

**MILO WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2021**

**MILO WATER DISTRICT
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DECEMBER 31, 2021**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Milo Water District

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements consisting of the statement of net position, statement of revenues, expenses and changes in fund net position, and statement of cash flows of the Milo Water District as of and for the year ended December 31, 2021, which collectively comprise the Milo Water District's basic financial statements and the related notes to the financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Milo Water District as of December 31, 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Milo Water District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Milo Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Milo Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Milo Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability, schedule of pension contributions and schedule of changes in the total OPEB liability and related ratios be presented to supplement the basic financial statements. Such information is the responsibility of management and,



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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Milo Water District's basic financial statements. The accompanying supplementary information presented as Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedule 1 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2022 on our consideration of the Milo Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Milo Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milo Water District's internal control over financial reporting and compliance.

HMV, LLC

HMV, LLC
Ellsworth, Maine
April 25, 2022



Milo Water District Management's Discussion and Analysis December 31, 2021

Introduction of the Financial Statements

The Milo Water District (the District) is a small public water supplier in the Town of Milo. The Board of Trustees, Superintendent and employees strive to supply customers with safe water for domestic, municipal, industrial and commercial purposes and provide reliable service for fire protection. The District also provides wastewater collection and treatment services.

This Management's Discussion and Analysis (MD&A) serves as an introduction to the audited basic financial statements and notes. The MD&A is the District management's analysis of its financial condition and performance. It is presented to give the reader more insight on the District's finances.

The District's basic financial statements include the:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Fund Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

The statement of net position presents the financial position of the District by providing information about the nature and amount of resources and obligations at year-end. The statement of revenues, expenses and changes in fund net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. The statement of cash flows presents the amount of cash and cash equivalents generated and used during the fiscal year. The notes to the financial statements present required disclosures and other information that are essential to a full understanding of the material provided in the statements.

Significant Transactions and Changes

The water plant has remained in compliance all year. Aside from the purchase of two new chemical feed pumps, a new spectrophotometer and a new Turbidity meter, I hope to continue to slowly update the equipment essential for proper operation and water quality monitoring.

During the year we were inspected by Drinking Water Program, they found that we will need to replace the bulk heads on the 500,000-gallon storage tank.

The raw water pump station early in the year had its fair share of complications. VFD failure pump # 1, a replacement was purchased and installed with no treatment interruption. The pump station also had a generator transfer switch fail. Identified potential issue with the pump

#1, just due to old age wear and tear, a new pump head and shaft will be needed in the near future to ensure proper operation.

Significant Transactions and Changes (Continued)

The Sewer Facility has undergone significant changes in operation and updated equipment, we will continue to change and replace outdated equipment and procedures moving forward. This year the DEP has issued a NOV, everything identified is in the process of update.

We had a rough year with permit exceedances. Issues in treatment and equipment have been identified and are working diligently to keep things running smoothly.

Major sewer project was signed and started this year, both contracts have been started and will conclude in 2022.

We had two water main breaks in the system, one on Gould Street and one on Riverside Street.

We had one sewer main backup on Belmont Street caused by a utility pole getting set too close to the main.

Comparison of Financial Statements for Current and Prior Years

Statements of Net Position

	2021	2020
Current Assets	436,882	426,303
Capital Assets, Net	10,422,793	10,111,967
Other Assets	445,179	449,337
Total Assets	<u>11,304,854</u>	<u>10,987,607</u>
Deferred Outflows of Resources	<u>41,728</u>	<u>21,967</u>
Total Assets and Deferred Outflows of Resources	<u>11,346,582</u>	<u>11,009,574</u>
Current Liabilities	608,075	371,960
Non-Current Liabilities	2,390,706	2,632,916
Total Liabilities	<u>2,998,781</u>	<u>3,004,876</u>
Deferred Inflows of Resources	<u>81,707</u>	<u>9,629</u>
Net Position:		
Net Investment in Capital Assets	7,476,132	7,245,807
Restricted	8,591	8,591
Unrestricted	781,371	740,671
Total Net Position	<u>8,266,094</u>	<u>7,995,069</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>11,346,582</u>	<u>11,009,574</u>

Comparison of Financial Statements for Current and Prior Years (Continued)

Statements of Revenues, Expenses and Changes in Fund Net Position

	2021	2020
Operating Revenues	892,562	828,159
Non-Operating Revenues	<u>20,566</u>	<u>18,449</u>
Total Revenues	<u>913,128</u>	<u>846,608</u>
Operating Expenses	862,431	804,189
Non-Operating Expenses	<u>57,125</u>	<u>74,245</u>
Total Expenses	<u>919,556</u>	<u>878,434</u>
Change in Net Position Before CIAC	(6,428)	(31,826)
Contributions in Aid of Construction	<u>277,453</u>	<u>27,500</u>
Change in Net Position After CIAC	271,025	(4,326)
Net Position – Beginning of Year	<u>7,995,069</u>	<u>7,999,395</u>
Net Position – End of Year	<u>8,266,094</u>	<u>7,995,069</u>

Budgetary Highlights

The District is not legally required to adopt budgetary accounting and reporting; however, an annual budget is prepared by management and approved by the Board of Trustees. The original budget approved by the Board of Trustees was not amended in 2021. Overall, the District operated within its overall approved budget in 2021.

Overall Financial Position and Results of Operations

To analyze the change in the District's overall financial position and results of operations in the past year, we have focused on two elements: revenue stability and financial ratios.

Revenue Stability:

Water rates, both metered and fire protection, are regulated by the Maine Public Utilities Commission (MPUC). The MPUC allows the District to set rates which maintain operations and pay debt service.

All of the District's operating revenues are derived from water assessments, consisting of metered water sales and fire protection charges, and sewer fees for wastewater collection and treatment services. Overall operating revenues increased \$64,403 or 8% in 2021. Approximately 30% of total operating revenues for the Water Division are generated from public fire protection charges assessed to the Town of Milo.

Overall Financial Position and Results of Operations (Continued)

Financial Ratios:

Two of the key financial ratios for analyzing the District's financial position are the current ratio and the coverage ratio. The current ratio measures an entity's ability to meet short-term obligations. The coverage ratio shows an entity's ability to meet debt service payments. During 2021 the current ratio decreased from 1.15 to 0.72. During 2020 the coverage ratio increased from 1.32 to 1.46.

Current Ratio

	2021	2020
Current Assets	436,882	426,303
Current Liabilities	608,075	371,960
Current Ratio	0.72	1.15

Coverage Ratio

	2021	2020
Operating Revenues	892,562	828,159
Non-Operating Revenues	20,566	18,449
Total Revenues	<u>913,128</u>	<u>846,608</u>
Operating Expenses	862,431	804,189
Depreciation	(287,118)	(285,468)
Expenses	<u>575,313</u>	<u>518,721</u>
Net Available for Debt Service	<u>337,815</u>	<u>327,887</u>
Principal Payments	174,990	173,880
Interest Payments	56,325	74,436
Total Debt Service Payments	<u>231,315</u>	<u>248,316</u>
Coverage Ratio	<u>1.46</u>	<u>1.32</u>

Capital Assets and Long-Term Debt

The capital asset additions for the Water Division in 2021 were pumping equipment totaling \$6,536, water treatment equipment totaling \$2,673, shop equipment totaling \$1,763, laboratory equipment totaling \$1,527 and communication equipment totaling \$1,209. The capital asset additions for the Sewer Division in 2021 were pumping equipment totaling \$41,362 and outside equipment totaling \$5,020.

Long-term debt outstanding, including current portion, at December 31, 2021 is \$2,173,709 for the Water Division and \$367,461 for the Sewer Division. Debt retired in 2021 totaled \$174,990. No new bonds were issued in 2021.

Capital Assets and Long-Term Debt (Continued)

There are no debt limitations that may affect future financing and there were no changes in credit ratings in 2021 for the District. At December 31, 2021, the District had committed to and signed construction contracts which remained incomplete with a remaining balance of \$2,346,667.

Next Year's Operations

Our goals for this year are to assist in completing the sewer main and pump station upgrades, continue to identify and replace outdated procedures and equipment to provide clean drinking water to the residents here in the Town of Milo and to discharge treated water to the river for people and ecosystems downstream from our wastewater discharge.

Request For Information

Questions about the District's finances and activities may be directed to Milo Water District, 146 Park Street, Milo, ME 04463.

**MILO WATER DISTRICT
STATEMENT OF NET POSITION
AT DECEMBER 31, 2021**

Assets and Deferred Outflows of Resources

Current Assets:	
Cash	276,745
Accounts Receivable	84,818
Inventory	23,321
Prepaid Insurance	5,083
Accrued Revenue	46,915
Total Current Assets	<u>436,882</u>
Non-Current Assets:	
Property, Plant and Equipment:	
Utility Plant - Water Division	8,565,869
Less: Accumulated Depreciation - Water Division	<u>3,044,092</u>
Net Utility Plant - Water Division	<u>5,521,777</u>
Utility Plant - Sewer Division	6,602,028
Less: Accumulated Depreciation - Sewer Division	<u>2,405,241</u>
Net Utility Plant - Sewer Division	<u>4,196,787</u>
Construction Work in Progress	<u>704,229</u>
Total Property, Plant and Equipment	10,422,793
Cash - Restricted	8,591
Investments	<u>436,588</u>
Total Non-Current Assets	<u>10,867,972</u>
Total Assets	<u>11,304,854</u>
Deferred Outflows of Resources:	
Deferred Outflows - OPEB	9,348
Deferred Outflows - Pensions	<u>32,380</u>
Total Deferred Outflows of Resources	<u>41,728</u>
Total Assets and Deferred Outflows of Resources	<u><u>11,346,582</u></u>

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



MILO WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
AT DECEMBER 31, 2021

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities:

Accounts Payable - Operating	14,413
Accounts Payable - Construction	205,491
Accrued Interest	10,248
Short-Term Financing	200,000
Current Portion of Long-Term Debt - Water Division	114,982
Current Portion of Long-Term Debt - Sewer Division	62,941

Total Current Liabilities	<u>608,075</u>
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Non-Current Liabilities:

Long-Term Debt:	
Water Division	2,058,727
Sewer Division	304,520
Total Long-Term Debt	<u>2,363,247</u>
Compensated Absences	7,697
Net OPEB Liability	25,236
Net Pension (Asset) Liability	(5,474)

Total Non-Current Liabilities	<u>2,390,706</u>
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Total Liabilities	<u>2,998,781</u>
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Deferred Inflows of Resources:

Deferred Inflows - OPEB	5,380
Deferred Inflows - Pensions	76,327

Total Deferred Inflows of Resources	<u>81,707</u>
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Net Position:

Net Investment in Capital Assets	7,476,132
Restricted	8,591
Unrestricted	781,371

Total Net Position	<u>8,266,094</u>
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Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>11,346,582</u></u>
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See independent auditors' report and accompanying notes to the financial statements.



MILO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2021

	Water Division	Sewer Division	Combined Totals
Operating Revenues:			
Sewer		367,022	367,022
Residential	298,128		298,128
Commercial	33,051		33,051
Industrial	10,807		10,807
Governmental	12,365		12,365
Public Fire Protection	156,800		156,800
Private Fire Protection	10,887		10,887
All Other	3,502		3,502
Total Operating Revenues	<u>525,540</u>	<u>367,022</u>	<u>892,562</u>
Operating Expenses:			
Operation and Maintenance	254,102	317,588	571,690
Depreciation	175,372	111,746	287,118
Assessments	3,623	-	3,623
Total Operating Expenses	<u>433,097</u>	<u>429,334</u>	<u>862,431</u>
Net Operating Income (Loss)	<u>92,443</u>	<u>(62,312)</u>	<u>30,131</u>
Non-Operating Revenues (Expenses):			
Interest Income	902	4,261	5,163
Dividend Income	2,193	2,193	4,386
Other Income (Expense)	2,955	-	2,955
Unrealized Gains (Losses)	4,031	4,031	8,062
Interest Expense	<u>(50,151)</u>	<u>(6,974)</u>	<u>(57,125)</u>
Total Non-Operating Revenues (Expenses)	<u>(40,070)</u>	<u>3,511</u>	<u>(36,559)</u>
Change in Net Position Before Construction Contributions	<u>52,373</u>	<u>(58,801)</u>	<u>(6,428)</u>
Contributions in Aid of Construction			<u>277,453</u>
Change in Net Position After Construction Contributions			271,025
Net Position - Beginning of Year			<u>7,995,069</u>
Net Position - End of Year			<u>8,266,094</u>

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



MILO WATER DISTRICT
STATEMENT OF CASH FLOW
YEAR ENDED DECEMBER 31, 2021

Cash Flows from Operating Activities:	
Receipts from Customers and Users	894,609
Payments to Suppliers	(316,158)
Payments to Employees	(297,383)
Net Cash Flows from Operating Activities	<u>281,068</u>
Cash Flows from Noncapital Financing Activities:	
Other Revenues	<u>2,955</u>
Net Cash Flows from Noncapital Financing Activities	<u>2,955</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets	(392,453)
Short-Term Financing Receipts (Payments) - Net	50,000
Proceeds from Bonds Issued	0
Construction Receipts	277,453
Interest Payments on Long-Term Debt	(56,325)
Principal Payments on Long-Term Debt	(174,990)
Net Cash Flows from Capital and Related Financing Activities	<u>(296,315)</u>
Cash Flows from Investing Activities:	
Investment Income	9,549
Proceeds From (Purchase of) Investments - Net	<u>12,220</u>
Net Cash Flows from Investing Activities	<u>21,769</u>
Net Increase (Decrease) in Cash and Cash Equivalents	9,477
Cash and Cash Equivalents at Beginning of Year	<u>275,859</u>
Cash and Cash Equivalents at End of Year	<u><u>285,336</u></u>
Components of Cash:	
Cash	276,745
Restricted Cash	<u>8,591</u>
	<u><u>285,336</u></u>

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



MILO WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2021

Reconciliation of Operating Income to Net Cash Flows from
Operating Activities:

Operating Income (Loss)	30,131
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:	
Depreciation	287,118
Change in Operating Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	6,962
(Increase) Decrease in Inventory	(3,028)
(Increase) Decrease in Prepaid Insurance	(121)
(Increase) Decrease in Accrued Revenue	(4,915)
(Increase) Decrease in Deferred Outflows - OPEB	(732)
(Increase) Decrease in Deferred Outflows - Pensions	(19,029)
Increase (Decrease) in Accounts Payable - Operating	(23,301)
Increase (Decrease) in Compensated Absences	1,039
Increase (Decrease) in Net OPEB Liability	4,486
Increase (Decrease) in Net Pension (Asset) Liability	(69,620)
Increase (Decrease) in Deferred Inflows - OPEB	(870)
Increase (Decrease) in Deferred Inflows - Pensions	72,948
Net Cash Flows from Operating Activities	<u>281,068</u>

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



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Milo Water District's (the District) financial statements include the operations for which the Board of Trustees exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Nature of Business

The District supplies water and fire protection services in the Town of Milo. The District also provides wastewater collection and treatment services. The District's accounting policies conform to generally accepted accounting principles as applicable to the quasi-municipal units, which utilize the accrual basis of accounting, and to the regulations of the Maine Public Utilities Commission (MPUC) with respect to its' water operations. The major sources of revenue are metered water sales, fire protection charges and sewer usage fees. Revenue is recognized in the period when earned.

Reporting Entity

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. Based on the applicable criteria, there are no other entities within the District that should be included as part of these financial statements. There are no fiduciary funds included in the District.

Regulation

As a regulated water utility, the District is subject to regulation by the MPUC, which has jurisdiction with respect to rates, services, accounting procedures, acquisitions and other matters. The District defers certain costs and credits as regulatory assets and liabilities when it is probable that such amounts will be recognized in the rate making process in a period different from the period in which they would have been reflected in income by an unregulated entity.

Budget

The District is not legally required to present budgetary comparison information as required supplementary information.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during there reporting period. Actual results could differ from those estimates.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Resources

The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Deposits and Investments

Maine Statutes authorize investments in obligations of the U.S. Treasury and U.S Agencies, repurchase agreements, corporate stocks and bonds within statutory limits, obligations of financial institutions and mutual funds. The District has not formally adopted deposit and investment policies that limit the District's allowable deposits or investments and address the specific types of risk to which the District is exposed beyond Maine Statutes.

Cash, Cash Equivalents and Custodial Credit Risk

For purposes of these statements, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. All cash is considered available for current use at December 31, 2021. Custodial credit risk is the risk that, in the event of the bank's failure, the District will not be able to recover the value of its deposits and investments that are in the possession of an outside party. The District does not have policies addressing custodial credit risk.

The District's deposits are categorized as follows to give an indication of the level of risk assumed by the District at year end: Category 1 includes deposits covered by federal depository insurance or by collateral held by the District or by the District's agent in the District's name; Category 2 includes uninsured deposits covered by collateral held by the pledging financial institution's trust department or agent in the District's name; and Category 3 includes uninsured and uncollateralized deposits. At December 31, 2021, cash and restricted cash on deposit consisted of the following:

	Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
Cash	276,745				
Restricted Cash	8,591				
	<u>285,336</u>	308,096	208,023	-0-	100,073

Cash totaling \$8,591 at December 31, 2021, has been restricted as a debt service reserve fund as required by a bond agreement with the United States Department of Agriculture (USDA) Rural Development program.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivables are stated at net realizable value. No allowance for doubtful accounts has been recorded in the financial statements; uncollectible accounts are written off in the year in which they are deemed to be uncollectible. Generally accepted accounting principles require that the allowance method be used to recognize bad debts. The effect of using the direct write-off method has not been materially different from the results that would have been obtained under the allowance method.

Inventory

Inventories of material and supplies is valued at average cost. Inventory used for capital projects is capitalized and depreciated. Inventory used for repairs is expensed in the period when the repairs occur.

Accrued Revenue

Accrued revenue represents revenue that was earned in the current fiscal year that was billed in the subsequent fiscal year. The revenue is recognized in the current fiscal year.

Accounts Payable

Accounts payable represents amounts owed for goods and services that have been received prior to fiscal year end but will be paid in the next fiscal year.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Donated property is recorded at its estimated fair value at the date of donation. Depreciation has been provided on a basis considered adequate to amortize the cost of depreciable assets over their estimated useful lives on the straight-line method at rates from 1% to 20%. Annual rates in use are as follows:

Structures and Intakes	1.5% - 2.5%
Lagoons	1.0%
Pumping and Treatment Equipment	2.5% - 5.0%
Standpipes, Mains, Manholes and Hydrants	1.3% - 2.0%
Services and Meters	3.0% - 4.0%
Transportation Equipment	20.0%
General Equipment	5.0% - 12.5%

Organization and land costs are not being depreciated because they have indefinite useful lives.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalization Policy

Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. The amounts charged to utility plant accounts represent all reasonable and necessary costs, including labor, materials, overhead, equipment charges and interest costs incurred. Routine maintenance and repairs are expended as incurred. The District does not have a policy setting a minimum capitalization threshold for amount or lives for reporting capital assets.

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will report a separate section of deferred outflows of resources. This separate financial statement element represents consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditures) until then. The District has two items that qualifies for reporting to this category: deferred outflows – OPEB and deferred outflows – pensions.

Compensated Absences

The District reports compensated absences in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16 *Accounting for Compensated Absences*. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits. District employees are granted varying amounts of vacation and sick leave in accordance with the District's personnel policy. Upon termination employees are paid half of unused sick leave. The sick leave liability, shown as a non-current liability titled compensated absences, was \$7,697 at December 31, 2021. Activity for compensated absences was as follows at December 31, 2021:

Beginning Balance	Increases	Decreases	Ending Balance
6,658	1,039	-0-	7,697

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will report a separate section of deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting to this category: deferred inflows – OPEB and deferred inflows – pensions.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Participating Local District (PLD) Plan administered by the Maine Public Employees Retirement System and additions to/deductions from the PLD plan's fiduciary net position have been determined on the same basis as they are reported by the PLD plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Contributions in Aid of Construction

Contributions in aid of construction include direct non-refundable contributions and are reported as income in the year earned. Water Division utility plant funded by contributions is not depreciated for rate making purposes as required by the MPUC. The net contributions in aid of construction for the Water Division included in total net position at December 31, 2021 is \$3,071,202.

Measurement Focus, Basis of Accounting and Basis of Presentation

The District follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement provides specific guidance as to which FASB and AICPA pronouncement provisions should be applied to state and local governments. The District prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for proprietary funds, which are similar to those for private business enterprises. Proprietary funds are accounted for on the flow of economic resource measurement. Accordingly, revenues are recorded when earned and expenses are recorded when incurred. Proprietary funds distinguish operating revenues and expenses from non-operating activity. Operating revenues arise from providing goods or services to outside parties for a fee. Revenues and expenses that are not derived directly from operations are reported as non-operating revenues and expenses.

Taxes

As a quasi-municipal entity, the District is not subject to federal and state income taxes, accordingly it is not necessary to consider the effects of any uncertain tax positions.

The District is subject to federal and state payroll taxes and is required to file the appropriate tax returns. Management believes that all required returns have been properly filed as of December 31, 2021. No examinations have been conducted by the federal or state taxing authorities and no correspondence has been received from these authorities.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, a three-tiered hierarchy of input levels is used for measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of input used for fair value measurement are as follows:

Level 1: Fair values based on quoted market prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets and liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

The District's only financial instrument that is reported at fair value is investments which fall under Level 1 of the fair value hierarchy.

NOTE 2 – CONTINGENCIES

There are no pending legal proceedings to which the District is a party that are material or are expected to have a material effect on the District's financial position, results of operations or cash flows.

The COVID-19 pandemic in the United States has caused disruption in all industries. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration. The financial impact related to this matter cannot be estimated at this time. Management has considered the consequences of COVID-19 and has determined that it does not create a material uncertainty that casts significant doubt upon the entity's ability to continue as a going concern.



NOTE 3 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance for the risks of losses to which it is exposed. There have been no significant reductions in the commercial coverage from the prior year. The District is not aware of any material actual or potential claim liabilities which should be recorded at December 31, 2021. Settlements have not exceeded insurance coverage for each of the past three years.

NOTE 4 – INVESTMENTS

All investments are classified as available for sale, reported at fair market value and unrated. The District had the following investments at December 31, 2021:

	<u>Fair Value</u>	<u>Percent of Portfolio</u>
Certificates of Deposit	229,571	53%
Mutual Funds:		
Stock Funds	4,575	1%
Bond Funds	108,938	25%
Common Stock	38,189	8%
Exchange Traded Funds	55,315	13%
	<u>436,588</u>	<u>100.0%</u>

The certificates of deposit are insured by Federal Deposit Insurance Corporation (FDIC) insurance at December 31, 2021. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District has no investments in any one issuer other than bond funds and an Exchange Traded Fund that represent five percent or more of the District's total investments. All of these funds carry a Morningstar Rating greater than 4 stars.

NOTE 5 – INTEREST EXPENSE

No interest costs were capitalized during the period. The amount of interest costs incurred and charged to expense for the year ending December 31, 2021 was \$50,151 for the Water Division and \$6,974 for the Sewer Division, respectively.

NOTE 6 – MAJOR CUSTOMER

The District derived approximately 30% of its Water Division operating revenues from the Town of Milo related to the servicing of public fire hydrants for the year ended December 31, 2021.



NOTE 7 – COMMITMENTS

At December 31, 2021, the District had committed to and signed construction contracts which remained incomplete with a remaining balance of \$2,346,667.

The District has entered into an inventory management program agreement with Everett J. Prescott, Inc. Under the terms of the agreement, Everett J. Prescott, Inc. will provide water works products, materials and services for the District's annual underground water distribution system improvements program. The agreement is effective until terminated by either party. The District paid \$8,235 to Everett J. Prescott, Inc. in 2021.

NOTE 8 – UTILITY PLANT – SEWER DIVISION

Capital asset costs, additions and disposals are as follows for the year ended December 31, 2021:

	Beginning Balance	Additions	Disposals	Ending Balance
Land and Land Rights	12,146			12,146
Structures and Improvements	643,587			643,587
Lagoons	1,035,696			1,035,696
Pumping Equipment	1,042,649	41,362	14,000	1,070,011
Mains	3,252,433			3,252,433
Services	461,274			461,274
Movable Equipment	58,471			58,471
Outside Equipment	25,161	5,020	7,261	22,920
Laboratory Equipment	45,490			45,490
Gross Utility Plant	6,576,907	46,382	21,261	6,602,028
Less: Accumulated Depreciation	2,314,756	111,746	21,261	2,405,241
Net Utility Plant	4,262,151	(65,364)	-0-	4,196,787



NOTE 9 – UTILITY PLANT – WATER DIVISION

Capital asset costs, additions and disposals are as follows for the year ended December 31, 2021:

	Beginning Balance	Additions	Disposals	Ending Balance
Organization	7,190			7,190
Land and Land Rights	37,975			37,975
Structures and Improvements	1,952,035			1,952,035
Lake, River and Other Intakes	375,407			375,407
Pumping Equipment	204,304	6,536	3,000	207,840
Water Treatment Equipment	794,853	2,673	1,000	796,526
Distribution Reservoirs	280,682			280,682
Mains	3,656,066			3,656,066
Services	623,763			623,763
Meters	131,730			131,730
Hydrants	243,046			243,046
Office Equipment	40,482			40,482
Transportation	116,291			116,291
Stores Equipment	8,332			8,332
Tools	14,985	1,763	8,622	8,126
Laboratory Equipment	20,943	1,527	2,169	20,301
Communication Equipment	55,592	1,209		56,801
Miscellaneous Equipment	3,276			3,276
Gross Utility Plant	8,566,952	13,708	14,791	8,565,869
Less: Accumulated Depreciation	2,883,511	175,372	14,791	3,044,092
Net Utility Plant	5,683,441	(161,664)	-0-	5,521,777

NOTE 10 – SHORT-TERM FINANCING

In 2020, the District utilized short-term financing through a local bank for a wastewater systems upgrade project. Short-term financing activity was as follows in 2021 for this project:

2020			2021
Balance	Increases	Decreases	Balance
150,000	50,000	-0-	200,000

Once the wastewater systems upgrade project is complete, a long-term bond will be issued and the short-term financing will be paid off.



NOTE 11 – LONG-TERM DEBT – WATER DIVISION

Bonds payable as of December 31, 2021:

	Beginning Balance	Increases	Decreases	Ending Balance
Bond payable to Maine Municipal Bond Bank, maturing in 2034. Interest rate of 0.00%.	302,723		21,623	281,100
Bond payable to Maine Municipal Bond Bank, maturing in 2036. Interest rates of 1.48% - 3.962%.	755,320		37,503	717,817
Bond payable to Maine Municipal Bond Bank, maturing in 2036. Interest rates of 1.48% - 3.962%.	297,750		14,784	282,966
Bond payable to Maine Municipal Bond Bank, maturing in 2042. Interest rates of 1.48% - 4.119%.	315,939		10,094	305,845
Bond payable to Maine Municipal Bond Bank, maturing in 2041. Interest rate of 0.00%.	293,756		13,989	279,767
Bond payable to Maine Municipal Bond Bank, maturing in 2039. Interest rate of 1.00%.	321,671		15,457	306,214
Total Outstanding Debt	2,287,159		113,450	2,173,709
Less: Current Portion	113,450			114,982
Total Long-Term Debt	<u>2,173,709</u>			<u>2,058,727</u>



NOTE 11 – LONG-TERM DEBT – WATER DIVISION (CONTINUED)

The following is a schedule of maturities per year on long-term debt:

	Principal	Interest	Total
2022	114,982	49,518	164,500
2023	116,676	47,825	164,501
2024	118,537	45,963	164,500
2025	120,677	43,824	164,501
2026	122,913	41,587	164,500
2027-2031	652,886	169,615	822,501
2032-2036	689,535	89,674	779,209
2037-2042	237,503	20,616	258,119
	<u>2,173,709</u>	<u>508,622</u>	<u>2,682,331</u>

NOTE 12 – LONG-TERM DEBT – SEWER DIVISION

Bonds payable as of December 31, 2021:

	Beginning Balance	Increases	Decreases	Ending Balance
Bonds payable to Maine Municipal Bond Bank, maturing in 2022. Interest rate of 2.29%.	88,753		43,790	44,963
Bond payable to Maine Municipal Bond Bank, maturing in 2031. Interest rate of 1.00%.	154,329		13,342	140,987
Bond payable to USDA Rural Development, maturing in 2050. Interest rate of 2.25%.	185,919		4,408	181,511
Total Outstanding Debt	429,001		61,540	367,461
Less: Current Portion	61,348			62,941
Total Long-Term Debt	<u>367,653</u>			<u>304,520</u>



NOTE 12 – LONG-TERM DEBT – SEWER DIVISION (CONTINUED)

The following is a schedule of maturities per year on long-term debt.

	Principal	Interest	Total
2022	62,941	7,439	70,380
2023	18,215	6,006	24,221
2024	18,454	5,767	24,221
2025	18,698	5,523	24,221
2026	18,945	5,276	24,221
2027-2031	98,567	22,537	121,104
2032-2036	29,418	13,537	42,955
2037-2041	32,880	10,075	42,955
2042-2046	36,749	6,206	42,955
2047-2050	32,594	1,875	34,469
	<u>367,461</u>	<u>84,241</u>	<u>451,702</u>

NOTE 13 – NET POSITION

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following components: net investment in capital assets, restricted and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

The District's net investment in capital assets was calculated as follows at December 31, 2021:

Total Property, Plant and Equipment	10,422,793
Accounts Payable – Construction	(205,491)
Short-Term Financing	(200,000)
Current Portion of Long-Term Debt – Water Division	(114,982)
Current Portion of Long-Term Debt – Sewer Division	(62,941)
Total Long-Term Debt	<u>(2,363,247)</u>
Total Net Investment in Capital Assets	<u>7,476,132</u>

Restricted net position results from constraints placed by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation. The District had restricted net position in the amount of \$8,591 for a required sinking fund bond reserve at December 31, 2021. Unrestricted consists of all other net position not included in the above categories.



NOTE 14 – DEFINED BENEFIT PENSION PLAN

Plan Description

Qualifying employees of the District are provided with a pension plan through the Participating Local District (PLD) Plan – a cost-sharing, multiple-employer defined benefit pension plan administered by the Maine Public Employees Retirement System (the System). Benefit terms are established in Maine statute. An advisory group, also established by statute, reviews the terms of the plan and periodically makes recommendations to the Legislature to amend the terms.

Pension Benefits

The plan provides defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit. In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. For plan members, normal retirement age is 60 or 65. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provide disability and death benefits by contract with plan members under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 0.93%.

Contributions

Retirement benefits are funded by contributions from members and employers and by earnings from investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. Member and employer contribution rates are each a percentage of applicable member compensation. Member contribution rates are defined by law or by the System's Board of Trustees and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined through actuarial valuations.

For the plan, employees are required to contribute 7.50% of their annual pay if they are part of the Age 60 Plan or 6.75% of their annual pay if they are part of the Age 65 Plan. The District's contractually required contribution rate is currently 8.00%. District contributions to the pension plan were \$14,694 for the year ended December 31, 2021.



NOTE 14 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the plan, at December 31, 2021, the District reported an asset of \$5,474 for its proportionate share of the net pension asset. Activity for the net pension (asset) liability is as follows for the year ending December 31, 2021:

Beginning Balance	Increases (Decreases)	Ending Balance
64,146	(69,620)	(5,474)

The net pension (asset) liability was measured as of June 30, 2021, and the total pension (asset) liability used to calculate the net pension (asset) liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension (asset) liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. See *Schedule of Proportionate Share of the Net Pension Liability* for the District's proportion for the plan for 2021.

For the year ended December 31, 2021, the District recognized pension (revenue) expense of (\$1,006).

At December 31, 2021, the District reported deferred outflows of resources related to pensions for the plan from the following sources:

Difference Between Expected and Actual Experience	3,542
Changes in Assumptions	18,383
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-0-
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	2,088
District Contributions Subsequent to the Measurement	8,367
Total Deferred Outflows of Resources	<u>32,380</u>

At December 31, 2021, the District reported deferred inflows of resources related to pensions for the plan from the following sources:

Difference Between Expected and Actual Experience	372
Changes in Assumptions	-0-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	74,618
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	1,337
Total Deferred Inflows of Resources	<u>76,327</u>



NOTE 14 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

\$8,367 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date for the plan will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	
2022	(8,591)
2023	(6,003)
2024	(16,986)
2025	(20,734)
Total	<u>(52,314)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method: The Entry Age Normal cost method is used to determine costs. Under this cost method, the total employer contribution rate consists of two elements, the normal cost rate and the unfunded actuarial liability rate.

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his expected future salary. The normal cost for each member is the product of the member's pay and normal cost rate. The normal cost for the group is the sum of the normal costs for all members.

Experience gains and losses, i.e., actual decreases or increases in liabilities and/or in assets which differ from the actuarial assumptions, affect the unfunded actuarial accrued liability.

Asset Valuation Method: The actuarial valuation employs a technique for determining the actuarial value of assets which reduces the impact of the short-term volatility in the market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the actuarial assumption for investment return.

Amortization: The net pension liability is amortized on a level percentage of payroll using a method where a separate twenty-year closed period is established annually for the gain or loss for that year.

Investment Rate of Return: 6.50% per annum, compounded annually.



NOTE 14 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Inflation Rate: 2.75%.

Annual Salary Increases, Including Inflation: 2.75% - 11.48%.

Cost of Living Benefit Increases: 1.91%.

Mortality Rates: 2010 Public Plan General Benefits-Weighted Healthy Retiree Mortality Table.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2021 is summarized in the following table:

Asset Class	Long-Term Expected Rate Of Return
Public Equities	6.0%
US Government	2.3%
Private Equity	7.6%
Real Assets:	
Real Estate	5.2%
Infrastructure	5.3%
National Resources	5.0%
Traditional Credit	3.0%
Alternative Credit	7.2%
Diversifiers	5.9%

Discount Rate

The discount rate used to measure the collective total pension liability at June 30, 2021 was 6.50% for the plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



NOTE 14 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net Pension (Asset) Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability as of June 30, 2021, calculated using the discount rate of 6.50%, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
77,904	(5,474)	(74,439)

Components of Schedules of Pension Amounts

Net Pension (Asset) Liability: Changes in net pension (asset) liability are recognized in pension expense for the year ended June 30, 2021 with the following exceptions.

Differences between Expected and Actual Experience: The difference between expected and actual experience with regard to economic or demographic factors are recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources. For 2021, this was three years for the PLD Consolidated Plan.

Differences between Projected and Actual Investment Earnings: Differences between projected and actual investment earnings are recognized in pension expense using a straight-line amortization method over a closed five-year period. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources.

Changes of Assumptions: Differences due to changes in assumptions about future economic or demographic factors or other inputs are recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. The actuarial assumptions used for the year ended June 30, 2021 valuation were based on the results of an actuarial experience study for the period of June 30, 2016 through June 30, 2020. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources. See the *Notes to Required Supplemental Information* included with the financial statements for specific changes in assumptions in the 2021 valuation.



NOTE 14 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions: Differences resulting from a change in proportionate share of contributions and differences between total employer contributions and the employer's proportionate share of contributions are recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources. Differences between total employer contributions and the employer's proportionate share of contributions may arise when an employer has a contribution requirement for an employer specific liability.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Maine Public Employees Retirement System financial report.

Additional Financial and Actuarial Information

Additional financial and actuarial information with respect to the Plan can be found in the System's Comprehensive Annual Financial Reports available online at www.maineopers.org or by contacting the System at (207) 512-3100.

NOTE 15 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The District sponsors a post-retirement benefit plan providing health insurance to retiring employees. The plan is a single-employer defined benefit OPEB plan administered by the Maine Municipal Employees Health Trust (MMEHT). The Board of Trustees has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Benefits Provided

MMEHT provides healthcare and life insurance benefits for retirees and their dependents. District employees over the age of 55 with 5 years of continuous service are allowed to participate in the plan. Retirees pay 100% of the coverage premiums, whether single plan or family plan. The non-Medicare retirees are offered the same plans that are available to the active employees. Medicare retirees are assumed to be enrolled in Medicare Parts A and B which are primary, and the Retiree Group Companion Plan which includes prescription drug coverage.



NOTE 15 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The following employees were covered by the benefit terms at January 1, 2021:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	-
Active employees	5
Total	<u>5</u>

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The District's total OPEB liability of \$25,236 was measured as of January 1, 2021, and was determined by an actuarial valuation as of that date. Changes in the total OPEB liability for 2021 are shown below:

Balance at December 31, 2020	20,750
Changes for the Year:	
Service Cost	1,964
Interest	622
Changes of Benefit Terms	-0-
Differences Between Expected and Actual Experience	-0-
Changes in Assumptions	1,902
Benefit Payments	(2)
Net Changes for the Year	<u>4,486</u>
Balance at December 31, 2021	<u>25,236</u>

There is no fiduciary net position at December 31, 2021 because the plan is pay as you go and is not funded. Contributions to the plan in 2021 were \$2, which equals the plan benefit payments. Because retirees pay 100% of the coverage premiums, revenue totaling \$2, was recognized in 2021 by the District. There were no plan administrative expenses in 2021.

See the *Notes to Required Supplemental Information* included with the financial statements for changes in assumptions in the 2021 valuation.

For the year ended December 31, 2021, the District recognized OPEB expense of \$2,886.



NOTE 15 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

At December 31, 2021, the District reported deferred outflows of resources related to OPEB from the following source:

Differences Between Expected and Actual Experience	1,972
Changes in Assumptions	7,376
Total Deferred Outflows of Resources	<u>9,348</u>

At December 31, 2021, the District reported deferred inflows of resources related to OPEB from the following source:

Difference Between Expected and Actual Experience	4,305
Changes in Assumptions	1,075
Total Deferred Inflows of Resources	<u>5,380</u>

Deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	
2022	300
2023	300
2024	300
2025	300
2026	300
Thereafter	2,468
Total	<u>3,968</u>

Actuarial Assumptions

The total OPEB liability in the January 1, 2021 actuarial valuation for the Health Plan was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases: 2.75% per year.

Healthcare Cost Trend Rates:

Non-Medicare Blended: 8.25% for 2021, decreasing to 3.28% for 2040.

Medicare Blended: 7.62% for 2021, decreasing to 3.28% for 2040.

Retirees' Share of the Benefit Related Costs: 100% of projected premiums.

Mortality Rates: RP2014 Total Dataset Healthy Annuitant Mortality Table.

The actuarial assumptions used in the January 1, 2021 valuation were based on the results of an actuarial experience study for the period June 30, 2012 through June 30, 2015.



NOTE 15 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Discount Rate

The rate used to measure the total OPEB liability at December 31, 2021 was 2.12% per annum. Since the plan is pay as you go and is not funded, the discount rate is based on a 20-year tax-exempt general obligation municipal bond index. The rate is assumed to be an index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher, for pay as you go plans.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the District's total OPEB liability as of December 31, 2021 calculated using the discount rate of 2.12%, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage point-point higher than the current rate:

1% Decrease (1.12%)	Discount Rate (2.12%)	1% Increase (3.12%)
<u>30,943</u>	<u>25,236</u>	<u>20,774</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the District's total OPEB liability as of December 31, 2021 as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage point-point higher than the current rates:

1% Decrease	Healthcare Trend Rates	1% Increase
<u>20,100</u>	<u>25,236</u>	<u>32,210</u>

NOTE 16 – SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through April 25, 2022, the date the financial statements were available to be issued.

In 2021, the District started a \$3,300,000 a wastewater system upgrades project that is being funded by the following: (1) Community Development Block Grant totaling \$400,000, (2) Department of Environmental Protection grant totaling \$500,000, (3) United States Department of Agriculture Rural Development (USDA-RD) grant totaling \$1,200,000 and (4) USDA-RD loan totaling \$1,200,000. In 2022, the loan will be issued once the project is complete.



REQUIRED SUPPLEMENTAL INFORMATION

MILO WATER DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS*

<u>Year Ended</u>	<u>Proportion of the Net Pension (Asset) Liability</u>	<u>Proportionate Share of the Net Pension (Asset) Liability</u>	<u>Covered-Employee Payroll</u>	<u>Proportionate Share of the Net Pension (Asset) Liability as a Percentage of Covered-Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset) Liability</u>
2021	0.017036%	(\$5,474)	\$162,250	-3.37%	100.86%
2020	0.016146%	\$64,146	\$140,938	45.51%	88.35%
2019	0.016786%	\$51,306	\$140,659	36.48%	90.62%
2018	0.017633%	\$48,255	\$139,833	34.51%	91.14%
2017	0.020459%	\$83,767	\$161,583	51.84%	86.43%
2016	0.019369%	\$102,913	\$162,309	63.41%	81.61%
2015	0.016924%	\$53,995	\$168,730	32.00%	88.30%

* Only seven years of information available

See notes to required supplementary information.



MILO WATER DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
LAST 10 YEARS*

<u>Year Ended</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered-Employee Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
2021	\$14,694	(\$14,694)	\$0	\$208,846	7.04%
2020	\$10,242	(\$10,242)	\$0	\$135,505	7.56%
2019	\$10,785	(\$10,785)	\$0	\$146,722	7.35%
2018	\$9,204	(\$9,204)	\$0	\$128,546	7.16%
2017	\$10,792	(\$10,792)	\$0	\$159,888	6.75%
2016	\$9,486	(\$9,486)	\$0	\$156,978	6.04%
2015	\$8,275	(\$8,275)	\$0	\$170,073	4.87%

* Only seven years of information available

See notes to required supplementary information.



MILO WATER DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 YEARS*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Total OPEB Liability</u>				
Service Cost	1,964	803	930	977
Interest	622	486	418	633
Changes of Benefit Terms	0	(361)	0	0
Differences Between Expected and Actual Experience	0	2,464	0	(7,173)
Changes of Assumptions	1,902	6,311	(1,534)	1,027
Benefit Payments	(2)	0	0	0
Net Change in Total OPEB Liability	<u>4,486</u>	<u>9,703</u>	<u>(186)</u>	<u>(4,536)</u>
 Total OPEB Liability - Beginning	 <u>20,750</u>	 <u>11,047</u>	 <u>11,233</u>	 <u>15,769</u>
Total OPEB Liability - Ending	<u>25,236</u>	<u>20,750</u>	<u>11,047</u>	<u>11,233</u>
 <u>Plan Fiduciary Net Position</u>				
Contributions - Employer	2	0	0	0
Contributions - Member	0	0	0	0
Net Investment Income	0	0	0	0
Benefit Payments	(2)	0	0	0
Administrative Expense	0	0	0	0
Net Change in Plan Fiduciary Net Position	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Plan Fiduciary Net Position - Beginning	 <u>0</u>	 <u>0</u>	 <u>0</u>	 <u>0</u>
Plan Fiduciary Net Position - Ending	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Net OPEB Liability - Ending	 <u>25,236</u>	 <u>20,750</u>	 <u>11,047</u>	 <u>11,233</u>
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	 0.00%	 0.00%	 0.00%	 0.00%
 Covered Employee Payroll	 178,000	 178,000	 97,000	 97,000
 Net OPEB Liability as a Percentage of Covered Employee Payroll	 14.20%	 11.70%	 11.40%	 11.60%

* Only four years of information available

See notes to required supplementary information.



NET PENSION LIABILITY

Changes of Benefit Terms: None

Changes of Assumptions:

Investment Rate of Return

2021 Valuation: 6.50% per annum, compounded annually
2020 Valuation: 6.75% per annum, compounded annually

Annual Salary Increases, Including Inflation

2021 Valuation: 2.75% - 11.48%
2020 Valuation: 2.75% plus merit component based on each employee's years of service

Mortality Rates

2021 Valuation: Based on the 2010 Public Plan General Benefits-Weighted Healthy Retiree Mortality Table, for males and females, projected generationally using the RPEC_2020 model
2020 Valuation: For active members and non-disabled retirees, the RP2014 Total Dataset healthy Annuitant Mortality Table, for males and females, is used. For all recipients of disability benefits, the RP2014 Total Dataset Disabled Annuitant Mortality Table, for males and females, is used.

Discount Rate

2021 Valuation: 6.50%
2020 Valuation: 6.75%

NET OPEB LIABILITY

Changes of Benefit Terms: None

Changes of Assumptions:

Discount Rate

2021 Valuation: 2.12% per annum
2020 Valuation: 2.74% per annum

Medical and prescription drug trend arrays were updated in the 2021 Valuation.



OTHER SUPPLEMENTAL DATA

MILO WATER DISTRICT
SCHEDULE OF OPERATION AND MAINTENANCE EXPENSES
YEAR ENDED DECEMBER 31, 2021

SCHEDULE 1

	<i>Water Division</i>	<i>Sewer Division</i>	<i>Combined Totals</i>
Salaries and Wages	88,310	101,853	190,163
Pensions and Benefits	47,707	47,735	95,442
Power	18,634	47,896	66,530
Chemicals	11,146	5,526	16,672
Materials and Supplies	45,692	59,385	105,077
Contractual Services	14,667	11,647	26,314
Rental Equipment	-	19,452	19,452
Transportation	5,914	5,914	11,828
Insurance	10,032	10,032	20,064
All Other	<u>12,000</u>	<u>8,148</u>	<u>20,148</u>
Total Operation and Maintenance Expenses	<u><u>254,102</u></u>	<u><u>317,588</u></u>	<u><u>571,690</u></u>

See accompanying independent auditors' report.





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**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***

To the Board of Trustees
Milo Water District

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 consisting of the statement of net position, statement of revenues, expenses and changes in fund net position and statement of cash flows of the Milo Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Milo Water District's basic financial statements and have issued our report thereon dated November 30, 2021.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described below, that we consider to be a material weakness.

Inadequate Design of Procedures and Controls Over the Operating Account

Criteria: Effectively designed procedures and controls provide reasonable assurance for the reliability of financial information. Specifically, effectively designed procedures and controls would ensure that the monthly reconciliation balance for the operating account tie to the general ledger balance.

Condition: When testing the year-end bank statement and reconciliation for the operating account, a significant difference was found between the reconciliation balance and the general ledger balance.

Cause: Current procedures and controls do not compare the monthly reconciliation balance for the operating account to the general ledger which resulted in an electronic payment for payroll taxes not being posted to the general ledger.

Effect: Ineffectively designed procedures and controls increases the risk material misstatements will not be prevented, or detected and corrected on a timely basis. Errors and omissions could go undetected in the accounting system leading to material misstatements in the financial statements.

Recommendation: As part of the month-end reconciliation procedures for the operating account, the reconciliation balance should be compared to the general ledger balance and any differences investigated immediately.

Management's Response: Management agrees with this finding and will implement changes to improve procedures and controls over the operating account.

Report on Compliance and Other Matters

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



Milo Water District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Milo Water District's response to the findings identified in our audit and described above. Milo Water District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

HMV, LLC

HMV, LLC
Ellsworth, Maine
April 25, 2022

