

Federal Compliance Audit

Vassalboro Sanitary District

December 31, 2019



Proven Expertise & Integrity

VASSALBORO SANITARY DISTRICT

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DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Vassalboro Sanitary District
Vassalboro, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of Vassalboro Sanitary District, as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise the Vassalboro Sanitary 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 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 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, 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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Vassalboro Sanitary District as of December 31, 2019 and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such 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. 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2020, on our consideration of Vassalboro Sanitary District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in considering Vassalboro Sanitary District's internal control over financial reporting and compliance.

RHR Smith & Company

Buxton, Maine
April 30, 2020

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

(UNAUDITED)

The following management's discussion and analysis of Vassalboro Sanitary District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2019. Please read it in conjunction with the District's financial statements.

Financial Statement Overview

The Vassalboro Sanitary District's basic financial statements include the following components: 1) proprietary fund financial statements and 2) notes to the financial statements. This report does not include any required supplementary information as the District does not prepare a legally adopted budget for property tax basis, but the trustees do prepare a budget.

Basic Financial Statements

The basic financial statements for the District include the statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows. There are no fund financial statements as the District only has one fund. These basic financial statements also include the notes to financial statements that explain in more detail certain information in the financial statements and also provide the user with the accounting policies used in the preparation of the financial statements.

The District's financial statements provide a broad view of the District's operations in a manner that is similar to private businesses. These statements provide both short-term as well as long-term information in regards to the District's financial position. These financial statements are prepared using the accrual basis of accounting. This measurement focus takes into account all revenues and expenses associated with the fiscal year regardless of when cash is received or paid. The District's financial statements include the following two statements:

The Statement of Net Position – this statement presents *all* of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference being reported as net position.

The Statement of Activities – this statement presents information that shows how the government's net position changed during the period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Both of the above mentioned financial statements have been presented for the District's only type of activity:

- *Business-type activities* – These activities are normally intended to recover all or a significant portion of their costs through user fees and/or charges to external users for goods and/or services. All of the District's activities are business-type.

There are no fund financial statements presented as all activity for the District is proprietary in nature. The activity of the District is presented for the following:

Proprietary Funds: The Vassalboro Sanitary District maintains one proprietary fund. These funds are used to show activities that operate more like those of commercial enterprises. Proprietary financial statements use the accrual basis of accounting.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The Notes to Financial Statements can be found following the Statement of Cash Flows.

Financial Analysis

Our analysis below focuses on the net position and changes in net position of the District's business-type activities. The District's total net position increased by \$2,830,714 from \$1,050,045 to \$3,880,759.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased by \$1,523,321 from a deficit balance of \$80,005 to a deficit balance of \$1,603,326 at the end of this year.

Table 1
Vassalboro Sanitary District
Net Position
December 31,

	<u>2019</u>	<u>2018</u>
Assets:		
Current Assets	\$ 274,834	\$ 275,082
Noncurrent Assets	6,381,844	1,152,100
Total Assets	<u>\$7,871,919</u>	<u>\$1,427,182</u>
Liabilities:		
Current Liabilities	\$1,916,089	\$ 377,137
Noncurrent Liabilities	2,075,071	-
Total Liabilities	<u>\$3,991,160</u>	<u>\$ 377,137</u>
Net Position:		
Net Investment in Capital Assets	\$4,268,844	\$1,130,050
Restricted	1,215,241	-
Unrestricted (Deficit)	<u>(1,603,326)</u>	<u>(80,005)</u>
Total Net Position	<u>\$3,880,759</u>	<u>\$1,050,045</u>

Revenues and Expenses

Revenues for the District's business-type activities increased by 1021.69% while total expenses increased by 10.22%. The increase in revenues was due to capital contributions. The largest increases in expenses were in operating and other expenses.

Table 2
Vassalboro Sanitary District
Changes in Net Position
For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>
Revenues		
Fees	\$ 164,717	\$ 179,713
Capital contributions	2,878,812	91,629
Miscellaneous	97	2
Total Revenues	<u>3,043,626</u>	<u>271,344</u>
Expenses		
Operating expenses	48,803	36,775
Telephone and utilities	7,429	7,872
Insurance	10,960	7,670
Contracted services	19,444	41,985
Repairs and maintenance	30,571	37,182
Depreciation	45,438	45,129
FEMA storm expenses	-	15,071
Other	50,267	1,479
Total Expenses	<u>212,912</u>	<u>193,163</u>
Change in Net Position	2,830,714	78,181
Net Position - January 1	<u>1,050,045</u>	<u>971,864</u>
Net Position - December 31	<u>\$ 3,880,759</u>	<u>\$ 1,050,045</u>

Capital Asset and Long-Term Debt Activity

Capital Assets

As of December 31, 2019, the net book value of capital assets recorded by the District increased by \$5,229,744 over the prior year. The increase was the result of current year capital additions of \$5,275,182 less current year depreciation expense of \$45,438.

Table 3
Vassalboro Sanitary District
Capital Assets (Net of Depreciation)
December 31,

	2019	2018
Land	\$ 53,263	\$ 53,263
Construction in progress	5,889,906	621,494
Sludge site improvements	3,623	-
Building improvements	6,770	-
Infrastructure	428,282	477,343
Total	\$ 6,381,844	\$ 1,152,100

Long-Term Debt

At December 31, 2019, the District had \$2,113,000 in an outstanding bond payable. Refer to Note 5 of Notes to Financial Statements for more detailed information.

Currently Known Facts, Decisions or Conditions

Economic Factors and Next Year's Budgets and Rates

The District does not have a sufficient unrestricted net position to sustain government operations for a period of at least three months or maintain significant reserve accounts for future capital and program needs.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Treasurer at P.O. Box 183, North Vassalboro, Maine 04962.

STATEMENT A

VASSALBORO SANITARY DISTRICT

STATEMENT OF NET POSITION
DECEMBER 31, 2019

ASSETS

Current assets:

Cash and cash equivalents	\$ 95,537
Accounts receivable (net of allowance for uncollectibles)	178,984
Prepaid items	313
Total current assets	<u>274,834</u>

Noncurrent assets:

Capital assets:

Land	53,263
Construction in progress	5,889,906
Sludge site	14,492
Building improvements	6,770
Infrastructure	2,094,053
Total capital assets	<u>8,058,484</u>
Less: accumulated depreciation	<u>(1,676,640)</u>
Total noncurrent assets	<u>6,381,844</u>

Other assets:

Restricted cash and cash equivalents - USDA	3,011
Restricted cash and cash equivalents - capital - sewer upgrade	1,098,611
Restricted cash and cash equivalents - TIF	113,619
Total other assets	<u>1,215,241</u>

TOTAL ASSETS \$ 7,871,919

LIABILITIES

Current liabilities:

Accounts payable	\$ 811,959
Payroll liabilities	927
Accrued interest	16,274
Revenue obligation note	1,049,000
Current portion of long-term liabilities	37,929
Total current liabilities	<u>1,916,089</u>

Noncurrent liabilities:

Bond payable	<u>2,075,071</u>
Total noncurrent liabilities	<u>2,075,071</u>

TOTAL LIABILITIES 3,991,160

NET POSITION

Net investment in capital assets	4,268,844
Restricted	1,215,241
Unrestricted (deficit)	<u>(1,603,326)</u>
TOTAL NET POSITION	<u>3,880,759</u>

TOTAL LIABILITIES AND NET POSITION \$ 7,871,919

See accompanying independent auditors' report and notes to financial statements.

VASSALBORO SANITARY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

OPERATING REVENUES	
Fees	\$ 164,717
TOTAL OPERATING REVENUES	<u>164,717</u>
OPERATING EXPENSES	
Operating expenses	48,803
Telephone and utilities	7,429
Insurance	10,960
Contracted services	19,444
Repairs and maintenance	30,571
Depreciation	45,438
Other	4,379
TOTAL OPERATING EXPENSES	<u>167,024</u>
OPERATING INCOME (LOSS)	<u>(2,307)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	97
Interest expense	(45,888)
Capital contributions	2,878,812
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>2,833,021</u>
CHANGE IN NET POSITION	2,830,714
NET POSITION - JANUARY 1	<u>1,050,045</u>
NET POSITION - DECEMBER 31	<u>\$ 3,880,759</u>

See accompanying independent auditors' report and notes to financial statements.

VASSALBORO SANITARY DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 95,798
Payments to suppliers	686,213
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>782,011</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	97
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>97</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from bond anticipation note	699,000
Proceeds from revenue anticipation note	2,113,000
Proceeds from capital contributions	2,878,812
(Purchase) disposals of capital assets	(5,275,182)
Principal paid on capital debt	(22,050)
Interest paid on capital debt	(29,614)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>363,966</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,146,074
CASH AND CASH EQUIVALENTS - JANUARY 1	<u>164,704</u>
CASH AND CASH EQUIVALENTS - DECEMBER 31	<u>\$ 1,310,778</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION	
Cash and cash equivalents in current assets	\$ 95,537
Restricted cash and cash equivalents	1,215,241
	<u>\$ 1,310,778</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (2,307)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	45,438
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(68,919)
Increase (decrease) in accounts payable	807,015
Increase (decrease) in payroll liabilities	784
Increase (decrease) in accrued interest	16,274
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 782,011</u>

See accompanying independent auditors' report and notes to financial statements.

VASSALBORO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Vassalboro Sanitary District was incorporated under the laws of the State of Maine. The District operates under a board of director - treasurer form of government and provides sanitary services.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the District has chosen not to do so.

The District's combined financial statements include all accounts and all operations of the District. We have determined that the District has no component units as described in GASB Statement No. 14 and amended by GASB Statements No. 39 and No. 61.

Implementation of New Accounting Standards

During the year ended December 31, 2019, the following statements of financial accounting standards issued by the Governmental Accounting Standards Board became effective:

Statement No. 83 "Certain Asset Retirement Obligations". This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation or acquiring a tangible capital asset that has an existing ARO. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the

VASSALBORO SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

estimates of the liabilities and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 84 "Fiduciary Activities". This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval or condition is required to be taken or met by the beneficiary to release the assets. Management has determined the impact of this Statement is not material to the financial statements

Statement No. 88 "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements". This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences and significant subjective acceleration clauses. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 90 "Majority Equity Interests". This Statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a

VASSALBORO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

fiduciary fund or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. Management has determined the impact of this Statement is not material to the financial statements.

Measurement Focus - Basic Financial Statements and Fund Financial Statements

1. Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Operating revenues include charges for services, intergovernmental reimbursements and other miscellaneous fees which are a direct result of the proprietary activity. Non-operating revenues are any revenues which are generated outside of the general proprietary activity, i.e. interest income. The following is a description of the proprietary funds:

- a. Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) established fees and charges based on a pricing policy designed to recover similar costs.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

VASSALBORO SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. Accrual

Proprietary funds are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

It is the District's policy to value investments at fair value. None of the District's investments are reported at amortized cost.

- Obligations of the U.S. Government, its agencies and instrumentalities
- Certificates of deposits and other evidences of deposits at banks, savings and loan associations and credit unions
- Repurchase agreements
- Money market mutual funds

The District has no formal investment policy but instead follows the State of Maine Statutes.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

Receivables

Receivables include amounts due for sanitary user charges. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. Allowances are reported when accounts are proven to be uncollectible. The allowance for uncollectible accounts is estimated to be \$0 as of December 31, 2019. Allowances for uncollectible accounts netted with accounts receivable were \$178,984 for the year ended December 31, 2019.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital

VASSALBORO SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

outlays that significantly extend the useful life of an asset are capitalized. Infrastructure such as streets, traffic signals and signs are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives.

The assets are valued at historical cost when available and estimated historical cost where actual invoices or budgetary data was unavailable. Donated fixed assets are valued at their estimated fair market value on the date received. All retirements have been recorded by eliminating the net carrying values.

Infrastructure assets include roads, bridges, underground pipe (other than related to independently owned utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the District.

Estimated useful lives are as follows:

Buildings	20 - 50 years
Infrastructure	50 - 100 years
Machinery and equipment	3 - 50 years

Long-term Obligations

All long-term debt to be repaid from business-type resources is reported as liabilities in the proprietary financial statements. The District's long-term debt consists primarily of a bond payable.

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or restricted net position.

Program Revenues

Program revenues include all directly related income items applicable to a particular program (charges to customers or applicants for goods, services or privileges provided; operating or capital grants and contributions, including special assessments).

VASSALBORO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating/Nonoperating Proprietary Fund Revenues

Operating revenues consist mainly of direct revenue sources and/or charges for services applicable to that fund's ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end. The District does not utilize encumbrance accounting for its general fund.

Use of Estimates

During the preparation of the District's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent items as of the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results may differ from these estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District follows state statutes for the investment of funds, which authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Maine, corporate stocks and bonds within statutory limits, financial institutions, mutual funds and repurchase agreements. These apply to all District funds.

Deposits:

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the District will not be able to recover its deposits. The District does not have a policy covering custodial credit risk for deposits. However, the District maintains deposits in qualifying financial institutions that are a member of the FDIC or NCUSIF as defined in Title 30-A, Section 5706 of the Maine Revised Statutes.

At December 31, 2019, the District's cash balance of \$1,310,778 was comprised of bank deposits amounting to \$1,313,625. All of these bank deposits were insured by federal depository insurance and consequently were not exposed to custodial credit risk.

VASSALBORO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

<u>Account Type</u>	<u>Bank Balance</u>
Checking account	\$ 1,230,718
Savings account	82,907
	<u>\$ 1,313,625</u>

Investments:

Custodial credit risk for investments is that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Currently, the District does not have a policy for custodial credit risk for investments.

The District did not have any investments as of December 31, 2019.

Credit risk – Statutes for the State of Maine authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Maine, corporate stocks and bonds within statutory limits, financial institutions, mutual funds and repurchase agreements. The District does not have an investment policy on credit risk. Generally, the District invests excess funds in money market accounts and various certificates of deposit.

Interest rate risk – is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a policy related to interest rate risk.

VASSALBORO SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019

NOTE 3 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2019:

	Balance, 1/1/19	Additions	Disposals	Balance, 12/31/19
Non-depreciated assets:				
Land	\$ 53,263	\$ -	\$ -	\$ 53,263
Construction in progress	621,494	5,268,412	-	5,889,906
	<u>674,757</u>	<u>5,268,412</u>	<u>-</u>	<u>5,943,169</u>
Depreciated assets:				
Sludge site improvements	14,492	-	-	14,492
Building improvements	-	6,770	-	6,770
Infrastructure	2,094,053	-	-	2,094,053
	<u>2,108,545</u>	<u>6,770</u>	<u>-</u>	<u>2,115,315</u>
Less: accumulated depreciation	<u>(1,631,202)</u>	<u>(45,438)</u>	<u>-</u>	<u>(1,676,640)</u>
Net depreciated assets	<u>477,343</u>	<u>(38,668)</u>	<u>-</u>	<u>438,675</u>
Net capital assets	<u><u>\$1,152,100</u></u>	<u><u>\$ 5,229,744</u></u>	<u><u>\$ -</u></u>	<u><u>\$6,381,844</u></u>

NOTE 4 - SHORT-TERM DEBT

Short-term debt activity for the year ended December 31, 2019, was as follows:

	Balance, 1/1/19	Additions	Reductions	Balance, 12/31/19
Bond anticipation note	\$ 350,000	\$ -	\$ (350,000)	\$ -
Revenue obligation note	-	1,049,000	-	1,049,000
Total	<u>\$ 350,000</u>	<u>\$ 1,049,000</u>	<u>\$ (350,000)</u>	<u>\$ 1,049,000</u>

On April 24, 2017, the District issued a bond anticipation note through Bangor Savings Bank in anticipation of bond revenues to finance a construction project. The note, a line of credit, allowed principal draws up to \$2,113,000 at a fixed 3.44% interest with a maturity date of April 24, 2019.

On July 23, 2019, the District issued a revenue obligation note through the Maine Municipal Bond Bank in anticipation of bond revenues to finance a construction project. The note, a line of credit, allows principal draws up to \$2,090,000 at a fixed 1.00% interest with a maturity date of July 22, 2020. Once the project is complete, the project is eligible for principal loan forgiveness of up to \$1,049,600 conditional upon compliance with MDEP and/or CWSRF requirements.

VASSALBORO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5 - LONG-TERM DEBT

A summary of long-term debt for the year ended December 31, 2019 is as follows:

	Balance, 1/1/19	Additions	Deletions	Balance, 12/31/19	Current Portion
Bond payable	\$ 22,050	\$ 2,113,000	\$ (22,050)	\$ 2,113,000	\$ 37,929

The following is a summary of the bond payable outstanding as of December 31, 2019:

\$2,113,000 Revenue obligation bond payable to USDA, Rural Utilities Service, issued July 11, 2019, with a fixed interest rate of 1.625% per annum. Annual payments of \$72,265. Maturity date of July 11, 2059. \$2,113,000

The following is a summary of outstanding bond payable principal and interest requirements for the following fiscal year ending December 31:

	Principal	Interest	Total Debt Service
2020	\$ 37,929	\$ 34,336	\$ 72,265
2021	38,545	33,720	72,265
2022	39,171	33,094	72,265
2023	39,808	32,457	72,265
2024	40,455	31,810	72,265
2025-2029	212,353	148,973	361,326
2030-2034	230,176	131,150	361,326
2035-2039	249,496	111,830	361,326
2040-2044	270,437	90,889	361,326
2045-2049	293,136	68,190	361,326
2050-2054	317,740	43,586	361,326
2055-2059	343,754	16,918	360,672
	<u>\$ 2,113,000</u>	<u>\$ 776,953</u>	<u>\$ 2,889,953</u>

VASSALBORO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 6 - RELATED PARTIES

A trustee of the District also performs bookkeeping services to the District. The amount paid to this individual was in wages.

The nephew of a Trustee provides snowplowing and sanding services to the District. The total amount paid to this individual for snowplowing and sanding services for the year ended December 31, 2019 was \$6,910.

The spouse of the Treasurer provides handyman services to the District. The total paid to this individual for handyman services for the year ended December 31, 2019 was \$551.

NOTE 7 - COMPARATIVE DATA/RECLASSIFICATIONS

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations. Also, certain amounts presented in the prior year's data have been reclassified to be consistent with the current year's presentation.

NOTE 8 - RESTRICTED NET POSITION

The District's Restricted Net Position at December 31, 2019 is as follows:

Restricted net position:	
USDA grant funds	\$ 3,011
Capital - sewer upgrade project	1,098,611
Town TIF funds	<u>113,619</u>
Restricted net position	<u>\$ 1,215,241</u>

VASSALBORO SANITARY DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Grantor Pass Through Grantor Program or Cluster Title	Federal CFDA Number	Pass Through Grantor Number	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities Total U.S. Department of Agriculture	10.760	N/A	\$ 3,262,593 <u>3,262,593</u>	\$ - <u>-</u>
U.S. Department of Housing and Urban Development Passed through Town of Vassalboro Community Development Block Grant Total U.S. Department of Housing and Urban Development	14.228	015 19A 0587 01 6331	907,572 <u>907,572</u>	- <u>-</u>
TOTAL FEDERAL ASSISTANCE			\$ 4,170,165 <u><u>\$ -</u></u>	\$ - <u><u>-</u></u>

VASSALBORO SANITARY DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Vassalboro Sanitary District under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Vassalboro Sanitary District, it is not intended to and does not present the financial position, changes in net position or cash flows of the Vassalboro Sanitary District.

2. Summary of Significant Accounting Policies

- a. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b. The Vassalboro Sanitary District has not elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

3. Loan Outstanding

In addition to programs reported on the Schedule of Federal Awards, the Vassalboro Sanitary District has an outstanding federal loan as follows. We considered the outstanding loan balance in determining programs to be tested under the Uniform Guidance.

CFDA Number	Program Name	Outstanding Balance 12/31/19
10.760	U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities	<u>\$ 2,113,000</u>

4. Expenditures to Subrecipients

None



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 Trustees
Vassalboro Sanitary District
Vassalboro, Maine

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 the business-type activities of Vassalboro Sanitary District as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise the Vassalboro Sanitary District's basic financial statements and have issued our report thereon dated April 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Vassalboro Sanitary District'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 Vassalboro Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Vassalboro Sanitary 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.

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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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vassalboro Sanitary 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 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*. We noted certain other matters that we reported to management of the Vassalboro Sanitary District in a separate letter dated April 30, 2020.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RHR Smith & Company

Buxton, Maine
April 30, 2020



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE

Board of Trustees
Vassalboro Sanitary District
Vassalboro, Maine

Report on Compliance for Each Major Federal Program

We have audited Vassalboro Sanitary District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Vassalboro Sanitary District's major federal programs for the year ended December 31, 2019. Vassalboro Sanitary District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Vassalboro Sanitary District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Vassalboro Sanitary District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Vassalboro Sanitary District's compliance.

Basis for Qualified Opinion on Water and Waste Disposal Systems for Rural Communities 10.760

As described in the accompanying schedule of findings and questioned costs, Vassalboro Sanitary District did not comply with requirements regarding CFDA 10.760 - Water and Waste Disposal Systems for Rural Communities as described in findings number 2019-001 and 2019-002.

Compliance with such requirements is necessary, in our opinion, for Vassalboro Sanitary District to comply with the requirements applicable to that program.

Report on Internal Control Over Compliance

Management of Vassalboro Sanitary District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Vassalboro Sanitary District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Vassalboro Sanitary District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We considered the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs for items 2019-001 and 2019-002 to be significant deficiencies.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Vassalboro Sanitary District response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Vassalboro Sanitary District response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this communication is not suitable for any other purpose.

RHR Smith & Company

Buxton, Maine
Vermont Registration No. 092.0000697
April 30, 2020

VASSALBORO SANITARY DISTRICT

NOTES TO SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Section I - Summary of Auditor's Results

• *Financial Statements*

Type of auditor's report issued : Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes no
- Noncompliance material to financial statements noted? yes no

• *Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes no

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported
In accordance with §200.516 of Uniform Guidance? yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and B: \$750,000

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

None

VASSALBORO SANITARY DISTRICT

NOTES TO SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Section III – Federal Awards Findings and Questioned Costs

SIGNIFICANT DEFICIENCIES

2019-001 Procurement

Federal Program Information:

U.S. Department of Agriculture:

CFDA - 10.760 - Water and Waste Disposal Systems for Rural
Communities

Criteria: The following CFR(s) apply to this finding: 2 CFR sections 200.318 through
200.326.

Condition: During compliance testing, it was identified that the District does not have
documented procurement procedures.

Cause: District does not have any documented policies.

Effect: Procurements might not conform to applicable Federal law.

Identification of Questioned Costs: None identified.

Context: Review of procurement procedures, as required by 2 CFR section 200.318(a).

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the District approves and follows a procurement
policy that will meet Federal requirements.

Views of Responsible Officials and Corrective Action Plan: Please see the Corrective
Action Plan issued by the District.

VASSALBORO SANITARY DISTRICT

NOTES TO SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Section III – Federal Awards Findings and Questioned Costs (Continued)

SIGNIFICANT DEFICIENCIES

2019-002 Procurement

Federal Program Information:

U.S. Department of Agriculture:

CFDA - 10.760 - Water and Waste Disposal Systems for Rural
Communities

Criteria: The following CFR(s) apply to this finding: 2 CFR sections 200.318(c).

Condition: While completing compliance procedures, it was noted that the District does not have written standards of conduct that cover conflicts of interest and govern the performance of its employees engaged in the selection, award and administration of contracts.

Cause: District does not have any documented policies or written standards.

Effect: Possibility that conflicts of interest might occur in relation to awarding of contracts.

Identification of Questioned Costs: None identified.

Context: Review of written standards of conduct, as required by 2 CFR section 200.318(c).

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the District implement and follow written standards of conduct that will be in compliance with requirements.

Views of Responsible Officials and Corrective Action Plan: Please see the Corrective Action Plan issued by the District.