



**KENNEBUNK SEWER DISTRICT**  
**FINANCIAL REPORT**



DECEMBER 31, 2017 and 2016

Independently Audited By

**Berry · Talbot · Royer**  
CERTIFIED PUBLIC ACCOUNTANTS

**TABLE OF CONTENTS**

<b>INDEPENDENT AUDITORS' REPORT</b> .....	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	3
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement 1      Statements of Net Position.....	10
Statement 2      Statements of Revenues, Expenses, and Changes in Net Position .....	11
Statement 3      Statements of Cash Flows .....	12
Notes to the Basic Financial Statements.....	14
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule 1      Schedule of the District's Proportionate Share of the Net Pension Liability - MainePERS Participating Local District Plan.....	26
Schedule 2      Schedule of the District's Employer Contributions - MainePERS Participating Local District Plan .....	27
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
Schedule 3      Schedule of Changes in Net Position.....	28
Schedule 4      Schedules of Operating Expenses .....	29
Schedule 5      Schedules of Investment Earnings .....	30
Schedule 6      Schedules of Cash and Investments .....	31



## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Kennebunk Sewer District

### Report on the Financial Statements

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, 2017 and 2016, and the related notes to the financial statements, 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, 2017, and 2016, 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 26-27 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. Schedules 3 to 6 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 3 to 6 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, Schedules 3 to 6 are fairly stated in all material respects in relation to the basic financial statements as a whole.



Berry Talbot Royer  
Certified Public Accountants  
Falmouth, Maine  
March 12, 2018



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**Kennebunk Sewer District  
Management's Discussion and Analysis  
December 31, 2017**

**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

**Comparison of Financial Statements for Current and Prior Years**

Condensed Statements of Net Position

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	\$ 5,092,329	\$ 5,086,104	\$ 6,225	0.1%
Special Funds	3,855,881	3,183,884	671,997	21.1%
Capital Assets	<u>22,868,637</u>	<u>20,684,953</u>	<u>2,183,684</u>	10.6%
Total Assets	31,816,847	28,954,941	2,861,906	9.9%
Deferred Outflows of Resources	237,821	312,976	(75,155)	-24.0%
Current Liabilities	1,014,371	544,064	470,307	86.4%
Long-term Liabilities	<u>7,548,685</u>	<u>5,595,767</u>	<u>1,952,918</u>	34.9%
Total Liabilities	8,563,056	6,139,831	2,423,225	39.5%
Deferred Inflows of Resources	169,612	112,440	57,172	50.8%
Net Investment in Capital Assets	18,046,048	18,134,213	(88,165)	-0.5%
Restricted	2,610,611	2,791,953	(181,342)	100.0%
Unrestricted	<u>2,665,341</u>	<u>2,089,480</u>	<u>575,861</u>	27.6%
Total Net Position	<u>\$ 23,322,000</u>	<u>\$ 23,015,646</u>	<u>\$ 306,354</u>	1.3%

*Current Assets and Special Funds*

The net increase of the current assets and special funds by \$678,222 was primarily due to the unspent proceeds from the new debt.

There was an overall net increase in Cash and Cash Equivalents of \$101,922 primarily due to the cash drawn down from the 2015 bond issue offset by the cash drawn down for pension expenses.

*Capital Assets*

Capital assets had a net increase of \$2,183,684. Changes in capital assets were as follows:

Additions	
Buildings	12,113
Sewers and forced mains	296,799
Work in progress	<u>2,720,991</u>
Total additions	3,029,903
Disposals	
Buildings	<u>(255,780)</u>
Accumulated Depreciation	
Current year depreciation expense	(703,181)
Removal of depreciation for disposed-of assets	<u>112,742</u>
Change in Accumulated Depreciation	<u>(590,439)</u>
Net change in capital assets	<u>\$ 2,183,684</u>

### *Current Liabilities*

Current liabilities increased by \$470,307 in 2017. This was primarily due to the increase in accounts payable because of capital projects in progress at the end of the year.

### *Long-term Liabilities*

Long-term liabilities increased by a net of \$1,952,918 in 2017. Increases of long-term liabilities were primarily due to the long-term portion of the new debt issue for the new Administration and Maintenance Building of \$2,325,000; additional accrued compensated absences of \$46,623; and the deferral of bond premiums of 62,660. Reductions of long term liabilities were due to bond repayments of \$379,011; changes in the amount allocated to current liabilities of \$1,720; and the decrease in the net pension liability of \$100,634.

### Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	\$ 3,085,571	\$ 2,877,321	\$ 208,250	7.2%
Operating Expenses	<u>(2,661,202)</u>	<u>(2,634,883)</u>	<u>(26,319)</u>	1.0%
Net Operating Income	424,369	242,438	181,931	75.0%
Net Non-Operating Expenses	<u>(222,946)</u>	<u>(22,960)</u>	<u>(199,986)</u>	871.0%
Income Before Contributions	201,423	219,478	(18,055)	-8.2%
Contributions	<u>104,931</u>	<u>284,791</u>	<u>(179,860)</u>	-63.2%
Change in Net Position	306,354	504,269	(197,915)	-39.2%
Beginning Net Position	<u>23,015,646</u>	<u>22,511,377</u>	<u>504,269</u>	2.2%
Ending Net Position	<u>\$ 23,322,000</u>	<u>\$ 23,015,646</u>	<u>\$ 306,354</u>	1.3%

### *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 loss on the disposal 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 \$12,324 in 2017.

### *Operating Expenses – Depreciation Expense*

Depreciation expense, included in Operating Expenses, increased from \$699,721 in 2016 to \$703,181 in 2017, an increase of 0.05%. This increase can be attributed to new equipment being placed in service.

*Operating Expenses – Other*

Non-depreciating operating expense increased from \$1,935,162 in 2016 to \$1,958,021 in 2017, an increase of 1.2%. The expenses consisted of:

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and Wages	\$ 296,628	\$ 289,865	\$ 6,763	2.3%
Fringe Benefits	134,662	153,328	(18,666)	-12.2%
Insurance	88,933	91,803	(2,870)	-3.1%
Legal and Audit Fees	12,166	15,011	(2,845)	-19.0%
Contracted Services	26,693	25,768	925	3.6%
Office Supplies	10,295	9,575	720	7.5%
Postage	12,845	11,924	921	7.7%
Travel and Trips to Seminars	6,292	3,881	2,411	62.1%
Permits and Fees	4,056	6,851	(2,795)	-40.8%
Miscellaneous Expenses	20,917	19,498	1,419	7.3%
Plant Maintenance & Operations	600,470	562,242	38,228	6.8%
Maintenance & Operations Personnel	724,047	730,724	(6,677)	-0.9%
Vehicle Maintenance & Operations	<u>20,017</u>	<u>14,692</u>	<u>5,325</u>	36.2%
Total other operating expenses	<u>\$ 1,958,021</u>	<u>\$ 1,935,162</u>	<u>\$ 22,859</u>	1.2%

Fringe Benefits: The change in this line is mainly due to the change in the Maine Public Employee Retirement System pension accruals, changes in the number of hours worked due to various reasons, and the additional accrued compensated absences. The current year adjustment for pension expense was lower than the prior year's adjustment by \$37,536. The additional expense for accrued compensated absences is higher than the prior year by \$17,742.

Plant Maintenance & Operations: The primary reason for the increase is additional repairs and maintenance of \$43,426 needed in the current year.

*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 2017 and 2016 were:

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Sewer Equity Buy In Fees / Impact Fees, Net	\$ 99,931	\$ 284,791	\$ (184,860)	-64.9%
Sewer Development Fees	<u>5,000</u>	<u>-</u>	<u>5,000</u>	100.0%
	<u>\$ 104,931</u>	<u>\$ 284,791</u>	<u>\$ (179,860)</u>	-63.2%

## 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 2017, the current ratio decreased from 9.35 to 5.05. The coverage ratio increased from 2.27 to 2.36.

	<u>2017</u>	<u>2016</u>
Current Assets	\$ 5,092,329	\$ 5,086,104
Current Liabilities	\$ 1,014,371	\$ 544,064
<b>Current Ratio</b>	<b>5.02</b>	<b>9.35</b>
Operating Revenue	\$ 3,085,571	\$ 2,877,321
Interest Income	17,632	16,341
Non-Utility Income	14,033	43,750
Gross Revenue	3,117,236	2,937,412
Operating Expenses	2,661,202	2,634,883
Less: Depreciation	703,181	699,721
Expenses before Depreciation	1,958,021	1,935,162
Net Available for Debt Service	<u>\$ 1,159,215</u>	<u>\$ 1,002,250</u>
Principal Payments	\$ 379,011	\$ 377,307
Interest Expense	111,574	63,958
Total Debt Service	<u>\$ 490,585</u>	<u>\$ 441,265</u>
Net Available for Debt Service	\$ 1,159,215	\$ 1,002,250
Total Debt Service	\$ 490,585	\$ 441,265
<b>Coverage Ratio</b>	<b>2.36</b>	<b>2.27</b>

### *Revenue Stability*

Most of the District's operating revenue, 99.7% in 2017 and 99.0% in 2016, comes from sewer user fees. These revenue sources are stable and were relatively unchanged.

## Significant Changes to Individual Funds

### *Operating and Management Fund*

Operating revenue increased in 2017 by 7.2% over last year while expenses increased by 1.0%. This resulted in net operating income increasing over last year by \$181,931.

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	\$ 3,085,571	\$ 2,877,321	\$ 208,250	7.2%
Operating Expenses	<u>(2,661,202)</u>	<u>(2,634,883)</u>	<u>(26,319)</u>	1.0%
	<u>\$ 424,369</u>	<u>\$ 242,438</u>	<u>\$ 181,931</u>	75.0%

### *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 District's staff recalculates the fee on a yearly basis using the most current audit year information. At the March 2016 Rate Hearing, the Equity Buy-In Fee for a single family dwelling was set at \$3,887 for 2016. No change was made to the fee at the March 2017 Rate Hearing. 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>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Sewer Equity Buy In Fees / Impact Fees, Net	\$ 99,931	\$ 284,791	\$ (184,860)	-64.9%
Impact Fees' Interest Income	<u>6,711</u>	<u>6,227</u>	<u>484</u>	7.8%
Totals	<u>\$ 106,642</u>	<u>\$ 291,018</u>	<u>\$ (184,376)</u>	-63.4%

There were 21 sewer connections in 2017 compared to 18 in 2016. The decrease in Equity Buy In Fee revenue was due to a large commercial permit in the prior year.

### *Capital Reserves Fund*

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

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Sewer Development Fees	\$ 5,000	\$ -	\$ 5,000	100.0%
Capital Reserves' Interest Income	<u>5,613</u>	<u>5,207</u>	<u>406</u>	7.8%
	<u>\$ 10,613</u>	<u>\$ 5,207</u>	<u>\$ 5,406</u>	103.8%

### 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 \$53,132 from \$31,965,140 to \$32,018,272 and the work in progress increased by \$2,720,991. The allowance for depreciation increased by \$590,439, net of dispositions. Net utility property increased from \$20,684,953 in 2016 to \$22,868,637 in 2017.

#### *Long Term Debt*

The total bonded debt (both the Long-term debt and the current portion) activity of 2017 is detailed below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonds payable	\$ 5,342,693	\$ 2,400,000	\$ (379,011)	\$ 7,363,682

### Currently Known Facts and Decisions

The construction of the new administrative and maintenance building is progressing on schedule and will be ready for occupancy in the spring of 2018. Relocating the maintenance and administrative functions of the district to the new building is the first phase of improvements that will ultimately include a new laboratory and biological treatment system to replace existing facilities that have exceeded their 30-year life expectancy.

Construction began earlier in the summer to upgrade the wastewater pump station on Brown Street. The pump station, which was originally installed in 1960 and upgraded in 1987, has exceeded its life expectancy and will be replaced with all new components that will provide a higher level of service to our customers. The anticipated completion date for this project is early in 2018.

### 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,

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 1,820,200	\$ 1,718,268
Cash Held by Third Party	2,610,611	2,791,953
Accounts Receivable	605,165	533,488
Prepaid Expenses	<u>56,353</u>	<u>42,395</u>
Total Current Assets	5,092,329	5,086,104
Special Funds - Internally Restricted and Board Designated:		
Cash and Investments	3,855,881	3,183,884
Utility Property:		
Operating Property	32,018,272	31,965,140
Accumulated Depreciation	<u>(13,137,797)</u>	<u>(12,547,358)</u>
	18,880,475	19,417,782
Work In Progress	<u>3,988,162</u>	<u>1,267,171</u>
Net Utility Property	<u>22,868,637</u>	<u>20,684,953</u>
<b>TOTAL ASSETS</b>	31,816,847	28,954,941
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pensions	237,821	312,976
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	536,981	143,266
Accrued Liabilities	3,372	9,306
Accrued Interest	11,429	12,481
Current Portion of Long-Term Debt (Includes Current Portion of Deferred Bond Premiums of \$6,858)	<u>462,589</u>	<u>379,011</u>
Total Current Liabilities	1,014,371	544,064
Long-Term Liabilities		
Bonds Payable ( Includes Long-term portion of Deferred Bond Premiums of \$62,660)	6,970,611	4,963,682
Accrued Compensated Absences	175,139	128,516
Net Pension Liability	<u>402,935</u>	<u>503,569</u>
Total Long-Term Liabilities	<u>7,548,685</u>	<u>5,595,767</u>
<b>TOTAL LIABILITIES</b>	<u>8,563,056</u>	<u>6,139,831</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pensions	169,612	112,440
<b>NET POSITION</b>		
Net Investment in Capital Assets	18,046,048	18,134,213
Restricted	2,610,611	2,791,953
Unrestricted	<u>2,665,341</u>	<u>2,089,480</u>
<b>TOTAL NET POSITION</b>	<u>\$ 23,322,000</u>	<u>\$ 23,015,646</u>

*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,

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Sewer Charges, Net of Abatements	\$ 3,076,227	\$ 2,849,359
Other Sewer Services	<u>9,344</u>	<u>27,962</u>
Total Operating Revenues	3,085,571	2,877,321
<b>OPERATING EXPENSES</b>		
General and Administration	613,488	627,504
Plant Maintenance and Operation	600,470	562,242
Maintenance and Operating Personnel Costs	724,047	730,724
Vehicle Maintenance and Operation	20,016	14,692
Depreciation Expense	<u>703,181</u>	<u>699,721</u>
Total Operating Expenses	<u>2,661,202</u>	<u>2,634,883</u>
<b>NET OPERATING INCOME (LOSS)</b>	424,369	242,438
<b>NON-OPERATING REVENUES OR (EXPENSES)</b>		
Interest Income (Undesignated)	5,308	4,907
Special Funds' Interest Income	12,324	11,434
Interest Expense	(111,574)	(63,958)
Non-Utility Income	14,033	43,750
Loss on Disposal of Assets	<u>(143,037)</u>	<u>(19,093)</u>
Net Non-operating Revenues	<u>(222,946)</u>	<u>(22,960)</u>
<b>INCOME BEFORE CONTRIBUTIONS</b>	201,423	219,478
<b>CONTRIBUTIONS</b>		
Sewer Development Fees	5,000	-
Sewer Equity Buy In Fees/ Impact Fees, Net	<u>99,931</u>	<u>284,791</u>
	<u>104,931</u>	<u>284,791</u>
<b>CHANGE IN NET POSITION</b>	306,354	504,269
<b>NET POSITION - AT BEGINNING OF YEAR</b>	<u>23,015,646</u>	<u>22,511,377</u>
<b>NET POSITION - AT END OF YEAR</b>	<u>\$ 23,322,000</u>	<u>\$ 23,015,646</u>

**Kennebunk Sewer District**  
**Statements of Cash Flows**  
For the Years Ended December 31,

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 3,027,928	\$ 2,859,271
Cash Payments to Suppliers and Contractors	(1,058,099)	(972,378)
Cash Payments to Employee Services	(747,735)	(766,524)
Net Cash Provided by Operating Activities	1,222,094	1,120,369
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Repayment of Long-Term Debt	(379,011)	(377,307)
Interest Payments	(112,626)	(64,591)
Sewer Development Fees	5,000	-
Sewer Equity Buy In Fees/ Impact Fees Collected, Net	99,931	284,791
Loan Proceeds	2,581,342	771,215
Bond Premiums	69,518	-
Expenditures for Utility Property	(2,729,951)	(1,271,958)
Net Cash Used by Financing Activities	(465,797)	(657,850)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income Received	17,632	16,341
Net Cash Provided by Investing Activities	17,632	16,341
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	773,929	478,860
 <b>CASH AND CASH EQUIVALENTS - AT BEGINNING OF YEAR</b>		
	4,902,152	4,423,292
 <b>CASH AND CASH EQUIVALENTS - AT END OF YEAR</b>		
	\$ 5,676,081	\$ 4,902,152
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash Components:		
Internally Restricted and Board Designated	\$ 3,855,881	\$ 3,183,884
Operating	1,820,200	1,718,268
	\$ 5,676,081	\$ 4,902,152

**Kennebunk Sewer District**  
**Statements of Cash Flows**  
For the Years Ended December 31,

	<b>2017</b>	<b>2016</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net Operating Income	\$ 424,369	\$ 242,438
Non-Operating Income	14,033	43,750
Adjustments not affecting cash:		
Depreciation	703,181	699,721
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(71,677)	(61,799)
Prepaid Expenses	(13,958)	(25,816)
Deferred Outflows	75,155	(182,263)
(Decrease) Increase in:		
Accounts Payable	93,764	81,048
Accrued Liabilities	40,689	2,110
Net Pension Liability	(100,634)	248,466
Deferred Inflows	57,172	72,714
Net Cash Provided by Operating Activities	\$ 1,222,094	\$ 1,120,369

**Kennebunk Sewer District**  
Notes to the Basic Financial Statements  
December 31, 2017

**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 and 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, 2017

**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 eighteen 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 the Governmental Accounting Standards Board Standards, contributions in aid are reported as income.

**Advertising Costs**

Advertising costs are expensed as incurred. Advertising expense totaled \$316 and \$454 for 2017 and 2016, respectively.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has deferred outflows of resources of \$237,821, of which \$210,669 is related to a pension obligation as of June 30, 2017, and \$27,152 of contributions made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has deferred inflows of resources of \$169,612 related to a pension obligation as of June 30, 2017.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of MainePERS Participating Local District Consolidated Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. The Plan's net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions were measured at June 30, 2017, the latest measurement data available.

**Kennebunk Sewer District**  
Notes to the Basic Financial Statements  
December 31, 2017

**NOTE 1: SUMMARY OF ACCOUNTING POLICIES (Continued)**

**Net Position 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.

	<b>2017</b>	<b>2016</b>
Capital assets	\$ 36,006,434	\$ 33,232,311
Accumulated depreciation	(13,137,797)	(12,547,358)
Bonds and notes payable	(4,822,589)	(2,550,740)
Net investment in capital asse	\$ 18,046,048	\$ 18,134,213

*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.

*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, 2017 and 2016, 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 2017 and 2016 was \$99,931 and \$284,791, 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, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Cash	\$ 1,687,392	\$ 1,713,913
Restricted investment earnings	\$ 6,711	\$ 6,227

**Kennebunk Sewer District**  
Notes to the Basic Financial Statements  
December 31, 2017

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

**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, 2017 and 2016:

	2017	2016
Cash	\$ 1,376,201	\$ 1,335,288
Restricted investment earnings	\$ 5,613	\$ 5,207

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 2017 and 2016 was \$71,394 and \$134,683, respectively.

**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, 2017, the District reported cash of \$5,676,081 with a bank balance of \$5,758,011. Of the District's bank balances, \$1,000,000 was covered by FDIC insurance and \$4,758,011 was exposed to custodial credit risk. Of the balance exposed to custodial credit risk, \$4,200,000 was collateralized by securities held by the pledging bank, but not in the District's name, and \$558,011 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 \$1,139,389. 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, 2017, the carrying value of amounts held by the MMBB was \$2,610,611. Carrying value approximates fair value. None of the underlying securities are in the District's name.

**Kennebunk Sewer District**  
Notes to the Basic Financial Statements  
December 31, 2017

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017 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	1,267,171	2,720,991	-	3,988,162
Totals	1,378,677	2,720,991	-	4,099,668
<i>Utility Property Being Depreciated</i>				
Buildings	17,331,857	12,113	-	17,343,970
Pump station	7,054,851	-	-	7,054,851
Sewers and forced mains	6,616,870	296,799	-	6,913,669
Transportation equipment	237,173	-	-	237,173
Other equipment	205,669	-	-	205,669
Development master plan	121,958	-	-	121,958
Dam	29,476	-	-	29,476
Building rental property	255,780	-	(255,780)	-
Totals	31,853,634	308,912	(255,780)	31,906,766
Total Utility Property Cost	33,232,311	3,029,903	(255,780)	36,006,434
Accumulated depreciation	(12,547,358)	(703,181)	112,742	(13,137,797)
Net utility property	<u>\$ 20,684,953</u>	<u>\$ 2,326,722</u>	<u>\$ (143,038)</u>	<u>\$ 22,868,637</u>

The District's depreciation expense for the years ended December 31, 2017 and 2016 was \$703,181 and \$699,721 respectively. The depreciation expenses of utility property acquired by capital grants and by donation are included in the above amount.

**NOTE 4: LONG-TERM LIABILITIES**

Long-term liabilities are summarized as follows at December 31, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Bonds payable	\$ 5,342,693	\$ 2,400,000	\$ (379,011)	\$ 7,363,682	\$ 455,731
Deferred Bond Premiums	-	69,518	-	69,518	6,858
Compensated absences	128,516	46,623	-	175,139	-
Totals	<u>\$ 5,471,209</u>	<u>\$ 2,516,141</u>	<u>\$ (379,011)</u>	<u>\$ 7,608,339</u>	<u>\$ 462,589</u>

**Kennebunk Sewer District**  
Notes to the Basic Financial Statements  
December 31, 2017

**NOTE 4: LONG-TERM DEBT (Continued)**

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>	<u>U.S.Bank National Association</u>
Bond Type	CWSRF	CWSRF	CWSRF	Revenue
Issue Date	9/22/2004	7/1/2005	11/13/2015	5/1/2017
Maturity Date	10/1/2024	4/1/2025	11/1/2035	7/1/2037
Annual Interest Rate	1.500%	1.460%	1.000%	3.0% to 4.0%
Original Issue Amount	\$ 2,000,000	\$ 2,140,000	\$ 3,750,000	\$ 2,400,000
			From \$170,307	From \$75,000 to
Annual Principal Payments	\$ 100,000	\$ 107,000	to \$205,750	\$160,000
Balance, December 31, 2017	\$ 700,000	\$ 856,000	\$ 3,407,682	\$ 2,400,000

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

<u>Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total</u>
2018	\$ 455,731	\$ 146,506	\$ 602,237
2019	472,467	126,569	599,036
2020	474,223	119,052	593,275
2021	480,995	111,518	592,513
2022	487,785	103,815	591,600
2023 - 2027	2,002,406	403,436	2,405,842
2028 - 2032	1,628,916	241,395	1,870,311
2033 - 2037	1,361,159	87,014	1,448,173
Totals	<u>\$ 7,363,682</u>	<u>\$ 1,339,305</u>	<u>\$ 8,702,987</u>

**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, 2017, there were 300 employers participating in the plan.

**Kennebunk Sewer District**  
Notes to the Basic Financial Statements  
December 31, 2017

**NOTE 5: EMPLOYEE RETIREMENT PLANS (Continued)**

*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 2.45%.

*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 by the System's Board of Trustees 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.maineperc.org/Publications/Publications.htm#Annual Reports>

**Kennebunk Sewer District**  
Notes to the Basic Financial Statements  
December 31, 2017

**NOTE 5: EMPLOYEE RETIREMENT PLANS (Continued)**

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

The net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions were measured at June 30, 2017, the latest measurement date available, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These amounts are reported on the District's financial statements as of December 31, 2017. The District's deferred outflows of resources related to pensions balance, as of the measurement date, was increased by contributions to pensions made in the last half of the current fiscal year. These amounts were adjusted accordingly as reductions to expenses in the Statement of Activities.

At December 31, 2017, the District reported a liability for its share of the net pension liability of \$402,935.

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 districts and the member employers, actuarially determined. At June 30, 2017, the District's proportion was 0.098412%, which was an increase of .003637% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the District recognized pension expense of \$31,693. At December 31, 2017, 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	\$ -	\$ 19,359
Change of assumptions	34,287	-
Net difference between projected and actual earnings on pension plan investments	138,863	149,943
Changes in proportion and differences between employer contributions and proportionate share of contributi	37,519	310
District contributions subsequent to the measurement date	27,152	-
Total	\$ 237,821	\$ 169,612

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.

**Kennebunk Sewer District**  
Notes to the Basic Financial Statements  
December 31, 2017

**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, except the District's contribution subsequent to the measurement date of \$27,151, will be recognized in pension expense as follows:

		PLD Plan
2018	\$	12,048
2019		53,741
2020		2,703
2021		(27,433)
Total	\$	41,059

**Actuarial Methods and Assumptions**

The collective total pension liability for the Plans was determined by an actuarial valuation as of June 30, 2017 and 2016, using the following methods and assumptions applied to all periods included in the measurement:

*Actuarial Cost Method*

The Entry Age Normal cost method is used to develop costs. Under this cost method, the total employer contribution rate consists of two elements: the normal cost rate and the unfunded actuarial liability 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 reduces the impact of short-term volatility 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 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.

**Kennebunk Sewer District**  
Notes to the Basic Financial Statements  
December 31, 2017

**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, 2017 and June 30, 2016 are as follows:

*Investment Rate of Return* – 6.875% per annum for the years ended June 30, 2017 and 2016, compounded annually.

*Inflation Rate* – 2.75% per annum for the year ended June 30, 2017.

*Salary Increases, Merit and Inflation* – members of the PLD Consolidated Plan, 2.75% to 9.00% for the year ended June 30, 2017 and 3.50% to 9.50% for the year ended June 30, 2016.

*Mortality Rates* – For the years ended June 30, 2017 and 2016, for active members and non-disabled retirees of the participating local districts, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used; for all recipients of disability benefits, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used.

*Cost of Living Benefit Increases* – 2.20% for the years ended June 30, 2017 and 2016 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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public equities	30%	6.0%
US Government	8%	2.3%
Private equity	15%	7.6%
Real assets:		
Real estate	10%	5.2%
Infrastructure	10%	5.3%
Natural resources	5%	5.0%
Traditional credit	8%	3.0%
Alternative credit	5%	4.2%
Diversifiers	10%	5.9%

**Kennebunk Sewer District**  
Notes to the Basic Financial Statements  
December 31, 2017

**NOTE 5: EMPLOYEE RETIREMENT PLANS (Continued)**

**Actuarial Methods and Assumptions (Continued)**

*Discount Rate*

The discount rate used by the Plan to measure the collective total pension liability was 6.875% for 2017 and 2016. 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 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.

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

The following table show how the collective net pension liability as of June 30, 2017 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)
PLD Plan			
Net pension liability	\$ 808,412	\$ 402,935	\$ 97,674

*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.

**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.

**Kennebunk Sewer District**  
Notes to the Basic Financial Statements  
December 31, 2017

**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, 2017.

**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: SUBSEQUENT EVENTS**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through March 12, 2018, 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 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
2017	0.098412%	\$ 402,935	\$ 551,208	73.10%	86.43%
2016	0.094775%	503,569	487,555	103.28%	81.61%
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 Plan  
Employer ID: 0201

<u>For the Fiscal Year Ended</u>	<u>Contractually required contributions</u>	<u>District's contributions in relation to the contractually required contributions</u>	<u>District's contribution deficiency (excess)</u>	<u>District's covered- employee payroll</u>	<u>District's contributions as a percentage of its covered- employee payroll</u>
2017	\$ 52,640	\$ 52,640	\$ -	\$ 551,208	9.55%
2016	44,855	44,855	-	487,555	9.20%
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.*

**OTHER SUPPLEMENTARY INFORMATION**

**Kennebunk Sewer District**  
 Schedule of Changes in Net Position  
 For the Year Ended December 31, 2017  
 (with comparative totals for 2016)

	<u>Board Designated Funds</u>					
	<u>Equity Buy In</u>	<u>Capital Reserve</u>	<u>Contributed</u>	<u>Undesignated</u>	<u>2017 Total</u>	<u>2016 Total</u>
	<u>Impact Fund</u>	<u>Fees / Sewer</u>	<u>Capital</u>			
	<u>Fund</u>	<u>Impact</u>	<u>Reserve</u>	<u>Capital</u>		
<b>BALANCE AT BEGINNING OF YEAR</b>	\$ 2,491,199	\$ 1,472,588	\$ 8,990,837	\$ 10,061,022	\$ 23,015,646	\$ 22,511,377
Change in Net Assets						
Operating Income	-	-	-	424,369	424,369	242,438
Net Other Income (Expense)	-	-	-	(240,578)	(240,578)	(39,301)
Sewer Development Fees	-	5,000	-	-	5,000	-
Equity Buy In Fees/ Sewer Impact Fees, Net	99,876	-	-	55	99,931	284,791
Interest Income	6,711	5,613	-	5,308	17,632	16,341
Fund Transfers	(36,900)	30,300	-	6,600	-	-
Reversal of 2017 Appropriation for Capital Assets	(875,000)	(137,300)	-	1,012,300	-	-
Appropriation for 2018 Capital Assets Expenditures	315,772	850,000	-	(1,165,772)	-	-
<b>BALANCE AT END OF YEAR</b>	<u>\$ 2,001,658</u>	<u>\$ 2,226,201</u>	<u>\$ 8,990,837</u>	<u>\$ 10,103,304</u>	<u>\$ 23,322,000</u>	<u>\$ 23,015,646</u>

**Kennebunk Sewer District**  
Schedules of Operating Expenses  
For the Years Ended December 31,

	<u>2017</u>	<u>2016</u>
<b>GENERAL AND ADMINISTRATION</b>		
Salaries and Wages	\$ 296,628	\$ 289,865
Fringe Benefits	134,662	153,328
Insurance	88,933	91,803
Legal and Audit Fees	12,166	15,011
Contractual Services	26,693	25,768
Office Supplies	10,295	9,575
Postage	12,845	11,924
Travel and Trips to Seminars	6,292	3,881
Permits and Fees	4,056	6,851
Equipment Maintenance Contracts and Repairs	17,852	16,197
Bank Charges	35	-
Advertising	316	454
Dues and Subscriptions	2,714	2,847
Total General and Administration	<u>613,487</u>	<u>627,504</u>
<b>PLANT MAINTENANCE AND OPERATION</b>		
Utilities	208,113	224,579
Maintenance and Repairs	160,891	118,046
Chemical Supplies	57,898	56,037
Sludge Spreading and Analysis	84,064	82,745
General and Miscellaneous	54,611	45,500
Tools and Supplies	1,572	3,598
Telephone and Pagers	6,084	5,668
Uniforms	7,078	2,857
Safety Equipment and Training	19,113	21,063
Waste Disposal	1,046	2,149
Total Plant Maintenance and Operation	<u>600,470</u>	<u>562,242</u>
<b>MAINTENANCE AND OPERATING PERSONNEL COSTS</b>		
Salaries and Wages	497,978	477,922
Fringe Benefits	226,069	252,802
Total Maintenance and Operating Personnel Costs	<u>724,047</u>	<u>730,724</u>
<b>VEHICLE MAINTENANCE AND OPERATION</b>		
Fuel, Tires and Lubrication	12,000	5,601
Maintenance and Repairs	8,017	9,091
Total Vehicle Maintenance and Operation	<u>20,017</u>	<u>14,692</u>
<b>DEPRECIATION EXPENSE</b>	<u>703,181</u>	<u>699,721</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 2,661,202</u>	<u>\$ 2,634,883</u>

**Kennebunk Sewer District**  
Schedules of Investment Earnings  
For the Years Ended December 31,

	<u>2017</u>	<u>2016</u>
<b>INTEREST INCOME</b>		
Internally Restricted Reserves:		
Impact Fees	\$ 6,711	\$ 6,227
Capital Reserves	<u>5,613</u>	<u>5,207</u>
Total	12,324	11,434
Operating Funds:		
Interest Income - Undesignated	<u>5,308</u>	<u>4,907</u>
Total Investment Earnings	<u>\$ 17,632</u>	<u>\$ 16,341</u>

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

		<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS</b>			
<b>Cash and Cash Equivalents</b>	<b>Bank</b>		
Change Fund		\$ 100	\$ 100
Petty Cash - Administration		100	100
Operating and Maintenance - Checking	Kennebunk Savings Bank	31,969	-
Operation and Maintenance - Savings	Kennebunk Savings Bank	1,413,880	1,483,169
K & E	Kennebunk Savings Bank	216,769	229,683
Rate Stabilization Fund	Kennebunk Savings Bank	152,146	-
Portable Generator	Kennebunk Savings Bank	<u>5,236</u>	<u>5,216</u>
Total Current Assets - Cash and Cash Equivalents		1,820,200	1,718,268
 <b>SPECIAL FUNDS - INTERNALLY RESTRICTED AND BOARD DESIGNATED</b>			
<b>Cash and Cash Equivalents</b>	<b>Bank</b>		
Cash - Impact Fees	Kennebunk Savings Bank	828,814	825,515
Cash - Equity Buy in Fee	Kennebunk Savings Bank	429,168	371,531
Turnpike Zone - Impact Fees	Kennebunk Savings Bank	154,234	145,860
Route 1 North - Impact Fees	Kennebunk Savings Bank	4,580	4,318
Route 1 South - Impact Fees	Kennebunk Savings Bank	9,871	9,500
Money Market Account	State Farm	267,188	265,989
Pension Fund/Contributions Surplus	Kennebunk Savings Bank	71,394	134,683
2015 SRF Infrastructure Bond	Kennebunk Savings Bank	139,500	97,713
Administration Building	Kennebunk Savings Bank	581,394	-
Certificate of Deposit	Saco and Biddeford Savings	260,725	259,476
Capital Reserve	Kennebunk Savings Bank	<u>1,109,013</u>	<u>1,069,299</u>
Total Special Funds - Cash and Cash Equivalents		<u>3,855,881</u>	<u>3,183,884</u>
 <b>TOTAL CASH AND INVESTMENTS</b>		 <u>\$ 5,676,081</u>	 <u>\$ 4,902,152</u>