

MANAGEMENT COMMUNICATIONS
NEENAH-MENASHA SEWERAGE COMMISSION
MENASHA, WISCONSIN
DECEMBER 31, 2014



Schenck
SC
CPAs AND SO MUCH MORE.

NEENAH-MENASHA SEWERAGE COMMISSION
MENASHA, WISCONSIN
December 31, 2014

TABLE OF CONTENTS

	<u>Page No.</u>
COMMUNICATION TO THE COMMISSIONERS	1 - 3
SUMMARY FINANCIAL INFORMATION Comparative Summary of Operating Results	4 - 5
APPENDIX Management Representation Letter	



To the Commissioners
Neenah-Menasha Sewerage Commission
Menasha, Wisconsin

We have audited the financial statements of the Neenah-Menasha Sewerage Commission (the "Commission") for the year ended December 31, 2014. The Commission's financial statements, including our report thereon dated April 16, 2015, 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 express an opinion about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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 opinion 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. 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, 2014, 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 auditing 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 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 over financial reporting and on compliance and other matters 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 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 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 Commission's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in internal control to be a material weakness:

Finding 2014-001 Segregation of Duties

This finding is described in detail in the schedule of findings on page 26 of 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 2014. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. To the best of our knowledge, all significant transactions have been recognized in the financial statements in the proper period.

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:

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.

The Commission's share of the settlement related to the Fox River PCB remediation project agreed to by the settling defendants will be approved of by the Court following a period of public comment and the primary and excess insurance carriers and the Cities of Neenah and Menasha will pay the Commission's portion of the settlement, which equals \$5,420,000. The settlement is discussed on pages 19 - 21 of the Commission's annual financial report.

The financial statement disclosures are neutral, consistent, and clear.

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 clearly trivial, and communicate them to the appropriate level of management. The financial statements reflect all accounting adjustments proposed during our audit. The adjustments included various end of year payable, receivable and reclassification entries. These entries are considered routine in nature and normally do not vary significantly from year to year. Copies of the audit adjustments are available from management.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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. 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 16, 2015. The management representation letter follows this communication.

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 auditors' 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 retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and, to the best of our knowledge, our responses were not a condition to our retention.

We applied certain limited procedures to the management's discussion and analysis which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding 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 did not audit the RSI and do not express an opinion or provide an assurance of the RSI.

We were engaged to report on the schedule of operation and maintenance expenses and the calculation of payable (receivable) from users, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquires of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of Commission Council, 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 16, 2015

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, 2014 with a comparative summary for the year ended December 31, 2013:

	Operation and Maintenance	Depreciation Fund	Replacement Fund	Capital	Totals	
					2014	2013
Resources Provided						
Charges to municipalities and industries	\$ 3,085,516	\$ -	\$ 777,999	\$ 1,415,642	\$ 5,279,157	\$ 5,174,614
Other charges	155,208	-	-	-	155,208	136,716
Capital contributions	-	-	-	-	-	465,245
Interest income	1,093	2,137	4,294	2,084	9,608	12,493
Debt proceeds	-	-	-	2,551,468	2,551,468	18,424,595
Total Resources Provided	3,241,817	2,137	782,293	3,969,194	7,995,441	24,213,663
Resources Extended						
Operating expenses	3,239,817	91,373	-	-	3,331,190	3,346,933
Principal paid on long-term debt	-	-	-	809,594	809,594	5,592,979
Interest on long-term debt	-	-	-	433,453	433,453	394,548
Proceeds from disposal of capital assets	-	-	-	822	822	618
Acquisition and construction of capital assets	-	-	8,174	1,830,330	1,838,504	14,832,054
Total Resources Expended	3,239,817	91,373	8,174	3,074,199	6,413,563	24,167,132
Change in Available Resources	\$ 2,000	\$ (89,236)	\$ 774,119	\$ 894,995	\$ 1,581,878	\$ 46,531

Additional comments and observations concerning the above operating results follow:

a) **Operation and Maintenance**

Actual operation and maintenance expenses totaled \$3,239,817 for 2014 while the Commission budgeted operation and maintenance expenses of \$3,397,410. A budget to actual comparison of the Commission's operation and maintenance expenses is located on page 22 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, 2014, the Commission used depreciation fund resources of \$91,373 to pay for maintenance costs.

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, 2014, the Commission used replacement fund resources of \$8,174 to acquire capital assets.

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, 2014, the Commission is in compliance with all revenue bond covenants.

APPENDIX



NEENAH-MENASHA SEWERAGE COMMISSION

101 Garfield Avenue • Menasha, Wisconsin 54952-3397

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

April 16, 2015

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, ("the Commission") as of December 31, 2014, and the changes in the financial position and cash flows for the year then ended, and the related notes to the financial statements for the purpose of expressing an opinion 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 (U.S. GAAP).

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 April 16, 2015, 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 January 20, 2015, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
3. In regards to accounting estimates:
 - The measurement processes used by management in determining accounting estimates is appropriate and consistent.
 - The assumptions appropriately reflect management's intent and ability to carry out specific courses of action.
 - The disclosures related to accounting estimates are complete and appropriate.

- No subsequent event has occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements.
- 4. 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.
- 5. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 6. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 7. 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 U.S. GAAP.
- 8. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 9. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the Commission's accounts.
- 10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 11. Guarantees, whether written or oral, under which the Commission is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 12. 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 Commission 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.
- 13. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 14. We 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 entity and involves:
 - i. Management,

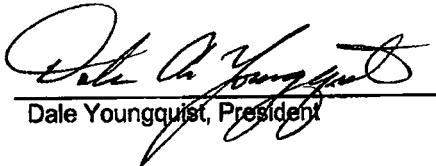
- ii. Employees who have significant roles in internal control, or
 - iii. Others where the fraud could have a material effect on the financial statements.
- b. We have no knowledge of any allegations of fraud or suspected fraud affecting the Commission's financial statements communicated by employees, former employees, regulators, or others.
15. We have no knowledge of 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.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. 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

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, deferred inflows/outflows of resources, 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 legal and contractual provisions for reporting specific activities.
24. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
25. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
26. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

27. 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.
28. As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
29. 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.
30. 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.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. 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.
33. Components of net position (net investment in capital assets, restricted, and unrestricted) are properly classified and, if applicable, approved.
34. Provisions for uncollectible receivables have been properly identified and recorded.
35. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
36. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
37. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
38. 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 is available and have determined that net position is properly recognized under the policy.
39. 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.

40. 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.
41. 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.
42. 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.
43. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been reduced to their estimated net realizable value.
44. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
45. 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

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

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2014



Schenck^{SC}

CPAs AND SO MUCH MORE.

NEENAH-MENASHA SEWERAGE COMMISSION
MENASHA, WISCONSIN
December 31, 2014

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 7
FINANCIAL STATEMENTS	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11 - 21
SUPPLEMENTARY INFORMATION	
Schedule of Operation and Maintenance Expenses - Budget and Actual	22
Calculation of Payable (Receivable) From Users for 2014 Operations	23
ADDITIONAL INDEPENDENT AUDITORS' REPORT FOR FINANCIAL STATEMENTS	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	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, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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 auditors consider internal control relevant to Neenah-Menasha Sewerage 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 Neenah-Menasha Sewerage 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 Neenah-Menasha Sewerage Commission as of December 31, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As described in Note C.2, Neenah-Menasha Sewerage Commission entered into a settlement 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. The Neenah-Menasha Sewerage Commission's share of the settlement will be covered by the Neenah-Menasha Sewerage Commission's primary and excess insurance carriers and the Cities of Neenah and Menasha. Our opinion is not modified with respect to this matter

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 4 - 7 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 opinions 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.

Report on Summarized Financial Information

We have previously audited the Neenah-Menasha Sewerage Commission's 2013 financial statements, and our report dated April 30, 2014, expressed an unmodified opinion on those respective financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2015, on our consideration of the City'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.

Schenck SC

Certified Public Accountants
Green Bay, Wisconsin
April 16, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEENAH-MENASHA SEWERAGE COMMISSION, WISCONSIN
Management's Discussion and Analysis
December 31, 2014

As management of the Neenah-Menasha Sewerage Commission, Menasha, 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, 2014.

Financial Highlights

- The assets of the Commission exceeded its liabilities as of December 31, 2014 by \$10,271,171 (*net position*).
- The Commission's total net position increased by \$1,149,847. 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 2014.
 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.
 3. Commission users also contribute to equipment replacement and depreciation funds for replacement or significant repairs to existing equipment.
- The Commission's total long-term debt increased by \$1,741,873 during 2014 as the Commission's wastewater treatment facilities modification project continued during 2014.

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 \$10,271,171 at the close of 2014.

Neenah-Menasha Sewerage Commission, Wisconsin's Net Position		
	2014	2013
Current and other assets	\$ 194,048	\$ 898,178
Restricted assets	3,382,677	2,624,188
Capital assets	27,351,552	25,968,853
Total assets	<u>30,928,277</u>	<u>29,491,219</u>
Long-term liabilities outstanding	20,046,165	18,474,563
Other liabilities	610,941	1,895,332
Total liabilities	<u>20,657,106</u>	<u>20,369,895</u>
Net position		
Net investment in capital assets	7,060,616	6,762,548
Restricted	3,253,282	2,405,467
Unrestricted	(42,727)	(46,691)
Total net position	<u>\$ 10,271,171</u>	<u>\$ 9,121,324</u>

By far the largest portion of the Commission's net position (69%) 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 (31%) 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 \$1,149,847. Key elements of this increase are as follows:

Neenah-Menasha Sewerage Commission, Wisconsin's Change in Net Position		
	2014	2013
Operating Revenues		
User charges		
Measured service	\$ 3,085,516	\$ 3,131,893
Capital charges	1,415,642	1,740,323
Replacement fund charges	777,999	302,398
Other charges	155,208	136,716
Total Operating Revenues	<u>5,434,365</u>	<u>5,311,330</u>
Operating Expenses		
Operation and maintenance	3,239,817	3,267,913
Depreciation	530,305	507,750
Depreciation fund	91,373	58,619
Replacement fund	-	20,401
Total Operating Expenses	<u>3,861,495</u>	<u>3,854,683</u>
Operating Income	1,572,870	1,456,647
Nonoperating Revenues (Expenses)	<u>(423,023)</u>	<u>(1,003,228)</u>
Net income	1,149,847	453,419
Capital contributions	-	415,277
Change in net position	<u>1,149,847</u>	<u>868,696</u>
Net position - beginning balance	9,121,324	8,252,628
Net position - ending balance	<u>\$ 10,271,171</u>	<u>\$ 9,121,324</u>

Capital Asset and Debt Administration

Capital assets. The Commission's investment in capital assets as of December 31, 2014 amounts to \$27,351,552 (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 \$1,382,699 or 5.32% over last year was due to current year capital additions in excess of depreciation expense, primarily construction in progress due to wastewater treatment facilities modification project.

Long-term debt. At the end of the current fiscal year, the Commission had total bonded debt outstanding of \$20,166,468.

The Commission's total debt increased by \$1,741,873 during the current fiscal year due to debt proceeds received for plant upgrade improvements.

The Commission has restricted cash of \$1,101,644 in the Principal and Interest Redemption Fund.

Economic Factors and Next Year's Budgets and Rates

The 2015 net operations and maintenance budget increased 0.1%, equipment replacement fund budget remained the same, depreciation fund increased 100%, and the capital budget decreased 3.1%. The overall rates to the users will result in an overall decrease of 1.1%.

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, 2014
With Comparative Totals as of December 31, 2013

	2014	2013
ASSETS		
Current Assets		
Cash and investments	\$ 122,489	\$ 643,666
Receivables		
Accounts	4,878	13,767
Due from users	65,849	64,191
Due from Menasha Utilities	-	149,887
Construction escrow held by Menasha	-	26,667
Prepaid items	832	-
Total Current Assets	<u>194,048</u>	<u>898,178</u>
Restricted and Noncurrent Assets		
Restricted Assets		
Cash and investments	3,331,364	2,583,024
Due from users	51,313	41,164
Total Restricted Assets	<u>3,382,677</u>	<u>2,624,188</u>
Capital Assets		
Non-depreciable	21,420,062	19,515,232
Depreciable	5,931,490	6,453,621
Net Capital Assets	<u>27,351,552</u>	<u>25,968,853</u>
Total Restricted and Noncurrent Assets	<u>30,734,229</u>	<u>28,593,041</u>
TOTAL ASSETS	<u>30,928,277</u>	<u>29,491,219</u>
LIABILITIES		
Current Liabilities		
Refunds due users	99,096	681,731
Refunds due users from Menasha Utilities	-	149,887
Accounts payable	212,179	844,993
Total Current Liabilities	<u>311,275</u>	<u>1,676,611</u>
Liabilities Payable from Restricted Assets		
Accounts payable	40,042	59,119
Current maturities of revenue bonds	718,871	613,496
Current maturities of general obligation notes	170,271	145,312
Accrued interest	89,353	159,602
Total Liabilities Payable from Restricted Assets	<u>1,018,537</u>	<u>977,529</u>
Long-term Liabilities		
Revenue bonds, less current maturities	15,585,718	14,282,789
General obligation notes, less current maturities	3,691,608	3,382,998
Town of Neenah construction deposit	49,968	49,968
Total Long-term Liabilities	<u>19,327,294</u>	<u>17,715,755</u>
TOTAL LIABILITIES	<u>20,657,106</u>	<u>20,369,895</u>
NET POSITION		
Net investment in capital assets	7,060,616	6,762,548
Restricted for		
Plant replacement	2,240,991	1,567,130
Debt service	1,012,291	838,337
Unrestricted	(42,727)	(46,691)
TOTAL NET POSITION	<u>\$ 10,271,171</u>	<u>\$ 9,121,324</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, 2014
With Comparative Totals for the Year Ended December 31, 2013

	2014	2013
Operating Revenues		
User Charges		
Measured service	\$ 3,085,516	\$ 3,131,893
Capital charges	1,415,642	1,740,323
Replacement fund charges	777,999	302,398
Other charges	155,208	136,716
Total Operating Revenues	<u>5,434,365</u>	<u>5,311,330</u>
Operating Expenses		
Operation and maintenance	3,239,817	3,267,913
Depreciation	530,305	507,750
Depreciation fund	91,373	58,619
Replacement fund	-	20,401
Total Operating Expenses	<u>3,861,495</u>	<u>3,854,683</u>
Operating Income	<u>1,572,870</u>	<u>1,456,647</u>
Nonoperating Revenues (Expenses)		
Interest income	9,608	12,493
Gain (loss) on disposal of assets	822	(621,173)
Interest expense	(433,453)	(394,548)
Total Nonoperating Revenues (Expenses)	<u>(423,023)</u>	<u>(1,003,228)</u>
Net Income	1,149,847	453,419
Capital contributions	-	415,277
Change in Net Position	1,149,847	868,696
Net Position - January 1	<u>9,121,324</u>	<u>8,252,628</u>
Net Position - December 31	<u>\$ 10,271,171</u>	<u>\$ 9,121,324</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, 2014
With Comparative Totals for the Year Ended December 31, 2013

	2014	2013
Cash Flows from Operating Activities		
Cash received from user charges	\$ 4,848,812	\$ 5,625,701
Cash payments to suppliers	(4,021,819)	(3,354,042)
Cash payments to employees	(9,927)	(5,436)
Net Cash Provided by Operating Activities	<u>817,066</u>	<u>2,266,223</u>
Cash Flows from Capital and Related Financing Activities		
Capital contributions	-	465,245
Acquisition of capital assets	(1,838,504)	(14,832,054)
Proceeds from sale of capital assets	822	618
Proceeds from issuance of debt	2,551,467	18,424,595
Principal payments on long-term debt	(809,594)	(5,592,979)
Interest payments on long-term debt	(503,702)	(239,076)
Net Cash Used by Capital and Related Financing Activities	<u>(599,511)</u>	<u>(1,773,651)</u>
Cash Flows from Investing Activities		
Interest received	9,608	12,493
Change in Cash and Cash Equivalents	227,163	505,065
Cash and Cash Equivalents - January 1	<u>3,226,690</u>	<u>2,721,625</u>
Cash and Cash Equivalents - December 31	<u>\$ 3,453,853</u>	<u>\$ 3,226,690</u>
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and investments	\$ 122,489	\$ 643,666
Restricted cash and investments	3,331,364	2,583,024
Total cash and cash equivalents	<u>\$ 3,453,853</u>	<u>\$ 3,226,690</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating income	\$ 1,572,870	\$ 1,456,647
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	530,305	507,750
Changes in current assets and liabilities		
Accounts receivable	8,889	18,621
Due from users	(11,807)	(1,766)
Due from Menasha Utilities	149,887	900,792
Construction escrow held by Menasha	26,667	2,950
Prepaid items	(832)	889
Refunds due users	(582,635)	297,516
Refunds due users from Menasha Utilities	(149,887)	(900,792)
Accounts payable	(651,891)	766,400
Less: Accounts payable related to capital acquisitions	(74,500)	(782,784)
Net Cash Provided by Operating Activities	<u>\$ 817,066</u>	<u>\$ 2,266,223</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, 2014

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. 2, Town of Menasha Utility District, Waverly Sanitary District of the Town of Harrison, 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 No. 2, the President of the Town of Menasha Utility District, and the President of the Town of Harrison Waverly Sanitary District each appoint one member, with such appointment being confirmed by the governing bodies of those respective municipalities.

In accordance with GAAP, the financial statements are required to include the Commission and any separate component units that have a significant operational or financial relationship with the Commission. The Commission has not identified any component units that are required to be included in the financial statements in accordance with standards established in GASB Statement No. 61.

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, 2014

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.

4. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

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 \$5,000 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, 2014

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

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

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

e. Deferred Outflows/Inflows of Resources

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 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* - Amount of capital assets, net of accumulated depreciation, and capital related deferred outflows of resources less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and any capital related deferred inflows of resources.
- *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".

NEENAH-MENASHA SEWERAGE COMMISSION

MENASHA, WISCONSIN

Notes to Financial Statements

December 31, 2014

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

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 \$3,453,853 on December 31, 2014 as summarized below:

Petty cash and cash on hand	\$	100
Deposits with financial institutions		3,362,067
Investments		91,686
	\$	<u>3,453,853</u>

Reconciliation to the financial statements:

Statement of Net Position		
Cash and investments	\$	122,489
Restricted cash and investments		3,331,364
	\$	<u>3,453,853</u>

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, 2014

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 the combined amount of all time and savings deposits and \$250,000 for interest-bearing and noninterest-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 the combined amount of all 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. 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, 2014, 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 \$91,686 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, 2014, 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, 2014

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

2. Restricted Assets

Restricted assets of the Commission on December 31, 2014 totaled \$3,382,677, consisting of cash and investments of \$3,331,364 and amounts due from users of \$51,313 held for the following purposes:

Fund	Amount	Purpose
Bond Depreciation Fund	\$ 527,660	To be used for additions to and betterments of the sewerage treatment plant.
Bond Principal and Interest Redemption Fund	1,101,644	To be used for subsequent year payments of principal and interest on long-term debt.
Plant Upgrade Fund	150,761	To be used for plant upgrade project.
DNR Equipment Replacement Fund	1,602,612	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>\$ 3,382,677</u>	

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

Notes to Financial Statements
December 31, 2014

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 63,539	\$ -	\$ -	\$ 63,539
Construction in progress	19,451,692	1,904,831	-	21,356,523
Total capital assets, not being depreciated	19,515,231	1,904,831	-	21,420,062
Capital assets, being depreciated:				
Land improvements	156,114	-	-	156,114
Buildings	16,017,039	-	-	16,017,039
Improvements other than buildings	4,007,452	-	-	4,007,452
Machinery and equipment	8,789,378	8,174	7,100	8,790,452
Subtotals	28,969,983	8,174	7,100	28,971,057
Less accumulated depreciation for:				
Land improvements	93,669	7,806	-	101,475
Buildings	14,314,546	244,843	-	14,559,389
Improvements other than buildings	1,225,781	40,075	-	1,265,856
Machinery and equipment	6,882,366	237,581	7,100	7,112,847
Subtotals	22,516,362	530,305	7,100	23,039,567
Total capital assets, being depreciated, net	6,453,621	(522,131)	-	5,931,490
Capital assets, net	<u>\$ 25,968,852</u>	<u>\$ 1,382,700</u>	<u>\$ -</u>	27,351,552
Less: Related long-term debt outstanding				(20,166,468)
Less: Town of Neenah construction deposit				(49,968)
Less: Accounts payable paid using 2014 debt proceeds				(74,500)
Net investment in capital assets				<u>\$ 7,060,616</u>

Construction Commitments

The Commission's wastewater treatment facilities modification project estimated budget was \$21.8 million. At December 31, 2014, the Commission has entered into contracts including change orders totaling \$22.0 million and has paid \$21.4 million using Clean Water Fund debt proceeds and available resources.

Future anticipated payments total approximately \$634,000 which may vary based on future change orders authorized by the Commission. At December 31, 2014, the Commission has available additional debt proceeds of \$464,248 from the amount authorized by the Clean Water Fund program.

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

Notes to Financial Statements

December 31, 2014

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

4. Long-term Liabilities

The Cities of Neenah and Menasha, Town of Menasha and the Waverly Sanitary District of the Town of Harrison have issued Clean Water Fund bonds, which the Commission, as agent, has the responsibility for administering the proceeds and subsequent debt retirement. Accordingly, the Clean Water Fund bonds are reported as liabilities of the Commission in their annual financial report. The following is a summary of long-term liability transactions of the Commission for the year ended December 31, 2014:

	Outstanding 1/1/14	Issued	Retired	Outstanding 12/31/14	Due Within One Year
Clean Water Fund					
Revenue Bonds	\$ 14,896,285	\$ 2,062,861	\$ 654,557	\$ 16,304,589	\$ 718,871
General Obligation Bonds	3,528,310	488,606	155,037	3,861,879	170,271
	<u>\$ 18,424,595</u>	<u>\$ 2,551,467</u>	<u>\$ 809,594</u>	<u>\$ 20,166,468</u>	<u>\$ 889,142</u>

Total interest paid during the year on long-term debt totaled \$503,702.

Clean Water Fund bonds totals \$20,166,468 as of December 31, 2014, consisting of the following issues:

Revenue Bonds

\$11,193,986 authorized 2/13/2013 by the City of Neenah (52.21%); \$10,951,602 issued as of December 31, 2014; \$464,221 to \$723,667 due annually through 2032; interest 2.646%	\$ 10,528,913
\$6,140,505 authorized 2/13/2013 by the City of Menasha (28.64%); \$6,007,544 issued as of December 31, 2014; \$254,650 to \$396,971 due annually through 2032; interest 2.646%	5,775,676
Total Revenue Bonds	<u>16,304,589</u>

General Obligation Bonds

\$3,288,943 authorized 2/13/2013 by the Town of Menasha (15.34%); \$3,217,728 issued as of December 31, 2014; \$136,395 to \$212,624 due annually through 2032; interest 2.646%	3,093,536
\$816,876 authorized 2/13/2013 by the Waverly Sanitary District (3.81%); \$799,188 issued as of December 31, 2014; \$33,876 to \$52,809 due annually through 2032; interest 2.646%	768,343
Total General Obligation Bonds	<u>3,861,879</u>

Total Clean Water Fund

\$ 20,166,468

Annual principal and interest maturities of the above outstanding Clean Water fund bonds are as follows:

Year Ended December 31	Revenue Bonds		General Obligation Bonds		Total Long-term Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 718,871	\$ 421,471	\$ 170,271	\$ 99,829	\$ 889,142	\$ 521,300
2016	737,892	402,636	174,776	95,368	912,668	498,004
2017	757,417	382,853	179,401	90,682	936,818	473,535
2018	777,458	362,546	184,147	85,872	961,605	448,418
2019	798,030	341,703	189,020	80,935	987,050	422,638
2020-2024	4,318,285	1,376,036	1,022,822	325,926	5,341,107	1,701,962
2025-2029	4,920,639	765,713	1,165,495	181,366	6,086,134	947,079
2030-2032	3,275,997	131,533	775,947	31,155	4,051,944	162,688
	<u>\$ 16,304,589</u>	<u>\$ 4,184,491</u>	<u>\$ 3,861,879</u>	<u>\$ 991,133</u>	<u>\$ 20,166,468</u>	<u>\$ 5,175,624</u>

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

Notes to Financial Statements
December 31, 2014

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

Utility Revenues Pledged

The Commission, by agency agreement with issuing communities, has pledged future revenues to repay the Clean Water Fund 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 2032. The total principal and interest remaining to be paid on the bonds is \$25,342,092. Principal and interest paid for the current year and total customer net revenues were \$1,313,296 and \$2,103,175, 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 prepared Natural Resource Damage Assessments to determine the level of 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. Appleton Paper, Inc. ("API") and NCR commenced CERCLA contribution action for past and future remediation and oversight costs and natural resource damages against thirty-three defendants including the Commission.

The Whiting Case

On December 16, 2009, a U.S. District Court Decision and Order held that API and NCR were not entitled to recover any contribution from the defendants. The Court has denied API 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.

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

Notes to Financial Statements
December 31, 2014

NOTE C - OTHER INFORMATION (Continued)

On October 4, 2012, the Court granted API'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 API is not liable under CERCLA. The Court also dismissed all state law counterclaims against the Plaintiffs (finding them pre-empted by CERCLA) and allowed API to file an Eighth Amended Complaint against NCR alleging subrogation should the Court's ruling on contribution responsibility be overturned. The Commission timely answered API's Eighth Amended Complaint, although the allegations contained therein do not directly implicate the Commission. API moved the Court to reconsider its 2008 decision dismissing its claim for relief under CERCLA § 107 (the Court had held that API's only remedy was the contribution claim under § 113), which the Court denied. The Court entered a final amended judgment on June 27, 2013.

API and NCR appealed the Court's dismissal of their CERCLA § 107 claims and the Court's allocation of 100% of response costs and NRD to NCR. The defendants, including the Commission, cross-appealed the Court's decision that NCR was not liable as an arranger for costs and NRD in OU1. As discussed below, the Seventh Circuit reversed dismissal of API's § 107 claim, vacated the 100% allocation to NCR, and affirmed the Court's finding of no arranger liability for OU1.

On remand, the Court granted API leave to file a Ninth Amended Complaint asserting a CERCLA § 107 claim. The Commission timely answered and alleged a counterclaim for contribution from NCR. API alleges almost \$200 million in damages. The defendants, including the Commission, claim that API is not entitled to recover damages for expenses that have been reimbursed by API's insurers and indemnitors and have sought discovery on API's insurance and indemnity recoveries. API has refused to provide this information, and dueling motions to compel and for a protective order currently are before the Court. The Court established a scheduling order that includes a trial beginning June 13, 2016.

On March 3, 2015, the Court reconsidered its 2011 ruling that NCR was not liable for cleanup costs in OU1. On March 31, 2015, NCR petitioned the Seventh Circuit for a writ of mandamus vacating that ruling.

United States 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 API 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 API. On March 19, 2012, before CERCLA claims against API were dismissed, the United States filed another motion for a preliminary injunction to compel NCR and API to perform the remediation work required under the UAO. The Court granted the motion as to NCR on April 27, 2012 (CERCLA claims against API 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.

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

Notes to Financial Statements
December 31, 2014

NOTE C - OTHER INFORMATION (Continued)

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. On May 1, 2013, the Court issued a Decision and Order rejecting the defense asserted by NCR and some defendants that the site was divisible and the remediation costs could be apportioned. The Court determined that the parties to the UAO were jointly and severally liable for the remediation costs. This allowed the Court to maintain its equitable allocation in the Whiting case, allocating all costs to NCR as discussed above. NCR and several defendants, not including the Commission, appealed the Decision. The Seventh Circuit heard an argument on February 28, 2014. The Court deferred issuing a scheduling order on additional phases of the United States case to allow the parties to dismiss settlement.

On March 26, 2014, the United States lodged with the Court a consent decree between it and the Commission, Menasha Corporation, WTM I Company, City of Appleton, CBC Coating, Inc., U.S. Paper Mills Corp. (Settling Defendants) resolving all claims asserted against the Settling Defendants in the United States case by the United States, Wisconsin and natural resources trustees of the site for a combined cash payment of \$54,000,000. The Commission's share of the settlement is \$5,200,000. The Commission entered into a settlement agreement with its primary and excess insurance carriers whereby its insurers are paying \$4,675,000 of the Commission's share. The Commission's remaining share of the settlement totaling \$525,000 was paid by the Cities of Neenah and Menasha. On February 6, 2015, the Court approved the consent decree. No parties appealed the approval, and the consent decree is now final. The Court also approved a consent decree between the United States and NewPage Wisconsin System, Inc. and Kimberly-Clark Corporation without appeal.

Appellate Decisions in the Whiting and United States Cases

As discussed above, API and NCR appealed dismissal of their CERCLA § 107 claims and allocation of 100% response costs and NRD to NCR in the Whiting case. The defendants cross-appealed the district court's finding that NCR is not liable as an arranger for costs and NRD in OU1.

In the United States case, NCR and some defendants (not including the Commission) appealed the Court's finding that the government's remedy for the site is appropriate, that NCR has no divisibility defense as to OU4, and that a permanent injunction was an appropriate means of enforcing the UAO.

The Seventh Circuit heard argument on February 28, 2014 and issued a decision in each case on September 25, 2014. In the Whiting case, the Seventh Circuit reversed the district court's dismissal of API's CERCLA § 107 claim, but affirmed that NCR does not have a § 107 claim. It vacated the district court's 100% allocation of response costs and NRD to NCR and affirmed that NCR is not an arranger as to OU1. In the United States case, the Seventh Circuit affirmed the district court's finding that the government's remedy is appropriate, but reversed its rejection of NCR's divisibility defense as to OU4 and vacated the permanent injunction to enforce the UAO.

Neither API, NCR, nor the defendants appealed the Seventh Circuit's decision to the United States Supreme Court, and the time to appeal has expired.

SUPPLEMENTARY INFORMATION

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

Schedule of Operation and Maintenance Expenses - Budget and Actual
For the Year Ended December 31, 2014
With Comparative Actual Amounts for the Year Ended December 31, 2013

	Budget	2014 Actual	Variance Positive (Negative)	2013 Actual
Operation				
Salaries and wages	\$ 6,000	\$ 4,015	\$ 1,985	\$ -
Employee benefits	860	862	(2)	386
Professional fees and contracted services	1,656,900	1,601,061	55,839	1,593,418
Power	680,000	519,488	160,512	580,343
Gas	56,000	109,623	(53,623)	35,223
Stormwater charges	5,300	5,291	9	4,849
Water	37,375	27,159	10,216	25,885
Telephone	3,600	3,167	433	1,957
Chemicals				
Ferric chloride	-	-	-	156
Polymer	94,000	140,417	(46,417)	90,200
Sodium bisulfate	45,600	51,153	(5,553)	59,329
Chlorine	8,400	45,753	(37,353)	8,353
Salt	46,800	35,953	10,847	45,996
Aluminum sulfate	104,400	53,016	51,384	80,134
Miscellaneous	-	1,680	(1,680)	-
Sludge disposal	268,300	235,505	32,795	407,716
Industrial metering and sampling	6,000	3,581	2,419	4,038
Lab supplies	22,750	26,760	(4,010)	17,516
Other operating supplies	21,500	18,801	2,699	13,632
Transportation	7,000	7,042	(42)	6,007
Administration	69,250	68,922	328	78,829
Office supplies	11,275	19,592	(8,317)	12,122
General insurance	83,500	69,591	13,909	75,650
Total Operation	3,234,810	3,048,432	186,378	3,141,739
Maintenance				
Equipment	82,800	128,634	(45,834)	66,225
General plant	71,300	54,713	16,587	53,876
Cleaning supplies	8,500	8,038	462	6,073
Total Maintenance	162,600	191,385	(28,785)	126,174
Total Operation and Maintenance Expenses	\$ 3,397,410	\$ 3,239,817	\$ 157,593	\$ 3,267,913

NEENAH-MENASHA SEWERAGE COMMISSION
MENASHA, WISCONSIN
 Calculation of Payable (Receivable) From Users for 2014 Operations
 December 31, 2014

	City of Neenah	City of Menasha	Town of Neenah S.D. 2	Menasha Utility District	Waverly S.D.	Sonoco - US Mills, Inc.
Total	\$ 1,520,460	\$ 764,968	\$ 35,703	\$ 511,783	\$ 129,020	\$ 1,000,677

Revenues received during year for 2014 operation and maintenance

Percentage of net expenses allocated for 2014

	100.00%	39.02%	19.97%	0.90%	3.26%	23.69%
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Actual operation and maintenance expenses

Deposit to replacement fund

Deposit to O/M cash surplus

Less:

MCO income sharing

Industrial metering and sampling

WPPI standby service

Pretreatment administrative fees

Pretreatment permit fees

Other operating revenues

Interest income

Net Expenditures Allocated for 2014*

Payable (Receivable) From Users - December 31

\$ 3,239,817						
777,999						
2,000						
50,813						
3,644						
56,055						
5,175						
11,450						
28,071						
1,093						
<u>3,863,515</u>	1,507,543	771,544	34,772	508,438	125,951	915,267

\$ 99,096	\$ 12,917	\$ (6,576)	\$ 931	\$ 3,345	\$ 3,069	\$ 85,410
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This summary is prepared from the Commission's analysis of flow, BOD, and suspended solids from each user.

* Measured service to municipalities and industries
 Deposit to replacement fund
 Net 2014 Allocated Expenses

\$ 3,085,516
<u>777,999</u>
<u>\$ 3,863,515</u>

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

INDEPENDENT AUDITORS' 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 Neenah-Menasha Sewerage Commission, Menasha, Wisconsin, as of and for the year ended December 31, 2014, 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 April 16, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Neenah-Menasha Sewerage Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 questioned costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Neenah-Menasha Sewerage Commission's financial statements are free from 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 Finding

Neenah-Menasha Sewerage Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 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
April 16, 2015

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

Schedule of Findings and Responses
For the Year Ended December 31, 2014

Section I – Internal Control Over Financial Reporting

Finding No.	Control Deficiencies
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2014-001 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, 2014.