budget.

**Current Refunding**

The Commission retired the 2015 maturity of the \$5,025,000 Sewerage System Revenue Bonds dated 9/1/03 using available cash on hand. The refunding was designed to restructure the Commission's future debt service maturities reducing future interest payments of the Commission by \$82,125.

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Notes to Financial Statements

December 31, 2012

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

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 \$1,465,087. Principal and interest paid for the current year and total customer net revenues were \$1,494,516 and \$1,547,835, 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.

2. Contingent Liabilities

The Commission has identified the following item as a 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, the 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. From February 21, 2012 to February 29, 2012, the Court conducted a trial related to arranger liability, potential insurance offsets to certain counterclaims of defendants (not the Commission), and Fox River Group costs incurred by some defendants (not the Commission). On July 3, 2012, the Court issued a Decision and Order on all issues. Shortly thereafter, the Commission stipulated to the dismissal of its state law counterclaims against NCR, which allowed the Court to order judgment entered in the Commission's favor in the amount of \$37,042.

On October 4, 2012, the Court granted Appleton Paper, Inc.'s motion for summary judgment dismissing all CERCLA counterclaims against it based on the Court's ruling in a related case (see the United States case below) that Appleton Paper, Inc. is not liable under CERCLA. The Court also dismissed all state law counterclaims against the Plaintiffs (finding them pre-empted by CERCLA) and allowed Appleton Paper, Inc. to file an Eighth Amended Complaint against NCR alleging subrogation should the Court's ruling on contribution responsibility be overturned. The Commission timely answered Appleton Paper, Inc.'s Eighth

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2012

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

Amended Complaint, although the allegations contained therein do not directly implicate the Commission. The Court ordered the parties to file a proposed final judgment, which they did. The Court then decided to wait to enter judgment until it issues its Decision in the United States case, as some of the issues decided therein might have an impact on decisions made in the Whiting case.

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. On April 10, 2012, the Court dismissed the CERCLA claims against Appleton Paper, Inc. On March 19, 2012, before CERCLA claims against Appleton Paper, Inc. were dismissed, the United States filed another motion for a preliminary injunction to compel NCR and APT to perform the remediation work required under the UAO. The Court granted the motion as to NCR on April 27, 2012 (CERCLA claims against APT having been dismissed). NCR appealed the decision. Both the Court and the Seventh Circuit denied NCR's requests to stay the remediation pending appeal. The Seventh Circuit upheld the Court's decision to compel NCR to perform the work.

On May 4, 2012, the Court entered a scheduling order setting forth deadlines for witness disclosures, motions, and discovery, and setting a trial date in the United States case of December 3, 2012 on the United States and State of Wisconsin's UAO claim. The parties commenced discovery, including written requests and numerous depositions, and an 11 day trial was held in Milwaukee December 3-19, 2012. Because the trial did not involve the Commission's liability or rights, the Commission stipulated that it would not object to any evidence presented at trial, but that evidence and arguments presented would not have a preclusive effect against it in any future proceeding. The Commission monitored the trial, but did not participate. The parties presently are conducting post-trial briefing.

Beginning in October 2011, the parties of the Whiting and the United States cases, including the Commission, have participated in mediation before United States Magistrate Judge Aaron Goodstein in an attempt to resolve both cases. The parties have not reached a resolution, but negotiations continue.

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. Four 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.

**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
Notes to Financial Statements  
December 31, 2012

**NOTE C - OTHER INFORMATION**

3. Cumulative Effect of Change in Accounting Principle  
The Commission has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which requires debt issuance costs to be expensed in the period incurred, rather than recorded as assets and amortized over the life of the related debt issue. Financial statements for the year ended December 31, 2011 have not been restated. The cumulative effect of this change was to decrease the December 31, 2012 net position of the Commission by \$4,862.



## **SUPPLEMENTARY INFORMATION**

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Schedule of Operation and Maintenance Expenses - Budget and Actual  
For the Year Ended December 31, 2012  
With Comparative Actual Amounts for the Year Ended December 31, 2011

	Budget	2012 Actual	Variance Positive (Negative)	2011 Actual
Operation				
Salaries and wages	\$ 5,400	\$ 5,479	\$ (79)	\$ 2,551
Employee benefits	811	874	(63)	685
Professional fees and contracted services	1,653,000	1,773,114	(120,114)	1,638,751
Power	1,012,700	735,641	277,059	1,028,719
Gas	85,000	52,150	32,850	66,765
Stormwater charges	5,400	5,228	172	5,227
Water	37,500	28,800	8,700	41,364
Telephone	1,400	1,615	(215)	1,437
Chemicals				
Polymer	61,250	60,720	530	69,894
Sodium bisulfate	43,350	41,908	1,442	44,010
Chlorine	2,500	14,966	(12,466)	7,887
Salt	46,800	34,280	12,520	54,211
Aluminum sulfate	127,200	77,999	49,201	121,994
Iron sponge	3,000	-	3,000	3,510
Carbon	10,000	-	10,000	1,740
Sludge disposal	348,050	403,858	(55,808)	280,844
Industrial metering and sampling	9,000	5,780	3,220	7,248
Lab supplies	25,600	19,395	6,205	21,071
Other operating supplies	39,600	16,164	23,436	15,293
Transportation	8,000	6,728	1,272	6,694
Administration	65,450	69,091	(3,641)	59,155
Office supplies	11,750	13,436	(1,686)	13,648
General insurance	75,110	72,214	2,896	67,257
Total Operation	<u>3,677,871</u>	<u>3,439,440</u>	<u>238,431</u>	<u>3,559,955</u>
Maintenance				
Equipment	73,000	82,306	(9,306)	67,891
General plant	43,000	33,109	9,891	46,998
Cleaning supplies	6,700	4,016	2,684	4,695
Total Maintenance	<u>122,700</u>	<u>119,431</u>	<u>3,269</u>	<u>119,584</u>
Total Operation and Maintenance Expenses	<u>\$ 3,800,571</u>	<u>\$ 3,558,871</u>	<u>\$ 241,700</u>	<u>\$ 3,679,539</u>

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Calculation of Payable (Receivable) From Users for 2012 Operations  
December 31, 2012

	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						

\$ 4,084,519	\$ 1,722,092	\$ 849,292	\$ 38,779	\$ 520,046	\$ 123,217	\$ 831,093
--------------	--------------	------------	-----------	------------	------------	------------

100.00%	42.4246%	20.9330%	0.9505%	12.8059%	3.0251%	19.8609%
---------	----------	----------	---------	----------	---------	----------

Revenues received during year for 2012 operation and maintenance

Percentage of net expenses allocated for 2012

Actual operation and maintenance expenses  
Deposit to replacement fund  
Deposit to O/M cash surplus

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

Net Expenditures Allocated for 2012\*

Payable (Receivable) From Users - December 31

\$ 3,558,871	57,378	3,700,304	1,569,839	774,584	35,171	473,857	111,938	734,915
302,401	4,400							
2,000	6,024							
	82,205							
	6,750							
	5,100							
	58							
	1,053							
		3,700,304	1,569,839	774,584	35,171	473,857	111,938	734,915
		\$ 384,215	\$ 152,253	\$ 74,708	\$ 3,608	\$ 46,189	\$ 11,279	\$ 96,178

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 replacement fund  
Net 2012 Allocated Expenses

\$ 3,397,903
302,401
<u>\$ 3,700,304</u>

**NEENAH-MENASHA SEWERAGE COMMISSION  
MENASHA, WISCONSIN**

Information Required by Sewer Revenue Bonds  
December 31, 2012

Insurance Coverage		
Expiration Date	Type of Coverage	Amount of Coverage
1/1/2013	Worker's compensation	Statutory Benefits
1/1/2013	Public officials and employee liability	\$1,000,000
1/1/2013	Automobile	\$1,000,000
1/1/2013	Boiler and machinery	Included in property limits
1/1/2013	Umbrella liability	\$2,000,000
1/1/2013	Property	\$56,948,397 valued at replacement cost of treatment plant (100% coinsurance)
1/1/2013	General liability	\$2,000,000
1/1/2013	Commercial crime/faithful performance	Employee \$100,000 per employee Other \$10,000
1/1/2013	Inland marine	\$55,000 (100% coinsurance)
1/1/2013	Professional Errors/Omissions	\$2,000,000
1/1/2013	Electronic Data	\$50,000 Equipment \$50,000 Media/Data

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

	2012	2011
Gross revenues	\$ 5,409,107	\$ 4,971,084
Operation and maintenance expenses	3,558,871	3,679,539
Net Revenues	<u>\$ 1,850,236</u>	<u>\$ 1,291,545</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  
Menasha, Wisconsin

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Neenah-Menasha Sewerage Commission, Menasha, Wisconsin, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Neenah-Menasha Sewerage Commission's basic financial statements, and have issued our report thereon which included an emphasis of matter paragraph as indicated on page 2 dated March 9, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Neenah-Menasha Sewerage Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Neenah-Menasha Sewerage Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Neenah-Menasha Sewerage Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, 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 Neenah-Menasha Sewerage Commission's 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 2012-01 to be a material weakness.



## **Compliance and Other Matters**

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

## **Neenah-Menasha Sewerage Commission's Response to Findings**

Neenah-Menasha Sewerage Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Neenah-Menasha Sewerage Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Neenah-Menasha Sewerage Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Neenah-Menasha Sewerage Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants  
Green Bay, Wisconsin  
March 9, 2013

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN  
MENASHA, WISCONSIN**

Schedule of Findings and Responses  
For the Year Ended December 31, 2012

**Section I - Internal Control Over Financial Reporting**

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

**2012-01      Segregation of Duties**

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

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

**Cause:** The lack of segregation of duties is due to the size of Commission's operations.

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

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

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

**Section II - Compliance and Other Matters**

There are no findings related to compliance and other matters that are required to be reported under governmental auditing standards generally accepted in the United States of America for the year ended December 31, 2012.



**MANAGEMENT COMMUNICATIONS**  
**NEENAH-MENASHA SEWERAGE COMMISSION**  
**MENASHA, WISCONSIN**  
**DECEMBER 31, 2012**

**NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN**  
December 31, 2012

**TABLE OF CONTENTS**

	<u>Page No.</u>
COMMUNICATION TO THE COMMISSIONERS	1 - 8
SUMMARY FINANCIAL INFORMATION Comparative Summary of Operating Results	9 - 10



To the Commissioners  
Neenah-Menasha Sewerage Commission  
Menasha, Wisconsin

We have completed our audit of the financial statements of the Neenah-Menasha Sewerage Commission (the "Commission") for the year ended December 31, 2012. The Commission's financial statements, including our report thereon dated March 9, 2012, 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, 2012, 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 24 - 25 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 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 2012-01 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. Neenah-Menasha Sewerage Commission implemented GASB Statement No. 63, *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for year-end December 31, 2012. 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. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates included in the financial statements were:

#### Depreciable Life of Capital Assets

Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.

#### Environmental Remediation Liability

The Commission has disclosed a contingent liability related to the Fox River Cleanup project. Management and the Commission's legal counsel have not been able to estimate a liability, if any, which exists at year end; therefore, no amounts have been recorded by the Commission. The contingent liability is discussed on pages 18 and 19 of the Commission's annual report.

#### *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 auditors' 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 March 9, 2013.

### *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.

This communication, which does not affect our report dated March 9, 2013 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  
March 9, 2013



March 9, 2013

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

This representation letter is provided in connection with your audit of the financial statements of the Neenah Menasha Sewerage Commission as of December 31, 2012, and the results of its operations and cash flows for the year then ended, and the related notes to the financial statements for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. 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 March 9, 2013, the following representations made to you during your audit.

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 6, 2013.
2. 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 properly classified funds and other financial information of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

7. Except as disclosed in Note C.3 to the financial statements, all events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America requires adjustment or disclosure have been adjusted or disclosed. 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.
8. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the Commission's accounts.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
10. Guarantees, whether written or oral, under which the Commission is contingently liable, if any, have been properly recorded or disclosed.

**Information Provided**

11. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the Commission or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
13. We have made an assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed the results of our assessment as follows:
  - a. We have no knowledge of any fraud or suspected fraud that affects the Commission and involves:
    1. Management,
    2. Employees who have significant roles in internal control, or
    3. Others where the fraud could have a material effect on the financial statements.
  - b. We have no knowledge of any allegations of fraud or suspected fraud affecting the Commission's financial statements communicated by employees, former employees, regulators, or others.
14. We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

15. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
16. We have disclosed to you the identity of the Commission's related parties and all the related party relationships and transactions of which we are aware.

**Government - specific**

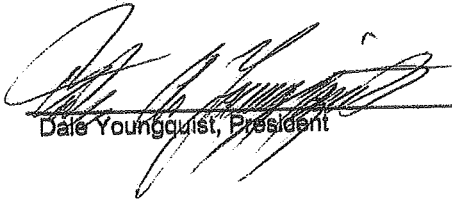
17. We have made available to you all financial records and related data.
18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. We have a process to track the status of audit findings and recommendations.
20. 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.
21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
22. The Commission has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. 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.
24. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
25. 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.
26. In regards to the reconciliation services performed by you, we have –
  - a. Made all management decisions and performed all management functions.
  - b. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
  - c. Evaluated the adequacy and results of the services performed
  - d. Accepted responsibility for the results of the services.
27. 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.



28. The Commission has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
29. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
30. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
31. Components of net position (net investment in capital assets, restricted, and unrestricted) are properly classified and, if applicable, approved.
32. Provisions for uncollectible receivables have been properly identified and recorded.
33. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
34. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
35. We have appropriately disclosed the Commission's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.
36. 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.
37. We acknowledge our responsibility for presenting the supporting schedules (the supplementary information) in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
38. The fact that the amount of "uncollateralized" deposits or "uninsured, unregistered securities held by the counterparty, or by its trust department or agent but not in the Commission's name" during the period significantly exceeded the amounts in those categories as of the balance sheet was properly disclosed in the financial statements.
39. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
40. 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.

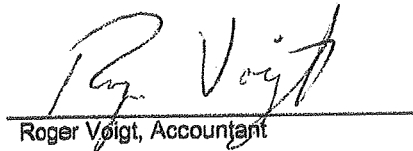
41. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
42. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
43. Expenditures of federal awards were below the \$500,000 threshold in the year ended December 31, 2012, and we were not required to have an audit in accordance with *OMB Circular A-133*.
44. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. 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:



Dale Youngquist, 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, 2012 with a comparative summary for the year ended December 31, 2011:

	Operation and Maintenance	Depreciation Fund	Replacement Fund	Capital	Totals	
					2012	2011
<b>Resources Provided</b>						
Charges to municipalities and industries	\$ 3,397,903	\$ -	\$ 302,401	\$ 1,546,888	\$ 5,247,192	\$ 4,768,444
Other charges	161,915	-	-	-	161,915	202,640
Interest income	1,053	2,574	1,727	16,091	21,445	18,116
Debt proceeds	-	-	-	6,452,275	6,452,275	2,250,704
<b>Total Resources Provided</b>	<b>3,560,871</b>	<b>2,574</b>	<b>304,128</b>	<b>8,015,254</b>	<b>11,882,827</b>	<b>7,239,904</b>
<b>Resources Extended</b>						
Operating expenses	3,558,871	9,354	72,541	-	3,640,766	3,723,347
Principal paid on long-term debt	-	110,000	-	5,785,000	5,895,000	640,000
Interest on long-term debt	-	-	-	198,025	198,025	122,983
Loss (gain) on disposal of capital assets	-	-	-	140,217	140,217	916
Acquisition and construction of capital assets	-	3,849	132,587	2,683,711	2,820,147	1,088,632
<b>Total Resources Expended</b>	<b>3,558,871</b>	<b>123,203</b>	<b>205,128</b>	<b>8,806,953</b>	<b>12,694,155</b>	<b>5,575,878</b>
<b>Noncash transactions</b>						
Amortization of deferred debits	-	-	-	(4,862)	(4,862)	(1,241)
<b>Change in Available Resources</b>	<b>\$ 2,000</b>	<b>\$ (120,629)</b>	<b>\$ 99,000</b>	<b>\$ (796,561)</b>	<b>\$ (816,190)</b>	<b>\$ 1,662,785</b>

Additional comments and observations concerning the above operating results follow:

a) **Operation and Maintenance**

Actual operation and maintenance expenses totaled \$3,558,871 for 2012 while the Commission budgeted operation and maintenance expenses of \$3,800,571. A budget to actual comparison of the Commission's operation and maintenance expenses is located on page 21 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, 2012, the Commission used depreciation fund resources of \$3,849 to acquire capital assets, \$110,000 for debt defeasance and \$9,354 to pay for maintenance costs. At December 31, 2012, the Commission had available resources of \$778,476 in the depreciation fund which consisted of cash and investments.

## 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, 2012, the Commission used replacement fund resources of \$132,587 to acquire capital assets and \$72,541 to pay for maintenance costs. At December 31, 2012, the Commission had available resources of \$642,413 in the replacement fund which consisted of cash and investments totaling \$636,898 and accounts receivable of \$5,515.

#### 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, 2012, the Commission is in compliance with all revenue bond covenants.