CITY OF WATERVILLE, MAINE

AUDIT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE

June 30, 2017
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Independent Auditor’s Report on Internal Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the City Council
City of Waterville, Maine
Waterville, Maine

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated January 26, 2018.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Waterville, Maine
January 26, 2018
Independent Auditor’s Report on Compliance for Each Major Federal Program; Internal Control Over Compliance; and on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the City Council
City of Waterville, Maine
Waterville, Maine

Report on Compliance for Each Major Federal Program

We have audited the City of Waterville, Maine’s (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2017. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the City’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.
Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements. We issued our report thereon dated January 26, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Nicholson, Michaud & Company

Waterville, Maine
January 26, 2018
### U.S. Department of Education:

#### Direct Programs

- **Impact Aid**
  - CFDA Number: 84.041
  - Entity Identifying Number: N/A
  - Federal Expenditures: $19,534

- **Total Direct Programs**
  - Federal Expenditures: $19,534

#### Pass-Through State of Maine Department of Education

- **Title I, Part A Cluster - Title I Grants to Local Educational Agencies**
  - CFDA Number: 84.010
  - Entity Identifying Number: 013-05A-3107-13
  - Federal Expenditures: $867,744

- **Special Education Cluster (IDEA)**
  - Special Education - Grants to States
    - CFDA Number: 84.027
    - Entity Identifying Number: 013-05A-3046-12
    - Federal Expenditures: $519,249
  - Special Education - Preschool Grants
    - CFDA Number: 84.173
    - Entity Identifying Number: 013-05A-6247-23
    - Federal Expenditures: $5,033

- **Total Special Education Cluster (IDEA)**
  - Federal Expenditures: $524,282

- **Improving Teacher Quality State Grants**
  - CFDA Number: 84.367
  - Entity Identifying Number: 013-05A-3042-11
  - Federal Expenditures: $142,653

- **Total Passed Through State of Maine Department of Education**
  - Federal Expenditures: $1,740,126

- **Total U.S. Department of Education**
  - Federal Expenditures: $1,759,660

### U.S. Department of Justice:

#### Pass-Through State of Maine Department of Public Safety

- **Bulletproof Vest Partnership Program**
  - CFDA Number: 16.607
  - Entity Identifying Number: N/A
  - Federal Expenditures: $1,515

- **Byrne Justice Assistance**
  - CFDA Number: 16.738
  - Entity Identifying Number: N/A
  - Federal Expenditures: $14,977

- **Total U.S. Department of Justice**
  - Federal Expenditures: $16,492

### U.S. Department of Transportation:

#### Passed Through Federal Aviation Administration

- **Airport Improvement Program**
  - CFDA Number: 20.106
  - Entity Identifying Number: 3-23-0047-021-2014
  - Federal Expenditures: $3,213

- **Airport Improvement Program**
  - CFDA Number: 20.106
  - Entity Identifying Number: 3-23-0047-022-2016
  - Federal Expenditures: $53,994

- **Total U.S. Department of Transportation**
  - Federal Expenditures: $57,207

#### Passed Through State of Maine Department of Public Safety

- **Impaired Driving**
  - CFDA Number: 20.600
  - Entity Identifying Number: N/A
  - Federal Expenditures: $9,494

- **High Visibility DD**
  - CFDA Number: 20.600
  - Entity Identifying Number: N/A
  - Federal Expenditures: $1,962

- **Speed Grant**
  - CFDA Number: 20.600
  - Entity Identifying Number: N/A
  - Federal Expenditures: $2,908

- **Total U.S. Department of Transportation**
  - Federal Expenditures: $14,364

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See independent auditor’s report on schedule of expenditures of federal awards.
The accompanying notes are an integral part of this schedule.
CITY OF WATERVILLE, MAINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through</th>
<th>CFDA Number</th>
<th>Entity Identifying Number</th>
<th>Federal Expenditures</th>
<th>Passed Through to Subrecipients</th>
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</thead>
<tbody>
<tr>
<td>U.S. Department of Housing and Urban Development:</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Passed Through State of Maine Department of Economic and Community Development</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Community Development Block Grants - Business Assistance</td>
<td>14.228</td>
<td>015-19A-0587-012</td>
<td>$70,695</td>
<td>$70,695</td>
</tr>
<tr>
<td>Community Development Block Grants - Regional Council Planning</td>
<td>14.228</td>
<td>015-19A-0587-012</td>
<td>100,606</td>
<td>100,606</td>
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<tr>
<td><strong>Total U.S. Department of Housing and Urban Development</strong></td>
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<td></td>
<td><strong>171,301</strong></td>
<td><strong>171,301</strong></td>
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<tr>
<td>U.S. Department of Agriculture:</td>
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<tr>
<td>Pass-Through State of Maine Department of Education</td>
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<tr>
<td>Child Nutrition Cluster</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Cash Assistance (Commodities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National School Lunch Program</td>
<td>10.555</td>
<td>N/A</td>
<td>61,351</td>
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</tr>
<tr>
<td>Cash Assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>School Breakfast Program</td>
<td>10.553</td>
<td>013-05A-3014-05</td>
<td>241,698</td>
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<tr>
<td>National School Lunch Program</td>
<td>10.555</td>
<td>013-05A-3020-05</td>
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<td>National School Lunch Program</td>
<td>10.555</td>
<td>013-05A-3022-05</td>
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<td>National School Lunch Program</td>
<td>10.555</td>
<td>013-05A-3023-05</td>
<td>11,051</td>
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<tr>
<td>National School Lunch Program</td>
<td>10.555</td>
<td>013-05A-3024-05</td>
<td>362,323</td>
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<td>Summer Food Service Program for Children</td>
<td>10.559</td>
<td>013-05A-3016-05</td>
<td>46,273</td>
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<tr>
<td>Cash Assistance Subtotal</td>
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<td><strong>730,876</strong></td>
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<td>Child Nutrition Program Cluster</td>
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<td><strong>792,027</strong></td>
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<tr>
<td>Fresh Fruit and Vegetable Program</td>
<td>10.582</td>
<td>013-05A-3028-05</td>
<td>51,379</td>
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<td>State Administrative Expenses for Child Nutrition</td>
<td>10.560</td>
<td>013-05A-3125-05</td>
<td>9,557</td>
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<td><strong>Total U.S. Department of Agriculture</strong></td>
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<td><strong>852,963</strong></td>
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<tr>
<td><strong>Total Federal Awards</strong></td>
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<td></td>
<td><strong>$2,871,987</strong></td>
<td><strong>$171,301</strong></td>
</tr>
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See independent auditor’s report on schedule of expenditures of federal awards. The accompanying notes are an integral part of this schedule.
NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Waterville, Maine (the City) under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). As a result, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Therefore, it is not intended to and does not present the financial position of governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards was prepared using the accrual method of accounting. Expenses are recognized as incurred using the cost accounting principles contained in the Uniform Guidance. Under those cost principles, certain types of expenses are not allowable or are limited as to reimbursement.

Expenditures include costs that can be directly identified to the program. During the year ended June 30, 2017, the City did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance and did not allocate indirect costs to its programs.

Pass-through entity identifying numbers are presented where available.

NOTE 3 – NONCASH ASSISTANCE – CHILD NUTRITION CLUSTER

The reported total of noncash assistance from the National School Lunch Program (CFDA 10.555) represents the fair value of food commodities used.
City of Waterville, Maine

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2017

Section I  Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:  Unmodified
Internal control over financial reporting:
  Material weakness(es) identified?  No
  Significant deficiency(ies) identified?  None reported
Noncompliance material to financial statements noted?  No

Federal Awards

Internal control over major programs:
  Material weakness(es) identified?  No
  Significant deficiency(ies) identified?  None reported
Type of auditor’s report issued on compliance for major programs:  Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?  No

Identification of Major Programs

Child Nutrition Cluster:
  School Breakfast Program CFDA #10.553
  National School Lunch Program (NSLP) CFDA #10.555
  Summer Food Service Program for Children CFDA #10.559

Dollar threshold used to distinguish between type A and type B programs:  $750,000
Auditee qualified as low-risk auditee?  Yes

Section II  Financial Statement Findings

No matters reportable

Section III  Federal Award Findings and Questioned Costs

No matters reportable