

WALDOBORO UTILITY DISTRICT

ANNUAL FINANCIAL REPORT
with Independent Auditors Report

For the Year Ending December 31, 2016

WALDOBORO UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
Year Ended December 31, 2016

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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

March 16, 2017

I have audited the accompanying financial statements of Waldoboro Utility District, as of and for the year ended December 31, 2016, 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, 2016 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 black ink, appearing to read "Paul J. Hood, CPA". The signature is written in a cursive, flowing style.

March 16, 2017

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, 2016. While reviewing this section please refer to the basic financial statements and accompanying notes.

Financial Highlights

- Total assets of the District were \$5,101,299 at the end of 2016 a reduction of 2.2% from 2015. In the same period, total liabilities decreased 10.8% (See *Statement 1*).
- Total revenues were down 0.5% with user revenues virtually the same, but there were no new service connections (impact fees) (See *Statement 2*).
- Total expenses were down by 11.4% over the previous year. Most of the saving were in sewer line maintenance (fewer emergency situations) and in parts and repairs (fewer repair parts needed) (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. Because of the timing of the increase the impact will not be reflected in the revenues until 2017.

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, 2016 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 2.2% in 2016. This compares to a 2.7% decrease in 2015. 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 10.8% as the long term debt was reduced.

Revenues

In 2016 total revenues decreased 0.5% even with user fees almost the same as 2015. No new service connections was the reason for the decrease. No rate increase is being contemplated for 2017.

Expenses

Total expenses decreased by 11.4% during 2016. The decrease came from postponed improvements to the sewer collection system that will be done in a planned 2017 program to upgrade over 70 manholes, replace the screening equipment in the Main Pump Station and improve the aeration equipment in the treatment lagoons. This will be financed by a \$200,000 loan and a \$100,000 grant from Rural Development that was approved by District voters in June 2016. This will increase assets by \$300,000 without a further rate increase.

WALDOBORO UTILITY DISTRICT
Statement of Net Position
December 31, 2016

ASSETS		
Current Assets		
Cash		\$ 277,587
Receivables:		
Sewer fees		59,906
Sewer liens		27,317
Prepaid fuel		956
	Total Current Assets	<u>365,766</u>
Fixed Assets		
Land		14,058
Elm street pumping station		121,364
Equipment		55,964
Lagoon and related		6,794,538
	Total Fixed Assets	<u>6,985,924</u>
Accumulated Depreciation		<u>(2,250,391)</u>
	Net Fixed Assets	<u>4,735,533</u>
	Total Assets	<u><u>5,101,299</u></u>
LIABILITIES AND NET POSITION		
Liabilities:		
Current Liabilities:		
Accounts payable		759
Accrued interest		3,620
Current portion of long-term debt		90,063
	Total current liabilities	<u>94,442</u>
Long-term Liabilities:		
State revolving loan fund		726,871
Less current portion of long-term debt		<u>(90,063)</u>
	Total long-term liabilities	<u>636,808</u>
	Total Liabilities	<u>731,250</u>
Net Position:		
Invested in capital assets, net of related debt		4,008,662
Unrestricted:		
Appropriated net position		195,882
Unappropriated		165,505
	Total Net Position	<u>4,370,049</u>
	Total Liabilities and Net Position	<u>\$ 5,101,299</u>

WALDOBORO UTILITY DISTRICT
Statement of Activities
For the Year Ending December 31, 2016

Operating Revenues:	
Sewer fees	\$ 255,213
Miscellaneous	280
Total Operating Revenues	<u>255,493</u>
Operating Expenses:	
Labor	27,460
Labor related	2,015
General administration	4,526
Insurance	6,972
Professional fees	22,796
Utilities	31,272
Generator fuel	7,468
Mileage	870
Repairs, maintenance, and small improvements	324
Sewer line maintenance	3,792
Depreciation	142,323
Miscellaneous	3,661
Sewer line maintenance	3,642
Plant parts and repairs	9,621
Total Expenses	<u>266,742</u>
Operating Income	<u>(11,249)</u>
Nonoperating Revenues and Expenses:	
Interest on cash funds	554
Interest on sewer fees	3,556
Interest expense	(20,705)
Total Nonoperating Revenues and Expenses	<u>(16,595)</u>
Net Income	<u>(27,844)</u>
Net Position - Beginning	<u>4,397,895</u>
Net Position - Ending	<u>\$ 4,370,051</u>

WALDOBORO UTILITY DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash Flows From Operating Activities:	
Receipts from customers	\$ 253,830
Other income	280
Payments for services and supplies	(95,321)
Payments to employees	(29,448)
	<hr/>
Net Cash Provided by Operating Activities	129,341
Cash Flows from Capital and Related Financing Activities:	
Acquisition of fixed assets	(5,101)
Retirement of debt	(88,164)
Interest expense	(21,205)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(114,470)
Cash Flows from Investing Activities:	
Interest on cash accounts	4,110
	<hr/>
Net Cash Provided by Investing Activities	4,110
Net Increase in Cash	18,981
Cash Balance - Beginning	258,606
Cash Balance - Ending	<hr/> <hr/> 277,587
Cash Flows From Operating Activities:	
Operating income (loss)	(11,249)
Adjustments to Reconcile Operating Income to Cash Flows from Operating Activities:	
Depreciation expense	142,323
Increase (Decrease) in accounts receivable	571
Decrease (Increase) in accrued fees	(1,954)
Decrease (Increase) in prepaid fuel	(377)
Increase (Decrease) in accounts payable	27
	<hr/>
Net Cash Provided by Operating Activities	\$ 129,341

Waldoboro Utilities District
Notes to the Financial Statements
December 31, 2016

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	\$ 84,511
SSDC	1,015
Debt	62,446
Sludge removal	47,910
Total Appropriated \$	<u>195,882</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, 2016, 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, 2016, 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, 2016:

Long-term debt payable at <u>January 1, 2016</u>	\$	815,035
Deductions - Debt retired		<u>(88,164)</u>
Long-term debt payable at December 31, 2016	\$	<u><u>726,871</u></u>

Note 1 - Summary of Significant Accounting Policies, continued

Long-term debt payable at December 31, 2016 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	\$ 75,533
MMBB Revolving loan fund	2.0%	2024	651,338
Totals			<u>\$ 726,871</u>

The annual requirement to amortize all long-term debt outstanding as of December 31, 2016 including interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 90,063	11,333
2017	92,004	9,884
2018	93,987	8,403
2019	96,013	6,890
2020	98,084	5,344
2021-2024	256,720	7,909
Total \$	<u>726,871</u>	<u>\$ 49,763</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	121,364	2,267
Equipment	8,3,&5	55,964	2,495
Lagoon and related	50	6,794,538	131,388
		<u>\$ 6,985,924</u>	<u>136,150</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.

5. Subsequent Events

The Town's management has concluded that no events that occurred prior to December 31, 2016 and before March 16, 2017 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

March 16, 2017

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, 2016, which collectively comprise Town of Waldoboro Utility District, Maine's basic financial statements and have issued my report thereon dated March 16, 2017. I conducted my audits 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.

