
LEDGEVIEW SANITARY DISTRICT NO. 2

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2012

LEDGEVIEW SANITARY DISTRICT NO. 2

December 31, 2012

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Commissioners
Ledgeview Sanitary District No. 2
Ledgeview, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements Ledgeview Sanitary District No. 2, Wisconsin ("the District") as of and for the year ended December 31, 2012, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the District's 2011 financial statements and, in our report dated February 29, 2012, we expressed an unqualified opinion on the respective financial statements.

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 opinions 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 District'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 District'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 respective financial position of the District 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.4.g, the District has 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 of the District. The financial information listed in the table of contents as supplementary information, and the other information are 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 February 20, 2013, on our consideration of the District'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 District's internal control over financial reporting and compliance.



Certified Public Accountants
Green Bay, Wisconsin
February 20, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS



Management's Discussion and Analysis December 31, 2012

As management of the Ledgeview Sanitary District No. 2, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2012.

Financial Highlights

- The assets of the District exceeded its liabilities as of December 31, 2012 by \$30,348,673 (*net position*). Of this amount, \$10,990,454 (*unrestricted net position*) may be used to meet the District's ongoing obligations to users.
- The District's total net position increased by \$91,818.
- As of the close of the current fiscal year, the water utility reported total ending net position of \$13,067,899 an increase of \$79,979 from the prior year. The sewer utility reported total ending net position of \$17,280,774 an increase of \$152,633 from the prior year. The District's overall net position was decreased by \$140,794 due to a change in accounting principle which treats debt issuance costs as an expense when incurred.
- The District's total debt decreased by \$1,264,327 (8.6%) during 2012 for a total outstanding of \$13,395,021.

Overview of the Basic Financial Statements

Ledgeview Sanitary District No. 2 is a business-type activity. It provides water and sewer services to the Town of Ledgeview. As an enterprise fund, it records its transactions based on the flow of economic resources.

This report includes the management's discussion and analysis report, the independent auditors' report and the financial statements of the District. The financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Utility as a Whole

Net Position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$30,348,673 at the close of 2012.

Ledgeview Sanitary District No. 2		
Net Position		
	Totals	
	2012	2011
Current and other assets	\$ 10,684,276	\$ 11,127,366
Restricted cash	3,298,957	3,513,989
Capital assets	30,699,321	31,286,467
Total Assets	44,682,554	45,927,822
Current liabilities	2,256,725	2,275,946
Long-term liabilities outstanding	12,077,156	13,395,021
Total Liabilities	14,333,881	15,670,967
Net Position		
Net investment in capital assets	17,304,300	16,627,119
Restricted	2,053,919	2,232,179
Unrestricted	10,990,454	11,397,557
Total Net Position	\$ 30,348,673	\$ 30,256,855

The largest portion of the District's net position (57%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, infrastructure, etc.); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although, the District'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 District's net position (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$10,990,454) may be used to meet the District's ongoing obligations to users.

Change in net position. The District's change in net position increased by \$232,612, compared to \$33,677 in the prior year. Key elements of this increase are as follows:

Ledgeview Sanitary District No. 2		
Change in Net Position		
	Totals	
	2012	2011
Revenues		
Program Revenues		
Charges for services	\$ 2,344,253	\$ 2,149,972
Capital grants and contributions	1,500	1,600
General Revenues		
Property taxes	345,958	335,540
Interest and investment income	128,901	162,198
Other	29,077	1,990
Total Revenues	<u>2,849,689</u>	<u>2,651,300</u>
Expenses		
Water utility	1,455,453	1,389,195
Sewer utility	1,161,624	1,228,428
Total Expenses	<u>2,617,077</u>	<u>2,617,623</u>
Change in Net Position	232,612	33,677
Cumulative effect of change in accounting principle	(140,794)	-
Net Position - January 1	<u>30,256,855</u>	<u>30,223,178</u>
Net Position - December 31	<u>\$ 30,348,673</u>	<u>\$ 30,256,855</u>

Charges for services increased by \$194,281 (9%) from the prior year. Expenditures decreased by \$546.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets as of year end amounts to \$30,699,321 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, machinery and equipment, vehicles, infrastructure, and construction in progress. The total decrease in the District's investment in capital assets for the current year was \$587,146 or 1.9% over last year.

Major capital assets acquired or constructed during the year include:

- Purchase of meters for the utility in the amount of \$39,000.

Ledgeview Sanitary District No. 2		
Capital Assets		
	Totals	
	2012	2011
Land and improvements	\$ 401,187	\$ 401,187
Buildings and improvements	243,362	243,362
Machinery and equipment	1,120,153	1,074,160
Infrastructure	35,216,301	35,199,416
Construction in progress	15,787	33,985
Less: Accumulated depreciation	(6,297,469)	(5,665,643)
Total	\$ 30,699,321	\$ 31,286,467

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$13,395,021.

Ledgeview Sanitary District No. 2		
General Obligation Debt and Revenue Bonds		
	Totals	
	2012	2011
General Obligation Debt		
Bonds	\$ 8,400,000	\$ 9,350,000
Notes	4,300,000	4,525,000
Total General Obligation Debt	12,700,000	13,875,000
Notes Payable to GBMSD	695,021	784,348
Total	\$ 13,395,021	\$ 14,659,348

State statutes limit the amount of general obligation debt the District may issue to 5% of its total equalized valuation of \$669,750,400. The current debt limitation for the District is \$33,487,520. The District's outstanding general obligation debt of \$12,700,000 is 37.9% of its current debt limitation.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer, Ledgeview Sanitary District No. 2, 3700 Dickinson Road, De Pere, Wisconsin 54115.

FINANCIAL STATEMENTS

LEDGEVIEW SANITARY DISTRICT NO. 2

Statement of Net Position

December 31, 2012

(With summarized financial information as of December 31, 2011)

	Water Utility	Sewer Utility	Totals	
			2012	2011
ASSETS				
Current Assets				
Cash and investments	\$ 2,763,091	\$ 1,118,887	\$ 3,881,978	\$ 3,709,955
Receivables				
Accounts	259,016	164,067	423,083	290,161
Other	23,132	2,788	25,920	12,630
Due from other governments	256,198	607,162	863,360	951,480
Restricted assets				
Cash and investments	663,137	2,635,820	3,298,957	3,513,989
Total Current Assets	<u>3,964,574</u>	<u>4,528,724</u>	<u>8,493,298</u>	<u>8,478,215</u>
Noncurrent Assets				
Other Assets				
Special assessments	2,217,899	2,943,790	5,161,689	5,672,575
Deferred charges	-	-	-	140,794
Interceptor capacity	-	293,936	293,936	306,056
Sewer service area acres	-	34,310	34,310	43,715
Total Other Assets	<u>2,217,899</u>	<u>3,272,036</u>	<u>5,489,935</u>	<u>6,163,140</u>
Capital assets, nondepreciable				
Land	96,473	-	96,473	96,473
Construction in progress	10,963	4,824	15,787	33,985
Capital assets, depreciable				
Land improvements	304,714	-	304,714	304,714
Buildings	243,362	-	243,362	243,362
Machinery and equipment	820,312	299,841	1,120,153	1,074,160
Infrastructure	15,534,643	19,454,047	34,988,690	34,971,805
Non-utility infrastructure	38,672	188,939	227,611	227,611
Less: Accumulated depreciation	(2,916,058)	(3,381,411)	(6,297,469)	(5,665,643)
Net Capital Assets	<u>14,133,081</u>	<u>16,566,240</u>	<u>30,699,321</u>	<u>31,286,467</u>
Total Noncurrent Assets	<u>16,350,980</u>	<u>19,838,276</u>	<u>36,189,256</u>	<u>37,449,607</u>
TOTAL ASSETS	<u>20,315,554</u>	<u>24,367,000</u>	<u>44,682,554</u>	<u>45,927,822</u>
LIABILITIES				
Current Liabilities				
Accounts payable	176,951	80,335	257,286	263,417
Due to other governments	257,404	150,216	407,620	441,098
Premium on bond issued	114,475	60,893	175,368	200,294
Current maturities of notes payable to GBMSD	-	92,865	92,865	89,327
Payable from restricted assets				
Accrued interest payable	43,285	55,301	98,586	106,810
Current maturities of general obligation debt	698,400	526,600	1,225,000	1,175,000
Total Current Liabilities	<u>1,290,515</u>	<u>966,210</u>	<u>2,256,725</u>	<u>2,275,946</u>
Long-term Obligations				
Notes payable to GBMSD	-	602,156	602,156	695,021
General obligation debt	5,957,140	5,517,860	11,475,000	12,700,000
Total Long-term Obligations	<u>5,957,140</u>	<u>6,120,016</u>	<u>12,077,156</u>	<u>13,395,021</u>
TOTAL LIABILITIES	<u>7,247,655</u>	<u>7,086,226</u>	<u>14,333,881</u>	<u>15,670,967</u>
NET POSITION				
Net investment in capital assets	7,477,541	9,826,759	17,304,300	16,627,119
Restricted for				
Debt service	-	2,027,229	2,027,229	2,205,531
Equipment replacement	-	26,690	26,690	26,648
Unrestricted	5,590,358	5,400,096	10,990,454	11,397,557
TOTAL NET POSITION	<u>\$ 13,067,899</u>	<u>\$ 17,280,774</u>	<u>\$ 30,348,673</u>	<u>\$ 30,256,855</u>

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

LEDGEVIEW SANITARY DISTRICT NO. 2
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2012
(With summarized financial information for the year ended December 31, 2011)

	Water Utility	Sewer Utility	Totals	
			2012	2011
Operating Revenues				
Charges for services	\$ 1,441,701	\$ 810,716	\$ 2,252,417	\$ 2,039,038
Other	6,278	85,558	91,836	110,934
Total Operating Revenues	<u>1,447,979</u>	<u>896,274</u>	<u>2,344,253</u>	<u>2,149,972</u>
Operating Expenses				
Operation and maintenance	926,657	568,097	1,494,754	1,411,772
Depreciation	311,633	336,926	648,559	645,284
Amortization	-	12,120	12,120	12,120
Taxes	6,787	3,085	9,872	11,367
Total Operating Expenses	<u>1,245,077</u>	<u>920,228</u>	<u>2,165,305</u>	<u>2,080,543</u>
Operating Income (Loss)	<u>202,902</u>	<u>(23,954)</u>	<u>178,948</u>	<u>69,429</u>
Nonoperating Revenues (Expenses)				
Interest income	68,630	60,271	128,901	162,198
Property tax revenue	-	345,958	345,958	335,540
Miscellaneous nonoperating revenue	750	3,401	4,151	1,990
Interest expense	(210,376)	(231,991)	(442,367)	(512,736)
Amortization of debt discount	16,573	8,353	24,926	(12,774)
Amortization of sewer service area acres	-	(9,405)	(9,405)	(11,570)
Total Nonoperating Revenues (Expenses)	<u>(124,423)</u>	<u>176,587</u>	<u>52,164</u>	<u>(37,352)</u>
Income Before Contributions	78,479	152,633	231,112	32,077
Capital contributions	1,500	-	1,500	1,600
Change in Net Position	79,979	152,633	232,612	33,677
Cumulative effect of change in accounting principle	(93,375)	(47,419)	(140,794)	-
Net Position - January 1	<u>13,081,295</u>	<u>17,175,560</u>	<u>30,256,855</u>	<u>30,223,178</u>
Net Position - December 31	<u>\$ 13,067,899</u>	<u>\$ 17,280,774</u>	<u>\$ 30,348,673</u>	<u>\$ 30,256,855</u>

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

LEDGEVIEW SANITARY DISTRICT NO. 2

Statement of Cash Flows

For the Year Ended December 31, 2012

(With summarized financial information for the year ended December 31, 2011)

	Water Utility	Sewer Utility	Totals	
			2012	2011
Cash Flows from Operating Activities				
Receipts from customers and users	\$ 1,377,636	\$ 848,698	\$ 2,226,334	\$ 2,180,560
Payments to suppliers	(740,891)	(510,173)	(1,251,064)	(1,212,112)
Payments to employees	(111,044)	(50,424)	(161,468)	(187,670)
Net Cash Provided by Operating Activities	525,701	288,101	813,802	780,778
Cash Flows from Noncapital Financing Activities				
Receipts from other sources	750	3,401	4,151	1,990
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(51,543)	(20,101)	(71,644)	(74,993)
Special assessments received	279,294	306,545	585,839	871,210
Special assessments paid to other municipalities	(64,601)	(63,648)	(128,249)	-
Property tax levy for debt service	-	346,728	346,728	324,753
Proceeds of long-term debt	-	-	-	4,525,000
Principal paid on long-term debt	(662,070)	(602,257)	(1,264,327)	(5,335,926)
Debt premium received	-	-	-	42,298
Interest paid on long-term debt	(213,618)	(236,972)	(450,590)	(555,168)
Net Cash Used in Capital and Related Financing Activities	(712,538)	(269,705)	(982,243)	(202,826)
Cash Flows from Investing Activities				
Interest received	67,488	53,793	121,281	51,637
Change in Cash and Cash Equivalents	(118,599)	75,590	(43,009)	631,579
Cash and Cash Equivalents - January 1	3,544,827	3,679,117	7,223,944	6,592,365
Cash and Cash Equivalents - December 31	\$ 3,426,228	\$ 3,754,707	\$ 7,180,935	\$ 7,223,944
Reconciliation of cash and cash equivalents to the statement of net position				
Cash and investments in current assets	\$ 2,763,091	\$ 1,118,887	\$ 3,881,978	\$ 3,709,955
Restricted cash and investments	663,137	2,635,820	3,298,957	3,513,989
Total Cash and Cash Equivalents	\$ 3,426,228	\$ 3,754,707	\$ 7,180,935	\$ 7,223,944
Cash Flows from Operating Activities				
Operating income (loss)	\$ 202,902	\$ (23,954)	\$ 178,948	\$ 69,429
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	311,633	336,926	648,559	645,284
Amortization	-	12,120	12,120	12,120
Changes in current assets and liabilities				
Accounts receivable	(94,996)	(51,758)	(146,754)	(4,576)
Due from other governments	24,653	4,182	28,835	35,164
Accounts payable	81,509	10,585	92,094	23,357
Net Cash Provided by Operating Activities	\$ 525,701	\$ 288,101	\$ 813,802	\$ 780,778

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

LEDGEVIEW SANITARY DISTRICT NO. 2

Notes to Financial Statements

December 31, 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the Ledgeview Sanitary District No. 2, Wisconsin (the "District") 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 District's accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Reporting Entity

The Ledgeview Sanitary District No. 2 is located within the Town of Ledgeview in Brown County, Wisconsin. The District operates a water distribution system and sewage collection system. Ledgeview Sanitary District No. 2 is governed by a three-member commission appointed to six-year terms by the Town Board.

In accordance with GAAP, the financial statements are required to include the District and any separate component units that have a significant operational or financial relationship with the District. The District 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. The District is considered a related organization of the Town of Ledgeview.

2. Enterprise Funds

The District 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 total net position.

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.

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. Investments are stated at fair value. 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. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) 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.

LEDGEVIEW SANITARY DISTRICT NO. 2

Notes to Financial Statements

December 31, 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

c. Inventory

Inventory is recorded at cost, which approximates market, using the first-in first-out method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expense at the time individual inventory items are consumed rather than when purchased.

d. Special Assessment Receivable

The District assessed its customers for a portion of the cost of constructing water distribution and sanitary sewer collection systems. Various assessments are not currently due and are deferred because the properties are not developed and are not connected to the water and sewer systems.

A total of \$5,161,689 of special assessments receivable remained outstanding on December 31, 2012. Of this amount \$776,933 is deferred with interest. The remaining balance of \$4,384,756 represents installment special assessments receivable which are collectible in annual installments over the next one to ten years.

e. Interceptor Capacity

The other asset of \$293,936 on December 31, 2012, represents interceptor construction costs financed by the Green Bay Metropolitan Sewerage District. The interceptor costs are being amortized over a period of 40 years. Amortization expense for the year ended December 31, 2012 was \$12,120.

f. Capital Assets

Capital assets are defined by the District 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.

Interest incurred during the construction phase of capital assets of the District is included as part of the capitalized value of the assets acquired. The cost of renewals and betterments are added to historical cost while 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.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	
Land improvements	25 - 50
Buildings	25 - 50
Machinery and equipment	3 - 10
Infrastructure	25 - 100

g. Deferred Outflows/Inflows of Resources

The District 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 District currently does not have any items that qualify for reporting in this category.

LEDGEVIEW SANITARY DISTRICT NO. 2

Notes to Financial Statements

December 31, 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

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, represent 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 District currently does not have any items that qualify for reporting in this category.

h. 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. Issuance costs, are reported as expenses, whether or not withheld from the actual debt proceeds,

i. Net Position

Net position is classified into three components. These classifications are defined as follows:

- *Net investment in capital assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "net investment in capital assets". Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *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 positions that do not meet the definition of "restricted" or "net investment in capital assets".

5. 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.

6. Comparative Data

Comparative amounts for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

7. Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements with no change in previously reported net position, changes in net position, fund balance or changes in fund balance.

LEDGEVIEW SANITARY DISTRICT NO. 2

Notes to Financial Statements

December 31, 2012

NOTE B - DETAILED NOTES ON ALL FUNDS

1. Cash and Investments

The Ledgeview Sanitary District No. 2 maintains various cash and investment accounts. In addition, the District maintains a pooled savings account with the Town of Ledgeview, Wisconsin. Invested cash consists of deposits and investments that are restricted by Wisconsin Statutes to the following:

Invested cash consists of deposits and investments that are restricted by 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; and the Wisconsin local government investment pool.

The carrying amount of the District's cash and investments totaled \$7,180,935 on December 31, 2012 as summarized below:

Deposits with financial institutions	\$ 1,880,733
Deposits held by the Town of Ledgeview	5,269,867
Investments	30,335
	<u>\$ 7,180,935</u>

Reconciliation to the financial statements:

Statement of Net Position	
Cash and investments	\$ 3,881,978
Restricted cash and investments	3,298,957
	<u>\$ 7,180,935</u>

Deposits and investments of the Ledgeview Sanitary District No. 2 are subject to various risks. Presented below is a discussion of the specific risks and the District's policy related to the risk.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Wisconsin statutes require repurchase agreements to be fully collateralized by bonds or securities issued or guaranteed by the federal government or its instrumentalities. The District 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. In addition, the District's non-interest bearing transaction accounts are fully insured through December 31, 2012. As of January 1, 2013 the District'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.

LEDGEVIEW SANITARY DISTRICT NO. 2

Notes to Financial Statements

December 31, 2012

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

As of December 31, 2012, none of the District's deposits with financial institutions were in excess of federal and state depository insurance limits. The District's deposits of \$5,269,867 held by the Town of Ledgeview, Wisconsin were fully collateralized as of December 31, 2012.

Investments

The District has investments in the Wisconsin local government investment pool of \$30,335 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 District'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 District does not have an additional credit risk policy. The District'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 District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investments held by the Wisconsin local government investment pool mature in 12 months or less.

2. Restricted Assets

Restricted assets on December 31, 2011 totaled \$3,298,957 and consisted of cash and investments as follows:

Sanitary District No. 2	
Water Utility	
Debt Service	<u>\$ 663,137</u>
Sewer Utility	
Equipment replacement fund	26,690
Debt Service	<u>2,609,130</u>
Total Sewer Utility	<u>2,635,820</u>
Total Restricted Assets	<u>\$ 3,298,957</u>

LEDGEVIEW SANITARY DISTRICT NO. 2

Notes to Financial Statements

December 31, 2012

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

3. 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	\$ 96,473	\$ -	\$ -	\$ 96,473
Construction in progress	33,985	3,530	21,728	15,787
Total capital assets, not being depreciated	<u>130,458</u>	<u>3,530</u>	<u>21,728</u>	<u>112,260</u>
Capital assets, being depreciated:				
Land improvements	304,714	-	-	304,714
Buildings	243,362	-	-	243,362
Machinery and equipment	1,074,160	48,993	3,000	1,120,153
Infrastructure	35,199,416	30,618	13,733	35,216,301
Subtotals	<u>36,821,652</u>	<u>79,611</u>	<u>16,733</u>	<u>36,884,530</u>
Less accumulated depreciation	<u>5,665,643</u>	<u>648,559</u>	<u>16,733</u>	<u>6,297,469</u>
Total capital assets, being depreciated, net	<u>31,156,009</u>	<u>(568,948)</u>	<u>-</u>	<u>30,587,061</u>
Total capital assets, net	<u>\$ 31,286,467</u>	<u>\$ (565,418)</u>	<u>\$ 21,728</u>	<u>30,699,321</u>
Less related long-term debt outstanding				<u>13,395,021</u>
Net investment in capital assets				<u>\$ 17,304,300</u>
Depreciation expense was charged as follows:				
Depreciation Expense				
Water Utility				\$ 311,633
Sewer Utility				<u>336,926</u>
Total				<u>\$ 648,559</u>

LEDGEVIEW SANITARY DISTRICT NO. 2

Notes to Financial Statements

December 31, 2012

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

4. Long-term Debt

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

	Outstanding 1/1/12	Issued	Retired	Outstanding 12/31/12	Due Within One Year
General Obligation Debt					
Bonds	\$ 9,350,000	\$ -	\$ 950,000	\$ 8,400,000	\$ 1,000,000
Notes	4,525,000	-	225,000	4,300,000	225,000
Total General Obligation Debt	13,875,000	-	1,175,000	12,700,000	1,225,000
Notes Payable	784,348	-	89,327	695,021	92,865
Total Long-term obligations	<u>\$ 14,659,348</u>	<u>\$ -</u>	<u>\$ 1,264,327</u>	<u>\$ 13,395,021</u>	<u>\$ 1,317,865</u>

Total interest paid during the year on long-term debt totaled \$450,590.

Long-term general obligation outstanding at December 31, 2012 consists of the following:

Bonds

\$5,000,000 G.O. Refunding Bonds issued 12/20/07; \$400,000 to \$1,000,000 due annually to 2018; interest 3.90% to 4.25% \$ 3,700,000

\$5,725,000 G.O. Refunding Bonds issued 10/06/10; \$600,000 to \$700,000 due annually to 2018; interest 1.25% to 3.00% 4,700,000

Notes

\$4,525,000 G.O. Refunding Promissory Notes issued 7/7/11; \$225,000 to \$2,000,000 due annually to 2021; interest 2.00% to 3.50% 4,300,000

Total Outstanding General Obligation Debt \$ 12,700,000

Long-term notes payable debt outstanding at December 31, 2012 consists of the following:

Notes Payable to GBMSD

1987 Interceptor Note \$387 due annually to 2016 \$ 1,547

1991 Interceptor Note \$465 to \$555 due annually to 2020; interest at 2.14% 4,111

1991 Interceptor Note \$426 to \$508 due annually to 2020; interest at 2.14% 3,768

1992 Interceptor Note \$480 to \$583 due annually to 2021; interest at 2.14% 4,824

1995 Interceptor Note \$26,319 to \$28,906 due annually to 2015; interest at 3.17% 84,076

2000 Interceptor Note \$61,251 to \$86,200 due annually to 2020; interest at 4.36% 596,695

Total Outstanding Notes Payable to GBMSD \$ 695,021

LEDGEVIEW SANITARY DISTRICT NO. 2

Notes to Financial Statements
December 31, 2012

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

Annual principal and interest maturities of the above outstanding long-term obligations is shown below:

Year Ended December 31	Water Utility		Sewer Utility		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 698,400	\$ 199,549	\$ 619,465	\$ 219,588	\$ 1,317,865	\$ 419,137
2014	716,565	185,025	629,983	201,969	1,346,548	386,994
2015	752,895	166,869	647,485	182,793	1,400,380	349,662
2016	843,540	141,738	731,005	159,561	1,574,545	301,299
2017	1,068,540	110,588	1,008,823	130,007	2,077,363	240,595
2018-2021	2,575,600	163,654	3,102,720	238,714	5,678,320	402,368
	<u>\$ 6,655,540</u>	<u>\$ 967,423</u>	<u>\$ 6,739,481</u>	<u>\$ 1,132,632</u>	<u>\$ 13,395,021</u>	<u>\$ 2,100,055</u>

Legal Margin for New Debt

In accordance with Wisconsin Statutes, sanitary districts are allowed to borrow up to 5% of their equalization valuation. Debt issued under these statutes are classified as "general obligation debt" and are secured by the taxing power of the sanitary district. On December 31, 2012, the District had \$12,700,000 general obligation debt outstanding.

The District's legal margin for creation of additional general obligation debt on December 31, 2012 was \$20,787,520 as follows:

	Town	Sanitary District No. 2
Equalized Value	\$ 669,750,400	\$ 669,750,400
Statutory limitation percentage	5%	5%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes	33,487,520	33,487,520
Outstanding general obligation debt applicable to debt limitation	8,240,000	12,700,000
Less: Amounts available for financing general obligation debt	(317,554)	-
Legal Margin for New Debt	<u>\$ 24,929,966</u>	<u>\$ 20,787,520</u>

5. Property Taxes

Property taxes consist of taxes on real estate and personal property. They are levied during December of the prior year and become an enforceable lien on property the following January 1. Property taxes are payable in various options depending on the type and amount. Personal property taxes are payable on or before January 31 in full. Real estate taxes are payable in full by January 31 or in two equal installments on or before January 31 and July 31. Special assessments and charges are payable in full on January 31. The District certifies the amount levied and special assessments installments to be collected to the Town of Ledgeview, Wisconsin. The Town contracts with the Brown County, Wisconsin treasurer to perform the billing and collection functions.

6. Risk Management

The District 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 District.

7. Contingent Liabilities

From time to time, the District is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the District's financial position or results of operations.

LEDGEVIEW SANITARY DISTRICT NO. 2

Notes to Financial Statements

December 31, 2012

NOTE C - EMPLOYEE RETIREMENT PLAN

All eligible District employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year (440 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. Employees hired to work nine or ten months per year, (e.g. teachers contracts), but expected to return year after year are considered to have met the one-year requirement.

Prior to June 29, 2011, covered employees in the General/Teacher/Educational Support Personnel category were required by statute to contribute 6.5% of their salary (3.9% for Executives and Elected Officials, 5.8% for Protective Occupations with Social Security, and 4.8% for Protective Occupations without Social Security) to the plan. Employers could make these contributions to the plan on behalf of employees. Employers were required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for General category employees, including Teachers, and Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. Contribution rates are as follows:

	2012	
	<u>Employee</u>	<u>Employer</u>
General (including Teachers)	5.9%	5.9%
Executives & Elected Officials	7.05%	7.05%
Protective with Social Security	5.9%	9.0%
Protective without Social Security	5.9%	11.3%

The payroll for District employees covered by the WRS for the year ended December 31, 2012 was \$119,257; the employer's total payroll was \$132,359. The total required contribution for the year ended December 31, 2012 was \$13,956, which consisted of \$6,978 or 5.9% of covered payroll from the employer, and \$6,978, or 5.9% of covered payroll from employees. Total contributions for the years ended December 31, 2011 and 2010 were \$15,651 and \$14,497, respectively, equal to the required contributions for each year.

1. Commitment
The District is required to purchase a calculated minimum amount of water from the Central Brown County Water Authority each year.
2. Cumulative Effect of Change in Accounting Principle
The District 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 District by \$140,794.

SUPPLEMENTARY INFORMATION

LEDGEVIEW SANITARY DISTRICT NO. 2

Water Utility Enterprise Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Position
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Charges for Services		
Measured sales		
Residential	\$ 916,170	\$ 813,624
Commercial	265,324	237,515
Public authorities	9,671	9,955
Private fire protection	8,980	8,967
Public fire protection	241,556	241,597
Total Charges for Services	<u>1,441,701</u>	<u>1,311,658</u>
Other Operating Revenues		
Forfeited discounts	4,179	4,923
Other water revenues	2,099	1,653
Total Other Operating Revenues	<u>6,278</u>	<u>6,576</u>
Total Operating Revenues	<u>1,447,979</u>	<u>1,318,234</u>
Operating Expenses		
Operation and Maintenance		
Source of supply	699,355	602,593
Pumping	15,203	20,312
Water treatment	4,061	6,406
Transmission and distribution	78,603	70,960
Customer accounts	9,354	13,172
Administrative and general	126,868	125,357
Total Operation and Maintenance	<u>933,444</u>	<u>838,800</u>
Depreciation	311,633	309,941
Total Operating Expenses	<u>1,245,077</u>	<u>1,148,741</u>
Operating Income	<u>202,902</u>	<u>169,493</u>
Nonoperating Revenues (Expenses)		
Interest revenue	68,630	80,852
Miscellaneous nonoperating revenue	750	1,420
Interest expense	(210,376)	(237,738)
Amortization of debt issuance costs	16,573	(2,716)
Total Nonoperating Revenues (Expenses)	<u>(124,423)</u>	<u>(158,182)</u>
Income before Contributions	78,479	11,311
Capital contributions	<u>1,500</u>	<u>1,600</u>
Change in Net Position	<u>\$ 79,979</u>	<u>\$ 12,911</u>

LEDGEVIEW SANITARY DISTRICT NO. 2

Sewer Utility Enterprise Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Position

For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Charges for Services		
Measured sales		
Residential	\$ 607,290	\$ 534,351
Commercial	178,468	157,532
Public authorities	24,958	35,497
Total Charges for Services	<u>810,716</u>	<u>727,380</u>
Other Operating Revenues		
Forfeited discounts	2,467	2,926
Other sewer revenues	83,091	101,432
Total Other Operating Revenues	<u>85,558</u>	<u>104,358</u>
Total Operating Revenues	<u>896,274</u>	<u>831,738</u>
Operating Expenses		
Operation and Maintenance		
Operation	474,225	457,168
Maintenance	25,191	37,129
Administrative and general	71,766	90,042
Total Operation and Maintenance	<u>571,182</u>	<u>584,339</u>
Depreciation	336,926	335,343
Interceptor amortization	12,120	12,120
Total Operating Expenses	<u>920,228</u>	<u>931,802</u>
Operating Income (Loss)	<u>(23,954)</u>	<u>(100,064)</u>
Nonoperating Revenues (Expenses)		
Interest revenue	60,271	81,346
Property tax revenue	345,958	335,540
Miscellaneous nonoperating revenue	3,401	570
Interest expense	(231,991)	(274,998)
Amortization of debt issuance costs	8,353	(10,058)
Amortization of sewer service area acres	(9,405)	(11,570)
Total Nonoperating Revenues (Expenses)	<u>176,587</u>	<u>120,830</u>
Change in Net Position	<u>\$ 152,633</u>	<u>\$ 20,766</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**

Independent Auditors' Report

To the Board of Commissioners
Ledgerview Sanitary District No. 2
Town of Ledgerview
Ledgerview, Wisconsin

We have audited, in accordance with the 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 Ledgerview Sanitary District No. 2, Wisconsin, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Ledgerview Sanitary District No. 2, Wisconsin'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 Ledgerview Sanitary District No. 2, Wisconsin's internal control. Accordingly, we do not express an opinion on the effectiveness of Ledgerview Sanitary District No. 2, Wisconsin's internal control.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2012-01 that we consider to be a significant deficiency.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ledgeview Sanitary District No. 2, Wisconsin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Ledgeview Sanitary District No. 2, Wisconsin's Response to Findings

Ledgeview Sanitary District No. 2, Wisconsin's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Ledgeview Sanitary District No. 2, Wisconsin'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 result of that testing, and not to provide an opinion on the effectiveness of Ledgeview Sanitary District No. 2, Wisconsin'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 Ledgeview Sanitary District No. 2, Wisconsin's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Green Bay, Wisconsin
February 20, 2013

LEDGEVIEW SANITARY DISTRICT NO. 2
 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	Preparation of Annual Financial Report
Condition:	Current District staff maintains accounting records which reflect the District's financial transactions; however, preparing the District's annual financial report, including note disclosures, involves the selection and application of specific accounting principles which would require additional experience and knowledge. The District contracts with us and our knowledge of applicable accounting principles, financial statement formats, and note disclosures to prepare the annual financial report in an efficient manner.
Criteria:	The preparation and review of the annual financial report by staff with expertise in financial reporting is an internal control intended to prevent, detect and correct a potential omission or misstatement in the financial statements or notes.
Cause:	District management has determined that the additional costs associated with training staff to become experienced in applicable accounting principles and note disclosures outweigh the derived benefits.
Effect:	Without our involvement, the District may not be able to completely prepare an annual financial report in accordance with accounting principles generally accepted in the United States of America.
Recommendation:	We recommend the District continue reviewing the annual financial report prepared by Schenck. While it may not be cost beneficial to train additional staff to completely prepare the report, a thorough review of this information by appropriate staff of the District is necessary to obtain a complete and adequate understanding of the District's annual financial report.
Management Response:	Management believes the cost for additional staff time and training to prepare year end closing entries and reports outweigh the benefits to be received. Management has reviewed and approved the financial information prepared by Schenck prior to issuance of the annual financial report.

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.