

**TOWN OF NEENAH SANITARY
DISTRICT NO. 2**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2020



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**TOWN OF NEENAH SANITARY DISTRICT NO. 2
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YEAR ENDED DECEMBER 31, 2020**

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Town of Neenah Sanitary District No. 2
Town of Neenah, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Town of Neenah Sanitary District No. 2 (the District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District'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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a 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. Our opinion on the basic financial statements is not affected by this missing information.

Prior-Year Comparative Information

We have previously audited the District’s 2019 financial statements, and we expressed unmodified opinions on the respective financial statements of the District in our report dated March 25, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District’s basic financial statements. The comparative schedule of operating expenses for the year ended December 31, 2020 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The comparative schedule of operating expenses are the responsibility of management and were 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 comparative schedule of operating expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the District as of and for the year ended December 31, 2019 (not presented herein), and have issued our report thereon dated March 25, 2020, which contained an unmodified opinion on the respective financial statements. The comparative schedule of operating expenses, for the year ended December 31, 2019 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2019 financial statements. The comparative schedule of operating expenses has been subjected to the auditing procedures applied in the audit of the 2019 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative schedule of operating expenses is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended December 31, 2019.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2021, 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 solely 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 effectiveness of the District's 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.



CliftonLarsonAllen LLP

Green Bay, Wisconsin
March 18, 2021

FINANCIAL STATEMENTS

TOWN OF NEENAH SANITARY DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2020
WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2019

	2020	2019
ASSETS		
Current Assets:		
Cash and Investments	\$ 1,102,838	\$ 1,043,595
Receivables:		
Customer Accounts	33	840
Special Assessments	391,013	452,002
Due from Other Governments	124,867	139,279
Total Current Assets	1,618,751	1,635,716
Other Assets:		
Other Assets	3,791	3,791
Capital Assets:		
Nondepreciable	13,598	315,736
Depreciable	5,927,776	5,672,032
Total Capital Assets	5,941,374	5,987,768
Total Assets	7,563,916	7,627,275
LIABILITIES		
Current Liabilities:		
Accounts Payable	7,733	58,297
Accrued and Other Current Liabilities	398	319
Accrued Interest	3,710	4,002
Current Portion of Long-Term Debt	37,307	35,909
Total Current Liabilities	49,148	98,527
Long-Term Obligations, Less Current Portion:		
General Obligation Debt	437,612	474,919
Total Liabilities	486,760	573,446
NET POSITION		
Net Investment in Capital Assets	5,466,455	5,435,155
Unrestricted	1,610,701	1,618,674
Total Net Position	\$ 7,077,156	\$ 7,053,829

See accompanying Notes to Financial Statements.

TOWN OF NEENAH SANITARY DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2020
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2019

	2020	2019
OPERATING REVENUES		
Charges for Services	\$ 565,776	\$ 579,572
Fines and Forfeitures	250	350
Connection Fees and Other	42,340	33,944
Total Operating Revenues	608,366	613,866
OPERATING EXPENSES		
Operation and Maintenance	306,680	278,413
Administrative and General	56,915	49,179
Depreciation	189,070	185,337
Total Operating Expenses	552,665	512,929
OPERATING INCOME	55,701	100,937
NONOPERATING REVENUES (EXPENSES)		
Interest Income	27,655	41,041
Loss on Disposal of Capital Assets	(47,161)	(6,258)
Interest and Fiscal Charges	(18,917)	(11,379)
Total Nonoperating Revenues (Expenses)	(38,423)	23,404
INCOME BEFORE CONTRIBUTIONS	17,278	124,341
Capital Contributions	6,049	34,109
CHANGE IN NET POSITION	23,327	158,450
Net Position - January 1	7,053,829	6,895,379
NET POSITION - DECEMBER 31	\$ 7,077,156	\$ 7,053,829

See accompanying Notes to Financial Statements.

TOWN OF NEENAH SANITARY DISTRICT NO. 2
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 617,555	\$ 633,652
Cash Paid for Employee Wages and Benefits	(6,502)	(14,325)
Cash Paid to Suppliers	<u>(365,793)</u>	<u>(327,757)</u>
Net Cash Provided by Operating Activities	245,260	291,570
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(231,622)	(282,516)
Specials Assessment Collections	79,883	112,177
Interest Received on Special Assessments	9,969	18,320
Principal Paid on Long-Term Debt	(35,909)	(129,870)
Interest Paid on Long-Term Debt	<u>(19,209)</u>	<u>(13,619)</u>
Net Cash Used by Capital and Related Financing Activities	(196,888)	(295,508)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	<u>10,871</u>	<u>20,659</u>
CHANGE IN CASH AND CASH EQUIVALENTS	59,243	16,721
Cash and Cash Equivalents - January 1	<u>1,043,595</u>	<u>1,026,874</u>
CASH AND CASH EQUIVALENTS - DECEMBER 31	<u><u>\$ 1,102,838</u></u>	<u><u>\$ 1,043,595</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 55,701	\$ 100,937
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	189,070	185,337
Change in Operating Assets and Liabilities:		
Customer Receivables	807	2,261
Due from Other Governments	8,382	27,499
Accounts Payable	(8,779)	(9,358)
Accrued and Other Current Liabilities	79	(5,132)
Net Cash Provided by Operating Activities	<u><u>\$ 245,260</u></u>	<u><u>\$ 291,570</u></u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Related Accounts Payable	<u><u>\$ -</u></u>	<u><u>\$ 41,785</u></u>

See accompanying Notes to Financial Statements.

TOWN OF NEENAH SANITARY DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Town of Neenah Sanitary District No. 2 (the District), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below:

A. Reporting Entity

The District was created under Wisconsin Statute chapter 60 and provides sewer service to properties located within the Town of Neenah, Town of Vinland, and City of Neenah, Wisconsin. The District is governed by a three-member commission. User rates for service are established by the Sanitary Commission. Wastewater is treated under contracts with the City of Neenah and Neenah Menasha Sewer Commission. 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 these financial statements.

B. Enterprise Funds

The accounts of the District are accounted for in an enterprise fund as required by GAAP. Enterprise funds are used to account for government operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

C. 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, liabilities, and deferred inflows and outflows of resources associated with the operation are included on the statement of net position. Enterprise fund operating statement present increases (i.e., revenues) and decreases (i.e., expenses) in net total 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.

TOWN OF NEENAH SANITARY DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

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

1. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from date of acquisition are considered to be cash equivalents.

2. Accounts Receivable

Accounts receivable are recorded at gross amounts 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.

3. Special Assessments Receivable

Special assessments have been levied against property owners for infrastructure improvements. The balance is receivable over various time periods with interest accruing annually.

4. Capital Assets

Capital assets, which include the collection system, interceptor capacity and equipment assets, are reported in the financial statements. 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 five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

**TOWN OF NEENAH SANITARY DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position
(Continued)**

4. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Assets	Years
Service Connections	55
Collecting Mains	55
Lift Station Infrastructure	40
Force Mains	55
Other Collecting System Items	20
Structures and Improvements	40
Lift Station Pumps	20
Office Furniture and Equipment	5

5. 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 are expensed as incurred.

6. Net Position

Equity is classified as net position and displayed in 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 – Amount of net position that is subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.

Unrestricted net position – Net position that is neither classified as restricted nor as net investment in capital assets.

TOWN OF NEENAH SANITARY DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. 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.

F. Prior Year Information

Comparative amounts for the prior year have been presented in the basic financial statements to provide an understanding of changes in the District's financial position and operations. The comparative amounts may be summarized in total and not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

NOTE 2 DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The District maintains various cash and investment accounts which are displayed on the financial statements as "Cash and investments".

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 \$1,102,838 on December 31, 2020, and consisted entirely of deposits with financial institutions.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs; Level 3 inputs are significant unobservable inputs. The District currently has no investments that are subject to fair value measurement.

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

TOWN OF NEENAH SANITARY DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Cash and Investments (Continued)

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 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. This coverage has been considered in determining custodial credit risk.

As of December 31, 2020, \$249,264 of the District's deposits with financial institutions were in excess of federal and state depository insurance limits.

TOWN OF NEENAH SANITARY DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Capital Assets

Capital asset activity for the year ended December 31, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Nondepreciable:				
Land	\$ 13,598	\$ -	\$ -	\$ 13,598
Construction in Progress	302,138	46,553	348,691	-
Total Capital Assets, Nondepreciable	315,736	46,553	348,691	13,598
Capital Assets, Depreciable:				
Buildings and Improvements	214,932	-	-	214,932
Machinery and Equipment	115,728	65,670	11,220	170,178
Infrastructure	8,676,995	426,305	259,013	8,844,287
Subtotals	9,007,655	491,975	270,233	9,229,397
Less Accumulated Depreciation for:				
Buildings and Improvements	19,060	5,373	-	24,433
Machinery and Equipment	57,536	14,468	5,798	66,206
Infrastructure	3,259,027	169,229	217,274	3,210,982
Subtotals	3,335,623	189,070	223,072	3,301,621
Total Capital Assets, Depreciable, Net	5,672,032	302,905	47,161	5,927,776
Capital Assets, Net	<u>\$ 5,987,768</u>	<u>\$ 349,458</u>	<u>\$ 395,852</u>	5,941,374
Less: Capital Related Debt				<u>474,919</u>
Net Investment in Capital Assets				<u>\$ 5,466,455</u>

C. Long-Term Obligations

The following is a summary of changes in long-term obligations of the District for the year ended December 31, 2020:

	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
Direct Borrowings:					
State Trust Fund Loan	<u>\$ 510,828</u>	<u>\$ -</u>	<u>\$ 35,909</u>	<u>\$ 474,919</u>	<u>\$ 37,307</u>

**TOWN OF NEENAH SANITARY DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Long-Term Obligations (Continued)

The District's outstanding notes from direct borrowings of \$474,919 are subject to a statutory provision that in an event of late or nonpayment, a 1% per month penalty will be charged and the payment will be collected through a reduction in payments from the state of Wisconsin.

Total interest paid during the year on long-term debt totaled \$19,209.

General Obligation Debt

General obligation direct borrowings currently outstanding is detailed as follows:

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/20</u>
State Trust Fund Loan	7/14/15	3/15/31	3.75%	<u>\$ 775,000</u>	<u>\$ 474,919</u>

Annual principal and interest maturities of the outstanding general obligation debt of \$474,919 on December 31, 2020 are detailed below:

<u>Year Ended December 31,</u>	<u>Notes from Direct Borrowings</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 37,307	\$ 17,809
2022	38,707	16,410
2023	40,158	14,959
2024	41,627	13,490
2025	43,225	11,892
2026 - 2030	241,672	33,916
2031	32,223	1,208
Total	<u>\$ 474,919</u>	<u>\$ 109,684</u>

Legal Margin for New Debt

The District's legal margin for creation of additional general obligation debt on December 31, 2020 was \$18,251,731 as follows:

Equalized Valuation of the District	\$ 374,533,007
Statutory Limitation Percentage	<u>(x) 5%</u>
General Obligation Debt Limitation, per Section 67.03 of the Wisconsin Statutes	18,726,650
Net Outstanding General Obligation Debt Applicable to Debt Limitation	474,919
Legal Margin for New Debt	<u>\$ 18,251,731</u>

TOWN OF NEENAH SANITARY DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 3 OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District completes an annual review of its insurance coverage to ensure adequate coverage. Payment of premiums for these policies are recorded as expenses of the District. Insurance settlements have not exceeded coverage in any of the past three years.

B. Contingencies

From time to time, the District is party to other 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.

C. Risks and Uncertainties

The Coronavirus Disease 2019 (COVID-19) has affected global markets, supply chains, employees of organizations, and local communities. Specific to the District, COVID-19 may impact parts of its 2021 operations and financial results. Management believes the District is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of March 18, 2021.

SUPPLEMENTARY INFORMATION

TOWN OF NEENAH SANITARY DISTRICT NO. 2
SCHEDULE OF OPERATING EXPENSES
YEAR ENDED DECEMBER 31, 2020
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>2020</u>	<u>2019</u>
OPERATING EXPENSES		
Operation and Maintenance	\$ 96,071	\$ 91,514
System Operation and Maintenance:		
Utilities	13,845	13,037
Treatment Cost	118,194	135,723
Inflow and Infiltration	56,537	19,119
Arc Reader	12,725	9,648
Engineering Services	9,308	9,372
Total System Operation and Maintenance	<u>306,680</u>	<u>278,413</u>
Administrative and General:		
Salaries and Wages	6,113	8,540
Payroll Taxes	468	653
Accounting Services	5,900	5,800
Legal Services	3,062	-
Insurance	5,100	5,325
Office Supplies and Expense	324	413
Administrative Fee - Town of Neenah	35,000	28,000
Miscellaneous	948	448
Total Administrative and General Expense	<u>56,915</u>	<u>49,179</u>
Total Operation and Maintenance	363,595	327,592
Depreciation	<u>189,070</u>	<u>185,337</u>
Total Operating Expenses	<u><u>\$ 552,665</u></u>	<u><u>\$ 512,929</u></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**

Board of Commissioners
Town of Neenah Sanitary District No. 2
Town of Neenah, 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 Town of Neenah Sanitary District No. 2 (the District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated March 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 entity'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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-001, 2020-002, and 2020-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’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 financial statements. 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 Sanitary District No. 2’s Response to Findings

The District’s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District’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 the District’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 District’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Green Bay, Wisconsin
March 18, 2021

**TOWN OF NEENAH SANITARY DISTRICT NO. 2
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2020**

Section I – Internal Control Over Financial Reporting

2020-001

Control Deficiencies

Segregation of Duties

Repeat of Finding 2019-001

Type of Finding

Material Weakness in Internal Control over Financial Reporting

Condition

The District has an accounting position to essentially complete all financial and recordkeeping duties of the District. 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.

Context

While performing audit procedures, it was noted that the District does not have internal controls in place to properly separate financial and recordkeeping duties.

Cause

The lack of segregation of duties is due to the limited number of employees and the size of the District's operations. In addition, the District has not completed a formal risk assessment and review of internal controls to identify additional mitigating and compensating controls which could be implemented to reduce the risk of errors or intentional fraud.

Effect

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

Recommendation

We recommend the Board of Commissioners continue to monitor the transactions and the financial records of the District. We recommend the District perform a risk assessment of its operations and current procedures to identify and implement mitigating controls to reduce the risk of errors and intentional fraud. The District should review its processes to identify tasks that could be reassigned to other District personnel.

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. The Commissioners will continue to review and approve the accountant's work.

**TOWN OF NEENAH SANITARY DISTRICT NO. 2
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

Section I – Internal Control Over Financial Reporting (Continued)

2020-002

Control Deficiencies

Preparation of Annual Financial Report

Repeat of Finding 2019-002

Condition

Management and the Board of the District share the ultimate responsibility for the District's internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced.

The District engages CLA to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the District's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the District has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the District's activities and operations.

The District's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the District's financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

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.

Context

While performing audit procedures, it was noted that management does not have internal controls in place to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

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

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.

**TOWN OF NEENAH SANITARY DISTRICT NO. 2
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

Section I – Internal Control Over Financial Reporting (Continued)

Recommendation

We recommend the District continue reviewing the annual financial report. 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

The District Management and Commissioners have reviewed and approved the financial report.

2020-003

Control Deficiencies

Adjustments to the District's Financial Records

Repeat of Finding 2019-003

Condition

As part of our audit, we proposed adjusting journal entries that were material to the District's financial statements.

Criteria

Material adjusting journal entries proposed by the auditors are considered to be an internal control deficiency.

Context

While performing audit procedures, it was noted that management does not have sufficient controls in place related to year end closing procedures.

Cause

While District staff maintains financial records which accurately report revenues and expenditures throughout the year, preparing year-end adjusting and closing entries requires additional expertise that would entail additional training and staff time to develop.

Effect

Year-end financial records prepared by the District may contain material misstatements.

Recommendation

We recommend the District designate an individual to obtain additional training in order to prepare the adjusting and closing entries. We are available to assist the individual in obtaining the understanding to prepare these entries.

Management Response

Management will thoroughly review the year-end adjusting and closing entries and will work with CLA to identify opportunities to reduce number and significance of year-end adjusting and closing entries.

**TOWN OF NEENAH SANITARY DISTRICT NO. 2
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

Section II – Compliance and Other Matters

There are no findings related to compliance and other matters that are required to be reported under *Government Auditing Standards* generally accepted in the United States of America for the year ended December 31, 2020.