

KENNEBUNK SEWER DISTRICT
FINANCIAL REPORT



DECEMBER 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kennebunk Sewer District

We have audited the accompanying financial statements of the business-type activities of Kennebunk Sewer District, as of and for the years ended December 31, 2015 and 2014, and the related notes, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Kennebunk Sewer District as of December 31, 2015, and 2014, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the pension schedules on pages 3-9 and 27-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kennebunk Sewer District's basic financial statements. The schedules of changes in net position, operating expenses, investment earnings, and cash and investments are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of changes in net position, operating expenses, investment earnings, and cash and investments are the responsibility of management and were derived from and relate 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 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 schedules of changes in net position, operating expenses, investment earnings, and cash and investments are fairly stated in all material respects in relation to the basic financial statements as a whole.



Certified Public Accountants
March 24, 2016



Kennebunk Sewer District 71 Water Street P.O. Box 648 Kennebunk, ME 04043-0648
Office: 207.985.4741 Fax: 207.985.4743 Website: ksdistrict.org

Kennebunk Sewer District
Management's Discussion and Analysis
December 31, 2015

Statement Overview of Financial Report

The District is a quasi-municipal Corporation established in 1955 by a special act of the Maine State Legislature. The District is responsible for providing and maintaining sewerage systems and related facilities to protect the local waters and provide benefit to the inhabitants of the town of Kennebunk. The District is governed by a five person Board of Trustees who serves for staggered three-year terms.

The District uses a proprietary fund along with board designated funds. The District's fund is financed and operated in a manner similar to private businesses. The board designated funds are the sewer facility impact fees, collection system impact fees, equity buy in fees and the capital reserve funds.

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

The District's basic financial statements include:

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

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kennebunk Sewer District

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Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Kennebunk Sewer District as of December 31, 2015, and 2014, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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The schedules of changes in net position, operating expenses, investment earnings, and cash and investments are the responsibility of management and were derived from and relate 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 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 schedules of changes in net position, operating expenses, investment earnings, and cash and investments are fairly stated in all material respects in relation to the basic financial statements as a whole.

Certified Public Accountants
March 24, 2016



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Comparison of Financial Statements for Current and Prior Years

Condensed Statements of Net Position

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	\$ 5,641,118	\$ 1,792,047	\$ 3,849,071	214.8%
Special Funds	2,833,610	2,613,163	220,447	8.4%
Capital Assets	<u>20,131,809</u>	<u>20,472,313</u>	<u>(340,504)</u>	-1.7%
Total Assets	28,606,537	24,877,523	3,729,014	15.0%
Deferred Outflows of Resources	130,713	28,939	101,774	351.7%
Current Liabilities	458,892	251,198	207,694	82.7%
Long-term Debt	<u>5,727,255</u>	<u>2,228,657</u>	<u>3,498,598</u>	157.0%
Total Liabilities	6,186,147	2,479,855	3,706,292	149.5%
Deferred Inflows of Resources	39,726	131,149	(91,423)	-69.7%
Net Investment in Capital Assets	17,967,696	18,287,267	(319,571)	-1.7%
Restricted	3,557,335	-	3,557,335	100.0%
Unrestricted	<u>986,346</u>	<u>4,008,191</u>	<u>(3,021,845)</u>	-75.4%
Total Net Position	<u>\$ 22,511,377</u>	<u>\$ 22,295,458</u>	<u>\$ 215,919</u>	1.0%

Current Assets and Special Funds

The net increase of the current assets and special funds by \$4,069,518 was primarily due to the unspent proceeds from the new debt and an increase in cash.

There was an overall net increase in Cash and Cash Equivalents of \$522,047 primarily due to a decrease in expenditures for utility property, an increase in equity Buy In Fees collected, and cash drawn down from the new bond issue.

Capital Assets

Capital assets had a net decrease of \$340,504. Changes in capital assets were as follows:

Additions		
Buildings		\$ 45,885
Pump station		83,509
Sewers and forced mains		38,042
Work in progress		<u>188,726</u>
Total additions		356,162
Disposals		
Sewers and forced mains		<u>(1,795)</u>
Accumulated Depreciation		
Current year depreciation expense		(695,756)
Removal of depreciation for disposed-of assets		<u>885</u>
Change in Accumulated Depreciation		<u>(694,871)</u>
Net change in capital assets		<u>\$ (340,504)</u>

Current Liabilities

Current liabilities increased by \$207,694 in 2015. This was primarily due to an increase in accounts payable and the current portion of the new long-term debt that was issued.

Long-term Debt

Long-term debt increased by a net of \$3,498,598 in 2015. Reductions of long term debt were due to bond repayments of \$207,000 and a decrease of \$11,753 in accrued compensated absences; increase of long-term debt was due to new debt issued in the amount of \$3,579,693 (long-term portion only).

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	\$ 2,482,160	\$ 2,436,951	\$ 45,209	1.9%
Operating Expenses	<u>(2,447,679)</u>	<u>(2,345,311)</u>	<u>(102,368)</u>	4.4%
Net Operating Income	34,481	91,640	(57,159)	-62.4%
Net Non-Operating Revenues	<u>16,653</u>	<u>33,685</u>	<u>(17,032)</u>	-50.6%
Income Before Contributions	51,134	125,325	(74,191)	-59.2%
Contributions	<u>164,785</u>	<u>57,771</u>	<u>107,014</u>	185.2%
Change in Net Position	215,919	183,096	32,823	17.9%
Beginning Net Position	<u>22,295,458</u>	<u>22,112,362</u>	<u>183,096</u>	0.8%
Ending Net Position	<u>\$ 22,511,377</u>	<u>\$ 22,295,458</u>	<u>\$ 215,919</u>	1.0%

Net Non-Operating Revenue

This item is primarily made up of interest expense, interest income from the operating and board designated funds, non-utility income, and the gain/loss on the sale of operating property.

Special Funds Revenue

Special fund revenue, which is included in net non-operating revenue, consists of interest income collected during the year. It totaled \$10,042 in 2015.

Operating Expenses – Depreciation Expense

Depreciation expense, included in Operating Expenses, increased from \$683,950 in 2014 to \$695,756 in 2015, an increase of 1.7%. This increase can be attributed to new equipment being placed in service.

Operating Expenses – Other

Non-depreciating operating expense increased from \$1,661,361 in 2014 to \$1,751,923 in 2015, an increase of 5.5%. The expenses consisted of:

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and Wages	\$ 289,866	\$ 269,584	\$ 20,282	7.5%
Fringe Benefits	75,416	89,773	(14,357)	-16.0%
Insurance	92,690	95,737	(3,047)	-3.2%
Legal and Audit Fees	22,212	21,259	953	4.5%
Contracted Services	27,773	26,156	1,617	6.2%
Office Supplies	11,779	8,637	3,142	36.4%
Postage	12,120	11,573	547	4.7%
Travel and Trips to Seminars	4,296	3,336	960	28.8%
Permits and Fees	7,494	7,439	55	0.7%
Miscellaneous Expenses	20,802	15,282	5,520	36.1%
Plant Maintenance & Operations	575,125	508,655	66,470	13.1%
Maintenance & Operations Personnel	598,039	586,507	11,532	2.0%
Vehicle Maintenance & Operations	<u>14,311</u>	<u>17,423</u>	<u>(3,112)</u>	-17.9%
 Total other operating expenses	 <u>\$ 1,751,923</u>	 <u>\$ 1,661,361</u>	 <u>\$ 90,562</u>	 5.5%

Plant Maintenance & Operations: Significant repairs were done to an aeration blower, sprinkler system, and boiler repairs due to a broken fitting.

Contributions

Contributions occur when development takes place within the District's service area and capital assets are transferred to District ownership and the net sewer impact fees and equity buy in fees are collected (net of sewer impact fees, equity buy in fees and refunds) during the year. The contributions for 2015 and 2014 were:

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Sewer Equity Buy In Fees / Impact Fees, Net	<u>\$ 164,785</u>	<u>\$ 57,771</u>	<u>\$ 107,014</u>	185.2%

Overall Financial Position and Results of Operations

To determine the change in the District's financial position in the past year we have focused on two elements: financial ratios and revenue stability.

Financial Ratios

Two of the key financial ratios for analyzing the District's financial position are the current ratio and the coverage ratio. During 2015, the current ratio increased from 7.13 to 12.29. The coverage ratio remained relatively steady – decreasing from 3.50 to 3.22.

	<u>2015</u>	<u>2014</u>
Current Assets	\$ 5,641,118	\$ 1,792,047
Current Liabilities	\$ 458,892	\$ 251,198
Current Ratio	12.29	7.13
Operating Revenue	\$ 2,482,160	\$ 2,436,951
Interest Income	16,117	14,913
Non-Utility Income	<u>37,917</u>	<u>52,472</u>
Gross Revenue	2,536,194	2,504,336
Operating Expenses	2,447,679	2,345,311
Less: Depreciation	<u>695,756</u>	<u>683,950</u>
Expenses before Depreciation	<u>1,751,923</u>	<u>1,661,361</u>
Net Available for Debt Service	<u>\$ 784,271</u>	<u>\$ 842,975</u>
Principal Payments	\$ 207,000	\$ 207,000
Interest Expense	<u>36,471</u>	<u>33,700</u>
Total Debt Service	<u>\$ 243,471</u>	<u>\$ 240,700</u>
Net Available for Debt Service	<u>\$ 784,271</u>	<u>\$ 842,975</u>
Total Debt Service	<u>\$ 243,471</u>	<u>\$ 240,700</u>
Coverage Ratio	3.22	3.50

Revenue Stability

Most of the District's operating revenue, 98.1%% in 2015 and 98.7% in 2014, comes from sewer user fees. These revenue sources are stable and were relatively unchanged between 2015 and 2014.

Significant Changes to Individual Funds

Operating and Management Fund

Operating revenue increased in 2015 by 1.9% over last year while expenses increased by 4.4%. This resulted in net operating income decreasing over last year by \$57,159.

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	\$ 2,482,160	\$ 2,436,951	\$ 45,209	1.9%
Operating Expenses	(2,447,679)	(2,345,311)	(102,368)	4.4%

Sewer Impact Fund

Sewer facility impact fees and equity buy in fees are one time charges for new construction or changes of use that result in more wastewater discharged to the public sewer. Funds collected will help defray the costs of the present and any future upgrades to the wastewater treatment facility. In the case of Equity Buy-In Fees, they may be used to help meet the capital needs of the District.

The Equity Buy In Fees increased by 8.94% in 2015. The District's staff recalculates the fee on a yearly basis using the most current audit year information. At the March 2015 Rate Hearing, the Equity Buy-In Fee for a single family dwelling was set at \$3,619 for 2015. At the September 1, 2015 Trustee Meeting, the trustees adopted the State of Maine Subsurface Wastewater Disposal Rules, August 3, 2015 for the primary method of determining flow from residential and commercial buildings.

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Sewer Equity Buy In Fees / Impact Fees, Net	\$ 164,785	\$ 57,771	\$ 107,014	185.2%
Impact Fees' Interest Income	<u>5,462</u>	<u>6,941</u>	<u>(1,479)</u>	-21.3%
Totals	<u>\$ 170,247</u>	<u>\$ 64,712</u>	<u>\$ 105,535</u>	163.1%

There were 24 sewer connections in 2015 compared to 6 in 2014. The increase in Equity Buy In Fee revenue was due to more residential and commercial permits.

Capital Reserves Fund

Interest income earned on funds designated by the board for capital reserves were as follows:

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Capital Reserves' Interest Income	\$ 4,580	\$ 4,500	\$ 80	1.8%

Significant Budget Variances

The District is not legally required to adopt budgetary accounting and reporting. However, an annual budget is prepared by management and approved by the Board of Trustees. The budget is prepared on the operating and maintenance costs and on the capital expenditures.

Significant Capital Asset and Long-term Debt Activity

Every year, the District Manager prepares the capital budget. He submits this to the Board of Trustees for approval. Throughout the year, capital purchases are made and paid for through the operating and maintenance fund. In October or November of each year, the Board votes to reimburse the operating and maintenance account for the amount that has been spent on capital expenditures from the previous year. If capital expenditures are incurred during the year, which are not included in the capital budget, the District Manager will submit this expenditure to the Board of Trustees for approval for the transfers of funds from the special funds to the operating and maintenance fund.

Capital Assets

Overall, utility property increased by \$165,641 from \$31,512,065 to \$31,677,706. The allowance for depreciation increased by \$694,871, net of dispositions. Net utility property decreased from \$20,472,313 in 2014 to \$20,131,809 in 2015.

Long Term Debt

New bonds were issued in 2015. The total bonded debt (both the Long-term debt and the current portion) activity of 2015 is detailed below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonds payable	\$ 2,177,000	\$ 3,750,000	\$ (207,000)	\$ 5,720,000

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Kennebunk Sewer District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michael Bolduc, District Manager, Kennebunk Sewer District, P.O. Box 648, Kennebunk, ME 04043 - 0648.

BASIC FINANCIAL STATEMENTS

Kennebunk Sewer District
Statements of Net Position
As of December 31, 2015 and 2014

	2015	2014
ASSETS		(restated)
Current Assets:		
Cash	\$ 1,589,682	\$ 1,288,082
Cash Held by Third Party	3,563,168	-
Accounts Receivable	471,689	445,309
Prepaid Expenses	16,579	58,656
Total Current Assets	5,641,118	1,792,047
Special Funds - Internally Restricted and Board Designated:		
Cash and Investments	2,833,610	2,613,163
Utility Property:		
Operating Property	31,677,706	31,512,065
Accumulated Depreciation	(11,849,106)	(11,154,235)
	19,828,600	20,357,830
Work In Progress	303,209	114,483
Net Utility Property	20,131,809	20,472,313
TOTAL ASSETS	28,606,537	24,877,523
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	130,713	28,939
LIABILITIES		
Current Liabilities:		
Accounts Payable	62,218	23,585
Accrued Liabilities	6,253	12,567
Accrued Interest	13,114	8,046
Current Portion of Long-Term Debt	377,307	207,000
Total Current Liabilities	458,892	251,198
Long-Term Debt		
Bonds Payable	5,342,693	1,970,000
Accrued Compensated Absences	129,459	141,212
Net Pension Liability	255,103	117,445
Total Long-Term Debt	5,727,255	2,228,657
TOTAL LIABILITIES	6,186,147	2,479,855
DEFERRED INFLOWS OF RESOURCES		
Pensions	39,726	131,149
NET POSITION		
Net Investment in Capital Assets	17,967,696	18,287,267
Restricted	3,557,335	-
Unrestricted	986,346	4,008,191
TOTAL NET POSITION	\$ 22,511,377	\$ 22,295,458

The accompanying notes are an integral part of these financial statements.

Kennebunk Sewer District
 Statements of Revenues, Expenses, and Changes in Net Position
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u> (restated)
OPERATING REVENUES		
Sewer Charges, Net of Abatements	\$ 2,434,917	\$ 2,406,318
Other Sewer Services	<u>47,243</u>	<u>30,633</u>
Total Operating Revenues	2,482,160	2,436,951
OPERATING EXPENSES		
General and Administration	564,448	548,776
Plant Maintenance and Operation	575,125	508,655
Maintenance and Operating Personnel Costs	598,039	586,507
Vehicle Maintenance and Operation	14,311	17,423
Depreciation Expense	<u>695,756</u>	<u>683,950</u>
Total Operating Expenses	<u>2,447,679</u>	<u>2,345,311</u>
NET OPERATING INCOME (LOSS)	34,481	91,640
NON-OPERATING REVENUES OR (EXPENSES)		
Interest Income (Undesignated)	6,075	3,472
Special Funds' Interest Income	10,042	11,441
Interest Expense	(36,471)	(33,700)
Non-Utility Income	37,917	52,472
Loss on Disposal of Assets	<u>(910)</u>	<u>-</u>
Net Non-operating Revenues	<u>16,653</u>	<u>33,685</u>
INCOME BEFORE CONTRIBUTIONS	51,134	125,325
CONTRIBUTIONS		
Sewer Equity Buy In Fees/ Impact Fees, Net	<u>164,785</u>	<u>57,771</u>
CHANGE IN NET POSITION	215,919	183,096
NET POSITION - AT BEGINNING OF YEAR, as restated	<u>22,295,458</u>	<u>22,112,362</u>
NET POSITION - AT END OF YEAR	<u>\$ 22,511,377</u>	<u>\$ 22,295,458</u>

Kennebunk Sewer District
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u> (restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 2,493,697	\$ 2,500,077
Cash Payments to Suppliers and Contractors	(959,553)	(986,190)
Cash Payments to Employee Services	<u>(785,267)</u>	<u>(704,146)</u>
Net Cash Provided by Operating Activities	748,877	809,741
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of Long-Term Debt	(207,000)	(207,000)
Interest Payments	(31,403)	(34,466)
Sewer Equity Buy In Fees/ Impact Fees Collected, Net	164,785	57,771
Loan Proceeds	186,832	-
Expenditures for Utility Property	(356,161)	(422,274)
Constructor Bond Deposit Refunded	<u>-</u>	<u>-</u>
Net Cash Used by Financing Activities	(242,947)	(605,969)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income Received	<u>16,117</u>	<u>14,913</u>
Net Cash Provided by Investing Activities	<u>16,117</u>	<u>14,913</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	522,047	218,685
CASH AND CASH EQUIVALENTS - AT BEGINNING OF YEAR	<u>3,901,245</u>	<u>3,682,560</u>
CASH AND CASH EQUIVALENTS - AT END OF YEAR	<u>\$ 4,423,292</u>	<u>\$ 3,901,245</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash Components:		
Internally Restricted and Board Designated	\$ 2,833,610	\$ 2,613,163
Operating	<u>1,589,682</u>	<u>1,288,082</u>
	<u>\$ 4,423,292</u>	<u>\$ 3,901,245</u>

Kennebunk Sewer District
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
		(restated)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Operating Income	\$ 34,481	\$ 91,640
Non-Operating Income	37,917	52,472
Adjustments not affecting cash:		
Depreciation	695,756	683,950
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(26,380)	10,654
Prepaid Expenses	42,077	(2,581)
Deferred Outflows	(101,774)	(14,191)
(Decrease) Increase in:		
Accounts Payable	38,633	(12,648)
Accrued Liabilities	(18,068)	445
Net Pension Liability	137,658	-
Deferred Inflows	(91,423)	-
Net Cash Provided by Operating Activities	\$ 748,877	\$ 809,741

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2015

NOTE 1: SUMMARY OF ACCOUNTING POLICIES

This summary of significant accounting policies of the Kennebunk Sewer District, hereinafter called the “District”, is presented to assist in understanding the representations of the District’s management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Business

The District is a quasi-municipal corporation established in 1955 by a special act of the Maine State Legislature to provide and maintain a sewerage system and related facilities for the benefit of the inhabitants of the District. The District is governed by a five person Board of Trustees who serves for staggered three-year terms. The District extends normal trade credit to their customers, which consist of residential dwellings, commercial entities, and governmental agencies.

Basis of Accounting

The accounting records of the District are maintained and the financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used.

Basis of Presentation

Proprietary Funds distinguish operating revenues and expenses from non-operating 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’s proprietary funds are the net charges to customers for sewer usage. Operating expenses include expenses on plant maintenance and operations, vehicle operations and maintenance, maintenance an operating personnel costs, administrative and general, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating income and expenses.

Revenue Recognition

The District’s revenue is comprised of fixed and variable fees for residential and commercial customers. Fixed charges are assessed to pay outstanding debt and budgeted operations and maintenance expenses. Water consumption is used to assess variable fees. The District bills quarterly and the current year charges are based on prior year water usage plus current year fixed charges.

Cash and Investments

For purposes of the statement of cash flows the District includes cash on hand, deposits in banks including certificates of deposits, and money market funds.

Maine statutes authorize investments in obligations of the U. S. Treasury and U. S. Agencies, and repurchase agreements. The District invests its funds in an effort to ensure preservation of capital, remain sufficiently liquid, and attain a reasonable market rate of return. Investments are reported at cost; there is no significant difference between the fair value and cost of investments.

Cash Held by Third Parties

Cash held by third parties consists of amounts held for the District by the Maine Municipal Bond Bank to be used for the renovation project.

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2015

NOTE 1: SUMMARY OF ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts

The District has determined that it is not necessary for them to maintain an allowance for doubtful accounts. Generally accepted accounting principles require that the allowance method be used to recognize bad debts. However, the District is permitted by the State of Maine to lien property if sewer bills remain unpaid. Furthermore, the District has the authority to foreclose on property twelve months after the filing of liens if the liens and associated costs remain unpaid.

Utility Property

Utility property is stated at cost and depreciated on the straight-line method over their estimated useful lives. Repairs and maintenance are expensed as incurred.

Capitalization Policy

Expenditures that increase the value or productive capacity of assets are capitalized. Charges for additions to utility plant accounts include all reasonable and necessary costs for labor, materials, and overhead plus an allowance for the current cost of funds used for construction purposes. When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

Deferred Charges

When issuing long-term debt, discounts allowed at the time of sale are capitalized and amortized over the term of the bond. Costs incurred to issue long-term debt are expensed when incurred.

Contributions in Aid of Construction

Pursuant to Governmental Accounting Standards Board, contributions in aid are reported as income.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled \$318 and \$418 for 2015 and 2014, respectively.

Net Position and Fund Equity Classifications

Net position is required to be classified into the following components:

Net Investment in Capital Assets – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

	2015	2014
Capital assets	\$ 31,980,915	\$ 31,626,548
Accumulated depreciation	(11,849,106)	(11,154,235)
Bonds and notes payable	(2,156,832)	(2,177,000)
Accrued interest payable	(7,281)	(8,046)
Net investment in capital assets	\$ 17,967,696	\$ 18,287,267

Restricted – This component consists of constraints placed on the use of net position which are either externally imposed by debt covenants, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2015

NOTE 1: SUMMARY OF ACCOUNTING POLICIES (Continued)

Net Position and Fund Equity Classifications (Continued)

Unrestricted – This component consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”.

Use of Estimates

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

NOTE 2: SPECIAL FUNDS, DEPOSITS, INVESTMENTS, AND CASH HELD BY THIRD PARTY

The Board of Trustees has internally restricted various cash and investment accounts for future capital projects. As of December 31, 2015 and 2014, these special fund balances are as follows:

Special Fund - Sewer Equity Buy-In Fees and Impact Fees

The District collects equity buy in fees and facility impact fees in order to provide funds for future capital needs. These fees are considered contributed capital and are included in revenue pursuant to the Governmental Accounting Standards Board. The net amount collected during 2015 and 2014 was \$164,785 and \$57,771, respectively.

The unexpended portion of collected equity buy in fees and facility impact fees is segregated and internally restricted as to use for utility property additions and improvements, and are invested as follows at December 31, 2015 and 2014:

	2015	2014
Cash	\$ 1,577,489	\$ 1,427,772
Restricted investment earnings	\$ 5,462	\$ 6,941

Special Fund - Capital Reserve

Equipment purchases, capital replacement, and other reserves funds are appropriated by the District’s Board of Trustees from earnings, and are invested as follows at December 31, 2015 and 2014:

	2015	2014
Cash	\$ 1,067,081	\$ 966,501
Restricted investment earnings	\$ 4,580	\$ 4,500

The District invests all available funds at the highest possible rates while avoiding unreasonable risk. Generally, the District invests excess funds in savings accounts, money market accounts, and certificates of deposit.

Special Fund – MainePERS

On July 29, 2010, the Maine Public Employees Retirement System (MainePERS) issued a new guidance regarding the distribution of the Individual Unpooled Unfunded Actuarial Liability (IUUAL) surplus balances to the Participating Local Districts (PLD). The District intends to use all surplus funds for future pension contributions. The District’s surplus balance at the end of 2015 and 2014 was \$189,040 and \$218,890, respectively.

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2015

NOTE 2: SPECIAL FUNDS, DEPOSITS, INVESTMENTS, AND CASH HELD BY THIRD PARTY
(Continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the bank's failure, the District will not be able to recover the value of its deposits and investments that are in the possession of an outside party. The District does not have a deposit policy for custodial credit risk.

Cash Deposits

As of December 31, 2015, the District reported cash of \$4,423,292 with a bank balance of \$4,464,825. Of the District's bank balances, \$750,000 was covered by FDIC insurance and \$3,714,825 was exposed to custodial credit risk. Of the balance exposed to custodial credit risk, \$3,500,000 was collateralized by securities held by the pledging bank, but not in the District's name, and \$214,825 was uninsured and uncollateralized.

Cash Held by Third Parties

In 2014, the Trustees voted to upgrade certain sections of the plant. The District borrowed \$3,750,000 for that project from Maine Municipal Bond Bank (MMBB) of which they have drawn down \$186,832. The balance of the funds belonging to the District is held by MMBB (the custodian). These amounts are invested by the custodian in very low risk investment vehicles that invest in US government obligations. Management believes the custodial credit risk of these assets to be low. As of December 31, 2015, the carrying value of amounts held by the MMBB was \$3,563,168. Carrying value approximates fair value. None of the underlying securities are in the District's name.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<i>Utility Property Not Being Depreciated</i>				
Land and easements	\$ 111,506	\$ -	\$ -	\$ 111,506
Work in progress	114,483	188,726	-	303,209
Totals	225,989	188,726	-	414,715
<i>Utility Property Being Depreciated</i>				
Buildings	17,268,088	45,885	-	17,313,973
Pump station	6,936,839	83,509	-	7,020,348
Sewers and forced mains	6,384,481	38,042	(1,795)	6,420,728
Transportation equipment	198,269	-	-	198,269
Other equipment	205,668	-	-	205,668
Development master plan	121,958	-	-	121,958
Dam	29,476	-	-	29,476
Building rental property	255,780	-	-	255,780
Totals	31,400,559	167,436	(1,795)	31,566,200
Accumulated depreciation	(11,154,235)	(695,756)	885	(11,849,106)
Net utility property	<u>\$ 20,472,313</u>	<u>\$ (339,594)</u>	<u>\$ (910)</u>	<u>\$ 20,131,809</u>

The District's depreciation expense for the years ended December 31, 2015 and 2014 was \$695,756 and \$683,950 respectively. The depreciation expenses of utility property acquired by capital grants and by donation are included in the above amount.

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2015

NOTE 4: LONG-TERM DEBT

Long-term debt is summarized as follows at December 31, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Bonds payable	\$ 2,177,000	\$ 3,750,000	\$ (207,000)	\$ 5,720,000	\$ 377,307
Compensated absences	141,213	-	(11,754)	129,459	-
Totals	<u>\$ 2,318,213</u>	<u>\$ 3,750,000</u>	<u>\$ (218,754)</u>	<u>\$ 5,849,459</u>	<u>\$ 377,307</u>

Details of the District's outstanding bonds are as follows:

	<u>Maine Municipal Bond Bank</u>	<u>Maine Municipal Bond Bank</u>	<u>Maine Municipal Bond Bank</u>
Bond Type	CWSRF	CWSRF	CWSRF
Issue Date	9/22/2004	7/1/2005	11/13/2045
Maturity Date	10/1/2024	4/1/2025	11/1/2035
Annual Interest Rate	1.500%	1.460%	1.000%
Original Issue Amount	\$ 2,000,000	\$ 2,140,000	\$ 3,750,000
			From \$170,307
Annual Principal Payments	\$ 100,000	\$ 107,000	to \$205,750
Balance, December 31, 2015	\$ 900,000	\$ 1,070,000	\$ 3,750,000

Scheduled maturities of the long-term debts are as follows:

<u>Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total</u>
2016	\$ 377,307	\$ 64,591	\$ 441,898
2017	379,011	61,076	440,087
2018	380,731	56,293	437,024
2019	382,467	51,494	433,961
2020	384,223	46,677	430,900
2021 - 2025	1,848,054	160,511	2,008,565
2026 - 2030	959,628	79,409	1,039,037
2031 - 2035	<u>1,008,579</u>	<u>30,458</u>	<u>1,039,037</u>
Totals	<u>\$ 5,720,000</u>	<u>\$ 550,509</u>	<u>\$ 6,270,509</u>

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2015

NOTE 5: EMPLOYEE RETIREMENT PLANS

MEPERS Defined Benefit Plan

Effective July 1, 1995, the District became a participant of the Maine Public Employees State Retirement System's (MEPERS) multiple employer cost sharing consolidated retirement plan. Accordingly, due to the consolidation, details of the pension obligation pertaining to the District can no longer be presented. Additional information may be obtained from the MEPERS, 46 State House Station; Augusta, Maine 04333-0046.

As of June 30, 2015 there were 289 employers participating in the plan.

Pension Benefits

Benefit terms are established in Maine statute; in the case of the PLD Consolidated Plan, an advisory group, also established by statute, reviews the terms of the plan and periodically makes recommendations to the Legislature to amend them. The System's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten year requirement was reduced by legislative action to five years for employees of the PLD). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. For PLD members, normal retirement age is 60 or 65. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 5.0%.

Member and Employer Contributions

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

Financial Reporting

The Plan issues stand-alone financial reports which can be found online at:

<http://www.maineipers.org/Publications/Publications.htm#Annual Reports>

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2015

NOTE 5: EMPLOYEE RETIREMENT PLANS (Continued)

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

At December 31, 2015, the District reported a liability for its share of the net pension liability of \$255,103.

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2015, the District's proportion was 0.079958%, which was an increase of .003636% from its proportion measured as of June 30, 2014.

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. The Plan's change in the discount rate from 7.25% to 7.125% was the only change in assumption in the 2015 valuation

For the year ended June 30, 2015, the District recognized pension expense of (\$37,045). At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PLD Plan	
	Deferred Outflows of Resources	Deferred inflows of Resources
Differences between expected and actual experience	\$ -	\$ 32,764
Change of assumptions	22,544	-
Net difference between projected and actual earnings on pension plan investments	78,734	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,848	6,962
District contributions subsequent to the measurement date	19,587	-
Total	\$ 130,713	\$ 39,726

\$19,587 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2015.

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2015

NOTE 5: EMPLOYEE RETIREMENT PLANS (Continued)

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>PLD Plan</u>
2016	\$ 17,239
2017	17,239
2018	17,239
2019	<u>19,684</u>
Total	<u>\$ 71,401</u>

Actuarial Methods and Assumptions

The collective total pension liability for the Plans was determined by an actuarial valuation as of June 30, 2015 and 2014, using the following methods and assumptions applied to all periods included in the measurement:

Actuarial Cost Method

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

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

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

Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swing in the market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the actuarial assumption for investment return.

Amortization

The net pension liability of the PLD Consolidated Plan as of June 30, 2015 is amortized on a level percentage of payroll using a method where a separate twenty-year closed period is established annually for the gain or loss for that year.

For the actuarial valuation as of June 30, 2014, the net pension liability of the PLD Consolidated Plan was amortized on an open basis over a period of fifteen years.

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2015

NOTE 5: RETIREMENT PLANS (Continued)

Actuarial Methods and Assumptions (Continued)

Amortization (Continued)

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2015 and June 30, 2014 are as follows:

Investment Rate of Return – 7.125% per annum for the year ended June 30, 2015 and 7.25% for the year ended June 30, 2014, compounded annually.

Salary Increases, Merit and Inflation – members of the PLD Consolidated Plan, 3.50% to 9.50% per year.

Mortality Rates – For active State employee members and non-disabled retirees of the participating local districts, the RP2000 Tables projected forward to 2015 using Scale AA are used; for all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

Cost of Living Benefit Increases – 2.55% for the year ended June 30, 2015 and 3.12% for the year ended June 30, 2014 for participating local districts.

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as June 30, 2015 are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
US equities	20%	5.2%
Non-US equities	20%	5.5%
Private equity	10%	7.6%
Real assets:		
Real estate	10%	3.7%
Infrastructure	10%	4.0%
Hard assets	5%	4.8%
Fixed income	25%	0.0%

Discount Rate

The discount rate used by the Plan to measure the collective total pension liability was 7.125% for 2015 and 7.25% for 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2015

NOTE 5: EMPLOYEE RETIREMENT PLANS (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rates

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.125% , as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.125%) or 1 percentage point higher (8.125%) than the current rate.

	1% Decrease (6.125%)	Current Discount Rate (7.125%)	1% Increase (8.125%)
PLD Plan			
Net pension liability	\$ 508,241	\$ 255,103	\$ 15,113

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MainePERS financial report.

MEPERS Defined Contribution Plan

MEPERS 401(a) Defined Contribution Plan - The District adopted the Maine Public Employees State Retirement System Defined Contribution plan for the benefit of its employees. Employees are eligible to participate after six months of service. Each participant shall make pre-tax contributions to the plan at 6.5% of gross compensation. The plan was amended to allow the District to contribute 4.7% to the plan on behalf of the participating employees. Employees are vested in employer contributions after three years of participation. The two plans are currently being funded by the IUUAL credit above.

MEPERS Deferred Compensation Plan

The District offers a deferred compensation plan to its employees and is established pursuant to legislation and in accordance with the requirements of Section 457 of the United States Internal Revenue Code of 1986. Under the plan, eligible employees may contribute a portion of their salary on a pre-tax basis up to the maximum annual contribution allowed by the IRS. The Maine Public Employees State Retirement System sponsors the plan and the District does not make contributions on behalf of the participants.

NOTE 6: INCOME TAX STATUS

The District qualifies as a tax-exempt organization under the provisions of the Internal Revenue code and, accordingly, its revenue is not subject to any State or Federal income taxes.

NOTE 7: OTHER DISCLOSURES

Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions; and natural disaster for which the District carries commercial insurance. Based on the coverage provided by commercial insurance purchased, the District is not aware of material actual or potential claim liabilities, which is to be recorded at December 31, 2015.

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2015

NOTE 7: OTHER DISCLOSURES (Continued)

Litigation

The District is subject to certain legal proceedings and claims which arise in the ordinary course of conducting its activities. In the opinion of management, the District has defensible positions and any ultimate liabilities are covered by insurance or will not materially affect the financial position of the District.

NOTE 8: CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT

Net position as of December 31, 2013 has been restated as follows for implementation of the Government Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

The District's beginning net position for Business-type Activities in Statement 2 has been restated from the previously issued 2014 financial statements to reflect an adjustment made to the allowance for bad debts provision. As a result, the beginning net position for Business-type Activities in Statement 2 was increased by \$4,000.

Net position at December 31, 2013, as previously reported	\$ 22,342,207
Prior period adjustment due to:	
District's net pension liability, measured at June 30, 2013	(117,445)
Deferred outflows and inflows of resources for the District's contributions made during fiscal year 2014	(116,400)
Adjustment to remove allowance for bad debt provision	<u>4,000</u>
Net position at December 31, 2013, as restated	<u>\$ 22,112,362</u>

NOTE 9: SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through March 24, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Kennebunk Sewer District
 Schedule of the District's Proportionate Share of the Net Pension Liability
 MainePERS Participating Local District's Plan
 Employer ID: 0201

For the Fiscal Year Ended	District's proportion of the net pension liability	District's proportionate share of the net pension liability	District's covered- employee payroll	District's proportionate share of the net pension liability as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.079958%	\$ 255,103	\$ 337,442	75.60%	88.27%
2014	0.076322%	117,445	362,524	32.40%	94.10%
2013	0.079097%	243,824	409,281	59.57%	87.50%

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Kennebunk Sewer District
 Schedule of the District's Employer Contributions
 MainePERS Participating Local District's Plan
 Employer ID: 0201

For the Fiscal Year Ended	Contractually required contributions	District's contributions in relation to the contractually required contributions	District's contribution deficiency (excess)	District's covered- employee payroll	District's contributions as a percentage of its covered- employee payroll
2015	\$ 32,685	\$ 32,685	\$ -	\$ 337,442	9.69%
2014	25,929	25,929	-	362,524	7.15%
2013	19,990	19,990	-	409,281	4.88%

Note: This schedule is intended to show information for ten years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

NOTE 1: CHANGES IN NET PENSION LIABILITY

Changes in Net Pension Liability

Changes in net pension liability are recognized in pension expense for the year ended June 30, 2015 with the following exceptions.

Differences between Expected and Actual Experience

The difference between expected and actual experience with regard to economic or demographic factors were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For 2015, this was four years for the PLD Consolidated Plan.

Differences between Projected and Actual Investment Earnings

Differences between projected and actual investment earnings were recognized in pension expense using a straight-line amortization method over a closed five-year period.

Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For the PLD Plan, the change in the discount rate from 7.25% to 7.125% was the only change in assumption in the 2015 valuation.

Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions

Differences resulting from a change in proportionate share of contributions and differences between total employer contributions and the employer's proportionate share of contributions were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. Differences between total employer contributions and the employer's proportionate share of contributions may arise when an employer has a contribution requirement for an employer specific liability.

OTHER SUPPLEMENTARY INFORMATION

Kennebunk Sewer District
 Schedule of Changes in Net Position
 For the Year Ended December 31, 2015
 (with comparative totals for 2014)

	<u>Board Designated Funds</u>						
	<u>Equity Buy In</u>	<u>Capital Reserve</u>	<u>Contributed</u>	<u>Undesignated</u>	<u>2015 Total</u>	<u>2014 Total</u>	
	<u>Impact Fund</u>	<u>Capital Reserve</u>	<u>Capital</u>	<u>Undesignated</u>	<u>2015 Total</u>	<u>2014 Total</u>	
BALANCE AT BEGINNING OF YEAR	\$ 1,568,272	\$ 2,512,601	\$ 8,990,837	\$ 9,223,748	\$ 22,295,458	\$ 22,112,362	
Change in Net Assets							
Operating Income	-	-	-	34,481	34,481	91,640	
Net Other Income (Expense)	-	-	-	536	536	18,772	
Equity Buy In Fees/ Sewer Impact Fees, Net	164,785	-	-	-	164,785	57,771	
Interest Income	5,462	4,580	-	6,075	16,117	14,913	
Fund Transfers	(170,000)	96,000	-	74,000	-	-	
Reversal of 2015 Appropriation for Capital Assets	(140,500)	(1,546,100)	-	1,686,600	-	-	
Appropriation for 2016 Capital Assets Expenditures	953,000	1,231,633	-	(2,184,633)	-	-	
BALANCE AT END OF YEAR	<u>\$ 2,381,019</u>	<u>\$ 2,298,714</u>	<u>\$ 8,990,837</u>	<u>\$ 8,840,807</u>	<u>\$ 22,511,377</u>	<u>\$ 22,295,458</u>	

Kennebunk Sewer District
Schedules of Operating Expenses
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
GENERAL AND ADMINISTRATION		
Salaries and Wages	\$ 289,866	\$ 269,584
Fringe Benefits	75,416	89,773
Insurance	92,690	95,737
Legal and Audit Fees	22,212	21,259
Contractual Services	27,773	26,156
Office Supplies	11,779	8,637
Postage	12,120	11,573
Travel and Trips to Seminars	4,296	3,336
Permits and Fees	7,494	7,439
Equipment Maintenance Contracts and Repairs	17,414	12,094
Bank Charges	5	10
Advertising	313	418
Dues and Subscriptions	<u>3,070</u>	<u>2,760</u>
Total General and Administration	564,448	548,776
 PLANT MAINTENANCE AND OPERATION		
Utilities	239,799	217,899
Maintenance and Repairs	82,990	87,043
Chemical Supplies	65,477	55,694
Sludge Spreading and Analysis	95,948	91,095
General and Miscellaneous	66,421	35,196
Tools and Supplies	1,215	670
Telephone and Pagers	5,157	5,433
Uniforms	2,952	2,771
Safety Equipment and Training	13,882	11,478
Waste Disposal	<u>1,284</u>	<u>1,376</u>
Total Plant Maintenance and Operation	575,125	508,655
 MAINTENANCE AND OPERATING PERSONNEL COSTS		
Salaries and Wages	474,593	439,985
Fringe Benefits	<u>123,446</u>	<u>146,522</u>
Total Maintenance and Operating Personnel Costs	598,039	586,507
 VEHICLE MAINTENANCE AND OPERATION		
Fuel, Tires and Lubrication	10,206	12,786
Maintenance and Repairs	<u>4,105</u>	<u>4,637</u>
Total Vehicle Maintenance and Operation	14,311	17,423
 DEPRECIATION EXPENSE		
	<u>695,756</u>	<u>683,950</u>
 TOTAL OPERATING EXPENSES		
	<u>\$ 2,447,679</u>	<u>\$ 2,345,311</u>

Kennebunk Sewer District
Schedules of Investment Earnings
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
INTEREST INCOME		
Internally Restricted Reserves:		
Impact Fees	\$ 5,462	\$ 6,941
Capital Reserves	<u>4,580</u>	<u>4,500</u>
Total	10,042	11,441
Operating Funds:		
Interest Income - Undesignated	<u>6,075</u>	<u>3,472</u>
Total Investment Earnings	<u>\$ 16,117</u>	<u>\$ 14,913</u>

Kennebunk Sewer District
Schedules of Cash and Investments
As of December 31, 2015 and 2014

		<u>2015</u>	<u>2014</u>
CURRENT ASSETS			
Cash and Cash Equivalents	Bank		
Change Fund		\$ 100	\$ 100
Petty Cash - Administration		100	100
Operating and Maintenance - Checking	Kennebunk Savings Bank	62,457	92,279
Operation and Maintenance - Savings	Kennebunk Savings Bank	1,297,110	1,006,061
K & E	Kennebunk Savings Bank	224,720	184,368
Portable Generator	Kennebunk Savings Bank	<u>5,195</u>	<u>5,174</u>
Total Current Assets - Cash and Cash Equivalents		1,589,682	1,288,082
 SPECIAL FUNDS - INTERNALLY RESTRICTED AND BOARD DESIGNATED			
Cash and Cash Equivalents	Bank		
Cash - Impact Fees	Kennebunk Savings Bank	836,119	864,780
Cash - Equity Buy in Fee	Kennebunk Savings Bank	255,457	250,040
Turnpike Zone - Impact Fees	Kennebunk Savings Bank	65,136	43,984
Route 1 North - Impact Fees	Kennebunk Savings Bank	4,179	3,879
Route 1 South - Impact Fees	Kennebunk Savings Bank	8,756	7,750
Money Market Account	State Farm	264,791	263,406
Pension Fund/Contributions Surplus	Kennebunk Savings Bank	189,040	-
2015 SRF Infrastructure Bond	Kennebunk Savings Bank	149,469	-
Certificate of Deposit	Saco and Biddeford Savings	258,373	257,339
Capital Reserve	Kennebunk Savings Bank	802,290	703,095
Pension Contributions Surplus	MainePERS	<u>-</u>	<u>218,890</u>
Total Special Funds - Cash and Cash Equivalents		<u>2,833,610</u>	<u>2,613,163</u>
 TOTAL CASH AND INVESTMENTS		 <u>\$ 4,423,292</u>	 <u>\$ 3,901,245</u>