



KENNEBUNK SEWER DISTRICT
FINANCIAL REPORT



DECEMBER 31, 2022 and 2021

Independently Audited By

Berry·Talbot·Royer
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kennebunk Sewer District

Report on the Audit of 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, 2022, and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 Kennebunk Sewer District as of December 31, 2022, and 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kennebunk Sewer District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management's 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kennebunk Sewer District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the pension schedules on pages 4-10 and 27-28 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 5 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 3 to 5 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 5 are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2023, on our consideration of Kennebunk Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kennebunk Sewer District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "BERRY TALBOT ROYER". The signature is written in a cursive, slightly slanted style.

Berry Talbot Royer
Certified Public Accountants
Falmouth, Maine
April 5, 2023



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

Management's Discussion and Analysis

December 31, 2022

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 serve 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 funds 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>2022</u> | <u>2021</u> | <u>\$ Change</u> | <u>% Change</u> |
|----------------------------------|----------------------|----------------------|-------------------|-----------------|
| Current Assets | \$ 4,674,087 | \$ 4,562,062 | \$ 112,025 | 2.5% |
| Special Funds | 5,280,435 | 5,932,954 | (652,519) | -11.0% |
| Capital Assets | 30,130,126 | 27,958,302 | 2,171,824 | 7.8% |
| Net Pension Asset | - | 32,682 | (32,682) | 100.0% |
| Total Assets | <u>40,084,648</u> | <u>38,486,000</u> | <u>1,598,648</u> | <u>4.2%</u> |
| Deferred Outflows of Resources | 138,754 | 177,371 | (38,617) | -21.8% |
| Current Liabilities | 1,073,976 | 1,326,595 | (252,619) | -19.0% |
| Long-term Liabilities | <u>14,888,751</u> | <u>13,065,242</u> | <u>1,823,509</u> | <u>14.0%</u> |
| Total Liabilities | <u>15,962,727</u> | <u>14,391,837</u> | <u>1,570,890</u> | <u>10.9%</u> |
| Deferred Inflows of Resources | 118,383 | 459,830 | (341,447) | -74.3% |
| Net Investment in Capital Assets | 15,031,021 | 14,886,232 | 144,789 | 1.0% |
| Restricted | 105,785 | 305,747 | (199,962) | 100.0% |
| Unrestricted | <u>9,005,486</u> | <u>8,619,725</u> | <u>385,761</u> | <u>4.5%</u> |
| Total Net Position | <u>\$ 24,142,292</u> | <u>\$ 23,811,704</u> | <u>\$ 330,588</u> | <u>1.4%</u> |

Current Assets and Special Funds

The net increase of the current assets by \$112,025 was primarily attributed to the increase in accounts receivable due to the increase in revenue and to the \$67,926 prepayment of the new truck. In 2022, the District has a \$77,731 septic revenue which the District did not have in 2021. The net decrease in special funds by (\$652,519) was due to the payment of the costs of the Wells Road Force Main project which was completed in 2022 and the Biological Nitrogen Removal Treatment System Design project.

Capital Assets

Capital assets had a net increase of \$2,171,824. Changes in capital assets were as follows:

| | |
|--|---------------------|
| Additions | |
| Buildings | 8,938,838 |
| Pump stations | 651,156 |
| Sewers and forced mains | <u>306,865</u> |
| Total additions | 9,896,859 |
| Disposals | |
| Buildings | (195,389) |
| Work in Progress Completed | <u>(6,650,514)</u> |
| | <u>(6,845,903)</u> |
| Accumulated Depreciation | |
| Current year depreciation expense | (969,192) |
| Removal of depreciation for disposed-of assets | <u>90,060</u> |
| Change in Accumulated Depreciation | <u>(879,132)</u> |
| Net change in capital assets | <u>\$ 2,171,824</u> |

Current Liabilities

Current liabilities decreased by \$252,619 in 2022. The decrease was primarily due to the net decrease in accounts payable, accrued retainage and current portion of long-term debt. The headworks building was completed in 2022 and the accounts payable from contactors and accrued retainage also decreased. The increase current portion of the long-term debt was due to the current portion of the \$4M revenue bonds and the 2023 CWSRF Bond.

Long-term Liabilities

Long-term liabilities increased by \$1,823,509. This was primarily due to the drawings from the \$8M Bond Anticipation note which were used to complete the headworks building.

Long-term Liabilities Change

| | |
|---------------------------------------|---------------------|
| Increase in Bonds Payable - Long-term | \$ 1,571,601 |
| Decrease in Deferred Bond Premiums | (10,108) |
| Decrease in Compensated Absences | (1,616) |
| Increase in Pension Liability | <u>263,632</u> |
| | <u>\$ 1,823,509</u> |

Condensed Statements of Revenues, Expenses and Changes in Net Position

| | <u>2022</u> | <u>2021</u> | <u>\$ Change</u> | <u>% Change</u> |
|---------------------------------------|----------------------|----------------------|-------------------|-----------------|
| Operating Revenue | \$ 3,797,017 | \$ 3,509,063 | \$ 287,954 | 8.2% |
| Operating Expenses | <u>(3,321,691)</u> | <u>(3,093,600)</u> | <u>(228,091)</u> | 7.4% |
| Net Operating Income | 475,326 | 415,463 | 59,863 | 14.4% |
| Net Non-Operating Revenue or Expenses | <u>(330,090)</u> | <u>(198,697)</u> | <u>(131,393)</u> | 66.1% |
| Income Before Contributions | 145,236 | 216,766 | (71,530) | -33.0% |
| Contributions | <u>185,352</u> | <u>278,377</u> | <u>(93,025)</u> | -33.4% |
| Change in Net Position | 330,588 | 495,143 | (164,555) | -33.2% |
| Beginning Net Position | <u>23,811,704</u> | <u>23,316,561</u> | <u>495,143</u> | 2.1% |
| Ending Net Position | <u>\$ 24,142,292</u> | <u>\$ 23,811,704</u> | <u>\$ 330,588</u> | 1.4% |

Net Non-Operating Revenue or Expenses

This item is primarily made up of interest expense, interest income from the operating and board designated funds, bond issue costs, and the loss on the disposal of operating property.

The increase in net expenses in 2022 was primarily due to the interest expense from the \$4M revenue bond and the \$8M bond anticipation note and the loss from the disposal of the old headworks.

Special Funds Revenue

Special funds revenue, which is included in net non-operating revenue or expenses, consists of interest income of \$7,531 collected during the year.

Contributions

The decrease was primarily due to the reduction in construction projects in 2022 that can connect to the District's sewer service area. (See Sewer Impact Fund below for further explanation).

Contributions occur when development takes place within the District's service area and ownership of capital assets are transferred to the District. In addition, sewer impact fees and equity buy in fees are one-time charges collected for new construction or change of use that result in more wastewater discharged to the public sewer. The contributions for 2022 and 2021 were:

| | <u>2022</u> | <u>2021</u> | <u>\$ Change</u> | <u>% Change</u> |
|--|-------------|-------------|------------------|-----------------|
| Sewer Equity Buy In Fees / Impact Fees, Net | \$ 185,352 | \$ 278,377 | \$ (93,025) | -33.4% |

Operating Expenses - Depreciation Expense

Depreciation expense, included in Operating Expenses, was \$969,192 in 2022 and \$969,387 in 2021.

Operating Expenses - Other

Non-depreciating operating expense increased from \$2,124,211 in 2021 to \$2,352,499 in 2022, an increase of 10.70%. The expenses consisted of:

| | <u>2022</u> | <u>2021</u> | <u>\$ Change</u> | <u>% Change</u> |
|-------------------------------------|---------------------|---------------------|-------------------|-----------------|
| Salaries and Wages - Administration | \$ 324,631 | \$ 354,764 | \$ (30,133) | -8.5% |
| Fringe Benefits - Administration | 126,710 | 108,770 | 17,940 | 16.5% |
| Insurance | 72,562 | 91,975 | (19,413) | -21.1% |
| Legal and Audit Fees | 14,125 | 15,801 | (1,676) | -10.6% |
| Contracted Services | 63,847 | 52,911 | 10,936 | 20.7% |
| Office Supplies | 18,176 | 18,353 | (177) | -1.0% |
| Postage | 14,962 | 11,689 | 3,273 | 28.0% |
| Travel and Trips to Seminars | 5,881 | 5,457 | 424 | 7.8% |
| Permits and Fees | 8,184 | 7,622 | 562 | 7.4% |
| Miscellaneous Expenses | 9,536 | 9,485 | 51 | 0.5% |
| Plant Maintenance & Operations | 806,359 | 687,855 | 118,504 | 17.2% |
| Maintenance & Operations Personnel | 866,379 | 741,713 | 124,666 | 16.8% |
| Vehicle Maintenance & Operations | <u>21,147</u> | <u>17,818</u> | <u>3,329</u> | 18.7% |
| Total other operating expenses | <u>\$ 2,352,499</u> | <u>\$ 2,124,213</u> | <u>\$ 228,286</u> | 10.70% |

Personnel - Administration and Maintenance & Operations: The decrease in salaries and wages of the administration personnel in 2022 was mainly due to personnel changes. The increase in maintenance and Operations personnel costs was primarily due to staffing changes. The increase in fringe benefits, (administration and maintenance and operations) was primarily due to the decrease in the pension adjustment in 2022 because of the change in the pension assets and liabilities.

Contracted Services: The increase was due to the increase in the costs of digital subscriptions and maintenance in 2022.

Postage: The increase was mostly due to the increase in postage rates and an increase in the number of sewer users bills.

Plant Maintenance and Operations: The increase was mainly due to the increase in utility expenses and biosolids handling in 2022.

Vehicle Maintenance and Operations: The increase in costs was for the most part due to the increase in fuel costs.

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 2022, the current ratio increased from 3.44 to 4.35. The increase was mainly attributed to the increase in cash, accounts receivable, and prepaid expenses and the reduction of accounts payable in 2022. The coverage ratio slightly decreased from 2.45 to 2.13. This is due to higher interest expenses in 2022 because of the \$4M Revenue Bond and \$8M Bond Anticipation Note.

| | <u>2022</u> | <u>2021</u> |
|--------------------------------|---------------------|---------------------|
| Current Assets | \$ 4,674,087 | \$ 4,562,062 |
| Current Liabilities | \$ 1,073,976 | \$ 1,326,595 |
| Current Ratio | 4.35 | 3.44 |
| Operating Revenue | \$ 3,797,017 | \$ 3,509,063 |
| Interest Income | 36,087 | 12,611 |
| Gross Revenue | 3,833,104 | 3,521,674 |
| Operating Expenses | 3,321,691 | 3,093,600 |
| Less: Depreciation | 969,192 | 969,387 |
| Expenses before Depreciation | 2,352,499 | 2,124,213 |
| Net Available for Debt Service | <u>\$ 1,480,605</u> | <u>\$ 1,397,461</u> |
| Principal Payments | \$ 434,733 | \$ 428,468 |
| Interest Expense | 260,848 | 142,970 |
| Total Debt Service | <u>\$ 695,581</u> | <u>\$ 571,438</u> |
| Net Available for Debt Service | <u>\$ 1,480,605</u> | <u>\$ 1,397,461</u> |
| Total Debt Service | \$ 695,581 | \$ 571,438 |
| Coverage Ratio | 2.13 | 2.45 |

Revenue Stability

Most of the District's operating revenue, 97.56% in 2022 and 99.16% in 2021, comes from sewer user fees. These revenue sources are stable and were relatively unchanged.

Significant Revenues and Expenses of Individual Funds

Operating and Management Fund

Operating revenue increased in 2022 by 8.2% over last year and operating expenses increased by 7.4%. This resulted in net operating income increasing over last year by \$59,863. The increase in revenue was primarily due to the increase in billable water use, increase in the number of sewer users, rate increase, and the new septic revenue.

| | <u>2022</u> | <u>2021</u> | <u>\$ Change</u> | <u>% Change</u> |
|--------------------|--------------------|--------------------|------------------|-----------------|
| Operating Revenue | \$ 3,797,017 | \$ 3,509,063 | \$ 287,954 | 8.2% |
| Operating Expenses | <u>(3,321,691)</u> | <u>(3,093,600)</u> | <u>(228,091)</u> | 7.4% |
| | <u>\$ 475,326</u> | <u>\$ 415,463</u> | <u>\$ 59,863</u> | 14.4% |

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 being discharged to the public sewer. Funds collected will help defray the costs of the present and any future upgrades to the wastewater treatment facility and 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. In 2022, the Equity Buy-In Fee for a single-family dwelling was set at \$5,025 and \$4,875 in 2021. 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>2022</u> | <u>2021</u> | <u>\$ Change</u> | <u>% Change</u> |
|------------------------------|-------------------|-------------------|--------------------|-----------------|
| Sewer Equity Buy In Fees / | | | | |
| Impact Fees, Net | \$ 185,352 | \$ 278,377 | \$ (93,025) | -33.4% |
| Impact Fees' Interest Income | <u>3,482</u> | <u>1,724</u> | <u>1,758</u> | 102.0% |
| Totals | <u>\$ 188,834</u> | <u>\$ 280,101</u> | <u>\$ (91,267)</u> | -32.6% |

There were 54 sewer connections and change of use in 2022 compared to 65 in 2021. In 2022, of the 54 sewer connections, 51 were residential units, and 3 were commercial units.

For those customers that are on a payment plan, revenue is recognized when payment is received. The equity buy in fee revenue is also affected by the amount of prepayments from the vacant lots fee and ready to serve fee which were recorded as revenue at the time they were received by the District and a reduction to the equity buy in fee at the time of sewer line connection.

Capital Reserves Fund

Interest income earned on the fund designated by the board for capital reserves was as follows:

| | <u>2022</u> | <u>2021</u> | <u>\$ Change</u> | <u>% Change</u> |
|-----------------------------------|-------------|-------------|------------------|-----------------|
| Capital Reserves' Interest Income | 4,049 | 2,195 | 1,854 | 84.5% |

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, which includes the debt service and transfer to the capital fund, 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 January or February 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. The reimbursement will be funded by the special funds. 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, net utility property increased by \$2,171,824 from \$27,958,302 to \$30,130,126. The accumulated depreciation increased by \$879,132, net of dispositions.

Long Term Debt

The total bonded debt, including the bond anticipation note, (both long-term debt and current portion) activity of 2022 is detailed below:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|---------------|--------------------------|------------------|-------------------|-----------------------|
| Bonds payable | \$ 13,245,104 | \$ 2,272,676 | \$ (434,733) | \$ 15,083,047 |

Currently Known Facts and Decisions

The construction of the headworks upgrade was completed in 2022. The District obtained a bond anticipation note of \$8,000,000 in 2019 to fund the headworks upgrade. The District is drawing down the proceeds in installments and the accumulated drawdowns as of the yearend 2022 totaled \$6,830,506. The bond anticipation note was converted into a long-term debt in February 2023 with a new loan amount of \$7,113,981.

In 2022, the District received the proceeds of the \$4,000,000 revenue bond. This will fund the upgrades of the Doane's Wharf Pumping Station, Wells Road Force Main, and the biological nitrogen removal treatment system design. The Wells Road Force Main project was completed in 2022. The rest of the projects are expected to be completed in 2023.

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 Christopher J. Gallant, P.E., 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>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 3,759,304 | \$ 3,579,006 |
| Cash Held by Third Party | 105,785 | 305,747 |
| Accounts Receivable | 683,315 | 617,324 |
| Prepaid Expenses | <u>125,683</u> | <u>59,985</u> |
| Total Current Assets | 4,674,087 | 4,562,062 |
| Special Funds - Internally Restricted and Board Designated: | | |
| Cash and Investments | 5,280,435 | 5,932,954 |
| Utility Property: | | |
| Operating Property | 45,514,998 | 35,813,528 |
| Accumulated Depreciation | <u>(15,814,185)</u> | <u>(14,935,053)</u> |
| | 29,700,813 | 20,878,475 |
| Work In Progress | <u>429,313</u> | <u>7,079,827</u> |
| Net Utility Property | <u>30,130,126</u> | <u>27,958,302</u> |
| Other Assets | | |
| Net Pension Asset | <u>-</u> | <u>32,682</u> |
| TOTAL ASSETS | 40,084,648 | 38,486,000 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pensions | 138,754 | 177,371 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 224,909 | 790,900 |
| Accrued Liabilities | 20,050 | 32,062 |
| Accrued Interest | 117,834 | 58,030 |
| Current Portion of Long-Term Debt (Includes Current Portion of Deferred Bond Premiums of \$10,108) | <u>711,183</u> | <u>445,603</u> |
| Total Current Liabilities | 1,073,976 | 1,326,595 |
| Long-Term Liabilities | | |
| Bonds Payable (Includes Long-term portion of Deferred Bond Premiums of \$111,735) | 14,493,707 | 12,932,214 |
| Accrued Compensated Absences | 131,412 | 133,028 |
| Net Pension Liability | <u>263,632</u> | <u>-</u> |
| Total Long-Term Liabilities | <u>14,888,751</u> | <u>13,065,242</u> |
| TOTAL LIABILITIES | <u>15,962,727</u> | <u>14,391,837</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pensions | 118,383 | 459,830 |
| NET POSITION | | |
| Net Investment in Capital Assets | 15,031,021 | 14,886,232 |
| Restricted | 105,785 | 305,747 |
| Unrestricted | <u>9,005,486</u> | <u>8,619,725</u> |
| TOTAL NET POSITION | <u>\$ 24,142,292</u> | <u>\$ 23,811,704</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>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Sewer Charges, Net of Abatements | \$ 3,704,301 | \$ 3,479,692 |
| Other Sewer Services | <u>92,716</u> | <u>29,371</u> |
| Total Operating Revenues | 3,797,017 | 3,509,063 |
| OPERATING EXPENSES | | |
| General and Administration | 658,614 | 676,827 |
| Plant Maintenance and Operation | 806,359 | 687,855 |
| Maintenance and Operating Personnel Costs | 866,379 | 741,713 |
| Vehicle Maintenance and Operation | 21,147 | 17,818 |
| Depreciation Expense | <u>969,192</u> | <u>969,387</u> |
| Total Operating Expenses | <u>3,321,691</u> | <u>3,093,600</u> |
| NET OPERATING INCOME | 475,326 | 415,463 |
| NON-OPERATING REVENUES OR (EXPENSES) | | |
| Interest Income (Undesignated) | 28,556 | 8,692 |
| Special Funds' Interest Income | 7,531 | 3,919 |
| Interest Expense | (260,848) | (142,970) |
| Bond Issuance Costs | - | (68,338) |
| Loss on Disposal of Assets | <u>(105,329)</u> | <u>-</u> |
| Net Non-operating Revenues or (Expenses) | <u>(330,090)</u> | <u>(198,697)</u> |
| INCOME BEFORE CONTRIBUTIONS | 145,236 | 216,766 |
| CONTRIBUTIONS | | |
| Sewer Equity Buy In Fees/ Impact Fees, Net | <u>185,352</u> | <u>278,377</u> |
| CHANGE IN NET POSITION | 330,588 | 495,143 |
| NET POSITION - AT BEGINNING OF YEAR | <u>23,811,704</u> | <u>23,316,561</u> |
| NET POSITION - AT END OF YEAR | <u>\$ 24,142,292</u> | <u>\$ 23,811,704</u> |

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

| | 2022 | 2021 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received from Customers | \$ 3,731,025 | \$ 3,525,138 |
| Cash Payments to Suppliers and Contractors | (1,717,162) | (872,563) |
| Cash Payments to Employee Services | (955,326) | (917,684) |
| Net Cash Provided by Operating Activities | 1,058,537 | 1,734,891 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Repayment of Long-Term Debt | (434,733) | (428,468) |
| Interest Payments | (211,914) | (101,637) |
| \$4M Bond Issue Costs | - | (68,338) |
| Sewer Equity Buy In Fees/ Impact Fees Collected, Net | 185,352 | 278,377 |
| Cash Drawn from Third Party | 2,472,638 | 8,168,754 |
| Expenditures for Utility Property | (3,578,188) | (4,904,656) |
| Net Cash Used by Financing Activities | (1,566,845) | 2,944,032 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Income Received | 36,087 | 12,611 |
| Net Cash Provided by Investing Activities | 36,087 | 12,611 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (472,221) | 4,691,534 |
| CASH AND CASH EQUIVALENTS - AT BEGINNING OF YEAR | 9,511,960 | 4,820,426 |
| CASH AND CASH EQUIVALENTS - AT END OF YEAR | <u>\$ 9,039,739</u> | <u>\$ 9,511,960</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION | | |
| Cash Components: | | |
| Internally Restricted and Board Designated | \$ 5,280,435 | \$ 5,932,954 |
| Operating | 3,759,304 | 3,579,006 |
| | <u>\$ 9,039,739</u> | <u>\$ 9,511,960</u> |

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

| | 2022 | 2021 |
|--|--------------|--------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Net Operating Income | \$ 475,326 | \$ 415,463 |
| Adjustments not affecting cash: | | |
| Depreciation | 969,192 | 969,387 |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease in: | | |
| Accounts Receivable | (65,992) | 16,075 |
| Prepaid Expenses | (65,698) | (16,737) |
| Deferred Outflows | 38,617 | (76,868) |
| Net Pension Asset | 32,682 | - |
| (Decrease) Increase in: | | |
| Accounts Payable | (234,147) | 388,259 |
| Accrued Liabilities | (13,628) | 10,522 |
| Net Pension Liability | 263,632 | (414,314) |
| Deferred Inflows | (341,447) | 443,104 |
| Net Cash Provided by Operating Activities | \$ 1,058,537 | \$ 1,734,891 |

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2022

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, 2022

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 non-operating revenues or expenses.

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 \$271 and \$535 for 2022 and 2021, 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 \$138,754 of which \$102,502 is related to a pension obligation as of June 30, 2022, and \$36,252 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 \$118,383 related to a pension obligation as of June 30, 2022.

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, 2022, the latest measurement data available.

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2022

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.

| | 2022 | 2021 |
|----------------------------------|---------------|---------------|
| Capital assets | \$ 45,944,311 | \$ 42,893,355 |
| Accumulated depreciation | (15,814,185) | (14,935,053) |
| Bonds and notes payable | (15,099,105) | (13,072,070) |
| Net investment in capital assets | \$ 15,031,021 | \$ 14,886,232 |

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. In addition to the sewer equity buy-in fees and impact fees and the capital reserve amounts listed below, the Trustees have internally restricted amounts set aside for the plant design (\$161,664), the headworks upgrade (\$98,575), and the pump stations upgrade (\$3,137,425). As of December 31, 2022, and 2021, the other 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 2022 and 2021 was \$185,352 and \$278,377, respectively.

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2022

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

Special Fund - Sewer Equity Buy-In Fees and Impact Fees (Continued)

The unexpended portion of collected equity buy in fees and facility impact fees is segregated and internally restricted to use for utility property additions and improvements, and are invested as follows at December 31, 2022 and 2021:

| | 2022 | 2021 |
|--------------------------------|------------|------------|
| Cash | \$ 940,665 | \$ 861,435 |
| Restricted investment earnings | \$ 3,482 | \$ 1,724 |

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, 2022 and 2021:

| | 2022 | 2021 |
|--------------------------------|------------|------------|
| Cash | \$ 942,106 | \$ 901,637 |
| Restricted investment earnings | \$ 4,049 | \$ 2,195 |

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.

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, 2022, the District reported cash of \$9,039,739 with a bank balance of \$9,099,905. Of the District's bank balances, \$5,762,451 was covered by FDIC insurance and \$3,337,454 was exposed to custodial credit risk. Of the balance exposed to custodial credit risk, all of it was collateralized by securities held by the pledging bank, but not in the District's name.

Cash Held by Third Parties

In 2014, the Trustees voted to upgrade certain sections of the plant. The District borrowed \$2,750,000 for that project from Maine Municipal Bond Bank (MMBB) from which they have drawn down \$2,644,215. The balance of the funds belonging to the District is held by MMBB (the custodian). These amounts are invested by the custodian in US government obligations. Management believes the custodial credit risk of these assets to be low. As of December 31, 2022, the carrying value of amounts held by the MMBB was \$105,785. 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, 2022

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals/ Transfers</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|---------------------------------|-----------------------|
| <i>Utility Property Not Being Depreciated</i> | | | | |
| Land and easements | \$ 111,506 | \$ - | \$ - | \$ 111,506 |
| Work in progress | <u>7,079,827</u> | <u>(6,650,514)</u> | - | <u>429,313</u> |
| Totals | 7,191,333 | (6,650,514) | - | 540,819 |
| <i>Utility Property Being Depreciated</i> | | | | |
| Buildings | 20,182,110 | 8,938,838 | (195,389) | 28,925,559 |
| Pump station | 8,095,317 | 651,156 | - | 8,746,473 |
| Sewers and forced mains | 6,928,815 | 306,865 | - | 7,235,680 |
| Transportation equipment | 344,164 | - | - | 344,164 |
| Other equipment | <u>151,616</u> | <u>-</u> | <u>-</u> | <u>151,616</u> |
| Totals | <u>35,702,022</u> | <u>9,896,859</u> | <u>(195,389)</u> | <u>45,403,492</u> |
| Total Utility Property Cost | 42,893,355 | 3,246,345 | (195,389) | 45,944,311 |
| Accumulated depreciation | <u>(14,935,053)</u> | <u>(969,192)</u> | <u>90,060</u> | <u>(15,814,185)</u> |
| Net utility property | <u>\$ 27,958,302</u> | <u>\$ 2,277,153</u> | <u>\$ (105,329)</u> | <u>\$ 30,130,126</u> |

The District's depreciation expense for the years ended December 31, 2022 and 2021 was \$969,192 and \$969,387 respectively. The depreciation expenses of utility property acquired by capital grants and by donation are included in the above amount.

NOTE 4: LONG-TERM DEBT

Long-term debt is summarized as follows at December 31, 2022:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amounts Due within One Year</u> |
|------------------------|------------------------------|---------------------|---------------------|-----------------------|--|
| Bonds payable | \$ 13,245,104 | \$ 2,272,676 | \$ (434,733) | \$ 15,083,047 | \$ 701,075 |
| Deferred Bond Premiums | <u>132,713</u> | <u>-</u> | <u>(10,870)</u> | <u>121,843</u> | <u>10,108</u> |
| Totals | <u>\$ 13,377,817</u> | <u>\$ 2,272,676</u> | <u>\$ (445,603)</u> | <u>\$ 15,204,890</u> | <u>\$ 711,183</u> |

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2022

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> | <u>U.S.Bank National Association</u> | <u>Maine Municipal Bond Bank</u> |
|----------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|--|--------------------------------------|
| Bond Type | CWSRF | CWSRF | CWSRF | Revenue | Revenue | CWSRF |
| Issue Date | 9/22/2004 | 7/1/2005 | 11/13/2015 | 5/1/2017 | 12/1/2021 | 2/15/2023 |
| Maturity Date | 10/1/2024 | 4/1/2025 | 11/1/2035 | 7/1/2037 | 7/1/2052 | 10/1/2052 |
| Annual Interest Rate | 1.500% | 1.460% | 1.000% | 3.0% to 4.0% | 2.0% to 4.0% | 1.750% |
| Original Issue Amount | \$ 2,000,000 | \$ 2,140,000 | \$ 2,750,000 | \$ 2,400,000 | \$ 4,000,000 | \$ 7,113,890 |
| | | | From \$170,307 | From \$75,000 to | From \$90,000 to | From \$182,330 |
| Annual Principal Payments | \$ 100,000 | \$ 107,000 | to \$205,750 | \$160,000 | \$185,000 | to \$301,547 |
| Balance, December 31, 2022 | \$ 200,000 | \$ 321,000 | \$ 1,781,541 | \$ 1,950,000 | \$ 4,000,000 | \$ 6,830,506 |

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

| <u>Year</u> | <u>Principal Payment</u> | <u>Interest Payment</u> | <u>Total</u> |
|-------------|------------------------------|-----------------------------|----------------------|
| 2023 | \$ 701,075 | \$ 272,074 | \$ 973,149 |
| 2024 | 715,427 | 302,551 | 1,017,978 |
| 2025 | 624,848 | 288,119 | 912,967 |
| 2026 | 532,335 | 274,650 | 806,985 |
| 2027 | 541,894 | 261,494 | 803,388 |
| 2028 - 2032 | 2,875,291 | 1,111,939 | 3,987,230 |
| 2033 - 2037 | 2,875,040 | 791,713 | 3,666,753 |
| 2038 - 2042 | 1,865,934 | 542,730 | 2,408,664 |
| 2043 - 2047 | 2,067,493 | 352,353 | 2,419,846 |
| 2048 - 2052 | <u>2,283,710</u> | <u>138,169</u> | <u>2,421,879</u> |
| Totals | <u>\$ 15,083,047</u> | <u>\$ 4,335,792</u> | <u>\$ 19,418,839</u> |

On February 1, 2019, the District obtained a Bond Anticipation Note from the Maine Municipal Bond Bank in the amount of \$8,000,000 to fund the headworks upgrade. The District is able to take down the proceeds in installments. At December 31, 2022, a total of \$6,830,509 was withdrawn from it. The District shall pay interest on the amount it receives from the date of each draw until the note is refinanced and converted into a long-term debt.

Interest expense for 2022 and 2021 was \$260,848 and \$142,970, respectively.

Deferred Bond Premiums

When issuing long-term debt, bond premiums received at the time of sale are capitalized and amortized over the term of the bond, decreasing interest expense in subsequent years. The total reduction of interest expense for years ended 2022 and 2021 was \$10,870 and \$5,297, respectively. Deferred bond premiums remaining as of December 31, 2022 and 2021, were \$121,843 and \$132,713, respectively.

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2022

NOTE 5: COMPENSATED ABSENCES

The District's employee benefits include two types of compensated absences, accrued sick time and accrued vacation time. Employees with 5 or more years of continuous service qualify for accrued sick time payouts upon retirement, with payments equal to 50% of accumulated sick time for service between 5 and 10 years and payouts of 100% of accumulated sick time for employees with more than 10 years of continuous service up to a maximum of 960 hours. The total accrued sick time and accrued vacation time liability as of December 31, 2022 and 2021 was \$131,412 and \$133,028, respectively.

NOTE 6: 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, 2022, there were 311 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 1.52%.

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.maineipers.org/Publications/Publications.htm#Annual Reports>

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2022

NOTE 6: 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, 2022, 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, 2022. 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.

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, 2022, the District's proportion was 0.099170%, which was a decrease of .002528% from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the District recognized A pension expense credit of \$6,516. At December 31, 2022, 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 | \$ 48,994 | \$ - |
| Change of assumptions | 53,508 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 110,648 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 7,735 |
| District contributions subsequent to the measurement date | 36,252 | - |
| Total | \$ 138,754 | \$ 118,383 |

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, 2022

NOTE 6: EMPLOYEE RETIREMENT PLANS (Continued)

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

District's contributions to the Plan subsequent to the measurement date, totaling \$36,252, are reported as deferred outflows of resources related to pensions and will be recognized in pension expense in the next fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | | PLD Plan |
|-------|----|----------|
| 2023 | \$ | 27,859 |
| 2024 | | (26,969) |
| 2025 | | (68,740) |
| 2026 | | 51,969 |
| Total | \$ | (15,881) |

Actuarial Methods and Assumptions

The collective total pension liability for the Plans was determined by an actuarial valuation as of June 30, 2022 and 2021, 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, 2022

NOTE 6: RETIREMENT PLANS (Continued)

Actuarial Methods and Assumptions (Continued)

Amortization (Continued)

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2022 and June 30, 2021 are as follows:

Investment Rate of Return – 6.50% for years ended June 30, 2022 and June 30, 2021, compounded annually.

Inflation Rate – 2.75% per annum for the years ended June 30, 2022 and 2021.

Salary Increases, Merit and Inflation – members of the PLD Consolidated Plan, 2.75% to 11.48% for the years ended June 30, 2022 and June 30, 2021.

Mortality Rates – For the years ended June 30 2022 and June 20, 2021, based on the 2010 Public Plan General Benefits-Weighted Healthy Retiree Mortality Table, for males and females, projected generationally using the RPEC_2021 model;

Cost of Living Benefit Increases – 1.91% for the year ended June 30, 2022 and 2021 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, 2022 are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|---|
| Public equities | 6.00% |
| US Government | 2.30% |
| Private equity | 7.60% |
| Real assets: | |
| Real estate | 5.20% |
| Infrastructure | 5.30% |
| Natural resources | 5.00% |
| Traditional credit | 3.20% |
| Alternative credit | 7.40% |
| Diversifiers | 5.90% |

Kennebunk Sewer District
Notes to the Basic Financial Statements
December 31, 2022

NOTE 6: 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 6.50% for 2022 and 2021. 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 Asset to Changes in the Discount Rates

The following table show how the collective net pension assets, as of June 30, 2022, would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate:

| | <u>1% Decrease</u> (5.50%) | <u>Current</u> Discount Rate (6.50%) | <u>1% Increase</u> (7.50%) |
|-------------------------------|-------------------------------|--|-------------------------------|
| PLD Plan | | | |
| Net pension liability (asset) | \$ <u>778,843</u> | \$ <u>263,632</u> | \$ <u>(162,209)</u> |

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 4.70% 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's contributions on behalf of the participants is discretionary. Currently, the District contributes 4.70% to the plan on behalf of the participating employee.

NOTE 7: 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, 2022

NOTE 8: 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, 2022.

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 9: SUBSEQUENT EVENTS

The bond anticipation note that the District obtained in 2019 was converted into a long-term debt in February 2023 with an annual interest rate of 1.75% payable over 30 years. The new bond payable amount is \$7,113,981.

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through April 5, 2023, 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 (asset) | 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 |
|------------------------------|---|---|---|--|---|
| 2022 | 0.099170% | \$ 263,632 | \$ 719,882 | 36.62% | 93.26% |
| 2021 | 0.101698% | (32,682) | 716,988 | -4.56% | 100.86% |
| 2020 | 0.104279% | 414,314 | 691,062 | 59.95% | 88.35% |
| 2019 | 0.109803% | 335,625 | 643,842 | 52.13% | 90.62% |
| 2018 | 0.100596% | 275,308 | 610,329 | 45.11% | 91.14% |
| 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

| 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 |
|------------------------------|--|---|--|---|--|
| 2022 | \$ 73,788 | \$ 73,788 | - | \$ 719,882 | 10.25% |
| 2021 | 73,133 | 73,133 | - | 716,988 | 10.20% |
| 2020 | 72,561 | 72,561 | - | 691,062 | 10.50% |
| 2019 | 64,384 | 64,384 | - | 643,842 | 10.00% |
| 2018 | 59,910 | 59,910 | - | 610,329 | 9.82% |
| 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
Schedules of Operating Expenses
For the Years Ended December 31,

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| GENERAL AND ADMINISTRATION | | |
| Salaries and Wages | \$ 324,631 | \$ 354,764 |
| Fringe Benefits | 126,710 | 108,770 |
| Insurance | 72,562 | 91,975 |
| Legal and Audit Fees | 14,125 | 15,801 |
| Contractual Services | 63,847 | 52,911 |
| Office Supplies | 18,176 | 18,355 |
| Postage | 14,962 | 11,689 |
| Travel and Trips to Seminars | 5,881 | 5,457 |
| Permits and Fees | 8,184 | 7,622 |
| Equipment Maintenance Contracts and Repairs | 4,754 | 4,409 |
| Bank Charges | 110 | 105 |
| Advertising | 271 | 535 |
| Dues and Subscriptions | 4,401 | 4,434 |
| Total General and Administration | <u>658,614</u> | <u>676,827</u> |
| PLANT MAINTENANCE AND OPERATION | | |
| Utilities | 235,280 | 192,769 |
| Maintenance and Repairs | 192,917 | 195,298 |
| Chemical Supplies | 81,172 | 98,366 |
| Sludge Spreading and Analysis | 196,238 | 123,670 |
| General and Miscellaneous | 59,441 | 51,234 |
| Tools and Supplies | 14,591 | 2,431 |
| Telephone and Pagers | 5,140 | 5,405 |
| Uniforms | 7,647 | 7,551 |
| Safety Equipment and Training | 9,879 | 9,486 |
| Waste Disposal | 4,054 | 1,645 |
| Total Plant Maintenance and Operation | <u>806,359</u> | <u>687,855</u> |
| MAINTENANCE AND OPERATING PERSONNEL COSTS | | |
| Salaries and Wages | 623,150 | 567,667 |
| Fringe Benefits | 243,229 | 174,046 |
| Total Maintenance and Operating Personnel Costs | <u>866,379</u> | <u>741,713</u> |
| VEHICLE MAINTENANCE AND OPERATION | | |
| Fuel, Tires and Lubrication | 17,596 | 11,013 |
| Maintenance and Repairs | 3,551 | 6,805 |
| Total Vehicle Maintenance and Operation | <u>21,147</u> | <u>17,818</u> |
| DEPRECIATION EXPENSE | <u>969,192</u> | <u>969,387</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 3,321,691</u> | <u>\$ 3,093,600</u> |

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

| | <u>2022</u> | <u>2021</u> |
|---------------------------------|------------------|------------------|
| INTEREST INCOME | | |
| Internally Restricted Reserves: | | |
| Impact Fees | \$ 3,482 | \$ 1,724 |
| Capital Reserves | <u>4,049</u> | <u>2,195</u> |
| Total | 7,531 | 3,919 |
| Operating Funds: | | |
| Interest Income - Undesignated | <u>28,556</u> | <u>8,692</u> |
| Total Investment Earnings | <u>\$ 36,087</u> | <u>\$ 12,611</u> |

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

| | | <u>2022</u> | <u>2021</u> |
|---|----------------------------|-------------------------|-------------------------|
| CURRENT ASSETS | | | |
| Cash and Cash Equivalents | Bank | | |
| Change Fund | | \$ 100 | \$ 100 |
| Petty Cash - Administration | | 100 | 100 |
| Operating and Maintenance - Checking | Kennebunk Savings Bank | 56,917 | 47,877 |
| Operation and Maintenance - ICS Sweep | Kennebunk Savings Bank | 2,101,015 | 2,273,712 |
| Rate Stabilization Fund | Kennebunk Savings Bank | <u>1,601,172</u> | <u>1,257,217</u> |
| Total Current Assets - Cash and Cash Equivalents | | 3,759,304 | 3,579,006 |
| SPECIAL FUNDS - INTERNALLY RESTRICTED AND BOARD DESIGNATED | | | |
| Cash and Cash Equivalents | Bank | | |
| Cash - Equity Buy in Fee | Kennebunk Savings Bank | 913,336 | 836,004 |
| Turnpike Zone - Impact Fees | Kennebunk Savings Bank | 12,993 | 11,127 |
| 2015 SRF Infrastructure Bond | Kennebunk Savings Bank | 161,664 | 124,095 |
| Certificate of Deposit | Saco and Biddeford Savings | 14,336 | 14,304 |
| Capital Reserve | Kennebunk Savings Bank | 942,106 | 901,637 |
| Headworks Upgrade | Kennebunk Savings Bank | 98,575 | 95,015 |
| 2021 WWTP Improvement - ICS Sweep | Kennebunk Savings Bank | <u>3,137,425</u> | <u>3,950,772</u> |
| Total Special Funds - Cash and Cash Equivalents | | <u>5,280,435</u> | <u>5,932,954</u> |
| TOTAL CASH AND INVESTMENTS | | <u>\$ 9,039,739</u> | <u>\$ 9,511,960</u> |