

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)

Financial Statements
June 30, 2023

Together with
Independent Auditors' Report

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

DISTRICT OFFICIALS

JUNE 30, 2023

President

Doris Allphin
Crescent, Oregon

Vice President

Scott DeCarlo
Crescent, Oregon

Secretary/Treasurer

Lauretta Butler
Crescent, Oregon

Member at Large

Marvin Hicks
Crescent, Oregon

Registered Agent and Office

Scott DeCarlo
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, 2023 and 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, 2023 and 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.

Substantial Doubt About the District's Ability to Continue as a Going Concern

As more fully described in Note 11, management has identified conditions that indicate substantial doubt about the District's ability to continue as a going concern for a reasonable period of time. Upon completion of the wastewater infrastructure project, loans incurred to fund construction were closed out and scheduled repayment plans were initiated by the lenders. Management has determined that it will be unable to meet its debt service requirements beyond December 2023 based on its projected operating revenues and expenses. Because projected annual cash flow from ongoing District revenue is insufficient to fund both operations and debt service payments, it is unlikely the District has the ability to meet its future obligations.

Our opinion is not modified with respect to this matter.

Emphasis of a Matter

As further described in Note 10, the previously issued financial statements for the year ended June 30, 2022 have been restated to correct a material misstatement related to the accrual of interest on one of the construction loans. Our opinion is not modified with respect to this matter.

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 – Sewer 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 – Sewer Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the budgetary schedules for the construction DEQ and debt service funds, but does not include the basic financial statements and our auditor’s report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated January 3, 2024, 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

January 3, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)

MANAGEMENT'S DISCUSSION & ANALYSIS

Year ended June 30, 2023

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, 2023. 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, 2023, the District's ending net position was \$5,801,550. Of this, the amount invested in capital assets net of related debt was \$5,623,599. The ending net position increased by \$1,073,303 compared to prior year, thus resulting in an unrestricted net position of \$177,951. The increase in net position was primarily related to grant proceeds and loan forgiveness related to servicing a portion of the District's infrastructure debt.

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 \$5,801,550 on June 30, 2023.

Of the District's net position, 97% reflects its investment in capital assets net of accumulated depreciation.

Property tax revenues remained flat compared to the prior year. The District received \$835,000 of State Grant Funding to pay off outstanding debt with Rural Community Assistance Corporation, Oregon Business Development Department and the Oregon Department of Environmental Quality (DEQ). In addition, the DEQ provided principal forgiveness in the amount of \$500,000, which was applied to the R25100 loan balance.

CRESCENT SANTIARY DISTRICT
(Crescent, Oregon)

MANAGEMENT'S DISCUSSION & ANALYSIS

Year ended June 30, 2023

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, 2023</u>	<u>June 30, 2022</u>
Assets		(Restated)
Current and other assets	\$ 185,355	\$ 82,869
Capital assets, net	10,885,953	11,000,318
Right-to-use assets, net	<u>75,681</u>	<u>86,039</u>
Total Assets	<u>11,146,989</u>	<u>11,169,226</u>
Liabilities		
Current liabilities	111,784	275,254
Long-term liabilities	<u>5,233,655</u>	<u>6,165,725</u>
Total Liabilities	<u>5,345,439</u>	<u>6,440,979</u>
Net Position		
Net investment in capital assets	5,623,599	4,653,622
Unrestricted	<u>177,951</u>	<u>74,625</u>
Total Net Position	<u>\$ 5,801,550</u>	<u>\$ 4,728,247</u>

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

	<u>Year Ended</u>	<u>Year Ended</u>
	<u>June 30, 2023</u>	<u>June 30, 2022</u>
		(Restated)
Operating revenue	\$ 315,696	\$ 277,458
Operating expenses	<u>(530,246)</u>	<u>(518,979)</u>
Net operating income (loss)	(214,550)	(241,521)
Non-operating revenue and expense	<u>1,287,853</u>	<u>(29,825)</u>
Changes in net position	1,073,303	(271,346)
Net position - beginning of year	<u>4,728,247</u>	<u>4,999,593</u>
Net position - end of year	<u>\$ 5,801,550</u>	<u>\$ 4,728,247</u>

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

MANAGEMENT'S DISCUSSION & ANALYSIS

Year ended June 30, 2023

Capital Asset and Debt Administration

The District's investment in capital assets totaling \$10,961,634 includes land, easements, equipment and vehicles. The wastewater system, net of accumulated depreciation, was reported as \$11,400,913 and equipment & vehicles were \$149,397. Additionally, the District reported \$75,681 of right to use assets, net of amortization, related to its building lease.

The District was obligated to various government agencies related to the construction of the Crescent and Gilchrist sewer system projects, totaling \$5,262,354. Amounts disbursed from the loans during the current year were \$152,906. Debt reduction of \$602,056 was funded from the receipt of a grant from OBDD in the amount of \$835,000. The remaining grant proceeds were credited to accrued interest. Additionally, \$500,000 was forgiven by the Oregon DEQ. The District's lease obligation related to its right of use building lease was \$75,681 as of June 30, 2023.

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

We anticipate charges for services of approximately \$316,605 will be collected from customers of the District in the upcoming fiscal year. Included in the District's budget for fiscal year 2023-24 are capital outlays of \$15,000 and debt service payments totaling \$69,321.

The District did not budget for all of its debt service obligations as Oregon Local Budget Law does not allow an Oregon municipality to budget a negative fund balance, and projected revenue is not sufficient to cover annual operating costs and debt service requirements. The District budgeted for its December 2023 debt service payment, however scheduled amounts for February 2024 are not expected to be paid in accordance with the current repayment schedule.

Management and the Board are actively pursuing grant funding and potential modification of grant terms with the State of Oregon as a means of addressing their inability to fund required debt service payments in the future.

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, 2023

	2023	2022 (Restated)
<u>ASSETS</u>		
Current assets:		
Cash	\$ 63,306	\$ 25,143
Accounts receivable	43,342	37,015
Prepaid expenses and deposits	34,715	6,314
Total current assets	141,363	68,472
Restricted cash	43,992	14,397
Capital assets not being depreciated		
Land	90,070	90,070
Easement	36,413	36,074
Pump grinders	-	51,935
Right of use building lease, net	75,681	86,039
Capital assets, net		
Equipment and vehicles	125,884	23,726
Wastewater system	10,633,586	10,798,513
Total assets	11,146,989	11,169,226
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	1,495	3,593
Payroll liabilities	5,909	4,651
Accrued interest payable	-	135,977
Current portion, note payable	94,516	121,460
Current portion, lease liability	9,864	9,573
Total current liabilities	111,784	275,254
Long-term liabilities:		
Note payable	5,167,838	6,090,044
Lease liability	65,817	75,681
Total long-term liabilities	5,233,655	6,165,725
Total liabilities	5,345,439	6,440,979
Net position:		
Net investment in capital assets	5,623,599	4,653,622
Unrestricted	177,951	74,625
Total net position	\$ 5,801,550	\$ 4,728,247

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, 2023

	<u>2023</u>	<u>2022</u> (Restated)
Operating revenues:		
Charges for services	\$ 315,696	\$ 272,568
System development charges	-	4,890
Total operating revenues	<u>315,696</u>	<u>277,458</u>
Operating expenses:		
Advertising	-	86
Amortization	10,358	8,506
Contracted services	33,094	68,191
Depreciation	296,870	287,571
Equipment and tools	-	696
Fuel	12,671	7,390
Insurance	11,662	9,204
Miscellaneous	697	
Licenses, dues and permits	9,219	4,633
Office expense	11,843	12,088
Rent	1,100	
Repair & maintenance	15,221	2,029
Supplies	-	1,023
Travel and meals	-	1,025
Utilities	18,040	24,997
Wages and associated payroll costs	<u>109,471</u>	<u>91,540</u>
Total operating expenses	<u>530,246</u>	<u>518,979</u>
Operating loss	<u>(214,550)</u>	<u>(241,521)</u>
Non-operating revenue and (expense):		
Property taxes	35,972	22,507
Capital grants	835,000	103,934
Interest income	253	51
Gain (loss) on sale of assets	(1,312)	715
Other income	710	-
Sewer system impairment loss	-	(88,000)
Grant repayment	(12,300)	-
Loan forgiveness	500,000	12,000
Interest expense	<u>(70,470)</u>	<u>(81,032)</u>
Total non-operating revenue and expense	<u>1,287,853</u>	<u>(29,825)</u>
Change in net position	<u>1,073,303</u>	<u>(271,346)</u>
Net position, beginning as previously stated	4,728,247	5,045,149
Prior period adjustment	<u>-</u>	<u>(45,556)</u>
Net position, beginning as restated	<u>4,728,247</u>	<u>4,999,593</u>
Net position, ending	<u>\$ 5,801,550</u>	<u>\$ 4,728,247</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, 2023

	<u>2023</u>	<u>2022</u>
Cash flows from operations		
Cash received from customers	\$ 309,369	\$ 257,458
Cash payments to employees for services	(108,213)	(95,751)
Cash payments to acquire services and materials	<u>(116,555)</u>	<u>(150,553)</u>
Net cash provided by operations	<u>84,601</u>	<u>11,154</u>
Cash flows from non capital financing activities		
Interest income	253	51
Other income	710	-
Property tax collections	<u>35,972</u>	<u>22,507</u>
Net cash provided by non capital financing activities	<u>36,935</u>	<u>22,558</u>
Cash flows from capital financing activities		
Acquisition of capital assets	(182,385)	(770,828)
Capital grants	-	103,934
Loan proceeds	152,906	690,027
Loan payments	-	(15,518)
Payments on lease liabilities	(9,573)	(9,291)
Grant repayment	(12,300)	-
Interest expense on capital loans and leases	(2,426)	(5,800)
Restricted cash	<u>(29,595)</u>	<u>(14,397)</u>
Net cash used in capital financing activities	<u>(83,373)</u>	<u>(21,873)</u>
Net increase in cash	38,163	11,839
Cash - beginning of year	<u>25,143</u>	<u>13,304</u>
Cash - end of year	<u>\$ 63,306</u>	<u>\$ 25,143</u>
Reconciliation of operating income to net cash flows from operating activities		
Operating loss	\$ (214,550)	\$ (241,519)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	307,108	296,077
Gain on sale of assets	(1,312)	715
Changes in working capital accounts:		
Prepaid expense	522	1,310
Accounts receivable	(6,327)	(20,002)
Accounts payable	(2,098)	(21,216)
Payroll liabilities	<u>1,258</u>	<u>(4,211)</u>
Net cash provided by operations	<u>\$ 84,601</u>	<u>\$ 11,154</u>

The accompanying notes are an integral part of these financial statements

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2023

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, 2023

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, 2023

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, 2023

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, 2023 the District held cash of \$107,298 with a bank balance of \$111,216. 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, 2023 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 which were not reported in the statement of cash flows:

- Grant proceeds in the amount of \$835,000 which funded principle and interest payments related to the Oregon Business Development, Rural Community Assistance Corp and Oregon Department of Environmental Quality (DEQ) loans.
- The Oregon DEQ forgave \$500,000 of the original \$4,000,000 loan during the fiscal year.

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2023

Note 3 – Capital assets, net:

The District’s capital asset activity was as follows:

	<u>June 30, 2022</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2023</u>
Assets not being depreciated:				
Land	\$ 90,070	\$ -	\$ -	\$ 90,070
Easement	36,074	339	-	36,413
Total assets not being depreciated	<u>126,144</u>	<u>339</u>	<u>-</u>	<u>126,483</u>
Assets being depreciated or amortized:				
Wastewater system	11,283,386	117,527	-	11,400,913
Equipment and vehicles	32,942	50,822	-	83,764
Grinders	51,935	13,698	-	65,633
Right to use asset - building	94,545	-	-	94,545
Total depreciable assets	<u>11,462,808</u>	<u>182,047</u>	<u>-</u>	<u>11,644,855</u>
Less accumulated depreciation for:				
Wastewater system	(484,874)	(282,453)	-	(767,327)
Equipment and vehicles	(9,216)	(14,297)	-	(23,513)
Less accumulated amortization for:				
Right-to-use - building	(8,506)	(10,358)	-	(18,864)
	<u>(502,596)</u>	<u>(307,108)</u>	<u>-</u>	<u>(809,704)</u>
Assets being depreciated and amortized	<u>10,960,212</u>	<u>(125,061)</u>	<u>-</u>	<u>10,835,151</u>
Total assets	<u>\$ 11,086,356</u>	<u>\$ (124,722)</u>	<u>\$ -</u>	<u>\$ 10,961,634</u>

Note 4 – Lease obligations:

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>
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	<u>34,386</u>	<u>1,614</u>	<u>36,000</u>
	<u>\$ 75,681</u>	<u>\$ 8,319</u>	<u>\$ 84,000</u>

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2023

Note 5 – Long-term debt:

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

	<u>June 30, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2023</u>	<u>Due Within One Year</u>
Oregon Business Development Department	\$ 740,000	\$ -	\$ 460,116	\$ 279,884	\$ 13,420
Oregon Business Development Department	688,421	-	-	688,421	32,856
Oregon Department of Environmental Quality	4,000,000	-	560,112	3,439,888	47,481
Oregon Department of Environmental Quality	715,335	152,906	14,859	853,382	-
Rural Community Assistance Corporation	<u>67,728</u>	<u>-</u>	<u>66,969</u>	<u>759</u>	<u>759</u>
	<u>\$ 6,211,484</u>	<u>\$ 152,906</u>	<u>\$ 1,102,056</u>	<u>\$ 5,262,334</u>	<u>\$ 94,516</u>

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, 2023 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 1.55% per annum and requires 60 semi-annual payments of \$74,140. 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. During the year, the DEQ awarded loan forgiveness in the amount of \$500,000, which reduced the principal balance to be amortized to \$3,500,000. Grant proceeds were credited toward the first two scheduled payments, due February 1, and August 1, 2023, including the first scheduled loan fee of \$17,500.

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2023

Note 5 – Long-term debt (continued):

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. The DEQ has not closed the loan out as of the date of these financial statements, however payments are currently expected to begin on August 1, 2024. No amortization schedule has been provided by the DEQ, and the loan is reported as all long-term. The District received disbursements under this loan in the amount of \$868,261 as June 30, 2023. Grant proceeds were used to fund the first two scheduled payments, including the annual loan fee of \$5,000. The loan bears interest at a rate of .89% per annum and requires 60 semi-annual payments which will be calculated upon loan close out by DEQ. 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.

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. Grant proceeds were used to fund all but \$759 of this loan during the year.

Principal and interest requirements to maturity are as follows:

Fiscal Year Ended	Oregon Business Development Loans			Oregon DEQ Loan #1			
	June 30	Principal	Interest	Total	Principal	Interest	Total
2024	\$	46,276	11,523	57,799	47,481	26,659	74,140
2025		46,826	10,972	57,798	96,069	52,211	148,280
2026		47,383	10,415	57,798	97,563	50,717	148,280
2027		47,947	9,851	57,798	99,081	49,199	148,280
2028		48,518	9,280	57,798	100,623	47,657	148,280
2029-2033		251,389	37,603	288,992	527,093	214,307	741,400
2034-2038		266,708	22,287	288,995	569,398	172,002	741,400
2039-2043		213,258	6,174	219,432	615,099	126,301	741,400
2044-2048		-	-	-	664,465	76,935	741,400
2049-2053		-	-	-	623,016	44,244	667,260
	\$	<u>968,305</u>	<u>\$ 118,105</u>	<u>\$ 1,086,410</u>	<u>3,439,888</u>	<u>\$ 860,232</u>	<u>\$ 4,300,120</u>

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2023

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 approximately \$346,000 in Oregon DEQ loan fees in future periods as of June 30, 2023.

Note 8 – Loss contingency:

During fiscal year ended June 30, 2022 the District sold three grinder pumps which were funded by the OBDD grant. The terms of the OBDD loan include provisions related to eligible project costs and disposal and sale of significant components of the wastewater system. After consultation with OBDD, the District repaid \$12,300 to OBDD during the fiscal year ended June 30, 2023 related to the prior year sale of the unused grinders.

Note 9 – Over-expenditure of appropriation:

During the fiscal year ended June 30, 2023, the District overspent its appropriation for personnel services by \$4,313. Additionally, the District transferred from its sewer fund into the construction DEQ fund in the amount of \$284,272 without a legally budgeted appropriation.

Note 10 – Prior period adjustment:

During the year ended June 30, 2023, the Oregon DEQ closed out Loan R25100, which has been in progress since 2018, with a number of amendments to terms, interest rates and maturity amounts. The DEQ loan closeout included a provision of accrued interest dating back to the first draw request in April 2020. Management was not aware of the accrued interest provision due to the ongoing revisions in term, amounts and interest rates, thus was unable to estimate it properly for inclusion in the statements. A prior period adjustment has been reported to reflect the interest accruing on the loan as follows:

<u>Fiscal Year</u>	<u>Loan #1</u>	<u>Loan #2</u>	<u>Total</u>
2020	\$ 1,022	\$ 294	\$ 1,316
2021	42,481	1,760	44,241
2022	54,102	3,708	57,810
	<u>\$ 97,605</u>	<u>\$ 5,762</u>	<u>\$ 103,367</u>

CRESCENT SANITARY DISTRICT
(Crescent, Oregon)
Notes to the Financial Statements
June 30, 2023

Note 11 – Going concern:

The wastewater infrastructure project was substantially placed in service during the year ended June 30, 2022. At the closing and acceptance of the project, the loans used to fund the projects were closed out and requirements to repay the debt have commenced. The District was able to obtain \$835,000 of grant funding during the year to fund principle and accrued interest due during the current fiscal year and for the DEQ loans, sufficient to fund requirements through the August 1, 2023 schedule payment. Additionally, the DEQ awarded forgiveness of \$500,000 during the year to assist in reducing annual payment requirements.

Management expects to meet its debt service requirements for the December 2023 scheduled payment, but projects debt payments required beginning in February 2024 will not be paid due to an expected shortfall of cash at that time. Because the projected annual cash flow from property taxes and charges for services are not expected to be sufficient to fund operations and debt service requirements into subsequent future years, it is unlikely the District has the ability to meet its obligations in the subsequent fiscal year and into future fiscal years.

Management has adopted a budget for the fiscal year ending June 30, 2024 to include funding of all operations and the December 2023 debt service payment. Management's plans to mitigate the current projected shortfall to meet its obligations include pursuing additional grant funding and renegotiation of its debt repayment schedules with lenders.

As of the date of this statement, management does not intend to discontinue operations and has concluded that current projected revenue is sufficient to cover operations into the future, absent scheduled debt service payments.

Note 12 – Subsequent event:

On December 22, 2023, a representative of Business Oregon, confirmed their approval to defer the OBDD loan payment due in December 2023 for one year, to be due December 2024.

REQUIRED SUPPLEMENTARY INFORMATION

CRESCENT SANITARY DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
Budget and Actual – Sewer Fund
Year ended June 30, 2023

	Original Budget	Final Budget	Actual - Budgetary Basis
<u>Revenues:</u>			
Property taxes	\$ 22,500	\$ 22,500	\$ 35,972
Charges for service	253,473	253,473	309,369
Other income	-	-	963
Total revenues	275,973	275,973	346,304
<u>Expenditures:</u>			
Personnel services	99,100	103,900	108,213
Material and services	135,000	141,500	116,555
Capital outlay	30,000	30,000	3,885
Transfers	-	-	284,272
Contingencies	50,000	38,700	-
Total expenditures	314,100	314,100	512,925
Change in fund balance	(38,127)	(38,127)	(166,621)
Fund Balance - July 1, 2022	25,000	25,000	57,854
Fund Balance - June 30, 2023	\$ (13,127)	\$ (13,127)	\$ (108,767)

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

Budgetary fund balance	\$ (108,767)
Budgetary fund balance - Construction DEQ Fund	106,110
Accounts receivable and prepaid expenses	78,057
Capital assets, net	10,961,634
Accounts payable and other accruals	(13,992)
Long-term debt and lease obligations	(5,338,035)
Non-cash grant revenue used to fund prior and current interest and loan fees	219,910
Prior period adjustment to beginning fund balance	(103,367)
Net position, June 30, 2023	\$ 5,801,550

CRESCENT SANITARY DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
Budget and Actual – Construction DEQ Fund
Year ended June 30, 2023

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Budget (Over) Under
<u>Revenues:</u>				
Transfers from other funds	284,272	284,272	284,272	-
Total revenues	<u>284,272</u>	<u>284,272</u>	<u>284,272</u>	<u>-</u>
<u>Expenditures:</u>				
Capital outlay	284,272	284,272	178,162	106,110
Total expenditures	<u>284,272</u>	<u>284,272</u>	<u>178,162</u>	<u>106,110</u>
Change in fund balance	<u>-</u>	<u>-</u>	<u>106,110</u>	<u>(106,110)</u>
Fund Balance - July 1, 2022	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2023	\$ <u>-</u>	\$ <u>-</u>	\$ <u>106,110</u>	\$ <u>(106,110)</u>

The District budgets the Construction DEQ fund as a governmental fund on the cash basis of accounting.

CRESCENT SANITARY DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
Budget and Actual – Debt Service Fund
Year ended June 30, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	Variance with Budget (Over) Under
<u>Revenues:</u>				
Grant revenue	835,000	835,000	835,000	-
Total revenues	<u>835,000</u>	<u>835,000</u>	<u>835,000</u>	-
<u>Expenditures:</u>				
Debt service	835,000	835,000	835,000	-
Total expenditures	<u>835,000</u>	<u>835,000</u>	<u>835,000</u>	-
Change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - July 1, 2022	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2023	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

The District budgets the debt service fund as a governmental fund on the cash basis of accounting.

**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, 2023, and have issued our report thereon dated January 3, 2024. 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 District had multiple violations of local budget law including the following:

- Budgeting a negative fund balance in the sewer fund
- Budgeting a transfer in of resources, but not budgeting a corresponding transfer out
- Significant inconsistencies and mathematical errors in budget forms
- Over-expenditure of appropriation in the personnel services appropriation in the sewer fund

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.

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.

A handwritten signature in black ink that reads "Brenda Bartlett". The signature is written in a cursive, flowing style.

Brenda Bartlett, CPA
Sensiba, LLP
Bend, Oregon

January 3, 2024