

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)

Financial Statements
June 30, 2022

Together with
Independent Auditors' Report

**CRESCENT SANITARY DISTRICT
(Crescent, Oregon)**

DISTRICT OFFICIALS

JUNE 30, 2022

President

Kim Mathers
Crescent, Oregon

Vice President

Doris Allphin
Crescent, Oregon

Secretary/Treasurer

Lauretta Butler
Crescent, Oregon

Directors

Marvin Hicks
Crescent, Oregon

Scott DeCarlo
Crescent, Oregon

Registered Agent and Office

Kim Mathers
PO Box 265
Crescent, Oregon 97702
541-433-2951

**CRESCENT SANITARY DISTRICT
(Crescent, Oregon)**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Crescent Sanitary District
Crescent, Oregon

Report on the Audited Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Crescent Sanitary District (the District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of Crescent Sanitary District as of June 30, 2022, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity 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 (GAAS). 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 Crescent Sanitary 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

Crescent Sanitary District's management is responsible for the preparation and fair presentation of the 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 Crescent Sanitary District's ability to continue as a going concern for one year after the date that the financial statements are issued.

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 GAAS 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 GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement 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 Crescent Sanitary 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 Crescent Sanitary 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 (RSI)

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis (MD&A) and the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. The RSI 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 MD&A 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.

The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund 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 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated March 8, 2023, on our consideration of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Brenda Bartlett, CPA

Bend, Oregon

March 8, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CRESCENT SANITARY DISTRICT
(Crescent, Oregon)**

MANAGEMENT'S DISCUSSION & ANALYSIS

Year ended June 30, 2022

Our discussion and analysis of Crescent Sanitary District (the District) financial performance provides an overview of the Districts' financial activities for the fiscal year ending June 30, 2022. Please read it in conjunction with the District's financial statements, which follow this Management's Discussion and Analysis.

Financial Highlights

As of June 30, 2022, the District's ending net position was \$4,831,614. Of this, the amount invested in capital assets net of related debt was \$4,756,989. The ending net position decreased by \$215,534 compared to prior year, thus resulting in an unrestricted net position of \$74,625. The decrease in net position was primarily related to activity surrounding the wastewater system, including a full year of depreciation expense and an impairment loss to the system in the amount of \$88,000, more fully described in Footnote 3 to the financial statements.

Overview of the Financial Statements

This discussion and analysis provided here are intended to serve as an introduction to the District's basic financial statements. These basic financial statements comprise four components: 1) Statement of Net Position; 2) Statement of Revenues, Expenses, and Changes in Net Position and 3) Statement of Cash Flows, and 4) Notes to the Financial Statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

The District operated a sewer system. The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceed liabilities by \$4,831,614 on June 30, 2022.

Of the District's net position, 98% reflects its investment in capital assets net of accumulated depreciation.

Property tax revenues remained flat compared to the prior year. The District received \$103,934 of state grant funding for fiscal year 2021-2022 which was used to pay retainage due to contractors related to the wastewater system project.

CRESCENT SANTIARY DISTRICT
(Crescent, Oregon)

MANAGEMENT'S DISCUSSION & ANALYSIS

Year ended June 30, 2022

Overview of Financial Statements

Net position over time, may serve as a useful indicator of a government's financial position. An overview of the District's Statement of Net Position is as follows:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Assets		
Current and other assets	\$ 82,869	\$ 37,941
Capital assets, net	11,000,318	11,362,765
Right-to-use assets, net	86,039	-
Total Assets	<u>11,169,226</u>	<u>11,400,706</u>
Liabilities		
Current liabilities	171,887	822,081
Long-term liabilities	6,165,725	5,533,477
Total Liabilities	<u>6,337,612</u>	<u>6,355,558</u>
Net Position		
Net investment in capital assets	4,756,989	5,003,367
Unrestricted	74,625	41,781
Total Net Position	<u>\$ 4,831,614</u>	<u>\$ 5,045,148</u>

An overview of the District's Statement of Revenues, Expenses and Changes in Net Position is as follows:

	<u>Year Ended June 30, 2022</u>	<u>Year Ended June 30, 2021</u>
Operating revenue	\$ 277,460	\$ 119,880
Operating expenses	(518,979)	(480,974)
Net operating income (loss)	<u>(241,519)</u>	<u>(361,094)</u>
Non-operating revenue and expense	<u>27,985</u>	<u>12,347</u>
Changes in net position	(213,534)	(348,747)
Net position - beginning of year	5,045,148	5,393,895
Net position - end of year	<u>\$ 4,831,614</u>	<u>\$ 5,045,148</u>

**CRESCENT SANITARY DISTRICT
(Crescent, Oregon)**

MANAGEMENT'S DISCUSSION & ANALYSIS

Year ended June 30, 2022

Capital Asset and Debt Administration

The District's investment in capital assets totaling \$11,174,356 includes land, easements and pump grinders not placed in service in the amount of \$178,079. The wastewater system, net of accumulated depreciation, was reported as \$10,798,513 and equipment & vehicles were \$23,726. Additionally, the District reported \$95,545 if right to use assets related to its building lease, upon implementation of Governmental Accounting Standards Board Statement (GASB) No. 87 – *Leases*.

The District was obligated to various government agencies related to the construction of the Crescent and Gilchrist sewer system projects, totaling \$6,211,504. Amounts disbursed from the loans during the current year were \$678,027. Additionally, the District received a relief loan from the Rural Community Assistance Corporation in the amount of \$12,000, that was disbursed and forgiven during the year. Upon implementation of GASB 87, the District recognized a lease liability in the amount of \$95,545.

Additional information on the District's capital assets and long-term debt can be found in the notes to the financial statements at Notes 3, 4 and 5.

Economic Factors and Next Year's Budget

The most significant factor for the District in the ensuing year is the award of a grant from the Oregon Business Development Department in the amount of \$835,000 to be used for retirement of debt related to its sewer collection and treatment system project

We anticipate charges for services of approximately \$253,473 will be collected from customers of the District in the upcoming fiscal year.

Included in the District's budget for fiscal year 2022-23 is estimated loan proceeds from state agency in the amount of \$284,273, capital outlay of \$284,273 and, debt service payments totaling \$835,000.

Requests for Information

This financial report is designed to provide a general overview to those parties interested in Crescent Sanitary District's finances. Questions concerning any of the information provided in this report or requests for additional information may be obtained from the District by writing to PO Box 265, Crescent, Oregon 97733 or telephone 541-433-2951.

BASIC FINANCIAL STATEMENTS

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Statement of Net Position
Year ended June 30, 2022

ASSETS

Current assets:

Cash	\$	39,540
Accounts receivable		37,015
Prepaid expenses		6,314
Total current assets		82,869

Capital assets not being depreciated

Land		90,070
Easement		36,074
Pump grinders		51,935
Right of use asset, net		86,039
Capital assets, net		
Equipment and vehicles		23,726
Wastewater system		10,798,513
Total assets		11,169,226

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable		3,593
Payroll liabilities		4,651
Accrued interest payable		32,610
Current portion, note payable		121,460
Current portion, lease liability		9,573
Total current liabilities		171,887

Long-term liabilities:

Note payable		6,090,044
Lease liability		75,681
Total long-term liabilities		6,165,725

Total liabilities		6,337,612
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Net position:

Net investment in capital assets		4,756,989
Unrestricted		74,625
Total net position	\$	4,831,614

The accompanying notes are an integral part of these financial statements

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Statement of Revenues, Expenses And Changes in Net Position
Year Ended June 30, 2022

Operating revenues:	
Charges for services	\$ 272,570
System development charges	4,890
Total operating revenues	<u>277,460</u>
Operating expenses:	
Advertising	86
Amortization	8,506
Contracted services	68,191
Depreciation	287,571
Equipment and tools	696
Fuel	7,390
Insurance	9,204
Licenses, dues and permits	4,633
Office expense	12,088
Repair & maintenance	2,029
Supplies	1,023
Travel and meals	1,025
Utilities	24,997
Wages and associated payroll costs	91,540
Total operating expenses	<u>518,979</u>
Operating loss	<u>(241,519)</u>
Non-operating (revenue) and expense:	
Property taxes	22,507
Capital grants	103,934
Interest income	51
Gain on sale of assets	715
Sewer system impairment loss	(88,000)
Loan forgiveness - RCAC	12,000
Interest expense	(23,222)
Total non-operating revenue and expense	<u>27,985</u>
Change in net position	<u>(213,534)</u>
Net position-beginning	<u>5,045,148</u>
Net position-ending	<u>\$ 4,831,614</u>

The accompanying notes are an integral part of these financial statements

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Statement of Cash Flows
Year Ended June 30, 2022

Cash flows from operations	
Cash received from customers	\$ 257,458
Cash payments to employees for services	(95,751)
Cash payments to acquire services and materials	(150,553)
Net cash provided by operations	<u>11,154</u>
Cash flows from non capital financing activities	
Interest income	51
Property tax collections	22,507
Net cash provided by non capital financing activities	<u>22,558</u>
Cash flows from capital financing activities	
Capital grants	103,934
Loan proceeds	690,027
Loan payments	(15,518)
Payments on lease liabilities	(9,291)
Acquisition of capital assets	(770,828)
Interest expense on capital loans and leases	(5,800)
Net cash used in capital financing activities	<u>(7,476)</u>
Net increase (decrease) in cash	26,236
Cash - beginning of year	<u>13,304</u>
Cash - end of year	<u><u>\$ 39,540</u></u>
Reconciliation of operating income to net cash flows from operating activities	
Operating loss	\$ (241,519)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	296,077
Gain on sale of assets	715
Changes in working capital accounts:	
Prepaid expense	1,310
Accounts receivable	(20,002)
Accounts payable	(21,216)
Payroll liabilities	(4,211)
Net cash provided by operations	<u><u>\$ 11,154</u></u>

The accompanying notes are an integral part of these financial statements

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2022

Note 1 – Summary of significant accounting policies:

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of American (“GAAP”) as applied to government units as required by Oregon law. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting board for establishing governmental accounting and financial reporting principles. The more significant of accounting policies are described below.

Reporting Entity - Crescent Sanitary District (the District) was formed in 1976 under ORS 450. The District was formed by assumption of the assets and liabilities of Crescent Sanitary District, a non-profit organization.

The District is governed by an independently elected board of directors and is legally separate from all other entities. It is also financially independent of other state and local governmental units. It has the power to levy taxes, is responsible for its debts and is entitled to any surplus. The District is not a component unit of another entity.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial principles. The significant policies of the District are described below.

Measurement Focus, Basis of Accounting - The District is a single enterprise similar to a commercial entity for financial reporting purposes. Accordingly, the financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of the related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the District is charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition, including property taxes, and capital grant financing are reported as nonoperating revenues and expenses.

Budgetary Policy - Annual budgets, as required by state statutes, are adopted on the cash basis of accounting for the sewer fund. GAAP require the District to report as a business-type activity by use of an enterprise fund. The budgetary schedules presented reconcile the budgetary basis to the GAAP required reporting. The budget is prepared by function and activity and is maintained on the cash basis of accounting. The budget document includes actual information on the past two years, current year budget information, as well as requested appropriation and estimated revenues for the ensuing fiscal year.

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2022

Note 1 – Summary of significant accounting policies (continued):

Budgetary Policy (continued) - The proposed budget is presented by the budget officer to the budget committee. Public meetings are held by the budget committee. The budget committee may make changes to the original document. The budget committee approves the budget document to be submitted to the governing body of the District. Once the budget document is received by the governing body, they hold a public hearing on a date as published.

After the public hearing, the governing body gives consideration to matters discussed and makes amendments to the budget document prior to adoption. However, state statutes do not allow the governing body to increase estimated expenditures for each fund by more than ten percent. The amount of the total ad valorem taxes to be certified by the county for levy for all funds shall not exceed the amount presented by the budget committee unless the budget document is republished and another public hearing is held.

The governing body is then required by state statutes to adopt the budget, make appropriations, and certify the levy of ad valorem taxes for each fund. Except for the allowance of appropriation transfers, expenditures cannot exceed appropriations. The level of control for appropriations is exercised at the program level. The program level consists of instruction, support services and operating contingency. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriations ordinance. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the governing body. All appropriations lapse at the end of the District's fiscal year.

Cash and Investments - For financial reporting purposes, the District considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents. Oregon Revised Statutes authorized the District to invest in obligations of the U.S. Treasury and Agencies, time certificates of deposit, bankers' acceptances, repurchase agreements, and the State of Oregon Local Government Investment Pool.

Prepaid Expenses and Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Utility Receivables – Amounts due at year end were considered to be fully collectible. Delinquent wastewater accounts may be turned over to the county tax assessor to become a lien against the property, which is collected by the counties or paid upon sale or foreclosure of the property. Under the terms of the lien, the county turns over the past due accounts immediately to the district. The lien process is performed annually.

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2022

Note 1 – Summary of significant accounting policies (continued):

Property Taxes - Property taxes are levied and become a lien on July 1. Collection dates are November 15, February 15 and May 15 following the lien date. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent. An allowance for doubtful accounts is not deemed necessary, as uncollectible taxes become a lien on the property.

Tax revenue is considered received when in the hands of the county as the intermediary collecting agency. The District qualifies to receive one lump sum distribution, less a 3% discount for timely payments, annually.

Capital Assets - The District defines capital assets as assets with an initial cost of more than \$500 and an estimated useful life extending beyond one year.

Right to Use Assets - The District capitalizes noncancelable leases in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87 – *Leases*. The standard requires leases which are within the scope of the standard, to be capitalized at their net present value at inception, and amortized over the shorter of the life of the lease or the useful life of the asset.

Lease Liabilities - The District determines if an arrangement is a lease and its classification at lease inception. Operating lease liabilities are recognized at the commencement date of the lease based on the present value of the lease payments over the lease term. The District uses its incremental borrowing rate based on the information available at the lease commencement date to compute the present value of the lease payments when the implicit rate is not readily determinable. Right-to-use (“ROU”) assets are measured at lease inception based on the initial measurement of the lease liability. The District does not recognize ROU assets or lease liabilities with a term of twelve months or less. Lease terms do not include options to extend or terminate the lease unless it is reasonably certain that the option will be exercised.

Equity Classification

In government-wide financial statements, equity is classified and displayed in three components:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and is reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net position – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net assets not invested in capital assets or restricted.

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2022

Note 1 – Summary of significant accounting policies (continued):

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events - The District has evaluated subsequent events through the date that the basic financial statements were available to be issued which is the date of the independent auditors' report.

Note 2 – Cash:

At June 30, 2022 the District held cash of \$39,796 with a bank balance of \$43,730. Oregon Revised Statute Chapter 295 requires that bank depositories pledge collateral against any public fund deposits in excess of deposit insurance amounts. This provides additional protection for public funds in the event of a bank loss. The Office of the State Treasurer maintains a list of financial institutions in which deposits in excess of deposit insurance limits can be held. As of June 30, 2022 the District's bank deposits were not exceeded amounts insured by the FDIC.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require that all bank deposits in excess of the FDIC or FSLIC insurance amounts be collateralized through the Oregon State Treasurer's Public Funds Collateralization Program. This program provides a structure for specified depositories to participate in a shared liability collateral pool.

During the year, the District had the following non-cash transactions not reported in the statement of cash flows:

- | | |
|--|----------|
| • RCAC loan forgiveness | \$12,000 |
| • Interest accrued on OBDD loan | \$17,422 |
| • Right of use asset and related liability | \$94,545 |

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2022

Note 3 – Capital assets, net:

The District’s capital asset activity was as follows:

	<u>June 30, 2021</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2022</u>
Assets not being depreciated:				
Land	\$ 90,070	\$ -	\$ -	\$ 90,070
Easement	36,074			36,074
Grinders	-	63,920	(11,985)	51,935
Total assets not being depreciated	<u>126,144</u>	<u>63,920</u>	<u>(11,985)</u>	<u>178,079</u>
Assets being depreciated or amortized:				
Wastewater system	11,411,764	23,543	(151,920)	11,283,387
Equipment and vehicles	31,374	1,568		32,942
Right to use asset - building	-	94,545		94,545
Total depreciable assets	<u>11,443,138</u>	<u>119,656</u>	<u>(151,920)</u>	<u>11,410,874</u>
Less accumulated depreciation for:				
Wastewater system	(200,636)	(284,238)		(484,874)
Equipment and vehicles	(5,882)	(3,334)		(9,216)
Less accumulated amortization for:				
Right-to-use - building		(8,506)		(8,506)
	<u>(206,518)</u>	<u>(296,078)</u>	<u>-</u>	<u>(502,596)</u>
Assets being depreciated and amortized	<u>11,236,620</u>	<u>(176,422)</u>	<u>(151,920)</u>	<u>10,908,278</u>
Total assets	\$ <u>11,362,764</u>	\$ <u>(112,502)</u>	\$ <u>(163,905)</u>	\$ <u>11,086,357</u>

The District recorded an impairment loss of \$88,000 related to amounts paid for the installation of sixteen grinder pumps, which were not installed in the system. The estimated cost of the sixteen grinder pumps was transferred out of the wastewater system and classified as assets not placed in service. Three of the sixteen grinder pumps were sold during the year.

Note 4 – Lease obligations:

For the year ended June 30, 2022, the financial statements include the adoption of GASB Statement No. 87 - *Leases*. The primary objective of this statement is to enhance the relevance and consistency of information about governments’ leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to use lease asset.

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2022

Note 4 – Lease obligations (continued):

In June 2020, the District signed a non-cancelable lease for the administrative office with an annual base lease of \$12,000. The lease terminates on June 30, 2025. At the end of the initial term, the District may extend the lease five years at its option. Base rent is fixed annually during the initial term and any renewal term. Management is reasonably certain the District will exercise its option and has included the option period in its calculation of the right of use asset and related lease liability.

Principal and interest requirements to maturity for the lease liability are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 9,573	\$ 2,427	\$ 12,000
2024	9,864	2,136	12,000
2025	10,165	1,835	12,000
2026	10,474	1,526	12,000
2027	10,792	1,208	12,000
2028-2030	34,386	1,614	36,000
	<u>\$ 85,254</u>	<u>\$ 10,746</u>	<u>\$ 60,000</u>

Note 5 – Long-term debt:

The District's debt activity for the year is as follows:

	<u>June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2022</u>	<u>Due Within One Year</u>
Oregon Business Development Department	\$ 740,000	\$ -	\$ -	\$ 740,000	\$ -
Oregon Business Development Department	528,066	160,355	-	688,421	-
Oregon Department of Environmental Quality	4,000,000	-	-	4,000,000	53,732
Oregon Department of Environmental Quality	197,683	517,672	-	715,355	-
Rural Community Assistance Corporation	-	12,000	12,000	-	-
Rural Community Assistance Corporation	83,246	-	15,518	67,728	67,728
	<u>\$ 5,548,995</u>	<u>\$ 690,027</u>	<u>\$ 27,518</u>	<u>\$ 6,211,504</u>	<u>\$ 121,460</u>

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2022

Note 5 – Long-term debt (continued):

Oregon Business Development Department Loan Agreement

In July 2017, the District entered into an Intergovernmental Loan Agreement with the Oregon Business Development Department (OBDD) with in the amount of \$740,000. The agreement was amended in October 2017 to a maximum borrowing of \$1,473,900. The original loan amount of \$740,000 bears interest at a rate of 1.25%. The additional amount of \$733,900 bears interest at a rate of 1.19%. As of June 30, 2022 the District drew down \$688,421 against the additional loan amount. Payments will begin on both notes in December 2023, under a deferment agreement with OBDD and both notes mature on the 24th anniversary of the repayment commencement date. Under the terms of the agreement, the District pledged its (1) full faith and credit and taxing power and (2) net system revenues as security to fund amounts due under the financing contract.

Department of Environmental Quality Loan Agreement #1

In October 2018, the District entered into an Intergovernmental Loan Agreement with the Department of Environment Quality (DEQ), including two subsequent amendments. Under the terms of the agreements as amended, the maximum borrowing is \$4,000,000. A loan reserve in the amount of \$83,332 is required to be maintained when the repayment term begins, to be in effect until the loan is paid in full. The loan bears interest at a rate of .97% per annum and requires 60 semi-annual payments of \$84,732. In addition, the loan calls for annual fees to be paid in the amount of 0.5% of the outstanding loan balance, to be paid semi-annually. The original amortization schedule called for payments to begin on August 22, 2022. Due to delays in completion of the project, management expects payments to begin March, 2023.

Department of Environmental Quality Loan Agreement #2

In April 2021, the District entered into an Intergovernmental Loan Agreement with the Department of Environment Quality (DEQ) for a loan amount of \$1,000,000. A loan reserve in the amount of \$19,024 is required to be maintained when the repayment term begins, to be in effect until the loan is paid in full. Repayment commences within six months of project completion, and is estimated to begin February 1, 2023. The District received disbursements under this loan in the amount of \$688,421 as June 30, 2022. The loan bears interest at a rate of .89% per annum and requires 60 semi-annual payments of \$19,254. In addition, the loan calls for annual fees to be paid in the amount of 0.5% of the outstanding loan balance.

Both DEQ loans pledge irrevocable security interests in the District's net revenues, superior to all other claims and liens.

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2022

Note 5 – Long-term debt (continued):

Rural Community Assistance Corporation Loan

In July 2019, the District signed an agreement with Rural Community Assistance Corporation (RCAC), which was amended in August 2020. The total disbursed as of June 30, 2021, was \$92,177. The maximum borrowing allowed is \$96,692, of which \$4,162 is an interest reserve. Monthly payments of \$1,626.51, began January 6, 2021. The loan bears interest of 5.25% and matures on August 1, 2026. Management has reported the balance of this loan as current as it repaid the amount in full during the year ending June 30, 2023, including scheduled interest of \$562.

Rural Community Assistance Corporation Relief Loan

On October 20, 2021, the District signed an agreement for a relief loan in the amount of \$12,000. The loan bears interest at a rate of 3%, with a term of sixty months and was scheduled to mature November 1, 2026. On March 21, 2022, the relief loan in the amount of \$12,000 had been forgiven and reported as loan forgiveness income in the statement of revenues, expenses and changes in net position.

Principal and interest requirements of the DEQ Loan Agreement 1 are as follows:

Fiscal Year Ended		Principal	Interest	Total
June 30				
2023	\$	53,732	\$	31,000
2024		108,716		60,748
2025		110,408		59,056
2026		112,126		57,338
2027		113,871		55,593
2028-2032		596,489		250,831
2033-2037		644,364		202,956
2038-2042		696,081		151,239
2043-2047		751,947		95,373
2048-2052		812,266		35,022
	\$	<u>4,000,000</u>	\$	<u>999,156</u>
			\$	<u>4,999,156</u>

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2022

Note 5 – Long-term debt (continued):

Principal and interest requirements of the DEQ Loan Agreement 2 are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2023	\$ -	\$ 5,467	\$ 5,467
2024	29,873	865	30,738
2025	30,133	8,375	38,508
2026	30,396	8,112	38,508
2027	30,661	7,847	38,508
2028-2032	157,363	35,177	192,540
2033-2037	164,342	28,198	192,540
2038-2042	171,634	20,906	192,540
2043-2047	179,247	13,293	192,540
2048-2052	187,199	5,341	192,540
2053	19,152	83	19,235
	<u>\$ 1,000,000</u>	<u>\$ 133,664</u>	<u>\$ 1,133,664</u>

Note 6 – Risk management:

The District is exposed to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchased commercial insurance for general liability and fidelity bonding. Settled claims have not exceeded coverage in the prior three years.

Note 7 – Commitments:

The District has committed to pay the following amounts in future periods as of June 30, 2022:

Description	Amount
Construction project	\$ 95,406
DEQ loan agreement #1 - fees	327,394
DEQ loan agreement #2 - fees	79,413
	<u>\$ 502,213</u>

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2022

Note 8 – Loss Contingency:

Included in amounts billed to the OBDD loan are sixteen grinder pumps, which were not used in the system and were held for future use or sale by the District. The grinder pumps were charged to the project in the amount of \$9,496 each, which included electrical installation costs. The value of the grinder pumps absent installation is approximately \$3,995 each. As more fully described in Note 3, the District reported an impairment loss on the system equal to the amount of installation costs paid on the sixteen units. Three of the grinder pumps were sold during the fiscal year ended June 30, 2022.

The terms of the OBDD loan include provisions related to eligible project costs and disposal and sale of significant components of the wastewater system. Violation of the terms of the agreement may result in an obligation to repay funds drawn down which were not installed into the system, including proceeds retained by the District for assets sold.

Total amount of potential loss contingency is \$151,936, the total amount paid for sixteen pump grinders.

REQUIRED SUPPLEMENTARY INFORMATION

CRESCENT SANITARY DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
Budget and Actual – Sewer Fund
Year ended June 30, 2022

	Original and Final Budget	Actual - Budgetary Basis	Variance with Budget (Over) Under
<u>Revenues:</u>			
Property taxes	\$ 22,000	\$ 22,507	\$ (507)
Charges for service	303,470	257,458	46,012
Loans and grants	1,118,177	793,961	324,216
Other income	-	51	(51)
Total revenues	<u>1,443,647</u>	<u>1,073,977</u>	<u>369,670</u>
<u>Expenditures:</u>			
Personnel services	114,827	95,751	19,076
Material and services	150,973	150,821	152
Capital outlay	900,000	770,828	129,172
Debt service	59,000	12,027	46,973
Total expenditures	<u>1,224,800</u>	<u>1,029,427</u>	<u>195,373</u>
Change in fund balance	<u>218,847</u>	<u>44,550</u>	<u>174,297</u>
Fund Balance - July 1, 2021	<u>15,000</u>	<u>13,304</u>	<u>(999)</u>
Fund Balance - June 30, 2022	\$ <u><u>233,847</u></u>	\$ <u><u>57,854</u></u>	\$ <u><u>173,298</u></u>

The District budgets the general fund as a governmental fund on the cash basis of accounting. A reconciliation to net position reported in accordance with generally accepted accounting principles is as follows:

Budgetary fund balance	\$ 57,854
Accounts receivable and prepaid expenses	37,015
Capital assets, net	11,086,357
Accounts payable and other accruals	(40,854)
Long-term debt	(6,296,758)
Loan forgiveness income	<u>(12,000)</u>
Net position, June 30, 2020	<u><u>\$ 4,831,614</u></u>

**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

**INDEPENDENT AUDITORS' REPORT
REQUIRED BY OREGON STATE REGULATIONS**

We have audited the basic financial statements of Crescent Sanitary District, as of and for the year ended June 30, 2022, and have issued our report thereon dated March 8, 2023. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including the provisions of Oregon Revised Statutes as specified in Secretary of State Audits Division Chapter 162, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

In connection with our testing, we noted the following instances of non-compliance with the provisions listed in our report.

- The District received loan/grant advances for the wastewater system in the amount of \$151,936 which were not used in the system project. Subsequently, \$88,000 of the costs related to these advances were written off as they were installation costs for grinder pumps which were not installed. The grinder pumps are held by the District for future use or sale. Three of the unused pumps were sold during the year. We conclude both the disbursement and sale of the three pumps is a potential violation of the loan/grant agreement with the Oregon Business Development Department.

- During our testing of the District’s budget process for fiscal year 2022-23, we identified the following violations of Oregon Local Budget law:
 - Notice of budget hearing was prepared, but was not published as required, resulting in no notice to the public of the committee meeting.
 - According to the budget committee minutes, the District did not open a public hearing to ask for public comment as required.
 - The District used incorrect forms for detail in their budget process.
 - The District created two new funds, but reported the detail for all three funds combined on LB-10, which is reserved for reporting resources and requirement in a special revenue fund.
 - The “Actual” columns from the two prior years did not agree to the actual amounts reported in the audited financial statements for each prior year, rather it appears the District used prior year budgeted amounts for the actual column.

In connection with our testing, with the exception of the noncompliance disclosed above, nothing additional came to our attention that caused us to believe the Crescent Sanitary District was not in substantial compliance with the other provisions of laws, regulations, contracts and grants, including the provisions of Oregon revised statutes as specified above.

OAR 162-10-0230 Internal Control - In planning and performing our audit, internal control over financial reporting as a basis for designing audit procedures 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

We noted certain matters that we consider to be material weakness in internal control and have reported those findings to the District in a separate letter dated March 8, 2023.

This report is intended solely for the information and use of management, the board of directors and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these specified parties.



Brenda Bartlett, CPA
Sensiba San Filippo, LLP
Bend, Oregon

March 8, 2023