

CASTINE WATER DEPARTMENT

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018**

**CASTINE WATER DEPARTMENT
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DECEMBER 31, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen of the
Town of Castine
Castine, Maine

We have audited the accompanying financial statements consisting of the statements of net position, statements of revenues, expenses and changes in fund net position, and statements of cash flows of the Castine Water Department of the Town of Castine as of and for the years ended December 31, 2019 and 2018, which collectively comprise the Castine Water Department's basic financial statements and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Castine Water Department of the Town of Castine as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Castine Water Department and do not purport to, and do not, present fairly the financial position of the Town of Castine, as of December 31, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Castine Water Department'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.



The accompanying supplementary information presented as Schedule 1 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

HMV, LLC

HMV, LLC
Ellsworth, Maine
February 21, 2020



Castine Water Department Management's Discussion and Analysis December 31, 2019 and 2018

Introduction of the Financial Statements

The Castine Water Department's (the Department) 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 Department 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

Since July 1, 2017, the Town of Castine, has been in an annual Contract Operations Agreement with Olver Associates (OA), the Town's water/wastewater engineering firm. After another year of seamless operating results with Olver, Castine's agreement with OA was renewed for the 2020-2021 fiscal year on February 1, 2020. We continue to be convinced the Town is benefitting from an experienced operator/engineer who has similar operating agreements with many other municipalities.

Our Battle Avenue Filtration Plant had another successful year of operation, producing 1,622,000 gallons. We work closely with OA to budget for system maintenance and improvements around town and our collaboration helps us stay ahead of many recurring leaks and line breaks in our aging infrastructure. As an example, OA recommended to the Town Utility Board to utilize unspent end of year money to add a second filter train to our Battle Avenue Filtration Plant which has the potential to almost double the Town of Castine's production capacity at this location. The additional capability is in its second month of operation and is performing beyond expectations

Comparison of Financial Statements for Current and Prior Years

Statements of Net Position

| | 2019 | 2018 |
|------------------------------------|------------------|------------------|
| Current Assets | 1,083,481 | 995,597 |
| Capital Assets, Net | <u>4,417,159</u> | <u>4,551,398</u> |
| Total Assets | <u>5,500,640</u> | <u>5,546,995</u> |
| | | |
| Current Liabilities | 228,401 | 219,224 |
| Non-Current Liabilities | <u>2,344,756</u> | <u>2,548,984</u> |
| Total Liabilities | <u>2,573,157</u> | <u>2,768,208</u> |
| | | |
| Net Position: | | |
| Net Investment in Capital Assets | 1,868,175 | 1,801,043 |
| Unrestricted | <u>1,059,308</u> | <u>977,744</u> |
| Total Net Position | <u>2,927,483</u> | <u>2,778,787</u> |
| | | |
| Total Liabilities and Net Position | <u>5,500,640</u> | <u>5,546,995</u> |

Statements of Revenues, Expenses and Changes in Fund Net Position

| | 2019 | 2018 |
|----------------------------------|------------------|------------------|
| Operating Revenues | 611,888 | 616,641 |
| Non-Operating Revenues | <u>572</u> | <u>(115)</u> |
| Total Revenues | <u>612,460</u> | <u>616,526</u> |
| | | |
| Operating Expenses | 381,535 | 372,889 |
| Non-Operating Expenses | <u>82,229</u> | <u>86,898</u> |
| Total Expenses | <u>463,764</u> | <u>459,787</u> |
| | 148,696 | 156,739 |
| Change in Net Position | | |
| | | |
| Net Position – Beginning of Year | <u>2,778,787</u> | <u>2,622,048</u> |
| | | |
| Net Position – End of Year | <u>2,927,483</u> | <u>2,778,787</u> |

Budgetary Highlights

The Department is not legally required to adopt budgetary accounting and reporting; however, an annual budget is prepared by management, recommended by the Utility Board and approved by the Board of Selectmen. The original budget approved by the Board of Selectmen was not amended in 2019. The Department operated within its overall approved budget in 2019.

Capital Assets and Long-Term Debt

There were no capital asset additions in 2019. Capital asset additions in 2018 were: pumping equipment totaling \$9,809.

Long-term debt outstanding, including current portion, at December 31, 2019 and 2018 was \$2,548,984 and \$2,750,335, respectively. Debt retired in 2019 and 2018 totaled \$201,371 and \$199,277, respectively. No long-term debt was issued in 2019 and 2018. There are no unfinished commitments for capital expenditures at December 31, 2019 or any debt limitations that may affect future financing. There were no changes in credit ratings in 2019.

Overall Financial Position and Results of Operations

To analyze the change in the Department'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 Department to set rates which maintain operations and pay debt service.

All of the Department's operating revenues are derived from water assessments consisting of metered water sales and fire protection charges. Overall, operating revenues decreased \$4,753 or 1% in 2019. Approximately 30% of total operating revenues are generated from public fire protection charges assessed to the Town of Castine.

Financial Ratios:

Two of the key financial ratios for analyzing the Department'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 2019 the current ratio increased from 4.54 to 4.74. During 2018 the coverage ratio increased from 1.29 to 1.32.

Current Ratio

| | 2019 | 2018 |
|---------------------|-------------|-------------|
| Current Assets | 1,083,481 | 995,597 |
| Current Liabilities | 228,401 | 219,224 |
| Current Ratio | 4.74 | 4.54 |

Overall Financial Position and Results of Operations (Continued)

Coverage Ratio

| | 2019 | 2018 |
|--------------------------------|------------------|------------------|
| Operating Revenues | 611,888 | 616,641 |
| Non-Operating Revenues | <u>572</u> | <u>(115)</u> |
| Total Revenues | <u>612,460</u> | <u>616,526</u> |
| Operating Expenses | 372,889 | 372,889 |
| Depreciation | <u>(136,358)</u> | <u>(136,358)</u> |
| Expenses | <u>236,531</u> | <u>236,531</u> |
| Net Available for Debt Service | <u>375,929</u> | <u>379,995</u> |
| Principal Payments | 199,277 | 199,277 |
| Interest Payments | <u>87,804</u> | <u>87,804</u> |
| Total Debt Service Payments | <u>287,081</u> | <u>287,081</u> |
| Coverage Ratio | <u>1.31</u> | <u>1.32</u> |

Next Year's Operations

In conjunction with the Town of Castine, the Department is conducting planning activities to upgrade another area of the Town's aging infrastructure. The Town expects that its current infrastructure will remain adequate until this project can be begun and completed in 2021. In addition, the Town continues to look for funding and opportunities to transition portions of our Water Department power requirements to solar power.

Request for Information

Questions about the Department's finances may be directed to Karen Motycka, Finance Officer, Town of Castine, P.O. Box 204, Castine, Maine 04421.

**CASTINE WATER DEPARTMENT
STATEMENTS OF NET POSITION
AT DECEMBER 31,**

| Assets | 2019 | 2018 |
|--|-------------------------|-------------------------|
| Current Assets: | | |
| Cash and Cash Equivalents | 99,017 | 97,862 |
| Accounts Receivable | 4,109 | 3,289 |
| Accrued Revenue | 151,457 | 150,752 |
| Materials and Supplies | 38,634 | 40,762 |
| Due From Town of Castine | 790,264 | 702,932 |
| Total Current Assets | <u>1,083,481</u> | <u>995,597</u> |
| Non-Current Assets: | | |
| Plant, Property and Equipment: | | |
| Utility Plant | 6,275,648 | 6,275,648 |
| Less: Accumulated Depreciation | <u>1,858,489</u> | <u>1,724,250</u> |
| Total Plant, Property and Equipment | <u>4,417,159</u> | <u>4,551,398</u> |
| Total Non-Current Assets | <u>4,417,159</u> | <u>4,551,398</u> |
| Total Assets | <u><u>5,500,640</u></u> | <u><u>5,546,995</u></u> |
| <i>Liabilities and Net Position</i> | | |
| Current Liabilities: | | |
| Accounts Payable | 9,255 | 1,739 |
| Accrued Interest | 14,918 | 16,114 |
| Current Portion of Long-Term Debt | <u>204,228</u> | <u>201,371</u> |
| Total Current Liabilities | <u>228,401</u> | <u>219,224</u> |
| Non-Current Liabilities: | | |
| Long-Term Debt | <u>2,344,756</u> | <u>2,548,984</u> |
| Total Non-Current Liabilities | <u>2,344,756</u> | <u>2,548,984</u> |
| Total Liabilities | <u>2,573,157</u> | <u>2,768,208</u> |
| Net Position: | | |
| Net Investment in Capital Assets | 1,868,175 | 1,801,043 |
| Unrestricted | <u>1,059,308</u> | <u>977,744</u> |
| Total Net Position | <u>2,927,483</u> | <u>2,778,787</u> |
| Total Liabilities and Net Position | <u><u>5,500,640</u></u> | <u><u>5,546,995</u></u> |

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



**CASTINE WATER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31,**

| | 2019 | 2018 |
|---|-------------------------|-------------------------|
| Operating Revenues: | | |
| Metered Sales | 400,761 | 405,809 |
| Public Fire Protection | 185,500 | 185,500 |
| Private Fire Protection | 24,960 | 24,960 |
| Other Water Revenues | 667 | 372 |
| Total Operating Revenues | <u>611,888</u> | <u>616,641</u> |
| Operating Expenses: | | |
| Operation and Maintenance | 243,767 | 233,569 |
| Depreciation | 134,239 | 136,358 |
| Assessments | 3,529 | 2,962 |
| Total Operating Expenses | <u>381,535</u> | <u>372,889</u> |
| Net Operating Income | <u>230,353</u> | <u>243,752</u> |
| Non-Operating Revenues (Expenses): | | |
| Interest Income | 572 | (115) |
| Jobbing Income | - | - |
| Grant Income | - | - |
| Interest Expense | <u>(82,229)</u> | <u>(86,898)</u> |
| Total Non-Operating Revenues (Expenses) | <u>(81,657)</u> | <u>(87,013)</u> |
| Change in Net Position | 148,696 | 156,739 |
| Net Position - Beginning of Year | <u>2,778,787</u> | <u>2,622,048</u> |
| Net Position - End of Year | <u><u>2,927,483</u></u> | <u><u>2,778,787</u></u> |

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



**CASTINE WATER DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,**

| | 2019 | 2018 |
|---|-----------------------|-----------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from Customers and Users | 610,363 | 619,894 |
| Payments to Suppliers | (218,517) | (226,243) |
| Payments to Employees | (19,135) | (23,581) |
| Net Cash Flows from Operating Activities | <u>372,711</u> | <u>370,070</u> |
| Cash Flows from Noncapital Financing Activities: | | |
| Other Income | - | - |
| Transfers from General Fund - Net | (87,332) | (72,931) |
| Net Cash Flows from Noncapital Financing Activities | <u>(87,332)</u> | <u>(72,931)</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Purchase of Capital Assets | - | (9,809) |
| Interest Payments | (83,425) | (87,804) |
| Principal Payments | (201,371) | (199,277) |
| Net Cash Flows from Capital and Related Financing Activities | <u>(284,796)</u> | <u>(296,890)</u> |
| Cash Flows from Investing Activities: | | |
| Investment Income | 572 | (115) |
| Net Cash Flows from Investing Activities | <u>572</u> | <u>(115)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,155 | 134 |
| Cash and Cash Equivalents at Beginning of Year | <u>97,862</u> | <u>97,728</u> |
| Cash and Cash Equivalents at End of Year | <u><u>99,017</u></u> | <u><u>97,862</u></u> |
| Reconciliation of Operating Income to Net Cash Flows from Operating Activities: | | |
| Net Operating Income | 230,353 | 243,752 |
| Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities: | | |
| Depreciation | 134,239 | 136,358 |
| Change in Operating Assets and Liabilities: | | |
| (Increase) Decrease in Accounts Receivable | (820) | (736) |
| (Increase) Decrease in Accrued Revenue | (705) | 3,989 |
| (Increase) Decrease in Material and Supplies | 2,128 | - |
| (Decrease) Increase in Accounts Payable | 7,516 | (13,293) |
| Net Cash Flows from Operating Activities | <u><u>372,711</u></u> | <u><u>370,070</u></u> |

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



**CASTINE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The Department is an enterprise fund within the Town of Castine and operates on revenues derived from water sales and fire protection charges regulated by the Maine Public Utilities Commission (MPUC). The financial statements of the Department include only assets, liabilities, net position, operations, and cash flows of the Department. In evaluating how to define the Department for financial reporting purposes, management has considered all potential component units. Based on the applicable criteria, there are no other entities within the Department that should be included as part of these financial statements. There are no fiduciary funds included in the Department.

Nature of Business

The Department supplies water and fire protection services in the Town of Castine. The Department'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 MPUC. The major sources of revenue are metered water sales and fire protection charges. Revenue is recognized in the period when earned.

Regulation

As a regulated water utility, the Department is subject to regulation by the MPUC, which has jurisdiction with respect to rates, service, accounting procedures, acquisitions and other matters.

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 the reporting period. Actual results could differ from those estimates.

Restricted Resources

The Department'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.



**CASTINE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget

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

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 Department has not formally adopted deposit and investment policies that limit the Department’s allowable deposits or investments and address the specific types of risk to which the Department is exposed beyond Maine Statutes.

Cash, Cash Equivalents and Custodial Credit Risk

For purposes of these statements, the Department 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, 2019 and 2018. Custodial credit risk is the risk that, in the event of the bank’s failure, the Department will not be able to recover the value of its deposits and investments that are in the possession of an outside party. The Department does not have policies addressing custodial credit risk.

The Department’s deposits are categorized as follows to give an indication of the level of risk assumed by the Department at year end: Category 1 includes deposits covered by federal depository insurance or by collateral held by the Department or by the Department’s agent in the Department’s name; Category 2 includes uninsured deposits covered by collateral held by the pledging financial institution’s trust department or agent in the Department’s name; and Category 3 includes uninsured and uncollateralized deposits.

At December 31, 2019, cash on deposit consisted of the following:

| | Carrying Amount | Bank Balance | Category 1 | Category 2 | Category 3 |
|------|----------------------------|-------------------------|-----------------------|-----------------------|-----------------------|
| Cash | 99,017 | 115,049 | 115,049 | -0- | -0- |

At December 31, 2018, cash on deposit consisted of the following:

| | Carrying Amount | Bank Balance | Category 1 | Category 2 | Category 3 |
|------|----------------------------|-------------------------|-----------------------|-----------------------|-----------------------|
| Cash | 97,862 | 114,380 | 114,380 | -0- | -0- |



**CASTINE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable 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 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.

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.

Inventories

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.

In 2018, the Department changed its inventory method from lower of cost or market to the first-in first-out method due to the implementation of a new inventory tracking system. The cumulative effect of changing to a new accounting principle is not material to the financial statements.

Plant, Property and Equipment

Plant, property 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 1.3% to 20%. Annual rates in use are as follows:

| | |
|---------------------------------|--------------|
| Structures and Improvements | 3.0% |
| Reservoirs, Intakes and Wells | 1.3% - 2.0% |
| Pumping and Treatment Equipment | 5.0% - 10.0% |
| Standpipes, Mains and Hydrants | 1.3% - 2.0% |
| Services and Meters | 3.0% - 7.7% |
| Transportation Equipment | 20.0% |
| General Equipment | 10.0% |

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

**CASTINE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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 expensed as incurred. The Department does not have a policy setting a minimum capitalization threshold for amount or lives for reporting capital assets.

Contributions in Aid of Construction

Contributions in aid of construction include direct non-refundable contributions and are reported as income in the year earned. Utility plant funded by contributions is not depreciated for rate making purposes. The net contributions in aid of construction included in total net position at December 31, 2019 and 2018 is \$61,732 and \$65,491, respectively.

Taxes

As a governmental entity, the Department is not subject to Federal and State income taxes, accordingly it is not necessary to consider the effects of any uncertain tax positions.

The Department 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, 2019 and 2018. No examinations have been conducted by the Federal or State taxing authorities and no correspondence has been received from these authorities.

Measurement Focus, Basis of Accounting and Basis of Presentation

The Department 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 Department 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 resources measurement. Accordingly, revenues are recorded when earned and expenses are recorded when incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses arise from providing goods and services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses that are not derived directly from operations are reported as non-operating revenues and expenses.



**CASTINE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 – LONG-TERM DEBT

Bonds payable are as follows at December 31, 2019:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------------|------------------|------------------|---------------------------|
| Bond payable to Maine Municipal Bond Bank, maturing in 2023. Interest rate of 1.42%. | 63,674 | | 12,221 | 51,453 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2026. Interest rate of 1.78%. | 480,000 | | 60,000 | 420,000 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2027. Interest rate of 0.00%. | 308,018 | | 27,934 | 280,084 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2030. Interest rates of 2.00% - 5.00%. | 286,371 | | 23,864 | 262,507 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2034. Interest rates of 0.43% - 3.79%. | 417,869 | | 21,121 | 396,748 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2036. Interest rates of 0.35% - 3.89%. | 873,460 | | 41,477 | 831,983 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2036. Interest rates of 0.91% - 3.50%. | 320,963 | | 14,754 | 306,209 |
| Total Outstanding Debt | 2,750,355 | - | 201,371 | 2,548,984 |
| Less: Current Portion | <u>201,371</u> | | | <u>204,228</u> |
| Total Long-Term Debt | <u>2,548,984</u> | | | <u>2,344,756</u> |



**CASTINE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 – LONG-TERM DEBT (CONTINUED)

Bonds payable are as follows at December 31, 2018:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------------|------------------|------------------|---------------------------|
| Bond payable to Maine Municipal Bond Bank, maturing in 2023. Interest rate of 1.42%. | 75,648 | | 11,974 | 63,674 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2026. Interest rate of 1.78%. | 540,000 | | 60,000 | 480,000 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2027. Interest rate of 0.00%. | 334,622 | | 26,604 | 308,018 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2030. Interest rates of 2.00% - 5.00%. | 310,235 | | 23,864 | 286,371 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2034. Interest rates of 0.43% - 3.79%. | 438,689 | | 20,820 | 417,869 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2036. Interest rates of 0.35% - 3.89%. | 914,885 | | 41,425 | 873,460 |
| Bond payable to Maine Municipal Bond Bank, maturing in 2036. Interest rates of 0.91% - 3.50%. | 335,553 | | 14,590 | 320,963 |
| Total Outstanding Debt | 2,949,632 | - | 199,277 | 2,750,355 |
| Less: Current Portion | <u>199,277</u> | | | <u>201,371</u> |
| Total Long-Term Debt | <u>2,750,355</u> | | | <u>2,548,984</u> |

**CASTINE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 – LONG-TERM DEBT (CONTINUED)

The Department has received credits from the Maine Municipal Bond Bank that are being recognized over the remaining lives of the respective bond issues. These credits will offset future interest expense. The following is a schedule of maturities per year on long-term debt:

| | Principal | Interest | Credits | Total |
|-----------|------------------|-----------------|-----------------|------------------|
| 2020 | 204,228 | 78,983 | (2,737) | 280,474 |
| 2021 | 207,359 | 73,834 | (684) | 280,509 |
| 2022 | 210,762 | 68,759 | (699) | 278,822 |
| 2023 | 214,443 | 64,281 | (1,766) | 276,958 |
| 2024 | 204,904 | 57,679 | (1,850) | 260,733 |
| 2025-2029 | 822,144 | 194,975 | (6,308) | 1,010,811 |
| 2030-2034 | 574,314 | 79,192 | -0- | 653,506 |
| 2035-2037 | 110,830 | 4,640 | -0- | 115,470 |
| | <u>2,548,984</u> | <u>622,343</u> | <u>(14,044)</u> | <u>3,157,283</u> |

NOTE 3 – 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, 2019 and 2018 was \$82,229 and \$86,898 respectively.

NOTE 4 – RETIREMENT PLAN

The Department offers fulltime employees the option to contribute to a 401(a) defined contribution retirement savings plan administered by International City Management Association Retirement Contribution. The Department will match an employee's contributions up to 6% of the employee's salary as approved by the Board of Selectmen. The Department's contribution is fully vested after three years of employment. Retirement expense \$1,751 for the years ending December 31, 2018. During 2019 the Department did not have any employees contributing to the plan so had no matching contribution. The Board of Selectmen have authority over plan provisions, requirements and amendments.

NOTE 5 – RISK MANAGEMENT

The Department 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 Department participates in several public entity risk pools sponsored by Maine Municipal Association for the risks of losses to which it is exposed. There have been no significant reductions in the insurance coverage from the prior year. The Department is not aware of any material actual or potential claim liabilities which should be recorded at December 31, 2019 and 2018. Settlements have not exceeded insurance coverage for each of the past three years.



**CASTINE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 – CONTINGENCIES

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

NOTE 7 – MAJOR CUSTOMERS

The Department derived 30% of its operating revenues from the Town of Castine related to the servicing of public fire hydrants for the years ended December 31, 2019 and 2018.

The Department derived approximately 28% of its operating revenues from Maine Maritime Academy for the years ended December 31, 2019 and 2018.

NOTE 8 – UTILITY PLANT

Capital asset costs, additions and disposals are as follows for the year ended December 31, 2019:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|--------------------------------|------------------------------|------------------|------------------|---------------------------|
| Organization | 1,848 | | | 1,848 |
| Land and Land Rights | 25,746 | | | 25,746 |
| Structures and Improvements | 1,707,073 | | | 1,707,073 |
| Collecting Reservoirs | 101,290 | | | 101,290 |
| Lake, River and Other Intakes | 2,897 | | | 2,897 |
| Wells and Springs | 230,344 | | | 230,344 |
| Pumping Equipment | 202,355 | | | 202,355 |
| Water Treatment Equipment | 353,945 | | | 353,945 |
| Distribution Reservoirs | 1,078,948 | | | 1,078,948 |
| Mains | 2,102,846 | | | 2,102,846 |
| Services | 220,064 | | | 220,064 |
| Meters | 73,638 | | | 73,638 |
| Hydrants | 155,559 | | | 155,559 |
| Transportation | 10,633 | | | 10,633 |
| Miscellaneous Equipment | 8,462 | | | 8,462 |
| Gross Utility Plant | 6,275,648 | - | - | 6,275,648 |
| Less: Accumulated Depreciation | 1,724,250 | 134,239 | - | 1,858,489 |
| Net Utility Plant | 4,551,398 | (134,239) | - | 4,417,159 |



**CASTINE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 – UTILITY PLANT (CONTINUED)

Capital asset costs, additions and disposals are as follows for the year ended December 31, 2018:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|--------------------------------|------------------------------|------------------|------------------|---------------------------|
| Organization | 1,848 | | | 1,848 |
| Land and Land Rights | 25,746 | | | 25,746 |
| Structures and Improvements | 1,707,073 | | | 1,707,073 |
| Collecting Reservoirs | 101,290 | | | 101,290 |
| Lake, River and Other Intakes | 2,897 | | | 2,897 |
| Wells and Springs | 230,344 | | | 230,344 |
| Pumping Equipment | 197,246 | 9,809 | 4,700 | 202,355 |
| Water Treatment Equipment | 353,945 | | | 353,945 |
| Distribution Reservoirs | 1,078,948 | | | 1,078,948 |
| Mains | 2,102,846 | | | 2,102,846 |
| Services | 220,064 | | | 220,064 |
| Meters | 73,638 | | | 73,638 |
| Hydrants | 155,559 | | | 155,559 |
| Transportation | 10,633 | | | 10,633 |
| Miscellaneous Equipment | 8,462 | | | 8,462 |
| Gross Utility Plant | 6,270,539 | 9,809 | 4,700 | 6,275,648 |
| Less: Accumulated Depreciation | 1,592,592 | 136,358 | 4,700 | 1,724,250 |
| Net Utility Plant | 4,677,947 | (126,549) | - | 4,551,398 |

NOTE 9 – COMMITMENTS

In 2016, the Town of Castine entered into a contract effective December 1, 2016 with Constellation NewEnergy to supply electricity to one of the Department's facilities at \$0.0653 per kilo-watt hour. The contract is effective through November 1, 2020.

In 2017, the Town of Castine entered into a contract effective November 30, 2017 with Constellation NewEnergy to supply electricity to three of the Department's facilities at \$0.0604 per kilo-watt hour. The contract is effective through November 28, 2021.

**CASTINE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 – 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 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 and adding back any unspent bond proceeds. The Department's net investment in capital assets was calculated as follows at December 31:

| | 2019 | 2018 |
|---|--------------------|--------------------|
| Total Plant, Property and Equipment | 4,417,159 | 4,551,398 |
| Long-Term Debt, Including Current Portion | <u>(2,548,984)</u> | <u>(2,750,355)</u> |
| Total Net Investment in Capital Assets | <u>1,868,175</u> | <u>1,801,043</u> |

Unrestricted consists of all other net position not included in the above category.

NOTE 11 – SUBSEQUENT EVENTS

In preparing these financial statements, the Department has evaluated events and transactions for potential recognition or disclosure through February 21, 2020, the date on which the financial statements were available to be issued.

**CASTINE WATER DEPARTMENT
OPERATION AND MAINTENANCE EXPENSES
YEARS ENDED DECEMBER 31,**

SCHEDULE 1

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Salaries and Wages | 10,300 | 12,454 |
| Pensions and Benefits | 8,835 | 11,127 |
| Purchased Power | 10,500 | 9,808 |
| Materials and Supplies: | | |
| Pumping | 12,503 | 9,921 |
| Treatment | 23,178 | 14,499 |
| Distribution | 4,820 | 3,334 |
| Administration | 1,865 | 3,806 |
| Total Materials and Supplies | <u>42,366</u> | <u>31,560</u> |
| Contractual Services: | | |
| Accounting and Legal | 6,050 | 5,325 |
| Other | 156,075 | 153,741 |
| Total Contractual Services | <u>162,125</u> | <u>159,066</u> |
| Transportation | 1,623 | 1,184 |
| Insurance | 3,145 | 4,059 |
| All Other | <u>4,873</u> | <u>4,311</u> |
| Total Operation and Maintenance Expenses | <u><u>243,767</u></u> | <u><u>233,569</u></u> |

See accompanying independent auditors' report.

