

**Kennebunk,
Kennebunkport
and Wells
Water District**

2006 Annual Report

KENNEBUNK, KENNEBUNKPORT AND WELLS WATER DISTRICT

85th Annual Report

January 1, 2006 – December 31, 2006

92 Main Street, P.O. Box 88
Kennebunk, ME 04043
207-985-3385

TRUSTEES AND OFFICERS



From left, Trustee Tom Oliver (Wells), Superintendent Norm Labbe , Trustee Jim Burrows (Kennebunkport), President Bob Emmons (Kennebunk), Trustee Richard Littlefield (Ogunquit), Assistant Superintendent Scott Minor and Treasurer Wayne Brockway

Report of the Kennebunk, Kennebunkport and Wells Water District

The Kennebunk, Kennebunkport and Wells Water District is a quasi-municipal water utility that was established in 1921 by an act of the Maine State Legislature. The District serves an area that encompasses the towns of Kennebunk, Kennebunkport, Wells, Ogunquit and small portions of Arundel, Biddeford and York. The area includes a population which varies seasonally from about 28,000 to about 100,000. It is directed by a four-member Board of Trustees, each elected from the towns of Kennebunk, Kennebunkport, Wells and Ogunquit.

For the Water District, 2006 was a successful year, marked by organizational improvements, the completion of several critical projects and by meeting the challenge of sustained development pressures. For several years, the District has experienced an annual customer growth rate of nearly 2%, or approximately 200 new customers per year. However, due in part to the recent proliferation of seasonal cottages, the District added 366 new customers during 2006.

The District's existing sources of supply provided an adequate amount of water to meet peak seasonal water demands. Due primarily to a cool, wet summer (the second in a row) and to increased water conservation, the total water production for the year of 989 million gallons was 2.9% less than that of 2005 and 4% less than that of 2004. However, our peak day was 6.99 million gallons per day (MGD) as compared to 6.71 MGD in 2005 and 6.34 MGD in 2004. With the ongoing, steady increase in customer base, the District expects that total water demand, in particular during the peak summer season, will increase over the coming years.

Ensuring a long-term, high quality source of water supply remains a top priority. As previously reported, the District is proceeding with the development of additional water supplies. As of the end of 2006, the District has added about 3 MGD of supplemental/seasonal ground water, at a capital cost of less than 75 cents per gallon, which is about half of the typical cost of developing such supplies. The primary reasons for the savings were the use of in-house staff for nearly all engineering and construction functions and effective coordination of subcontractors' activities.

The Southern Maine Regional Water Council (SMRWC), which was formed by seven local water utilities in late 2005, has accomplished several milestones during 2006. In addition to beginning to do business as a non-profit corporation, SMRWC successfully administered a cost-saving bulk chemical purchasing plan and has formed a Mutual Aid agreement among all members. This new organization, in addition to exploring and implementing collaborative programs to save money and to improve customer service, will focus on comprehensive regional water supply planning. Updates on this and other initiatives are available on the District's web site at www.kkw.org.

As a result of recommendations made in an organizational review by our human resources consultant, Dacri and Associates, LLC, on January 1, 2006 Scott Minor was hired as Assistant Superintendent. Scott has 19 years of experience in the water utility industry, most recently as General Manager of the Augusta Water District for 10 years. He has already proven to be a great asset to our organization.

An ongoing water filtration plant modernization project is nearing completion. During the past year, the District completed construction of a unique Pumping, Treatment and Recycling facility (PTR). This one-of-a-kind facility, in addition to recycling 100% of all water treatment plant discharges, will enable plant staff to fully integrate all recently developed ground water sources in a manner that is expected to result in chemical cost savings of up to \$40,000 per year. In

addition, the PTR will be able to produce up to 3 MGD of water independently of the existing treatment plant, providing a critical back-up in case of natural or manmade plant emergencies.

On a lighter note, a recent seasonal addition to the front yard of the District's office building has made a splash, in particular with children and their pets. As a result of The Brick Store Museum lending the District the original 1900 vintage Main Street Kennebunk horse watering trough and with some imaginative work by District staff, the front yard now also boasts a hand pump and bucket, which appears to continually replenish the water in the trough.

The following is a partial list of distribution projects funded and installed by the District during 2006. These projects typically relate to our goal of optimizing water quality and system reliability by replacing outdated and substandard facilities.

Arundel Road (Town House Road), Kennebunkport: Replaced 1,120 feet of old 4" cast iron water main with 16" ductile iron main (fire suppression and water quality improvement).

Route 1, Kennebunk: Replaced 685 feet of old 16" cast iron water main with 20" ductile iron main (the 16" main was then reused as part of the PTR project).

Pine Hill South, Ogunquit and York: Replaced 1800' of 2" galvanized summer main with 3" polyethylene main (replacement of leak-prone main).

First Street, Biddeford Pool: Installed 320 feet of 8" of ductile iron main (fire suppression and water quality improvement).

In addition to the above projects, during the past year individuals and developers funded numerous water main extensions totaling over 11,000 feet of new water mains.

Drinking water quality remains a top priority and the District is proud to report that all State and Federal water quality standards were met during 2006. By maintaining a well-trained staff and continually upgrading its process equipment and control systems, the District continues to assure a high degree of reliability in the quality of its drinking water.

The Trustees of the District appreciate the continuing effort and dedication of their employees, as well as the support and cooperation their customers, area contractors and State and local municipal officials.

Respectfully submitted,

James E. Burrows, President
Robert A. Emmons, Vice President
Thomas P. Oliver, Trustee
Richard H. Littlefield, Trustee
Normand R. Labbe, Superintendent
Scott J. Minor, Assistant Superintendent
Wayne A. Brockway, Treasurer

**KENNEBUNK, KENNEBUNKPORT,
AND WELLS WATER DISTRICT
FINANCIAL REPORT**



DECEMBER 31, 2006 and 2005

**KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
FINANCIAL REPORT
DECEMBER 31, 2006 and 2005**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	
Introduction of the Financial Statements	
Comparison of Financial Statements for Current and Prior Years	
Overall Financial Position and Results of Operations	2 - 9
FINANCIAL STATEMENTS	
Exhibit A - Statements of Net Assets	10
Exhibit B - Statements of Revenues, Expenses and Changes in Net assets	11
Exhibit C - Statements of Cash Flows	12
NOTES TO FINANCIAL STATEMENTS	13 - 23
SUPPLEMENTARY INFORMATION	
Schedule 1 - Schedules of Changes in Net Assets	24
Schedule 2 - Schedules of Operating Expenses	25 - 26



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Kennebunk, Kennebunkport, and Wells Water District
Kennebunk, Maine

We have audited the accompanying statements of net assets of Kennebunk, Kennebunkport, and Wells Water District as of December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and the statements of cash flows for the years then ended. These financial statements are the responsibility of the District's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kennebunk, Kennebunkport, and Wells Water District as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying supplemental information presented in Schedule 1 and 2 is not necessary for a fair presentation of the financial statements, but is presented as additional financial data. This information has been subjected to the same tests and other auditing procedures applied in the audit of the financial statements referred to above and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Berry, Fowles & Co.

Certified Public Accountants
February 23, 2007

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Trustees:

Thomas P. Oliver, President
 James E. Burrows, Vice President
 Richard H. Littlefield
 Robert A. Emmons

Kennebunk, Kennebunkport and Wells Water District

Normand R. Labbe, Superintendent
 Scott J. Minor, Assistant Superintendent
 Wayne A. Brockway, Treasurer

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Kennebunk, Kennebunkport and Wells Water District Management's Discussion and Analysis Year Ended December 31, 2006

Introduction of the Financial Statements

Overview of Financial Report

The District was established in 1921 as a quasi-municipal water utility district organized by a special act of the Maine State Legislature to provide and maintain a water treatment and distribution system for the inhabitants of the District. The District serves the Towns of Kennebunk, Kennebunkport, Wells, Ogunquit and portions of Arundel, York and Biddeford. The District is governed by a four member Board of Trustees, one elected from each of the Towns of Kennebunk, Kennebunkport, Wells and Ogunquit. The District is regulated by the Maine Public Utilities Commission, hereinafter called the Maine P.U.C.

The District uses a proprietary fund with two board designated funds. The District's fund is financed and operated in a manner similar to private businesses. The two board designated funds are the water supply protection fund and the system development fund.

This Management 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:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements
- Schedule of Changes in Net Assets
- Schedule of Operating Expenses

Comparison of Financial Statements for Current and Prior Years**Condensed Statement of Net Assets:**

	<u>2006</u>	<u>2005</u>	<u>Difference</u>	
Current Assets	\$ 1,489,728	\$ 1,330,856	\$ 158,872	11.9%
Other Assets	30,488	29,812	676	2.3%
Capital Assets	32,249,567	30,826,087	1,423,480	4.6%
Special Funds	<u>610,731</u>	<u>602,884</u>	<u>7,847</u>	1.3%
Total Assets	34,380,514	32,789,639	1,590,875	4.9%
Current Liabilities	852,375	770,521	81,854	10.6%
Long-term Debt	4,185,054	3,685,273	499,781	13.6%
Other Liabilities	<u>2,234,540</u>	<u>2,118,047</u>	<u>116,493</u>	5.5%
Total Liabilities	7,271,969	6,573,841	698,128	10.6%
Net Assets				
Unrestricted	<u>\$ 27,108,545</u>	<u>\$ 26,215,798</u>	<u>\$ 892,747</u>	3.4%

Current Assets

The increase in current assets by \$158,872 primarily resulted from an increase in cash and cash equivalents and accounts receivable.

The increase of cash and cash equivalents is primarily related to the acquisitions and construction of operating property, offset by proceeds from a 15 year bond. The increase in accounts receivable was due to a combination of customer growth and the timing of seasonal final bills issued during December as compared to 2005. (Please refer to the cash flow statement for details).

Other Assets

Other assets increased by \$676 in 2006. The increase was due to the bond issue costs of \$1,391 related to the 2006 bond issue offset by the current year amortization of \$715.

Capital Assets

Capital assets grew by \$1,423,480 in 2006. That increase consisted of:

	<u>Additions</u>	<u>Retirements</u>	<u>Net Change</u>
Utility property	\$ 767,544	\$ (86,641)	\$ 680,903
Allowance for depreciation	<u>(759,359)</u>	<u>86,555</u>	<u>(672,804)</u>
	<u>\$ 8,185</u>	<u>\$ (86)</u>	8,099
Change in construction work in progress			<u>1,415,381</u>
			<u>\$ 1,423,480</u>

The additions to utility property included \$599,915 of contributed capital. Utility property retirements included \$38,402 in vehicles and equipment and \$48,239 in meters, hydrants and services.

The net increase in construction work in progress was primarily related to the development of a new pumping, treatment and recycling facility and three separate well projects which are all expected to be placed in service by early 2007.

Special Funds

During 2006 Special Funds increased by a net amount of \$7,847. This asset category decreased primarily as a result of a reduction of \$79,100 in the Water Supply Protection Fund due to the procurement of watershed protection land, offset by the Board designated appropriation of \$23,723 as allowed by Maine law.

The current year contribution for Other Post Employment Benefits (or O.P.E.B.) was \$42,805 and was equal to the current year expense provided by the Fund's actuary less actual distributions made during the year. The combined investment income in 2006 for the Water Supply Protection Fund and the System Development Fund was \$20,419 (as compared to \$14,667 in 2005).

Long-term Debt

Long-term debt increased by a net amount of \$499,781 in 2006. The District financed several construction projects during 2006 with a 15 year, \$1,000,000 serial bond from the Maine Bond Bank. The proceeds were used to pay off the \$500,000 interim bond anticipation note incurred in 2006. Regular principal repayments in 2006 were \$418,724.

Current Liabilities

Current liabilities increased by \$81,854 between 2005 and 2006. An increase in the current portion of the long-term liabilities in the amount of \$81,495 accounted for virtually all of this change. Additional changes included an increase in accounts payable of \$1,268 and a decrease in other accrued expenses of \$909.

Other Liabilities

Customer deposits for construction increased by the amount of \$91,066 while the post retirement benefit accrual increased by \$42,805. Deferred credits, which are interest refunds received from bond refinancing, decreased by \$17,378 due to the current year amortization of the deferred credits. The net total increase in other liabilities was \$116,493.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>Difference</u>	
Operating Revenue	\$ 4,906,962	\$ 4,917,351	\$ (10,389)	(.2%)
Depreciation Expense	759,359	740,754	18,605	2.5%
Other Operating Expenses	3,675,038	3,533,137	141,901	4.0%
Net Non-operating Expense	<u>179,733</u>	<u>185,742</u>	<u>(6,009)</u>	(3.2%)
Total Expenses	<u>4,614,130</u>	<u>4,459,633</u>	<u>154,497</u>	3.5%
Change in Net Assets before Contributions	292,832	457,718	(164,886)	(36.0%)
Contributions	<u>599,915</u>	<u>682,479</u>	<u>(82,564)</u>	(12.1%)
Change in Net Assets	892,747	1,140,197	(247,450)	(21.7%)
Beginning Net Assets	<u>26,215,798</u>	<u>25,075,601</u>	<u>1,140,197</u>	4.5%
Ending Net Assets	<u>\$ 27,108,545</u>	<u>\$ 26,215,798</u>	<u>\$ 892,747</u>	3.4%

Operating Revenue

The vast majority (over 94%) of \$4.91 million in 2006 operating revenue comes from two sources: Metered water revenue and public and private fire protection charges.

Metered water revenue (\$3.97 million) - The District's Annual metered customers are billed quarterly. The billing includes a minimum charge (based on the size of their meter) for a minimum amount of cubic feet of water and a charge for each additional hundred cubic feet of water used above the respective minimums. Its Seasonal customers are billed a minimum charge in the spring and billed again in the summer and/or in the fall if consumption exceeds the yearly minimum allowance based upon a separate seasonal rate schedule. Metered water rates are regulated by the State of Maine's Public Utilities Commission. During 2006, metered water revenue decreased by .5% (\$.02 million) due primarily to prolonged periods of unusually wet weather. Customer growth of 3.0% helped offset this decrease.

Public and private fire protection (\$.67 million) - This revenue includes charges to local municipalities for hydrants (public fire) and private/non-municipal organizations for ready to use water capacity for both hydrants and sprinkler systems. Fire protection charges are also regulated by the State of Maine's Public Utilities Commission. Revenue for 2006 increased by 1.6% from \$.66 million in 2005, due to additions of new private fire customers during the year as well as new public fire hydrants.

Depreciation Expense

Depreciation expense went from \$740,754 in 2005 to \$759,359 in 2006, an increase of 2.5%. This increase can be attributed to the general growth in capital assets during 2006.

Other Operating Expense

Non-depreciation operating expense increased from \$3.53 million in 2005 to \$3.67 million in 2006 by 4.0%. The expenses consisted of:

	<u>2006</u>	<u>2005</u>	<u>Difference</u>	
Salaries/wages	\$ 1,504,343	\$ 1,487,294	\$ 17,049	1.1%
Fringe benefits	1,007,744	966,966	40,778	4.2%
Purchased water, power & chemicals	462,795	348,611	114,184	32.8%
Operational & maintenance supplies	258,156	245,457	12,699	5.2%
Legal and audit fees	54,770	101,326	(46,556)	(45.9%)
Contracted services & Equipment Rentals	243,407	234,811	8,596	3.7%
Vehicle maintenance	9,625	25,250	(15,625)	(61.9%)
Bad Debt Expense	1,445	0	1,445	0.0%
Insurance	113,958	105,057	8,901	8.5%
Miscellaneous expenses	<u>18,795</u>	<u>18,365</u>	<u>430</u>	2.3%
	<u>\$ 3,675,038</u>	<u>\$ 3,533,137</u>	<u>\$ 141,901</u>	4.0%

Expense category explanations:

Salaries/wages - This line item represents the amount of salary and wages that were expensed in these years, not the total salary and wages paid to the employees. Portions of the amount of salaries and wages paid to the employees are capitalized, and therefore shown on the Statement of Net Assets. The pay rates for District employees were approximately 3.5% higher in 2006 than 2005.

Employee benefits - The District's portion of health insurance costs increased 9.0% due primarily to increased premium costs. The average cost of the District's portion of the employees' full service plan and POS plan both increased by the same 9.0%. The number of employees insured varies but averages 40 employees in a given month.

Purchased water, power & chemicals - Purchased Power costs increased substantially by (\$85K) over 2005 as a result of higher oil prices. Filtration Plant Chemical costs continued to rise in 2006. This expense increased by (\$28K) over 2005.

Legal and Audit Fees - Legal Fees decreased (\$45K) over 2005 as a result of lower expenses incurred during 2006. More than 50% of these expenses were due to a complaint first filed during 2005 with the Maine Public Utilities Commission concerning a dispute of the District's Metering Policy and System Development Charge with respect to a large new development of seasonal cottages.

Operational and maintenance supplies - This category includes all material & supply expenses related to the operation and maintenance of the Plant, Distribution and Administrative areas and include items such as maintenance and repair parts, lab supplies, tools, office supplies, telephone, waste disposal, safety equipment and training, and miscellaneous expenses. These expenses increased by 5.2% overall from 2005.

Contracted services & Equipment Rentals - This category, which includes a large array of services provided to the District by outside vendors, increased by 3.7% (approx. \$9K). The largest increase involved source related consulting (\$13K). This increase was offset by decreases in filtration plant repairs(\$4K).

Bad Debt Expense - The District uses a five year averaging formula each year to determine the level of bad debt expense required. During 2006 it was necessary to add a small amount to the reserve based on this formula.

Insurance - Insurance costs increased by 8.5% from 2005. In general, insurance rates have begun to stabilize again after rising considerably following the events of September 11, 2001.

Net Non-Operating Expense

This item is primarily made up of \$199,763 of interest expense in addition to utility regulatory fees of \$23,722. These expenses were offset by \$42,217 of Interest Income from all funds

Contributions

Contributions occur when development takes place within the District's service area. The contributions for 2006 and 2005 were:

	<u>2006</u>	<u>2005</u>	<u>Difference</u>	
Main Extensions	\$ 20,000	\$ 0	\$ 20,000	
System Development Charges	461,533	561,896	(100,363)	
Services	60,000	65,090	(5,090)	
Meters	37,758	42,231	(4,473)	
Miscellaneous	20,624	13,262	7,362	
Totals	<u>\$ 599,915</u>	<u>\$ 682,479</u>	<u>\$ (82,564)</u>	<u>(12.1%)</u>

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 2006, the District's current ratio improved slightly from 1.73 to 1.75 while the coverage ratio declined from 2.61 to 2.07. The decrease in the District's coverage ratio in 2006 occurred due largely to the addition of the new bond and also due to the increase in operating expenses.

Current Ratio:

	<u>2006</u>	<u>2005</u>
Current assets	\$ 1,489,728	\$ 1,330,856
Current liabilities	852,375	770,521
Current Ratio	1.75	1.73

Coverage Ratio:

	<u>2006</u>	<u>2005</u>
Operating revenue	\$ 4,906,962	\$ 4,917,351
Interest income	42,217	24,469
Miscellaneous income	<u>5,190</u>	<u>6,694</u>
Gross revenues	4,954,369	4,948,514
Operating expenses	4,434,397	4,273,891
Depreciation	<u>(759,359)</u>	<u>(740,754)</u>
Expenses	3,675,038	3,533,137
Net available - debt service	<u>\$ 1,279,331</u>	<u>\$ 1,415,377</u>
Principal payments	\$ 418,724	\$ 352,231
Interest and amortization expense	<u>199,763</u>	<u>190,301</u>
	<u>\$ 618,487</u>	<u>\$ 542,532</u>
Coverage ratio	2.07	2.61

Revenue Stability

Most of the District's operating revenue, 94% in 2006 and 95% in 2005, comes from water assessments. These revenue sources are stable and were relatively unchanged between 2006 and 2005.

Water rates, both metered and fire protection, are regulated by the State of Maine's Public Utilities Commission (PUC). The PUC sets rates that allow the District to maintain operations and pay debt service. Under the PUC's formula for rates, the District was eligible to file for an increase in 2007. As of 12/31/06, the District had requested an increase of 13.97% in its metered rates and a 2.89% increase in fire protection rates with a proposed effective date of 4/1/2007. This request was subsequently approved.

In addition, the District's metered water customer base is not concentrated. Residential customers, who make up 11,124 of the District's 12,351 water connections (90.1%), provided 55.6% of all operating revenue in 2006 and 56.1% in 2005. Non-residential metered customers represented 25.3% of all operating revenue in 2006 and 25.0% in 2005.

Fire protection (public and private) was 13.6% of all operating revenue for 2006, up slightly from 13.5% in 2005.

Operating revenue by type:

	<u>2006</u>	<u>2006 %</u>	<u>2005</u>	<u>2005 %</u>
Metered - residential	\$ 2,728,916	55.6%	\$ 2,760,406	56.1%
Metered - non-residential	1,238,765	25.3%	1,229,129	25.0%
Public fire	578,304	11.8%	572,616	11.7%
Private fire	90,537	1.8%	85,770	1.8%
Rental revenues	214,951	4.4%	211,574	4.3%
Other operational revenue	<u>55,489</u>	<u>1.1%</u>	<u>57,856</u>	<u>1.1%</u>
Total operating revenue	<u>\$ 4,906,962</u>	<u>100.0%</u>	<u>\$ 4,917,351</u>	<u>100.0%</u>

Significant Changes to Individual Funds**Operating and Management Fund**

Operating revenue decreased .2% in 2006 largely due to unusually wet weather and partially due to increased conservation by residential customers.

Operating expenses (including depreciation) were up 4.0% overall from 2005.

Water Supply Protection Fund**2006 and 2005 Revenue**

	<u>2006</u>	<u>2005</u>	<u>Difference</u>	
Interest Income	<u>\$ 20,414</u>	<u>\$ 14,661</u>	<u>\$ 5,753</u>	<u>39.2%</u>

2006 and 2005 Additions/Withdrawals

	<u>2006</u>	<u>2005</u>	<u>Difference</u>	
Additions to Fund	<u>\$ 23,723</u>	<u>\$ 0</u>	<u>\$ 23,723</u>	
Withdrawals from Fund	<u>\$ 79,100</u>	<u>\$ 85,900</u>	<u>\$ (6,800)</u>	<u>7.9%</u>

System Development Fund**2006 and 2005 Revenue**

	<u>2006</u>	<u>2005</u>	<u>Difference</u>	
Interest Income	<u>\$ 5</u>	<u>\$ 6</u>	<u>\$ (1)</u>	<u>(16.7%)</u>

Other Post Employment Benefits Fund (OPEBF)**2006 and 2005 Fund Balance**

	<u>2006</u>	<u>2005</u>	<u>Difference</u>	
Fund Balance	<u>\$ 163,779</u>	<u>\$ 120,974</u>	<u>\$ 42,805</u>	<u>35.4%</u>

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 for the operating revenues and expenses.

Significant Capital Asset and Long-term Debt Activity

Every year, the Superintendent prepares the capital budget with input from the management staff. He submits this to the Board of Trustees for approval. If a capital expenditure is incurred during the year which is not included in the capital budget, the Superintendent will submit this expenditure to the Board of Trustees for supplemental approval.

Overall, utility property increased by \$681,000 from \$41,324,000 to \$42,005,000. The allowance for depreciation grew by \$673,000 and construction work in progress increased by \$1,415,000. Net utility property increased from \$30.83 million in 2005 to \$32.25 million in 2006.

Long Term Debt

During 2006, the District borrowed \$1.0 million in a 15 year serial bond from the Maine Municipal Bond Bank and retired \$.42 million of long term debt.

The total bonded debt (both the Long-term debt and the current portion) activity for 2006 is detailed below:

<u>Beginning Balance</u>	<u>Issues</u>	<u>Retires</u>	<u>End Balance</u>
<u>\$ 4,103,997</u>	<u>\$ 1,000,000</u>	<u>\$ (418,724)</u>	<u>\$ 4,685,273</u>

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Kennebunk, Kennebunkport and Wells Water District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Wayne A. Brockway, Treasurer KK&W Water District, P.O. Box 88, Kennebunk, ME 04043.

KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
STATEMENTS OF NET ASSETS
DECEMBER 31,

ASSETS	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash and Cash Equivalents	\$ 903,346	\$ 820,805
Accounts Receivable - Trade, Net	236,435	186,593
Accounts Receivable - Other	1,876	1,124
Materials and Supplies Inventory	237,057	231,676
Prepaid Expenses	111,014	90,658
Total Current Assets	<u>1,489,728</u>	<u>1,330,856</u>
Other Special Funds:		
Water Supply Protection Fund	445,958	480,921
System Development Fund	994	989
Other Post Employment Benefits Fund (OPEBF)	163,779	120,974
Total Other Special Funds	<u>610,731</u>	<u>602,884</u>
Utility Plant, in Service	42,005,039	41,324,136
Less: Accumulated Depreciation	<u>(11,466,715)</u>	<u>(10,793,911)</u>
Net Utility Plant, in Service	30,538,324	30,530,225
Construction, Work in Progress	1,711,243	295,862
Net Utility Plant	<u>32,249,567</u>	<u>30,826,087</u>
Other Property:		
Non-Utility Property	22,591	22,591
Deferred Charges:		
Unamortized Debt Discount and Bond Issue Costs	<u>7,897</u>	<u>7,221</u>
TOTAL ASSETS	<u>34,380,514</u>	<u>32,789,639</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	139,650	138,382
Other Accrued Liabilities	212,506	213,415
Current Portion of Long-Term Debt	500,219	418,724
Total Current Liabilities	<u>852,375</u>	<u>770,521</u>
Long-Term Debt	4,185,054	3,685,273
Deferred Credits		
Customer Advances for Construction	1,145,441	1,054,375
Deferred Bond Interest	87,278	104,656
Total Deferred Credits	<u>1,232,719</u>	<u>1,159,031</u>
Post Retirement Benefits	<u>1,001,821</u>	<u>959,016</u>
TOTAL LIABILITIES	<u>7,271,969</u>	<u>6,573,841</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	27,572,191	26,729,311
Unrestricted	<u>(463,646)</u>	<u>(513,513)</u>
TOTAL NET ASSETS	<u>\$ 27,108,545</u>	<u>\$ 26,215,798</u>

The Accompanying Notes are an Integral Part of These Statements.

**KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31,**

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Metered-Residential	\$ 2,728,916	\$ 2,760,406
Metered-Commercial	1,238,765	1,229,129
Public Fire Protection	578,304	572,616
Private Fire Protection	90,537	85,770
Local Municipalities	47,784	45,709
Sales for Resale	237	175
Miscellaneous Service Revenues	7,468	11,972
Rental Revenues	214,951	211,574
Total Operating Revenues	<u>4,906,962</u>	<u>4,917,351</u>
OPERATING EXPENSES		
Operation and Maintenance (Schedule 2)	3,675,038	3,533,137
Depreciation	759,359	740,754
Total Operating Expenses	<u>4,434,397</u>	<u>4,273,891</u>
OPERATING INCOME	472,565	643,460
NON-OPERATING INCOME		
Interest Income	42,217	24,469
Merchandise and Jobbing Income	4,673	6,166
Miscellaneous Non-Utility Income	517	528
Total Non-Operating Income	<u>47,407</u>	<u>31,163</u>
NON-OPERATING EXPENSES		
Interest Expense	199,763	190,301
Taxes Other than Income	23,722	25,338
Amortization of Bond Issue Costs	715	575
Miscellaneous Non-Utility Expense	2,940	691
Total Non-Operating Expenses	<u>227,140</u>	<u>216,905</u>
CHANGE IN NET ASSETS BEFORE CONTRIBUTIONS	292,832	457,718
CONTRIBUTIONS		
Mains, Services, Meters, and Hydrants	<u>599,915</u>	<u>682,479</u>
CHANGE IN NET ASSETS	892,747	1,140,197
NET ASSETS - AT BEGINNING OF YEAR	<u>26,215,798</u>	<u>25,075,601</u>
NET ASSETS - AT END OF YEAR	<u>\$ 27,108,545</u>	<u>\$ 26,215,798</u>

The Accompanying Notes are an Integral Part of These Statements.

**KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 4,862,416	\$ 4,988,057
Cash Payments to Suppliers and Contractors	(2,179,021)	(2,066,981)
Cash Payments to Employee Services	(1,510,593)	(1,542,894)
Net Cash Provided by Operating Activities	<u>1,172,802</u>	<u>1,378,182</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Long -Term Borrowings	1,000,000	1,000,000
Repayment of Long -Term Debt	(418,724)	(752,231)
Transfer of Funds from the Water Supply Protection Fund	55,377	85,900
Transfer of Funds to the Other Post Employment Benefits	(42,805)	(120,974)
Interest Paid	(212,654)	(206,636)
Acquisitions and Construction of Operating Property	(2,182,924)	(1,908,920)
Payment of Bond Issue Costs	(1,390)	(1,146)
Contributions in Aid of Construction Received	691,056	701,730
Net Cash Used by Capital and Related Financing Activities	<u>(1,112,064)</u>	<u>(1,202,277)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income Received	42,217	24,469
Reinvested Investment Income	(20,414)	(14,661)
Net Cash Provided by Investing Activities	<u>21,803</u>	<u>9,808</u>
NET INCREASE IN CASH	82,541	185,713
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>820,805</u>	<u>635,092</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 903,346</u>	<u>\$ 820,805</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 472,565	\$ 643,460
Depreciation	759,359	740,754
Jobbing Income	4,673	6,166
Miscellaneous Non-Utility Income	517	528
Taxes Other than Income	(23,722)	(25,338)
Miscellaneous Non-Utility Expense	(2,940)	(691)
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(50,594)	63,630
Inventory	(5,381)	11,066
Prepaid Expense	(20,356)	(35,213)
(Decrease) Increase in:		
Accounts Payable	1,268	(37,367)
Other Accrued Liabilities	(5,392)	(55,218)
Post Retirement Benefits	42,805	66,405
Net Cash Provided by Operating Activities	<u>\$ 1,172,802</u>	<u>\$ 1,378,182</u>

The Accompanying Notes are an Integral Part of These Statements.

**KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005**

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The summary of significant accounting policies of Kennebunk, Kennebunkport, and Wells Water District, hereinafter called the "District", are 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 was established in 1921 as a quasi-municipal corporation organized by a special act of the Maine State Legislature to provide and maintain a water treatment and distribution system for the inhabitants of the District. The District serves the Towns of Kennebunk, Kennebunkport, Wells, Ogunquit and portions of Biddeford, Arundel and York. The District is governed by a four member Board of Trustees, one elected from each of the Towns of Kennebunk, Kennebunkport, Ogunquit and Wells. The District is regulated by the Maine Public Utilities Commission, hereinafter called the "Maine P.U.C.". The District extends credit to its customers that consist of residential, commercial, and governmental entities at regular terms without collateral.

Basis of Accounting

The financial statements of the District have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units utilizing an enterprise fund to account for its operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the periodic determination of revenues earned, expenses incurred, and net income is desired for purposes of facilitating management control and accountability. The District complies with Governmental Accounting Standards Board Statement No. 20, relating to Governmental Entities that use Proprietary Fund Accounting, and No. 34 related to basic financial statements and management discussion and analysis report.

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 water usage and rental revenues from various wireless cellular companies. Operating expenses include expenses on source and pumping operations and maintenance, water treatment, transportation and distribution operations and maintenance, customer account, administrative and general, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating income and expenses.

Utility Plant

Utility plant is stated at cost and depreciation is calculated on the straight-line method at rates established by the Maine P.U.C. Useful lives pursuant to Chapter 680 of the Maine P.U.C. range from 5 to 100 years. Utility property retirements are charged in total to the accumulated depreciation account when they occur.

Capitalization Policy

Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. The amounts charged to utility plant accounts represent all reasonable and necessary costs, including labor, materials, overhead, equipment charges, and interest costs incurred during the construction period. Routine maintenance and repairs are expensed as incurred.

KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Contributions in Aid of Construction

Pursuant to GASB-33 and 34, contributions in aid are to be reported as income.

Cash and Cash Equivalents

For purposes of the statement of cash flows the District considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Inventory

Materials and supplies inventories are valued at the lower of cost or market using the weighted average cost method.

Unamortized Debt Discount and Expense

Costs incurred to issue long-term bonds together with discounts allowed at the time of purchase are amortized on a straight-line basis over the term of the bond issue. Amortization expenses for 2006 and 2005 were \$715 and \$575, respectively.

Allowance for Bad Debts

The District uses the allowance method to account for uncollectible accounts receivables. The allowance for doubtful accounts is based on prior year's experience and management's analysis of possible bad debts.

Long-term Debt

The fair value of the District's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the District for debt of the same remaining maturities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005**

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Post-Retirement Benefits

In accordance with SFAS No. 106 as amended by No. 132, *Employers' Disclosure about Pensions and Other Post-Retirement Benefits*, the District provides certain health care and sick time benefits for retired employees. Substantially all of the District's employees may become eligible for those benefits if they reach normal retirement age while working for the District. The District started funding the Other Post-retirement Benefits in 2005. The fund balance at December 31, 2006 and 2005 was \$163,779 and \$120,974, respectively. The net periodic benefits cost based on the actuarial report for the years ending 2006 and 2005 were \$112,635 and \$120,974, respectively.

NOTE 2 - DEPOSIT AND INVESTMENTS

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.

Deposits

As of December 31, 2006, the District's bank balance of \$1,108,753 was entirely insured and collateralized by securities held by the District's bank.

Investments

The State of Maine authorizes the District to invest in obligations backed by the U.S. government and agencies, repurchase agreements, and certain corporate stocks and bonds.

The District's MBIA-Class investment is in a local government investment pool designed to make the managing of public funds safer and easier to access. The investment is backed by corporate bonds, U.S. Treasury and Agency bonds, mortgage backed securities and a money market fund.

At December 31, 2006, investments consisted of the following:

	<u>Maturity</u>	<u>Fair Market Value</u>
Mutual Fund Investments	N/A	<u>\$ 422,235</u>

KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

NOTE 3 - OTHER SPECIAL FUNDS

The Board of Trustee's has internally restricted funds for future capital projects. These special fund balances as of December 31, 2006 and 2005 are as follows:

Water Supply Protection Fund

Pursuant to *Sec. 1.35-A M.R.S.A. Sec. 6113* of State of Maine law, a consumer-owned water utility may establish a water supply protection fund to which a sum may be credited annually from surplus funds. The balance of the fund as of December 31, 2006 and 2005 was \$445,958 and \$480,921, respectively. Please refer to *Note 8* for further discussion of this fund.

System Development Fund

In accordance with the Maine P.U.C. regulations, the District is authorized to impose a charge to customers who expand their water capacity. All funds collected must be segregated and maintained in a separate interest bearing account and the revenue dedicated as required by law. The District submits to the Maine P.U.C. a financial activity report annually. The balance of the fund as of December 31, 2006 and 2005 was \$994 and \$989, respectively.

NOTE 4 - ACCOUNTS RECEIVABLE - TRADE

The amount for accounts receivable is shown as net of the allowance for bad debts as follows at December 31,:

	<u>2006</u>	<u>2005</u>
Accounts Receivable	\$ 243,455	\$ 199,070
Less: Allowance for Bad Debts	<u>(7,020)</u>	<u>(12,477)</u>
	<u>\$ 236,435</u>	<u>\$ 186,593</u>

KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

NOTE 5 - UTILITY PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment at June 30:

	Depreciation				
	Rate	Beginning	Additions	Retirement	Ending
Organizational Costs	N/A	\$ 50,709	\$ 0	\$ 0	\$ 50,709
Land	N/A	1,975,542	83,555	0	2,059,097
Structures	2% - 3%	3,181,127	17,706	0	3,198,833
Impounding Dams And Reservoirs	2%	57,290	0	0	57,290
Intake and Suction Mains	1.5%	14,529	2,926	0	17,455
Wells	2%	114,210	1,720	0	115,930
Pumping Equipment	4%	1,316,963	20,022	0	1,336,985
Purification Equipment	2%	1,229,402	4,249	0	1,233,652
Tanks and Standpipes	1.33% - 4%	2,236,413	0	0	2,236,413
Transmission and Distribution Mains	1%	23,319,091	360,540	0	23,679,630
Services	3%	4,132,174	107,707	(950)	4,238,931
Meters	4%	1,343,714	77,073	(46,603)	1,374,184
Fire Hydrants	1.5%	749,428	9,274	(600)	758,102
General Equipment	10%	<u>1,603,544</u>	<u>82,686</u>	<u>(38,402)</u>	<u>1,647,828</u>
		41,324,136	767,458	(86,555)	42,005,039
Less: Accumulated Depreciation		<u>(10,793,911)</u>	<u>(759,359)</u>	<u>86,555</u>	<u>(11,466,715)</u>
Net Property and Equipment		<u>\$ 30,530,225</u>	<u>\$ 8,099</u>	<u>\$ 0</u>	<u>\$ 30,538,324</u>

The depreciation expense for the years ended June 30, 2006 and 2005 was \$759,359 and \$740,754 respectively.

KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

NOTE 6 - LONG-TERM DEBT

Bonded indebtedness and land mortgage payable including amounts due currently, are summarized as follows at December 31, :

Bonds Payable

<u>Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Addition</u>	<u>Retirement</u>	<u>Ending Balance</u>
7.38% - 8.60%	10-87	October 2007	\$ 100,000	\$ 0	\$ (50,000)	\$ 50,000
5.00% - 7.85%	7-88	November 2018	830,663	0	(33,724)	796,939
6.13% - 6.75%	5-91	October 2011	450,000	0	(75,000)	375,000
5.22% - 6.52%	10-94	November 2014	540,000	0	(60,000)	480,000
2.09% - 4.29%	10-03	November 2018	1,083,334	0	(83,334)	1,000,000
3.00% - 5.70%	10-05	November 2020	1,000,000	0	(66,666)	933,334
1.80% - 6.25%	10-06	November 2021	<u>0</u>	<u>1,000,000</u>	<u>0</u>	<u>1,000,000</u>
			4,003,997	1,000,000	(368,724)	4,635,273

Mortgage Payable – Land

N/A	7-01	July 2007	<u>100,000</u>	<u>0</u>	<u>(50,000)</u>	<u>50,000</u>
			<u>\$ 4,103,997</u>	<u>\$ 1,000,000</u>	<u>\$ (418,724)</u>	<u>\$ 4,685,273</u>
		Current	\$ 418,724			\$ 500,219
		Long-term	<u>3,685,273</u>			<u>4,185,054</u>
			<u>\$ 4,103,997</u>			<u>\$ 4,685,273</u>

Annual scheduled maturities of long-term debt are as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2007	\$ 500,219	\$ 247,300
2008	400,458	220,167
2009	400,716	198,054
2010	401,065	175,660
2011	401,444	152,906
2012 - 2016	1,628,568	462,536
2017 - 2021	<u>952,803</u>	<u>79,099</u>
	<u>\$ 4,685,273</u>	<u>\$ 1,535,722</u>

KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

NOTE 7 - DEFERRED CREDIT

At December 31, 2006 and 2005 the deferred credits consisted of:

Customer Advances for Construction

The District receives advances for construction from, or on behalf of, customers. Unused advances are refunded to the customers once the projects are completed. Customers' advances aggregated to \$1,145,441 and \$1,054,375 in 2006 and 2005, respectively.

Deferred Bond Interest

Refunds received from bond refinancing are capitalized and amortized over the remaining life of the bond, decreasing interest expense in the current and subsequent years. The total reduction of interest expense for years ended 2006 and 2005 was \$17,378 and \$19,596, respectively. Deferred bond credit for the years ended 2006 and 2005 was \$87,278 and \$104,656, respectively.

NOTE 8 - APPROPRIATIONS OF NET ASSETS

The District has established appropriated net assets for various purposes. At December 31, 2006 and 2005 appropriated net assets were as follows:

Funded Debt Retired Through Surplus

The District's policy is to appropriate from net income, annually, an amount equal to the principal payment of the bonds. Appropriations at December 31, 2006 were \$368,724. The appropriated funded debt retired through surplus balance at December 31, 2006 and 2005 was \$12,509,825 and \$12,141,101, respectively.

Water Supply Protection Reserve

Pursuant to *Sec. 1.35-A M.R.S.A. Sec. 6113* of State of Maine law, a consumer-owned water utility may establish a water supply protection fund to which a sum may be credited annually from surplus funds. The annual credit may not exceed 5% of the prior year's total revenue. Interest earned in the fund must remain in the fund and be used solely for the purposes of the fund. For the year ended 2006, there was an adjusted net income of \$23,723 and a maximum allowed appropriation of \$244,162. The District appropriated \$23,723 to this fund for year end 2006. A parcel of land was purchased using this fund in the amount of \$79,100. The interest income for the years ended 2006 and 2005 was \$20,414 and \$14,661, respectively. The cumulative balance of the reserve at December 31, 2006 and 2005 was \$445,958 and \$480,921, respectively.

**KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005**

NOTE 8 - APPROPRIATIONS OF NET ASSETS (Continued)

Mortgage Payment Appropriation

The District appropriates from net income annually, an amount equal to the principal payment of the mortgage payable. Appropriations at the year ended 2006 was \$50,000. The appropriated mortgage payment balance at December 31, 2006 and 2005 was \$300,000 and \$250,000, respectively.

NOTE 9 - EMPLOYEE RETIREMENT PLAN

Effective July 1, 1996, the District became a participant of the Maine State Retirement System's (MSRS) cost sharing, multiple employer 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 MSRS.

Under the participating local district (PLD) consolidated retirement plan, participants contribute 6.5% of earnable compensation. The District's contribution to the plan is approximately 3% of earnable compensation. This amount is either increased or decreased by the amortization of the District's Initial Unpooled Unfunded Actuarial Liability (IUUAL) over the next 11 years from July 1, 2006. The District's net contributions for the years ended 2006 and 2005 were \$41,648 and \$41,598, respectively.

Employees participating are eligible for normal retirement upon attaining the age of sixty and five or more years of service or early retirement after completing twenty-five or more years of creditable service. Vested participants are entitled to a retirement benefit equal to a fraction of the average final compensation multiplied by the years of membership service (discounted for early retirement).

NOTE 10 - INCOME TAX STATUS

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

KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

NOTE 11 - 7% TEST

Pursuant to Chapter 670 of the Maine P.U.C. regulations, a water utility must annually determine if, in of any three consecutive years, its adjusted net income have equaled or exceeded 7% of the utility's annual operating expenses. This test is calculated by multiplying 7% of the total utility operating expenses, which are composed of operation and maintenance expenses, depreciation and amortization, and taxes other than income taxes.

For years ended 2006 and 2005 the District's adjusted net income did not equal or exceed 7% of its annual operating expenses.

NOTE 12 - 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 disasters for which the District carries commercial insurance. Based on the coverage provided by commercial insurance purchased, the District is not aware of any material actual or potential claim liabilities that should be recorded at December 31, 2006. Settled claims have not exceeded insurance coverage for any of the past three fiscal years.

Litigation

The District is subject to certain legal proceedings and claims which arise in the normal 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 13 - REVENUE FROM OPERATING LEASES

The District leases various water tank sites to wireless cellular companies under long-term operating leases. The leases are primarily five-year terms with consecutive renewal terms. Rental increases are generally equal to the change in the CPI index during such year. Rental revenues are recognized as earned over the term of the leases. For years ended 2006 and 2005 total rental revenue was \$214,951 and \$211,574, respectively.

Pursuant to PUC regulations, the rental revenues will be treated as operating income.

**KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005**

NOTE 14 - OPERATING LEASE COMMITMENT

The District entered into a five-year agreement to license accounting software, equipment and services with an application service provider. Under the agreement, the District is obligated to pay minimum annual license fees as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 48,098
2008	24,049

License fees for the years ended 2006 and 2005 were \$48,098 and \$48,098, respectively.

NOTE 15 - SUBSEQUENT EVENT

Since early 2005, the District has been involved in a series of disputes over its metering policy and system development charge (SDC) as it relates to a large seasonal cottage complex located in the Town of Wells. Despite the Maine Public Utility Commission's (MPUC) upholding of the District's metering policy, this developer has continued to dispute the calculation of the appropriate SDC as it relates to this complex. Currently, this same developer is an intervenor in the District's annual Tariff update filed in May 2006. As of the date of this report, the District could have a contingent receivable ranging from anywhere between zero and up to as much as \$179,000 in the form of additional SDC's that may be due from this developer. A final decision by the MPUC is expected during the summer of 2007.

**KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
DECEMBER 31, 2006 and 2005**

SUPPLEMENTARY INFORMATION

Schedule 1

KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
SCHEDULES OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2006
(With Comparative Totals for 2005)

	<u>Appropriated</u>		<u>Water Supply Protection Fund and Restricted Reserves</u>		<u>Contributions in Aid of Construction</u>	<u>Unappropriated</u>	<u>2006 Total</u>	<u>2005 Total</u>
	<u>Funded Debt Retired Through Surplus</u>	<u>Mortgage Payment</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
BALANCES - BEGINNING OF YEAR	\$ 12,141,101	\$ 250,000	\$ 481,901	\$ 0	\$ 0	\$ 13,342,796	\$ 26,215,798	\$ 25,075,601
Net Income	0	0	20,429	0	0	272,403	292,832	457,718
Contributions in Aid for Construction	0	0	0	599,915	0	0	599,915	682,479
Transfer of Funds	0	0	(79,100)	0	0	79,100	0	0
Transfer of the Balance of Contribution in Aid	0	0	0	(599,915)	0	599,915	0	0
Current Year Loan Principal Payments	368,724	50,000	0	0	(418,724)	0	0	0
Current Year Appropriation	0	0	23,723	0	(23,723)	0	0	0
BALANCES - END OF YEAR	<u>\$ 12,509,825</u>	<u>\$ 300,000</u>	<u>\$ 446,953</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,851,767</u>	<u>\$ 27,108,545</u>	<u>\$ 26,215,798</u>

**KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31,**

	<u>2006</u>	<u>2005</u>
SOURCE AND PUMPING OPERATIONS		
Labor	\$ 104,354	\$ 97,783
Pensions and Benefits	74,491	63,574
Purchased Water	13,184	11,440
Purchased Power	201,244	129,231
Transportation Expense	781	1,850
Insurance - Vehicles	881	735
Materials and Supplies	8	749
Contractual Services	27,757	14,426
Insurance - Workers' Compensation	3,422	2,750
Total Source and Pumping Operations	<u>426,122</u>	<u>322,538</u>
SOURCE AND PUMPING MAINTENANCE		
Labor	116,961	125,657
Pensions and Benefits	83,491	81,696
Materials and Supplies	65,817	45,965
Contractual Services	29,551	27,843
Transportation Expense	876	2,377
Insurance - Vehicles	988	944
Insurance - Workers' Compensation	3,835	3,533
Total Source and Pumping Maintenance	<u>301,519</u>	<u>288,015</u>
WATER TREATMENT EXPENSES		
Labor	179,687	162,460
Pensions and Benefits	128,266	105,624
Purchased Power	17,851	10,593
Materials and Supplies	16,192	13,218
Chemicals	212,056	184,247
Contractual Services	16,775	23,294
Transportation Expense	1,346	3,073
Insurance - Vehicles	1,517	1,220
Insurance - Workers' Compensation	5,892	4,568
Total Water Treatment Expenses	<u>579,582</u>	<u>508,297</u>
TRANSPORTATION AND DISTRIBUTION EXPENSES - OPERATIONS		
Labor	328,203	375,616
Pensions and Benefits	234,282	244,208
Purchased Power	9,782	8,079
Materials and Supplies	10,103	11,367
Contractual Services	1,802	4,307
Transportation Expense	2,458	7,106
Insurance - Vehicles	2,771	2,822
Insurance - Workers' Compensation	10,762	10,562
Total Transportation and Distribution Expenses - Operations	<u>600,163</u>	<u>664,067</u>

**KENNEBUNK, KENNEBUNKPORT, AND WELLS WATER DISTRICT
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31,**

	<u>2006</u>	<u>2005</u>
TRANSPORTATION AND DISTRIBUTION		
EXPENSES - MAINTENANCE		
Labor	\$ 193,474	\$ 218,040
Pensions and Benefits	138,108	141,759
Materials and Supplies	78,045	89,551
Contractual Services	81,128	73,563
Transportation Expense	1,449	4,125
Insurance - Vehicles	1,634	1,638
Insurance - Workers' Compensation	6,344	6,131
Total Transportation and Distribution Expenses - Maintenance	<u>500,182</u>	<u>534,807</u>
CUSTOMER ACCOUNTS EXPENSES		
Labor	135,391	134,128
Officers	93,055	30,425
Pensions and Benefits	112,489	106,985
Materials and Supplies	31,328	28,925
Contractual Services	59,482	57,177
Transportation Expense	1,014	2,537
Insurance - Vehicles	1,143	1,008
Insurance - Workers' Compensation	5,167	4,627
Bad Debt Expense	1,445	0
Total Customer Account Expenses	<u>440,514</u>	<u>365,812</u>
ADMINISTRATIVE AND GENERAL EXPENSES		
Labor	227,261	221,092
Officers	125,957	122,093
Pensions and Benefits	236,617	223,123
Purchased Power	8,678	5,022
Materials and Supplies	56,663	55,683
Contractual Services	81,682	135,525
Insurance - General Liability	56,815	53,208
Transportation Expense	1,702	4,182
Insurance - Vehicles	1,919	1,661
Insurance - Workers' Compensation	10,869	9,650
Miscellaneous Expense	18,793	18,362
Total Administrative and General Expenses	<u>826,956</u>	<u>849,601</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 3,675,038</u></u>	<u><u>\$ 3,533,137</u></u>

2006 OPERATIONAL REPORT

PERSONNEL

Education:

The District's employees attended several educational meetings and seminars covering many subjects such as:

CPR	Fork Truck
First Aid	Fusion of Pipe
Muller Products	Work Zone Safety
Meter Change-out	Damage Prevention
Chlorine Disinfection	Pressure Testing Mains
Water Hydraulics Overview	Hazardous Communications
Preventing Workplace Injuries	Management Skills for Supervisors
Main Extension & Private Lines	Rescuing/Rehabilitating Aging Mains
Cross Connection Control Surveying	Advanced Meter Reading Technology

SERVICES

<u>New Installations</u>	<u>Renewals</u>	<u>Total Active Services</u>
65	19	10,463

METERING

Meters:

Number in service at beginning of year	11,985
New installations	366
Number in service at end of year	12,351

Meters serving seasonal customers are installed in the Spring and after removal during the Fall are tested and repaired as needed, then stored for the winter. Area plumbers set seasonal meters in a cooperative program along with District personnel which is not only beneficial to the District, but to the customer and the plumber as well. As a result of the cooperation received from the area plumbers, the success of the program has continued.

MAINS

DISTRIBUTION MAINS IN SERVICE (FEET)

	<u>SIZE</u>	<u>2005</u>	<u>ADDED</u>	<u>RETIRED</u>	<u>2006</u>
Deep	20"	65,122	42	42	65,122
Deep	16"	84,160	1,134		85,294
Deep	12"	141,389	5,700	10	147,079
Deep	10"	149,391			149,391
Deep	8"	302,730	4,315		307,045
Deep	6"	164,187	6	40	164,153
Deep	4'	19,015	260	1,140	18,135
Surface	4"	3,801			3,801
Deep	3"	6,897			6,897
Surface	3"	15,128	2,734	480	17,382
Deep	2½"	634			634
Surface	2½"	388			388
Deep	2"	61,212	791		62,003
Surface	2"	29,721	41	2,878	26,884
Deep	1½"	918			918
Surface	1½"	7,062			7,062
Deep	1¼"	3,225			3,225
Surface	1¼"	3,034			3,034
Deep	1"	10,257			10,257
Surface	1"	20,449			20,449
Deep	¾"	2,856			2,856
Surface	¾"	3,915			3,915
		1,095,491	15,023	4,590	1,105,924

GATE VALVES INSTALLED

<u>¾"</u>	<u>1"</u>	<u>1½"</u>	<u>2"</u>	<u>4"</u>	<u>6"</u>	<u>8"</u>	<u>10"</u>	<u>12"</u>	<u>16"</u>	<u>20"</u>
--	--	--	6	--	2	13	--	12	2	

2005 MAINS INSTALLED

<u>TOWN</u>	<u>LOCATION</u>	<u>SIZE</u>	<u>MATERIAL</u>	<u>LENGTH</u>	<u>REMARKS</u>
Kennebunk	Thompson Road	12"	PVC	126'	Main Extension
	Erica's Way	8"	PVC	1,096'	Main Extension
	Independence Drive	8"	D.I.	890'	Main Extension
	Bradfield Way	2"	P.E.	50'	Main Extension
		2"	PVC	186'	
	Christensen Lane	12"	D.I.	10'	Main Relay
Kennebunkport	Land's End	3"	P.E.	440'	Seasonal Main Relay
	Ocean Avenue	12"	D.I.	517'	Main Extension
	Oakwood Lane	8"	D.I.	11'	
	Sandpiper Lane	2"	Copper	33'	
	The Ledges	4"	PVC	100'	Main Extension
		8"	PVC	220'	
		12"	PVC	1,892'	
	Arundel Road	16"	D.I.	1,134'	Main Relay
	North Street	6"	D.I.	6'	
		8"	D.I.	28'	
	Walker Lane	12"	D.I.	2'	
	12"	PVC	8'		
Wells	Gateway Drive	12"	D.I.	40'	Main Extension
		12"	PVC	585'	
	College Drive	12"	D.I.	344'	Main Extension
	York County Community College	12"	D.I.	2,176'	
	Hatch Lane	2"	PVC	340'	Main Extension
		4"	PVC	160'	
		8"	PVC	54'	
Route One	20"	D.I.	42"	Main Relay	
Ogunquit	Beachmere Lane	8"	D.I.	20'	Main Extension
		8"	PVC	762'	
	Norseman Lane	2"	Copper	7'	Main Extension
		2"	P.E.	175'	
	Pine Hill Road North	8"	D.I.	103'	Main Extension
York	Tree Top Lane	8"	PVC	765'	Main Extension
	Pine Hill Road South	2"	P.E.	41'	Seasonal Main Relay
		3"	P.E.	1,814'	
Biddeford	First Street	8"	D.I.	366'	System Improvement
	Fortunes Rocks Road	3"	P.E.	480'	Seasonal Main Relay

HYDRANTS

During 2006, 41 public and 1823 private hydrants were installed and 7 private hydrants became public, making a total of 688 public and 211 private hydrants in the District's system.

NEW INSTALLATIONS

<u>Town</u>	<u>No.</u>	<u>Ownership</u>	<u>Location</u>
Kennebunk	1	Private	Erica's Way
	6	Private	The Shops at Long Bank
	3	Public	Independence Drive
Kennebunkport	3	Private	The Ledges
Wells	1	Private	Hidden Brook Drive
	1	Private	Hatch Lane
	1	Public	College Drive
	1	Private	Beaver Brook Resort
	2	Private	Forest North Condominium
	2	Private	Summer Village
York	1	Private	Tree Tops Lane

HYDRANT REPLACEMENTS

<u>Town</u>	<u>No.</u>	<u>Ownership</u>	<u>Location</u>
Kennebunk	1	Public	Thompson Road
	1	Public	Route One
	2	Private	Me. Turnpike Service Plazas
Kennebunkport	1	Public	Arundel Road
Ogunquit	1	Public	Beachmere Lane

HYDRANTS TRANSFERRED FROM PRIVATE TO PUBLIC

<u>Town</u>	<u>No.</u>	<u>Ownership</u>	<u>Location</u>
Ogunquit	4	Public	Young's Crossing
	1	Public	Russell Way
Kennebunkport	1	Public	High Point Drive
	1	Public	Winslow Drive

MONTHLY PUMPING RECORDS

Gallons Pumped

		<u>2005</u>	<u>2006</u>
January		52,574,900	48,603,600
February		50,053,100	44,217,300
March		53,831,700	52,550,100
April		61,686,500	60,100,000
May		77,007,200	77,059,200
June		104,870,390	102,964,100
July		150,808,200	152,585,000
August		159,217,740	153,062,600
September		114,944,630	104,895,900
October		74,775,700	74,703,800
November		53,465,500	50,795,000
December		52,948,400	49,887,400
Subtotal	(KKWWD)	1,006,183,960	971,424,000
	(Biddeford/Saco)	14,026,560	18,127,930
TOTAL		1,020,210,520	989,551,930

MONTHLY SNOW AND RAINFALL

	<u>2005</u>		<u>2006</u>	
	Snow Inches	Rain Inches	Snow Inches	Rain Inches
January	31.4	1.62	12.1	3.12
February	24.9	2.45	9.1	2.53
March	34.9	2.82	0.8	.92
April	0.5	7.95	0.5	3.58
May	---	8.10	---	17.17
June	---	2.98	---	7.41
July	---	1.76	---	3.90
August	---	2.23	---	2.72
September	---	2.49	---	3.27
October	---	14.00	---	7.84
November	1.2	6.22	---	6.19
December	16.8	4.44	1.7	3.13
Totals	109.7	57.09		

NOTES