

WALDOBORO UTILITY DISTRICT

ANNUAL FINANCIAL REPORT
with Independent Auditors Report

For the Year Ending December 31, 2017

WALDOBORO UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
Year Ended December 31, 2017

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KEEL J. HOOD

Certified Public Accountant

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INDEPENDENT AUDITORS REPORT

Board of Directors
Waldoboro Utility District
Waldoboro, Maine

February 28, 2018

I have audited the accompanying financial statements of Waldoboro Utility District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Waldoboro Utility District as of December 31, 2017 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's Discussion & Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Jeffrey Hood, CPA". The signature is written in dark ink and is positioned above the date.

February 28, 2018

Management's Discussion and Analysis

The following provides important background information and management's analysis of the District's financial performance for the fiscal year that ended December 31, 2017. While reviewing this section please refer to the basic financial statements and accompanying notes.

Financial Highlights

- Total assets of the District were \$5,029,783 at the end of 2017 a reduction of 1.4% from 2016. In the same period, total liabilities decreased 4.6% (See *Statement 1*).
- Total revenues were up 2.8%; almost all of which came from user revenues largely due to the 2016 rate increase. There were no new service connections (impact fees) this year. (See *Statement 2*).
- Total expenses were up by 9.1% over the previous year. Most of the increase was in parts and repairs reflecting the effort to keep the equipment in good operating condition. (See *Statement 2*).
- The District is completely supported by user fees and in May 2016 the rates were increased by 5%. This is the first increase since 2006. The effect of this increase is partly reflected in the revenues for this year.

Overview of Financial Statements

In accordance with requirements set forth by the Governmental Accounting Standards Board, the District's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses during the year, regardless of when cash is received or paid.

The basic financial statements, presented for the year ended December 31, 2017 are comprised of:

- *Balance Sheets*: The District presents its statement of position using the Statement of Net Assets format. The balance sheets (*Statement 1*) reflect the assets, liabilities and fund equity (net assets) of the District at year end.
- *Statements of Activities*: These statements reflect the transactions and events that have increased or decreased the District's total economic resources during the period (*Statement 2*). Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.
- *Statements of Cash Flows*: The Statement of Cash Flows and Increase in Cash reflect the sources and uses of cash separated into four categories of activities: Operating, Capital and Related, Noncapital and Investing (*Statement 3*).

The notes to the financial statements, presented at the end of the basic financial statements, are considered an integral part of the District's presentation of financial position, results of operations and changes in cash flows.

Financial Analysis

Assets & Liabilities

As noted in the highlights above, the District's assets decreased by 1.4% in 2017. This compares to a 2.2% decrease in 2016. These decreases are normal and reflect the reduced value of the system as it ages. This decrease is also balanced by a decrease in liabilities of 4.6% as the long term debt was reduced.

Revenues

In 2017 total revenues increased 2.8% reflecting the effect of a user fee increase in May 2016. There were no new service connections (increased customer base) that would have increased revenues. No rate increase is being contemplated for 2018.

Expenses

Total expenses increased by 9.1% during 2017, however, only 99% of the 2017 operating budget was spent. The increase is a reflection of the work on the sewer collection system that was postponed in 2016. This work was begun in 2017 with rebuilding the tops of over 70 manholes. More improvements are planned for 2018. This is being financed by a \$200,000 loan and a \$100,000 grant from Rural Development. This will increase assets by \$300,000 without a rate increase.

WALDOBORO UTILITY DISTRICT
Statement of Net Position
December 31, 2017

ASSETS

Current Assets		
Cash		\$ 292,065
Receivables:		
Sewer liens		89,628
Prepaid fuel		901
	Total Current Assets	<u>382,594</u>
Fixed Assets		
Lagoon and related		6,985,924
Construction in Progress		52,599
	Total Fixed Assets	<u>7,038,523</u>
Accumulated Depreciation		<u>(2,391,334)</u>
	Net Fixed Assets	<u>4,647,189</u>
	Total Assets	<u><u>5,029,783</u></u>

LIABILITIES AND NET POSITION

Liabilities:		
Current Liabilities:		
Accounts payable		686
Accrued interest		3,120
Current portion of long-term debt		149,330
	Total current liabilities	<u>153,136</u>
Long-term Liabilities:		
State revolving loan fund		694,134
Less current portion of long-term debt		<u>(149,330)</u>
	Total long-term liabilities	<u>544,804</u>
	Total Liabilities	<u>697,940</u>
Net Position:		
Invested in capital assets, net of related debt		3,953,056
Unrestricted:		
Appropriated net position		203,189
Unappropriated		175,598
	Total Net Position	<u>4,331,843</u>
	Total Liabilities and Net Position	<u>\$ <u>5,029,783</u></u>

WALDOBORO UTILITY DISTRICT
Statement of Activities
For the Year Ending December 31, 2017

Operating Revenues:	
Sewer fees	\$ 262,480
Miscellaneous	45
Total Operating Revenues	<u>262,525</u>
Operating Expenses:	
Labor	29,620
Labor related	2,364
General administration	4,565
Insurance	7,072
Professional fees	24,065
Utilities	30,807
Generator fuel	8,704
Mileage	683
Sewer line maintenance	2,023
Depreciation	140,944
Miscellaneous	3,466
Sewer line maintenance	6,750
Plant parts and repairs	29,992
Total Expenses	<u>291,055</u>
Operating Income	<u>(28,530)</u>
Nonoperating Revenues and Expenses:	
Interest on cash funds	600
Interest on sewer fees	3,792
Interest expense	(14,068)
Total Nonoperating Revenues and Expenses	<u>(9,676)</u>
Net Income	<u>(38,206)</u>
Net Position - Beginning	<u>4,370,049</u>
Net Position - Ending	<u>\$ 4,331,843</u>

WALDOBORO UTILITY DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows From Operating Activities:

Receipts from customers	\$ 260,075
Other income	45
Payments for services and supplies	(118,073)
Payments to employees	(32,058)

Net Cash Provided by Operating Activities	<u>109,989</u>
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Cash Flows from Capital and Related Financing Activities:

Acquisition of fixed assets	(52,599)
Retirement of debt	(90,063)
Proceeds of note	57,326
Interest expense	(14,568)

Net Cash Used by Capital and Related Financing Activities	<u>(99,904)</u>
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Cash Flows from Investing Activities:

Interest on cash accounts	4,392
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Net Cash Provided by Investing Activities	<u>4,392</u>
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Net Increase in Cash	14,477
Cash Balance - Beginning	<u>277,588</u>
Cash Balance - Ending	<u><u>292,065</u></u>

Cash Flows From Operating Activities:

Operating income (loss)	(28,530)
Adjustments to Reconcile Operating Income to Cash Flows from Operating Activities:	
Depreciation expense	140,943
Increase (Decrease) in accounts receivable	(62,312)
Decrease (Increase) in accrued fees	59,906
Decrease (Increase) in prepaid fuel	55
Increase (Decrease) in accounts payable	(73)

Net Cash Provided by Operating Activities \$	<u><u>109,989</u></u>
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Waldoboro Utilities District
Notes to the Financial Statements
December 31, 2017

Note 1 - Summary of Significant Accounting Policies

General Statement

Waldoboro Utilities District (The District) is an organization for the towns people within the Town of Waldoboro. Its purpose is to operate as a Sewer treatment plant. The basic operations of the District are financed by fees.

The accounting and reporting policies of the District relating to the proprietary fund in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments.

The following significant accounting policies were applied in the preparation of the accompanying financial statements:

Reporting Entity

The District's general purpose financial statements include the accounts of all the District's operations. The criteria for including other organizations within the District's reporting entity, as set forth in NCGA Statement No. 3, "Defining the Reporting Entity", primarily include the degree of oversight responsibility maintained by the Executive Board. Examples of oversight responsibility include financial interdependency, selection of governing authority designation of management, ability to significantly influence operations and accountability for fiscal matters. Member governments have not been included within the District's general purpose financial statements because none of the criteria of NCGA Statement No. 3 have been met.

Basis of Presentation

The accounts of the District utilize the accrual basis of accounting whereby revenues are recognized as earned and expenses are recognized as obligations are incurred. Resources are accounted for in individual accounts based upon the purposes for which they are to be spent and the restrictions, if any on the spending activities. The District uses appropriated fund equities to restrict assets for the following purposes:

Purpose:	Sewer <u>Division</u>
Equipment reserve	\$ 88,470
SSDC	1,018
Debt	62,668
Sludge removal	<u>51,033</u>
Total Appropriated \$	<u><u>203,189</u></u>

Proprietary Fund Type

Enterprise Fund - accounts for the financing of operations expected to be reimbursed from results of operations. The major sources of revenue are user fees.

Note 1 - Summary of Significant Accounting Policies, continued

Federal and State Grant Revenue

Capital grant revenue is recorded as other nonoperating income. For the year ended December 31, 2017, the District received no contributed grants. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

User Fees

All customers are required to pay fees to The District. Fees are determined by usage rates set annually and are recognized as revenues when assessed because they are measurable and are collectible within the current period.

Other Revenues

Other revenues are composed primarily of interest and miscellaneous charges for services. Interest income is recorded as earned since it is measurable and available. Miscellaneous charges for services are recorded as revenues when received in cash because they are generally not measurable until actually received.

Cash

Deposits are carried at cost which approximates market value. The carrying amount of deposits is separately displayed on the balance sheet as 'Cash.' At December 31, 2017, the deposits of the District covered by federal depository insurance was \$280,975 with no amount uninsured.

Materials and Supplies

Inventories of materials and supplies are stated at lower of cost or market. Cost is determined principally on a first-in, first-out basis. Most inventory consists of hardware that has a significant shelf life.

Operating and Nonoperating Property

Operating and nonoperating property are recorded at cost or, in the case of contributed property, at the fair market value at the date of acquisition. Depreciation is computed on the straight line method based upon the estimated useful lives of the assets as follows:

Operating Property

Sewer Division - Useful lives ranging from ten to fifty years, in accordance with federal regulations as indicated in the Federal Register, Environmental Protection Agency, Water Pollution Control.

2. Long-term Debt

The following is a summary of long-term debt transactions of the District for the year ended December 31, 2017:

Long-term debt payable <u>at January 1, 2017</u>	\$	726,871
Deductions - Debt retired		(90,063)
Debt proceeds		<u>57,326</u>
Long-term debt payable at December 31, 2017	\$	<u><u>694,134</u></u>

Note 1 - Summary of Significant Accounting Policies, continued

Long-term debt payable at December 31, 2017 is comprised of the following:

<u>Sewer Division</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Balance End of Year</u>
MMBB Revolving loan fund	2.0%	2021	\$ 61,223
MMBB Revolving loan fund	2.0%	2024	575,584
Interim Financing	.99%		57,327
Totals			<u>\$ 694,134</u>

The annual requirement to amortize all long-term debt outstanding as of December 31, 2017 including interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 149,330	9,884
2019	93,987	8,403
2020	96,013	6,890
2021	98,084	5,344
2022	83,843	3,928
2023-2025	172,877	3,981
Total	<u>\$ 694,134</u>	<u>\$ 38,430</u>

5. Operating property

Operating and nonoperating property are recorded at cost or, in the case of contributed property, at the fair market value at the date of acquisition. Depreciation is computed on the straight line method based upon the estimated useful lives of the assets as follows:

<u>Fixed Assets</u>	<u>Depreciation Life</u>	<u>Cost</u>	<u>Depreciation Expense</u>
Land	0	\$ 14,058	0
Pumping stations	50	244,904	4,898
Equipment	8,3,&5	88,820	2,663
Lagoon and related	50	6,638,142	133,382
		<u>\$ 6,985,924</u>	<u>\$ 140,943</u>

4. Risk Assessment & Contingencies

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains insurance coverage for part of its risk management. Currently, the District purchases insurance for the following:

The property, general liability and employee dishonesty insurance is carried with the Maine Municipal Association Property & Casualty Pool.

Note 1 - Summary of Significant Accounting Policies, continued

5. Subsequent Events

The Town's management has concluded that no events that occurred prior to December 31, 2017 and before February 28, 2018 require disclosure as subsequent events.

KEEL J. HOOD

Certified Public Accountant

PO Box 302 - Fairfield, Maine 04937 - (207)453-2006

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

February 28, 2018

Board of Selectmen
Waldoboro Utility District, Maine

I have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Town of Waldoboro Utility District, Maine as of and for the year ended December 31, 2017, which collectively comprise Town of Waldoboro Utility District, Maine's basic financial statements and have issued my report thereon dated February 28, 2018. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audits, I considered Town of Waldoboro Utility District, Maine's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Waldoboro Utility District, Maine's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Town of Waldoboro Utility District, Maine's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Waldoboro Utility District, Maine's financial statements are free of material misstatement, I 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 my audits, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Selectmen, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

