KENNEBUNK, KENNEBUNKPORT AND WELLS WATER DISTRICT

97th Annual Report

January 1, 2018 – December 31, 2018

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

TRUSTEES AND OFFICERS

1/1/18 through 6/30/18

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

7/1/18 through 12/31/18

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

2018 REPORT OF THE
KENNEBUNK, KENNEBUNKPORT AND WELLS WATER DISTRICT

The Kennebunk, Kennebunkport and Wells Water District is a non-profit, quasi-municipal public water utility that was established in 1921 by an act of the Maine State Legislature. The Water District serves an area that encompasses the Towns of Kennebunk, Kennebunkport, Wells, Ogunquit, Arundel and small portions of Biddeford and York. The area includes a population which varies seasonally from about 30,000 to over 100,000. It is directed by a four-member Board of Trustees, one elected from each of the towns of Kennebunk, Kennebunkport, Wells and Ogunquit.

2018 was a strong year for the Water District. Although not record-breaking as with 2016, it compared reasonably well on several fronts. Compared with 2017, 2018 saw a 0.6% increase in water production and a 6.7% increase in total operating revenues. From a financial perspective, we received $7.47 million in total operating revenues, as compared to $7.0 million in 2017. All of this contributed to a projected (unaudited) net income for 2018 of approximately $180,000, as compared to a net income of $270,000 in 2017. Overall, the primary drivers for water production and revenues are related to weather conditions during the warmer months and long-term customer growth, as follows.

Precipitation during 2018, as measured at our Branch Brook Filtration Plant, was significant, placing sixth highest since 1871. The majority of the precipitation took place during the fall and therefore did not significantly impact peak season water demands. As a result, 2018 water production was 1.068 billion gallons; the fifth highest annual water production on record and 5.0% below the record 1.125 billion gallons produced in 2016. Our groundwater sources produced 399.4 million gallons, which was 37.4% of all water production for 2018. From a customer growth perspective, it appears the local economy is still healthy, with 119 customers added in 2018. This compares with 147 in 2017 and 166 in 2016, resulting in a customer growth rate of about 1%. Our customer base now stands at 13,927 metered accounts.

This was the eighth year in a row that we have been successful in being awarded a low-interest SRF (State Revolving Loan Fund) financing package. Since 2008, through SRF financing, we have installed $11.0 million of infrastructure to date with grants totaling $0.5 million and a total bonded debt of $10.5 million having an average bond interest rate of only 0.90%.

We have once again achieved the lowest ever “experience modification factor” that our Workmen’s Compensation insurance carrier has ever seen for a water utility. This factor, which measures the actual workmen’s compensation claim history of an employer, directly affects the insurance premium paid by that employer. For us, the modification factor of 0.60 (down from 0.61 in 2017) will result in our 2019 workmen’s compensation insurance premium being reduced to 60% of the “standard” amount. Being that we perform much more construction-related work than that of a typical water utility, this low factor is a very significant statistic and indicative of our employees’ commitment to workplace safety. On a related note, the Maine Department of Labor once again renewed our S.H.A.P.E. (Safety and Health Award for Public Employers) certification for the fourth consecutive time since first awarded in 2009. We are very proud of our worker safety and health programs and overall safety record and are grateful for the formal recognition as a S.H.A.P.E. certified employer.

2018 marked our record year for “baby boomer” retirements. When including two previously announced retirements for early 2019, five employees retired with a total of over 180 years of District experience. This also represents over 10% of our total work force. Having had a succession planning strategy in place for several years will help assure a smooth transition, with no noticeable changes in our level of service to our customers. We thank our retirees for their years of dedicated service and wish them all a long and happy retirement. For more information on these folks, see recent issues of *What's on Tap* at http://kkw.org/archived-newsletters.

As previously reported, in February of 2017 we shut down our Kennebunk River Well as a precautionary measure, as a result of discovering trace amounts of perfluorinated compounds (PFAS) in the well's water. Although the level of this unregulated contaminant was below the US EPA's recommended Lifetime Health Advisory Level (and given the ongoing research efforts to determine more conclusive health information), it was felt that erring on the side of caution was in the best interests of our customers. During 2018, after completing a series of small-scale pilot studies, we placed into service a 1 million gallon per day pilot filter to remove the PFAS on a full-scale basis. As anticipated, the pilot was successful. As a result, we have budgeted for the construction of a permanent facility for the filters in 2019. The details of this topic are further described on the home page of our website at www.kkw.org and in recent issues of our newsletter *What's on Tap.*

We are well into the conversion of our customers' water meters to a new Automated Metering Infrastructure (AMI) technology. For several decades, our customers' meters were either of the "straight read" or "generator-remote read" type. Both types required a person to visit the premises to get a meter reading. The generator-remote technology is no longer available. The new AMI technology uses a very small, low-power radio to transmit the water consumption data directly to our office on a daily basis. The radio is powered by a D-cell sized battery which has an expected 16 to 20-year life. In 2018, our crews installed 3,031 new AMI meters. As of the end of the year, 7,198 of our 13,927 customers are now served with AMI meters. For more information on our conversion to AMI meters, visit www.kkw.org.

As previously reported, in 2017 we made a significant change in our water disinfection regimen, with the primary water disinfectant changing from free chlorine to chloramines. The main reason for the change was to make our water fully compatible with other nearby, interconnected water utilities. The change has also resulted in several water quality-related benefits, from the minimization of corrosion and disinfection by-products to the elimination of the free chlorine smell. We are pleased to report that the conversion has been very successful, with the subsequent corrosion control test results being the lowest on record, as summarized in the District's annual Water Quality Report in the Summer 2018 issue of *What's on Tap*.

With all of the recent discussion relating to the poor condition of America's infrastructure, we are pleased to report that for the past 25 years, the District has averaged replacing 0.87% of its distribution system per year. This is close to the desired water industry "gold standard" of 1% per year, based upon an expected 100-year usable life for water mains. Very few other water utilities have maintained such an aggressive (yet appropriate) water main replacement schedule. We have accomplished this task while keeping water rates below that of the average Maine water utility. On a related note, despite maintaining this aggressive infrastructure replacement program, we have a relatively low cost of debt service, which currently stands at 12.3% of revenues. In other words, only about 1/8 (one eighth) of each revenue dollar goes toward the payment on debt service (principal and interest). From a water utility perspective, this is extremely low, as water utilities are very capital intensive and usually carry a disproportionately large amount of debt as compared to other businesses.

The following is a partial list of distribution projects funded by the District and installed by our personnel during 2018. These projects typically relate to our goals of coordination with State and Town roadway projects, optimizing water quality, enhancing fire suppression capabilities and improving system reliability by replacing outdated and substandard facilities with an eye toward accommodating anticipated growth.

- Wildes District Road, Kennebunkport: Replaced 1710’ of 8” cement (AC) main with 12” PVC main in conjunction with a Town drainage and roadway reconstruction project.

- North Street, Kennebunkport: Replaced 1962’ of obsolete 6” cast iron (CI) main with 12” Ductile Iron (DI) main in conjunction with a Town roadway reconstruction project.

- West Street, Kennebunkport: Replaced 458’ of old 6” CI main with 8” high density polyethylene (HDPE) main (in conjunction with the Town’s shim and overlay project).

- Oak Street, Kennebunkport: Replaced 927’ of old 6” CI main with 8” high density polyethylene (HDPE) main and DI main (in conjunction with the Town’s shim and overlay project).

- Land’s End Road, Kennebunkport: Replaced 380’ of 2” galvanized (GI) seasonal main with 3” HDPE main.

- Harbor Drive, Kennebunkport: Replaced 792’ of 2” GI seasonal main with 2” HDPE main.

- Storer Street, Kennebunk: Replaced 1778’ of old 10”CI main with 12” HDPE and DI main in conjunction with sewer work and Town road reconstruction project.

In addition to the above projects, individuals and developers funded several water main extensions totaling 2,616 feet in length, as compared to 9,000 feet installed in 2017.

Drinking water quality remains a top priority. We are pleased to report that in addition to making significant water quality improvements with our unique blending of groundwater and surface water, all State and Federal water quality standards were met during 2018. By maintaining a dedicated, well-trained staff and continually upgrading our process equipment and control systems, we continually assure the highest degree of reliability in the quality of drinking water for our customers.

Our customers and all other interested parties are welcome to contact us at our business office at 92 Main Street in Kennebunk or visit our website at www.kkw.org, like us on Facebook (facebook.com/kkwwaterdist) or follow us on Twitter (@kkwwaterdist). Electronic bill notifications, reminders, as well as online payment options are all available and tailored to suit our customers’ needs. Current and past issues of our popular semi-annual newsletter *What’s on Tap* are also on our website. As always, we welcome your input, as our mission is *to provide the best quality of water and customer service at the lowest reasonable cost.*

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

Respectfully submitted,
Thomas P. Oliver, President
Robert A. Emmons, Vice President
James E. Burrows, Trustee
Frederick A. Lynk, Trustee

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

KENNEBUNK, KENNEBUNKPORT AND WELLS WATER DISTRICT

Annual Financial Statements
For the Years Ended December 31, 2018 and 2017

Independently Audited By

Berry · Talbot · Royer
CERTIFIED PUBLIC ACCOUNTANTS

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Berry · Talbot · Royer
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Kennebunk, Kennebunkport, and Wells Water District as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities and the aggregate remaining fund information of Kennebunk, Kennebunkport, and Wells Water District as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 12 and Schedules 1 through 4 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. Schedules 5 and 6 are presented for purposes of additional analysis and are not a required part of the financial statements.

Schedules 5 and 6 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Berry Talbot Royer

Berry Talbot Royer
Falmouth, Maine
Certified Public Accountants
May 13, 2019

Kennebunk, Kennebunkport and Wells Water District

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Kennebunk, Kennebunkport and Wells Water District
Management's Discussion and Analysis

Year Ended December 31, 2018

Introduction of the Financial Statements

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 (MPUC).

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. The District also has a Fiduciary Trust for its Post-Employment Benefits which is managed in accordance with GASB guidelines.

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
- Statements of Plan Net Position – Fiduciary Funds
- Statements of Changes in Plan Net Position – Fiduciary Funds
- Notes to Financial Statements

In addition to the basic financial statements, the District also presents required supplementary information (RSI) which includes this MD&A along with the schedules relating to the District's pension plan and other post-employment benefit medical plan.

And, finally, the District presents other supplementary information (OSI) in the Schedule of Changes in Net Position and Schedule of Operating Expenses. These are not required and are not part of the District's basic financial statements, but are presented for the purpose of additional analysis.

Comparison of Financial Statements for Current and Prior Years

Condensed Statements of Net Position

	2018	2017	$ Difference	% Difference
Current Assets	$ 2,180,778	$ 2,267,758	$ (86,980)	-3.8%
Special Funds	1,009,641	947,604	62,037	6.5%
Capital Assets	51,275,553	48,934,684	2,340,869	4.8%
Other Assets	65,484	65,484	-	0.0%
Total Assets	54,531,456	52,215,530	2,315,926	4.4%
Deferred outflows of resources	490,811	1,052,473	(561,662)	-53.4%
Current Liabilities	1,804,684	2,036,139	(231,455)	-11.4%
Long-term Debt	8,247,761	7,374,666	873,095	11.8%
Other Liabilities	3,594,733	3,845,998	(251,265)	-6.5%
Total Liabilities	13,647,178	13,256,803	390,375	2.9%
Deferred inflows of resources	351,376	835,744	(484,368)	-58.0%
Net Investment in Capital Assets	41,789,767	40,066,422	1,723,345	4.3%
Unrestricted Net Position	(766,054)	(890,966)	124,912	14.0%
Total Net Position	$41,023,713	$39,175,456	$ 1,848,257	4.7%

Current Assets

The decrease in current assets by $86,980 is primarily due to a decrease in operating cash.

Special Funds

During 2018 Special Funds increased by a net amount of $62,037. The fund's cash was increased during 2018 by $58,498, appropriated by the Trustees based on 2017 earnings. The combined investment income in 2018 for all Special Funds was $3,540 (compared to $2,181 in 2017).

Capital Assets

Capital assets grew by $2,340,869 in 2018. That increase consisted of:

	Additions	Retirements	Net Change
Utility property	$ 3,085,435	$ (293,074)	$ 2,792,361
Construction Work in Progress	889,421	(356,939)	532,482
Allowance for Depreciation	(1,265,598)	281,624	(983,974)
Totals	$ 2,709,258	$ (368,389)	$ 2,340,869

The additions to utility property included $1,346,218 of transmissions and distribution mains. Utility Property retirements totaled $293,073 during 2018; the largest amount was $166,269 of meters.

Other Assets

Other assets consist of non-utility property which is land ($33,493) and prepayments made on groundwater recharge costs ($31,991).

Deferred Outflows of Resources

Deferred outflows relate to the District's pension plan and to the OPEB. The net decrease in 2018 for the District's pension plan of $665,292 is the result of changes in projections, assumptions, the difference between actual performance and projected performance of earnings on pension plan investments. The pension plan is administered by MainePERS. The net increase in 2018 related to the OPEB of $103,630 is the difference between the liability and investment experience that was different than expected.

Current Liabilities

Current liabilities decreased by a net amount of $231,455 in 2018 primarily from net decreases in the outstanding line of credit.

Long-term Debt

Long-term debt increased by a net amount of $873,095 in 2018. The increase was largely due to two new bonds, with issuance totaling $1,624,387, and off-set by debt repayments totaling $827,994. The remaining difference represents the changes in the current portion of long-term debt and payments on capital leases.

Other Liabilities

The primary reason for the $251,265 net decrease in Other Liabilities was due to changes in the District's net pension liability, which is actuarially calculated and changes as result of varying inputs and estimations.

Deferred Inflows of Resources

Deferred inflows relate to the District's pension plan and to the OPEB. The net decrease in 2018 of $494,723 is the result of changes in projections, assumptions, the difference between actual performance and projected performance of earnings on pension plan investments. The pension plan is administered by MainePERS. The net increase in 2018 related to the OPEB of $10,355 is the difference in assumption changes.

Total Net Position

Overall, the District's Total Net Position increased by $1,848,257 from 2017 to 2018. Most of the net position is in net investment in capital assets, leaving the District with a negative unrestricted net position of $766,054.

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

	2018	2017	$ Difference	% Difference
Operating Revenue	$ 7,117,163	$ 6,649,736	$ 467,427	7.0%
Depreciation Expense	1,265,598	1,248,389	17,209	1.4%
Other Operating Expenses	4,989,471	4,953,925	35,546	0.7%
Total Operating Expenses	6,255,069	6,202,314	52,755	0.9%
Operating Income	862,094	447,422	414,672	92.7%
Net Non-operating Income	226,460	185,283	41,177	22.2%
Contributions	759,703	445,191	314,512	70.6%
Change in Net Position	1,848,257	1,077,896	770,361	71.5%
Beginning Net Position	39,175,456	38,097,560	1,077,896	2.8%
Ending Net Position	$41,023,713	$39,175,456	$ 1,848,257	4.7%

Operating Revenue

In 2018, metered water revenue accounted for 85.7% of total operating revenue, while public and private fire protection accounted for 13.2%.

Metered water revenue ($6.09 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 allowance 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 MPUC. During 2018, metered water revenue increased by 7.25% ($412,168) due to a 4.7% increase in pumpage from 2017, which resulted in a 7.3% increase in billed consumption.

Public and private fire protection ($0.93 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 MPUC. Public and Private Fire Protection Revenue for 2018 increased by 5.9% from 2017.

Depreciation Expense

Depreciation expense increased from $1,248,389 in 2017 to $1,265,598 in 2018, an increase of 1.4%. This increase can be attributed to the general growth in capital assets during 2018.

Other Operating Expenses

Non-depreciation operating expense increased by $35,546 between 2018 and 2017, more than that of which occurred in the contracted services and equipment rentals categories. Other categories had off-setting increases and decreases, as detailed below.

	2018	2017	$ Difference	% Difference
Salaries/wages	$ 2,034,079	$ 1,968,923	$ 65,156	3.3%
Employee benefits	1,523,202	1,821,739	(298,537)	-16.4%
Purchased water, power & chemicals	529,625	485,888	43,737	9.0%
Operational & maintenance supplies	297,652	278,793	18,859	6.8%
Legal and audit fees	28,302	24,210	4,092	16.9%
Contracted services & equip rentals	510,294	316,573	193,721	61.2%
Vehicle maintenance	(56,712)	(57,680)	968	-1.7%
Bad debt expense	(506)	(1,631)	1,125	-69.0%
Insurance	90,586	90,372	214	0.2%
Miscellaneous expenses	32,949	26,738	6,211	23.2%
Totals	$ 4,989,471	$ 4,953,925	$ 35,546	0.7%

Expense category explanations:

Salaries/wages - This line item represents the amount of salaries 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 are included in the Statement of Net Position. Overall, there was a 3.3% increase reflecting general wage raises for the year offset by normal employee turnover wage differentials (e.g., long-time retiring employees versus newly hired employees).

Employee benefits – Total Employee Benefits decreased by a net amount of $298,537 in 2018 due to the Pension and Post Retirement benefit adjustments.

Purchased water, power & chemicals – Despite the District's increase in total pumpage during 2018 of 4.5%, there was an overall increase in these costs of $43K (9.0% increase from 2017). Purchased Power costs increased by 4.93% ($14K over 2017) as a result of normal price increases. Filtration Plant Chemical costs were 4.5% higher ($8K more than 2017), primarily due to an overall decrease in groundwater production from 2017. The District's ground water sources produced 37.4% of the District's total pumpage during 2018 (up from 26.4% in 2017). Purchased water costs increased by 218% ($21K more than 2017) due to the resumption of water extraction at the Kennebunk River Well during 2018.

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 $18,859 or 6.8% overall from 2017.

Legal and Audit Fees – Legal and audit fees increased by $4,092 or 16.9% from 2017.

Contracted Services & Equipment Rentals - This category, which includes a large array of services provided to the District by outside vendors, increased by 61.2% or approx. $193K during 2018. A significant portion of this increase related to a contract for tank painting.

Expense category explanations (Continued):

Vehicle Maintenance – Net vehicle maintenance expense decreased by $968 in 2018, but was still a "negative" expense for the year due allocating equipment usage to capital projects. These expenses are capitalized and will be expensed as part of the related capital assets' depreciation in future years.

Bad Debt Expense – The District uses a five year averaging formula each year to determine the level of bad debt expense required. It has remained low and relatively flat over the years.

Miscellaneous Expenses – Miscellaneous expenses increased 23% in 2018, where the increase is attributed to items and events related to the retirement of three long term employees.

Net Non-Operating Income

Non-Operating Revenue primarily consists of Tank Rental Revenues ($354K). Non-Operating Expenses is made up mostly of Interest Expense ($111K) and Taxes Other Than Income Tax ($48K). Net Non-Operating Income increased by $41,177 between 2017 and 2018.

Contributions

Contributions occur when development takes place within the District's service area. The contributions for 2018 and 2017 were as follows:

	2018	2017	$ Difference	% Difference
Main Extensions	$ 328,379	$ 141,477	$ 186,902	132.1%
System Development Charges	237,961	250,637	(12,676)	-5.1%
Meters	58,363	53,077	5,286	10.0%
Boosters	135,000	-	135,000	0.0%
Totals	$ 759,703	$ 445,191	$ 314,512	70.6%

Overall Financial Position and Results of Operations

To determine a quick overview of 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 2018, the District's current ratio increased from 1.11 to 1.21. This means that at year end 2018, the District has $1.21 in current (liquid) assets for every dollar that it owes in current liabilities. This ratio is held low primarily due to the outstanding short-term notes at year end.

The District's coverage ratio decreased from 1.18 in 2017 to 0.98 in 2018. This means that for the year ended 2018, the District generated $0.98 in net revenues to satisfy every dollar of principal and interest payments.

Current Ratio	2018	2017
Current Assets	$ 2,180,778	$ 2,267,758
Current Liabilities	1,804,684	2,036,139
Current Ratio	1.21	1.11

Coverage Ratio	2018	2017
Operating Revenue	$ 7,117,163	$ 6,649,736
Non-operating Rental Revenue	354,929	348,421
Interest income	6,463	4,319
Miscellaneous Income	34,953	25,296
Gross revenues	7,513,508	7,027,772
Total Operating expenses	6,255,069	6,202,314
Depreciation	(1,265,598)	(1,248,389)
Other Operating Expenses	4,989,471	4,953,925
Net available for debt service	$ 2,524,037	$ 2,073,847
Principal payments	$ 2,457,157	$ 1,642,176
Interest expense	111,169	109,400
Total debt service	$ 2,568,326	$ 1,751,576
Coverage Ratio	0.98	1.18

Revenue Stability

Water rates, both metered and fire protection, are regulated by the MPUC, which allows the District to set rates to maintain operations and pay debt service. The District had an open rate case before the MPUC for a 6.6% increase across the board; increase became effective April 2018.

Most of the District's operating revenue, 99% in both 2018 and 2017, comes from water assessments. These revenue sources are normally quite stable. There was a 7.25% increase from 2017 in metered revenues.

In addition, the District's metered water customer base is not concentrated. Residential customers, who make up 12,672 of the District's 13,927 metered connections (91%), provided 61.3% of all operating revenue in 2018 and 61.0% in 2017. Non-residential metered customers represented 24.4% of operating revenue in 2018 and 24.6% in 2017.

Fire protection (public and private) was 13.17% of all operating revenue for 2018, and 13.31% in 2017.

The District's operating revenue by type for 2018 and 2017 is summarized below:

	2018		2017	
	$	%	$	%
Metered - residential	$ 4,361,685	61.3%	$ 4,053,967	61.0%
Metered - non-residential	1,737,151	24.4%	1,632,702	24.6%
Public fire	753,222	10.6%	711,029	10.7%
Private fire	184,125	2.6%	174,107	2.6%
Other operational revenue	80,980	1.1%	77,931	1.1%
Total operating revenue	$ 7,117,163	100.0%	$ 6,649,736	100.0%

Significant Changes to Individual Funds

Operating and Management Fund

Operating revenue increased by 7.03% in 2018 which resulted from a 7.3% increase in billed consumption.

Operating expenses (excluding depreciation) were up 0.70% overall from 2017. The major expense increases occurred in contracted services and the major expense decreases occurred in employee benefits, as discussed above.

Water Supply Protection Fund

Changes in the Water Supply Protection Fund for 2018 and 2017 are summarized below:

	2018	2017	% Difference	% Difference
Interest Income	$ 3,539	$ 2,181	$ 1,358	62.3%
Appropriations to the Fund	91,215	58,498	32,717	55.9%
Net Change to the Fund	$ 94,754	$ 60,679	$ 34,075	56.2%

System Development Fund

Increases in the System Development Fund were due only to interest income in 2018 and 2017. Interest earned was $3 in 2018 and 2017.

Other Post-Employment Benefit Fund (OPEB)

In December, 2011 the District formed a Fiduciary Trust for its Post-Employment Benefits in accordance with GASB guidelines. The District has made a formal commitment to provide contributions to the fund. The fund balance at year end for 2018 and 2017 were:

	2018	2017	% Difference	% Difference
OPEB Fund Balance	$ 1,268,896	$ 1,289,080	$ (20,184)	-1.6%

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, gross utility property increased by $2.79 million in 2018. The allowance for depreciation grew by $984K and construction work in progress increased by $532K. Net utility property increased from $48.9 million in 2017 to $51.3 million in 2018.

Long Term Debt

In November 2018, the District received $1.6 million in proceeds from a bond issue. The bond proceeds are related to two 2018 SRF projects. The first project was an IUP project and the second related to the replacement of various meters.

The total bonded debt and capital leases activity for 2018 is detailed below:

	Beginning	Issues	Retirements	Ending
Bonded debt	$ 8,084,526	$ 1,624,387	$ (827,994)	$ 8,880,919
Capital leases	108,939	-	(23,168)	85,771

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.

Statements of Net Position

Statement 1

As of December 31, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 1,042,942	$ 1,263,768
Accounts receivable - trade, net	594,948	517,402
Accounts receivable - other	8,569	7,764
Materials and supplies inventory	399,615	402,633
Prepaid expenses	134,704	76,191
Total current assets	2,180,778	2,267,758
Special funds		
Water supply protection fund	1,008,549	946,515
System development fund	1,092	1,089
Total other special funds	1,009,641	947,604
Utility, plant, and equipment in service	71,974,471	69,182,110
Accumulated depreciation	(21,588,339)	(20,604,365)
Net utility, plant, and equipment in service	50,386,132	48,577,745
Construction work in progress	889,421	356,939
Total net utility, plant, and equipment	51,275,553	48,934,684
Other assets		
Non-utility property	33,493	33,493
Groundwater recharge cost prepayments	31,991	31,991
Total other assets	65,484	65,484
Total Assets	54,531,456	52,215,530
Deferred Outflows of Resources		
Deferred outflows for pensions	387,181	1,052,473
Deferred outflows for OPEB	103,630	-
Total deferred outflows of resources	490,811	1,052,473

Statements of Net Position

Statement 1 (Continued)

As of December 31, 2018 and 2017

	2018	2017
Liabilities		
Current liabilities:		
Accounts payable	$ 173,521	$ 159,119
Other accrued liabilities	44,297	28,942
Compensated absences	370,957	373,961
Line of credit	496,980	654,390
Current portion of capital leases	22,389	23,167
Current portion of long-term debt	696,540	796,560
Total current liabilities	1,804,684	2,036,139
Long-term debt:		
Long-term portion of capital leases	63,382	85,772
Long-term portion of long-term debt (including deferred debt refunds of $0 and $929 for 2018 and 2017)	8,184,379	7,288,894
Total long-term debt	8,247,761	7,374,666
Other long-term liabilities:		
Customer advances for construction	1,187,213	1,068,654
Post retirement benefits	1,084,695	791,992
Net pension liability	1,322,825	1,985,352
Total other long-term liabilities	3,594,733	3,845,998
Total Liabilities	13,647,178	13,256,803
Deferred Inflows of Resources		
Deferred inflows from pensions	341,021	835,744
Deferred inflows from OPEB	10,355	-
Total deferred inflows of resources	351,376	835,744
Net Position		
Net Investment in Capital Assets	41,789,767	40,066,422
Unrestricted	(766,054)	(890,966)
Total Net Position	$ 41,023,713	$ 39,175,456

Statements of Revenues, Expenses, and Changes in Net Position

Statement 2

For the Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues		
Metered - residential	$ 4,361,685	$ 4,053,967
Metered - commercial	1,737,151	1,632,702
Public fire protection	753,222	711,029
Private fire protection	184,125	174,107
Local municipalities	57,922	57,304
Miscellaneous service revenues	23,058	20,627
Total operating revenues	7,117,163	6,649,736
Operating Expenses		
Operations and maintenance	4,989,471	4,953,925
Depreciation	1,265,598	1,248,389
Total operating expenses	6,255,069	6,202,314
Operating Income	862,094	447,422
Non-Operating Income		
Rental revenues	354,929	348,421
Interest income	6,463	4,319
Merchandise and jobbing income	7,648	8,795
Miscellaneous non-utility income	10,718	8,493
Gain on disposal of assets	16,587	8,008
Total non-operating income	396,345	378,036
Non-Operating Expenses		
Interest expense	111,169	109,400
Taxes other than income tax	48,023	42,633
Loss on disposal of assets	1,193	36,720
Bond issue costs	9,500	4,000
Total non-operating expenses	169,885	192,753
Change in Net Position Before Contributions	1,088,554	632,705
Contributions		
Mains, services, meters, and hydrants	759,703	445,191
Change in Net Position	1,848,257	1,077,896
Beginning Net Position	39,175,456	38,097,560
Ending Net Position	$ 41,023,713	$ 39,175,456

Statements of Cash Flows

Statement 3

For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from customers	$ 7,057,180	$ 6,724,582
Cash payments to suppliers and contractors	(1,516,495)	(1,274,409)
Cash payments for employee services	(3,751,635)	(3,668,875)
Net cash provided by operating activities	1,789,050	1,781,298
Cash Flows from Capital and Related Financing Activities		
Proceeds from borrowings	3,096,140	2,162,847
Repayment of borrowings	(2,457,157)	(1,642,176)
Repayment of capital lease obligations	(23,168)	(16,017)
Increase in bonds receivable	-	37,796
Payment of bond issue costs	(9,500)	(4,000)
Interest paid	(109,461)	(112,838)
Transfer of funds from the Water Supply Protection Fund	200,000	-
Transfer of funds to the Water Supply Protection Fund	(258,498)	(323,268)
Acquisitions and construction of operating property	(3,617,917)	(2,438,260)
Proceeds from sales of fixed assets	16,857	8,008
Losses on disposal of fixed assets	(1,193)	(36,720)
Contributions in aid of construction received	796,168	523,971
Net cash used by capital and related financing activities	(2,367,729)	(1,840,657)
Cash Flows from Investing Activities		
Rent income	354,929	348,421
Interest income received	6,463	4,319
Reinvested investment income	(3,539)	(2,181)
Net cash provided by investing activities	357,853	350,559
Net Increase (Decrease) in Cash and Cash Equivalents	(220,826)	291,200
Beginning Cash and Cash Equivalents	1,263,768	972,568
Ending Cash and Cash Equivalents	$ 1,042,942	$ 1,263,768

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

Statement 3 (Continued)

For the Years Ended December 31, 2018 and 2017

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	2018	2017
Operating income	$ 862,094	$ 447,422
Jobbing income	7,648	8,795
Miscellaneous non-utility income	10,718	8,495
Taxes other than income	(48,023)	(42,633)
Adjustments not affecting cash:		
Depreciation	1,265,598	1,248,389
Net actuarial adjustment for pension costs	(491,958)	141,282
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(78,350)	57,556
Inventory	3,018	79,053
Prepaid expense	(58,514)	(2,246)
(Decrease) increase in:		
Accounts payable	14,402	(145,735)
Other accrued liabilities	9,714	(4,990)
Post retirement benefits	292,703	(14,090)
Net cash provided by operating activities	$ 1,789,050	$ 1,781,298

Statements of Plan Net Position - Fiduciary Funds

Statement 4

As of December 31, 2018 and 2017

	2018		
	OPEB Medical	OPEB Sicktime	Total
Assets			
Cash and investments	$ 1,115,776	$ 153,120	$ 1,268,896
Liabilities			
Due to KKWWD	11,104	-	11,104
Plan Net Position			
Restricted for OPEB	$ 1,104,672	$ 153,120	$ 1,257,792

	2017		
	OPEB Medical	OPEB Sicktime	Total
Assets			
Cash and investments	$ 1,109,665	$ 179,415	$ 1,289,080
Liabilities			
Due to KKWWD	-	-	-
Plan Net Position			
Restricted for OPEB	$ 1,109,665	$ 179,415	$ 1,289,080

Statements of Changes in Plan Net Position - Fiduciary Funds

Statement 5

For the Years Ended December 31, 2018 and 2017

	2018		
	OPEB Medical	OPEB Sicktime	Total
Additions			
District contributions	$ 111,243	$ 11,408	$ 122,651
Net increase (decrease) in investment fair value	(64,638)	(8,194)	(72,832)
Interest, dividends, and other investment income	28,447	4,599	33,046
Total additions	75,052	7,813	82,865
Deductions			
Benefits paid	69,398	32,439	101,837
Administrative expense	10,647	1,669	12,316
Total deductions	80,045	34,108	114,153
Changes in Plan Net Position	(4,993)	(26,295)	(31,288)
Beginning Plan Net Position	1,109,665	179,415	1,289,080
Ending Plan Net Position	$ 1,104,672	$ 153,120	$ 1,257,792

	2017		
	OPEB Medical	OPEB Sicktime	Total
Additions			
District contributions	$ 111,243	$ 11,091	$ 122,334
Net increase (decrease) in investment fair value	86,395	13,243	99,638
Interest, dividends, and other investment income	23,780	3,771	27,551
Total additions	221,418	28,105	249,523
Deductions			
Benefits paid	48,884	5,290	54,174
Administrative expense	9,809	1,601	11,410
Total deductions	58,693	6,891	65,584
Changes in Plan Net Position	162,725	21,214	183,939
Beginning Plan Net Position	946,940	158,201	1,105,141
Ending Plan Net Position	$ 1,109,665	$ 179,415	$ 1,289,080

Note 1: Summary of Accounting Policies

The summary of significant accounting policies of Kennebunk, Kennebunkport, and Wells Water District (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, and is governed by a four member Board of Trustees, one elected from each of the Towns of Kennebunk, Kennebunkport, Ogunquit and Wells, and is regulated by the Maine Public Utilities Commission (MPUC). The District extends credit to its customers that consist of residential, commercial, and governmental entities at regular terms without collateral.

The Retiree Welfare Benefit Trust of the Kennebunk, Kennebunkport and Wells Water District (the Trust) is governed by the Board of Trustees and a 3-member Investment Committee. Although it is legally separate from the Kennebunk, Kennebunkport and Wells Water District, the Trust is reported as if it were part of the primary government because its sole purpose is to hold and disburse, as necessary, funds intended for the benefit payments of the District's employees and retirees. The activity and balances of the Trust are presented as fiduciary funds.

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.

Basis of Presentation

Enterprise Funds – 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 (GASB) pronouncements relating to governmental entities that use proprietary fund accounting 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. Operating expenses include expenses on source and pumping operations and maintenance, water treatment, transportation and distribution operations and maintenance, customer accounts, administrative and general, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating income and expenses. Rental revenues from various wireless cellular companies are treated as non-operating income.

Fiduciary Funds – Pension and other employee benefit trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

Note 1: Summary of Accounting Policies (Continued)

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. 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 fair market value.

Allowance for Bad Debts

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

Materials and Supplies Inventory

Materials and supplies inventory is valued at the lower of cost or net realizable value using the weighted average cost method.

Utility Plant

Utility plant is stated at cost and depreciation is calculated on the straight-line method at rates established by the MPUC. Useful lives, pursuant to Chapter 680 of MPUC rules, 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 expended as incurred.

Contributions in Aid of Construction

Contributions in aid of construction are reported as income.

OPEB Contributions

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the District and its employees, is accrued as employees earn the rights to the benefits.

Note 1: Summary of Accounting Policies (Continued)

Net Position Classification

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.

	2018	2017
Capital assets	$ 72,863,892	$ 69,539,049
Accumulated depreciation	(21,588,339)	(20,604,365)
Bonds, notes, and leases payable	(9,463,670)	(8,847,854)
Deferred bond interest	-	(929)
Accrued interest payable	(22,116)	(19,479)
Net investment in capital assets	$ 41,789,767	$ 40,066,422

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 conformity 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: Deposits and Investments

Deposits

For deposits, 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.

As of December 31, 2018 and 2017, the District reported deposits of $2,052,283 and $2,211,072, respectively, with a bank balance of $2,208,887 and $2,343,473, respectively. As of December 31, 2018, of the District’s bank balance, $500,000 was covered by FDIC insurance and the remainder was collateralized with securities held by the pledging bank not in the District’s name.

As of December 31, 2018 and 2017, the OPEB Trust funds included cash and cash equivalents with a balance of $167,855 and $165,443, respectively. The Trust funds are collateralized with securities held by the pledging bank not in the District's name.

Note 2: Deposits and Investments (Continued)

Investments

For investments, custodial credit risk is the risk that, in event of failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of the outside party. The District's investment policy does not specifically address custodial credit risk.

As of December 31, 2018 and 2017, $1,101,041 and $1,123,637 of the District's OPEB Trust funds, respectively, were invested in stocks and bonds held by the trust department in the District's name.

The District's investment policy as applicable to the OPEB Trust funds is the Income with Moderate Growth which allows investments in high quality bonds with short and intermediate maturities as well as high quality common stocks and equity funds.

At December 31, 2018 and 2017, investments in the OPEB trust funds consisted of the following:

	2018		2017	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Cash and cash equivalents	$ 167,855	$ 167,855	$ 165,443	$ 165,443
Mutual funds - fixed income	716,362	689,317	673,791	667,851
Real assets	13,695	13,177	10,412	12,984
Mutual funds - equity	197,125	186,579	188,125	225,089
Common stock	156,050	211,968	137,421	217,713
Total OPEB Trust Funds	$ 1,251,087	$ 1,268,896	$ 1,175,192	$ 1,289,080

Maine statutes authorize the District to invest in obligations of the U.S. Government and U.S. Agencies and instrumentalities, repurchase agreements, and certain corporate stocks and bonds. As of December 31, 2018 and 2017, the District's investments for the OPEB trust funds in debt securities were rated as follows:

	2018	2017
Mutual funds - fixed income - not rated	$ 689,317	$ 667,851
Total OPEB debt securities	$ 689,317	$ 667,851

Note 3: Accounts Receivable - Trade

The amount of accounts receivable is shown net of allowance for bad debts at December 31, 2018 and 2017 were:

	2018	2017
Accounts receivable	$ 598,017	$ 520,860
Allowance for bad debts	(3,069)	(3,458)
Accounts receivable - trade, net	$ 594,948	$ 517,402

Note 4: Utility Plant and Equipment

The following is a summary of utility plant and equipment activity for the year ended December 31, 2018:

	Beginning Balance	Additions	Disposals	Ending Balance
Property Not Being Depreciated				
Organizational Costs	$ 50,709	$ -	$ -	$ 50,709
Land	4,140,302	-	-	4,140,302
Construction work in progress	356,939	889,421	(356,939)	889,421
Property Being Depreciated				
Structures	4,986,102	123,196	-	5,109,298
Impounding dams and reservoirs	70,097	-	-	70,097
Intake and suction mains	17,455	-	-	17,455
Wells	1,583,972	-	-	1,583,972
Pumping equipment	2,387,308	140,535	(63,500)	2,464,343
Purification equipment	2,277,306	3,529	-	2,280,835
Tanks and standpipes	2,331,956	60,563	-	2,392,519
Transmission and distribution mains	37,270,701	1,346,218	-	38,616,919
Services	6,591,276	197,434	(3,750)	6,784,960
Meters	3,319,747	995,809	(166,269)	4,149,287
Fire hydrants	1,322,704	43,198	(450)	1,365,452
General equipment	2,832,475	174,952	(59,104)	2,948,323
Gross plant and equipment	69,539,049	3,974,855	(650,012)	72,863,892
Accumulated depreciation	(20,604,365)	(1,265,598)	281,624	(21,588,339)
Net plant and equipment	$ 48,934,684	$ 2,709,257	$ (368,388)	$ 51,275,553

Depreciation expense for the years ended December 31, 2018 and 2017 was $1,265,598 and $1,248,389, respectively.

Note 5: Other Special Funds

The Board of Trustee's has internally restricted funds for future capital projects. These internally restricted funds were invested in certificates of deposit. These special fund balances as of December 31, 2018 and 2017 are as follows:

Water Supply Protection Fund

Pursuant to Maine Revised Statutes Title 35-A §6113, 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 (cash and amounts to be appropriated) as of December 31, 2018 and 2017 was $1,085,764 and $1,005,013, respectively.

System Development Fund

In accordance with the MPUC 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 MPUC a financial activity report annually. The balance of the fund as of December 31, 2018 and 2017, was $1,092 and $1,089, respectively.

Note 6: Long-Term Debt

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

	Principal	Interest	Total
Fiscal year 2019	$ 696,540	$ 124,449	$ 820,989
Fiscal year 2020	699,842	113,707	813,549
Fiscal year 2021	636,524	101,636	738,160
Fiscal year 2022	558,265	91,612	649,877
Fiscal year 2023	561,725	83,140	644,865
Fiscal years 2024 - 2028	2,862,585	296,127	3,158,712
Fiscal years 2029 - 2033	2,063,681	141,277	2,204,958
Fiscal years 2034 - 2038	801,757	41,100	842,857
Totals	$ 8,880,919	$ 993,048	$ 9,873,967

Interest expense on long-term debt, net of decreases from deferred bond refund amortization, was $97,412 and $105,234 for the years ended December 31, 2018 and 2017, respectively.

Deferred Bond Refinancing Refunds

Refunds received from bond refinancing are amortized over the life of the bond, decreasing interest expense in subsequent years. The total reduction of interest expense for years ended 2018 and 2017 was $929 and $1,955, respectively. There were no deferred bond refunds remaining as of December 31, 2018. Deferred bond refunds remaining as of December 31, 2017, were $929.

Note 6: Long-Term Debt (Continued)

Long-term bonds payable and notes payable activity for the year ended December 31, 2018 is as follows:

	Beginning Balance	Additions	Repayment	Ending Balance
Bonds Payable				
$1,204,159 bond issued July 1998, 5.000% - 7.850% interest rate, matures November 2018.	97,977	-	(97,977)	-
$1,250,000 bond issued October 2003, 2.085% - 4.285% interest rate, matures November 2018.	83,334	-	(83,334)	-
$1,000,000 bond issued October 2005, 3.000% - 5.700% interest rate, matures November 2020.	200,001	-	(66,667)	133,334
$1,000,000 bond issued October 2006, 1.800% - 6.250% interest rate, matures November 2021.	266,668	-	(66,667)	200,001
$757,350 bond issued November 2008, 2.840% interest rate, matures October 2028.	468,212	-	(36,858)	431,354
$1,250,000 bond issued October 2009, 2.000% - 5.500% interest rate, matures November 2029.	750,000	-	(62,500)	687,500
$2,027,000 bond issued September 2011, 0.000% interest rate, matures April 2031.	1,132,433	-	(83,883)	1,048,550
$1,315,545 bond issued July 2012, 1.000% interest rate, matures April 2032.	960,242	-	(59,654)	900,588
$934,343 bond issued December 2013, 1.210% interest rate, matures October 2033.	765,009	-	(43,622)	721,387
$375,000 bond issued April 2015, 0.010% interest rate, matures October 2029.	300,045	-	(24,990)	275,055
$874,321 bond issued April 2015, 0.010% interest rate, matures October 2034.	744,838	-	(43,291)	701,547
$1,511,525 bond issued August 2016, 1.000% interest rate, matures July 2036.	1,442,879	-	(69,333)	1,373,546
$985,680 bond issued October 2017, 1.000% interest rate, matures January 2037.	812,888	-	(42,783)	770,105
$692,157 bond issued November 2018, 1.000% interest rate, matures November 2037.	-	692,157	(31,435)	660,722
$932,230 bond issued November 2018, 2.200% - 4.227% interest rate, matures November 2038	-	932,230	-	932,230
Total bonds payable	8,024,526	1,624,387	(812,994)	8,835,919
Notes Payable				
$135,000 note issued November 2012, 3.000% interest rate, matures November 2021.	60,000	-	(15,000)	45,000
Total notes payable	60,000	-	(15,000)	45,000
Total long-term debt	8,084,526	$ 1,624,387	$ (827,994)	8,880,919
Current portion	796,560			696,540
Non-current portion	$ 7,287,966			$ 8,184,379

Note 7: Line of Credit

Activity on the District's line of credit during the year ended December 31, 2018 is as follows:

	Beginning Balance	Additions	Repayment	Ending Balance
Line of credit	$ 654,390	$ 1,471,753	$ (1,629,163)	$ 496,980

Note 8: Capital Leases

The District leased equipment under an agreement that is classified as capital leases. The cost of the equipment under capital lease is included in the statement of net position as part of the utility, plant, and equipment in service in the amount of $143,311 at both December 31, 2018 and 2017. Accumulated amortization of the leased equipment at December 31, 2018 and 2017 was $26,935 and $12,604, respectively. Amortization of assets under capital leases is included in depreciation expense.

Interest expense related to capital leases was $3,182 and $1,284 for the years ended December 31, 2018 and 2017, respectively.

Minimum future lease payments for capital leases held by the District as the year ended December 31, 2018 are as follows:

Lease payments due in 2019	$ 24,845
Lease payments due in 2020	24,845
Lease payments due in 2021	24,845
Lease payments due in 2022	16,564
Total minimum lease payments	91,099
Amounts representing interest	(5,328)
Present value of net minimum lease payments	85,771
Current portion of capital lease obligations	(22,389)
Non-current portion of capital lease obligations	$ 63,382

Note 9: Accrued Compensated Absences

The change in compensated absences for the year ended December 31, 2018 is as follows:

	Beginning Balance	Net (Decrease) Increase	Ending Balance
Accrued vacation	$ 308,434	$ (17,104)	$ 291,330
Accrued compensated time	65,527	14,100	79,627
Totals	$ 373,961	$ (3,004)	$ 370,957

Note 10: 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 $1,187,213 and $1,068,654 as of December 31, 2018 and 2017, respectively.

Note 11: Pensions

Effective July 1, 1996, the District became a participant of the Maine Public Employees State Retirement System's (MainePERS or the System) 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 MainePERS, 46 State House Station; Augusta, Maine 04333-0046.

As of June 30, 2018, there were 304 employers participating in the plan.

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 his/her normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 2.4%.

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

As of December 31, 2018 and 2017, the District reported a liability of $1,322,825 and $1,985,352, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating local districts, actuarially determined. As of December 31, 2018 and 2017, the District's proportion was 0.483% and 0.485%.

For the years ended December 31, 2018 and 2017, the District recognized pension expense of $(211,946) and $397,003, respectively.

Note 11: Pensions (Continued)

As of December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,142	$ 14,529
Net difference between projected and actual earnings on pension plan investments	-	319,409
Changes of assumptions	211,131	-
Changes in proportion	27,797	7,083
District contributions subsequent to the measurement date	144,111	-
Totals, December 31, 2018	$ 387,181	$ 341,021

For fiscal year 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 95,382
Net difference between projected and actual earnings on pension plan investments	684,210	738,801
Changes of assumptions	168,941	-
Changes in proportion	66,028	1,561
District contributions subsequent to the measurement date	122,427	-
Totals, December 31, 2017	$ 1,041,606	$ 835,744

Deferred outflows relating to pensions resulting from District contributions subsequent to the measurement date in the amount of $144,111, as of December 31, 2018, will be recognized as a reduction of the net pension liability in 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of December 31, 2018, will be recognized in pension expense as follows:

Fiscal year 2019	$ 197,430
Fiscal year 2020	4,466
Fiscal year 2021	(217,293)
Fiscal year 2022	(82,554)
Total	$ (97,951)

Note 11: Pensions (Continued)

Actuarial Methods and Assumptions

The collective total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2018, using the following methods and assumptions, applied to all periods included in the measurement.

Actuarial Cost Method

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

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the Plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his expected future salary. The normal cost for each employee is the product of his pay and his 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 (UAAL).

Asset Valuation Method

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

Amortization

The net pension liability of the PLD Consolidated Plan 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.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2018 are as follows:

- *Investment Rate of Return* – 6.75% per annum for the year ended June 30, 2018 and 6.875% for year ended June 30, 2017, compounded annually.

- *Inflation Rate* – 2.75% per annum for the years ended June 30, 2018 and 2017.

- *Annual Salary Increases, Merit, and Inflation*– members of the PLD Consolidated Plan, 2.75% to 9.00% for the years ended June 30, 2018 and 2017.

- *Cost of Living Benefit Increases* – 1.91% for the year ended June 30, 2018 and 2.20% for year ending June 30, 2017 for participating local districts.

- *Mortality Rates* –For the years ended June 30, 2018 and 2017, for active members and non-disabled retirees of the participating local districts, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used. For all recipients of disability benefits, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used.

Note 11: Pensions (Continued)

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 Plan's target asset allocation as of June 30, 2018, are summarized in the following table. Assets of the Plan are commingled for investment purposes.

	Target Allocation	Long-term Expected Real Rates of Return
Public Equities	30.0%	6.0%
US Government	7.5%	2.3%
Private equity	15.0%	7.6%
Real assets:		
Real estate	10.0%	5.2%
Infrastructure	10.0%	5.3%
Natural Resources	5.0%	5.0%
Traditional Credit	7.5%	3.0%
Alternative Credit	5.0%	4.2%
Diversifiers	10.0%	5.9%

Discount Rate

The discount rate used to measure the collective total pension liability was 6.75% for 2018 and 6.875% for 2017. 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 contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table shows how the collective net pension liability/(asset) as of June 30, 2018 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate.

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
PLD Plan			
District's proportionate share of the net pension liability	$ 3,117,723	$ 1,322,825	$ (354,912)

Pension Plan Fiduciary Net Position

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

Note 11: Pensions (Continued)

Financial Reporting

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

http://www.mainepers.org/Publications/Publications.htm#Annual Reports

Note 12: Other Post-Retirement Employment Benefits (OPEB)

Post-Retirement Medical Plan (Medical Plan)

Plan Description

On September 26, 1991, the Board of Trustees voted to offer post-retirement health insurance to the District's employees. The Kennebunk, Kennebunkport, Wells Water District's post-retirement medical plan is a single employer defined benefit medical plan administered by the Retiree Welfare Benefit Trust of the Kennebunk, Kennebunkport and Wells Water District. The District provides certain health care benefits for retired employees. To become eligible for the benefits, the employees have to work for a minimum of 5 years and be at least 60 years old and retire immediately upon leaving the District's employment. Employees will receive 1 year of paid health insurance benefits for each 5 years of service performed. All classes of employees are covered by the plan. The Kennebunk, Kennebunkport, Wells Water District's post-retirement medical plan does not issue a stand-alone financial report.

Membership of the medical plan consisted of the following at December 31, 2018, the date of the latest actuarial valuation:

Active employees	42
Retired employees and beneficiaries	8
Total	50

The required contribution is based on the normal cost determined using the Entry Age Actuarial Cost Method. Under this method, an allocation of liability to past service and future service is made by spreading the costs over an employee's career as a level dollar amount. No employee contributions are required by the plan. The Board of Trustees has the authority to amend the benefits provisions of the postemployment medical plan. Administrative costs are financed through investment earnings. For the years ended December 31, 2018 and 2017, the District contributed $111,243 to the plan. The balance of the plan assets was invested into cash, cash equivalents, and other financial instruments in accordance with the plan's investing objectives established by the 3-member appointed trustee board.

Note 12: Other Post-Retirement Employment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation (Medical Plan)

The District's medical plan benefit cost is calculated based on annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Government Accounting Standards and was applied prospectively. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year. The following table shows the components of the District's annual medical plan cost for the year, the amount actually contributed to the plan, and changes in the District's medical plan obligation based on an actuarial valuation as of December 31, 2018 and 2017

	2018	2017
Annual required contribution	$ 121,858	$ 111,243
Interest on net OPEB obligation	93,276	34,476
Adjustment to annual required contribution	187,976	(45,167)
Annual OPEB cost	403,110	100,552
Contributions made	(111,243)	(111,243)
Change in net OPEB obligation	291,867	(10,691)
Net OPEB obligation - beginning of year	678,830	689,521
Net OPEB obligation - end of year	$ 970,697	$ 678,830

The District's annual medical plan cost, the percentage of annual medical plan cost contributed to the plan by the District, and the net post-retirement obligation for 2018 and the two preceding years were as follows:

	2018	2017	2016
Annual OPEB cost	$ 403,110	$ 100,552	$ 104,575
Percentage of annual OPEB cost contributed	28%	111%	120%
Net OPEB obligation	$ 970,697	$ 678,830	$ 689,521

Note 12: Other Post-Retirement Employee Benefits (OPEB) (Continued)

Post-Retirement Medical Plan (Medical Plan)

Change in Plan Assets

A summary of the changes in the medical plan's assets during the year ended December 31, 2018, is as follows:

	2018	2017
Fair value of plan assets - beginning of year	$ 1,109,665	$ 946,940
District contributions	111,243	111,243
Net investment earnings	(46,838)	100,366
Benefits paid	(69,398)	(48,884)
Fair value of plan assets - end of year	$ 1,104,672	$ 1,109,665

Funded Status and Funding Progress

The funded status of the medical plan as of the most recent valuation date of December 31, 2018, is as follows:

Actuarial value of assets	$ 1,104,672
Actuarial accrued liability (AAL)	(2,086,472)
Unfunded AAL (UAAL)	$ (981,800)
Funded ratio	52.94%
Covered payroll	$ 3,052,639
UAAL as a percentage of covered payroll	-32.16%

The required schedule of funding progress immediately follows the notes and presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability. Information about the funded status of the plan as of the most recent actuarial valuation is included as required supplementary information.

Actuarial Methods and Assumptions

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. The required contribution was determined as part of the December 31, 2018 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included a 5% investment rate of return. The actuarial value of employer medical plan assets as of the valuation date is equal to the fair value of plan assets. The unfunded actuarial liability adjustment is the annual level dollar amortization of the unfunded actuarial accrued liability over 30 years.

Note 12: Other Post-Retirement Employee Benefits (OPEB) (Continued)

Post-Retirement Sick Time Reimbursement Benefit Plan (Sick Time Plan)

Plan Description

The District provides post-retirement sick time reimbursement benefits to its employees. All classes of employees are covered by the sick time plan. All full-time employees who retire from the District will be paid for a portion of their accumulated unused sick leave on a basis of 1% per year of employment to a maximum of 60 days. The employee must have worked for the District a minimum of ten years to be eligible. No employee contributions are required by the plan. The Board of Trustees has the authority to amend the benefits provisions of the sick time plan. Administrative costs are financed through investment earnings. For the years ended December 31, 2018 and 2017, the District contributed $11,408 and $11,091 to the sick time plan, respectively. The balance of the sick time plan's assets was invested into cash, cash equivalents and other financial instruments in accordance with the plan's investing objectives established by the 3-member trustee board.

Change in Accumulated Post-Retirement Benefit Obligation

As of December 31, 2018 and 2017, the date of the latest actuarial valuation, the summary of the changes in the sick time plan obligation is as follows:

	2018	2017
Benefit obligation - beginning of year	$ 292,577	$ 274,762
Service cost	6,018	5,887
Interest cost	7,256	7,593
Actuarial (gain) / loss	(6,294)	4,335
Benefits paid	(32,439)	-
Benefit obligation - end of year	$ 267,118	$ 292,577

The above obligation is presented in the balance sheet as part of the post-retirement benefits and is reported as a long-term obligation.

Change in Plan Assets

A summary of the changes in the sick time plan's assets during the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Fair value of plan assets - beginning of year	$ 179,415	$ 158,201
District contributions	11,408	11,091
Net investment earnings	(5,264)	15,413
Benefits paid	(32,439)	(5,290)
Fair value of plan assets - end of year	$ 153,120	$ 179,415

Note 12: Other Post-Retirement Employee Benefits (OPEB) (Continued)

Funded Status and Funding Progress

The funded status of the sick time plan as of December 31, 2018 and 2017 is as follows:

	2018	2017
Fair value of plan assets	$ 153,120	$ 179,415
Benefit obligation - end of year	(267,118)	(292,577)
Unfunded benefit obligations	$ (113,998)	$ (113,162)
Funded ratio	57.32%	61.32%

Actuarial Methods and Assumptions

The determination of the sick time plan's net periodic pension costs includes assumptions about the discount rate and an estimate for the long-term return on plan assets. The discount rate assumption was 3.74% and 3.04% for fiscal years 2018 and 2017, respectively. The estimated long-term rate of return on plan assets of 5.00% for both fiscal years 2018 and 2017. The sick time plan's net periodic pension costs were $11,408 and $11,091 for the years ended December 31, 2018 and 2017, respectively.

The following benefit payments, which reflect expected future service, as appropriate, that are expected to be paid over the next 10 years are as follows:

	Estimated Benefit Payments
Fiscal year 2019	$ 79,297
Fiscal year 2020	-
Fiscal year 2021	20,803
Fiscal year 2022	42,907
Fiscal year 2023	22,132
Fiscal years 2024 - 2028	106,858

Note 13: Appropriations of Net Position

The District has established appropriated net position for various purposes. At December 31, 2018 and 2017, appropriated net position was 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, 2018 and 2017 were $812,995 and $726,070, respectively. The appropriated funded debt retired through surplus balance at December 31, 2018 and 2017 was $19,334,499 and $18,521,504.

Note 13: Appropriations of Net Position (Continued)

Water Supply Protection Fund and Restricted Reserves

Pursuant to Maine Revised Statutes Title 35-A §6113, 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. In addition, the maximum fund accumulation is 15% of the prior year's revenue. Interest earned in the fund must remain in the fund and be used solely for the purposes of the fund. For the years ended December 31, 2018 and 2017, the District voted to appropriate $91,215 and $58,498 to the Water Supply Protection reserve, respectively. The interest income for the years ended 2018 and 2017 was $3,450 and $2,181. During 2018, the District approved $14,000 to be used from reserve funds. The cumulative balance of the reserve at December 31, 2018 and 2017 was $1,086,856 and $1,006,102, respectively.

Mortgage Payment Appropriation

The District appropriates from net income and/or the Water Supply Protection Reserve as allowed by the Maine law, annually, an amount equal to the year's principal payment on the land mortgage. The appropriated mortgage payment balance at December 31, 2018 and 2017 was $1,540,000 and $1,525,000, respectively.

Note 14: Operating Lease Commitment

The District renewed its three-year license agreement for accounting software, equipment and services. The agreement was renewed as of July 1, 2017 and expires on June 30, 2020. Under the agreement, the District is obligated to pay minimum annual license fees of $77,331 per year.

Note 15: 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 the years ended 2018 and 2017 total rental revenue was $354,929 and $348,421, respectively.

Note 16: 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.

Note 17: Contingency Allowance 7% Test

Pursuant Maine Revised Statutes Title 35-A §6112, if the District provides for an annual contingency allowance that has been collected through rates and where, in each of three consecutive years, the allowance is equal to or greater than 7% of the its annual operating expenses, it shall notify customers in writing of the over-collection and hold a public hearing to address the issue. For the purposes of this test operating expenses are composed of operation and maintenance expenses, depreciation and amortization, and taxes other than income taxes.

The District's contingency allowance did not exceed the 7% maximum for fiscal years 2018 or 2017.

Note 18: 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, 2018 and 2017. 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.

Note 19: Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through May 13, 2019, the date the financial statements were available to be issued.

On March 7, 2019, a contract was entered into between KS StateBank and Kennebunk, Kennebunkport and Wells Water District for a dump truck lease in the amount of $130,235. The date of the first payment will be April 7, 2019 and the term of the lease will be for 5 years at a rate of approximately 4.30%.

Schedule of the District's Proportionate Share of the Net Pension Liability Schedule 1

MainePERS Participating Local Districts Plan (PLD) Consolidated Plan

Employer ID: P0255

For the Fiscal Year Ended	District's proportion of the net pension liability	District's proportionate share of the net pension liability	District's covered-employee payroll	District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	0.483352%	$ 1,322,825	$ 3,052,639	43.33%	91.14%
2017	0.484897%	1,985,352	2,840,852	69.89%	86.43%
2016	0.475900%	2,528,603	2,754,507	91.80%	81.61%
2015	0.458222%	1,461,942	2,667,712	54.80%	88.27%
2014	0.441494%	679,376	2,554,283	26.60%	94.10%

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

Schedule of the District's Employer Contributions

Schedule 2

MainePERS Participating Local Districts (PLD) Consolidated Plan
Employer ID: P0255

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
2018	$ 280,012	$ 280,012	$ -	$ 3,052,639	9.17%
2017	255,721	255,721	-	2,840,852	9.00%
2016	238,497	238,497	-	2,754,507	8.66%
2015	206,582	206,582	-	2,667,712	7.74%
2014	169,387	169,387	-	2,554,283	6.63%

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

Schedule of Funding Progress - Post Retirement Medical Plan

Schedule 3

As of December 31st for the Years Listed

Actuarial Valuation Year	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
2008	$ -	$ 993,784	$ (993,784)	0.00%	$ 2,226,147	-44.64%
2009	-	1,377,889	(1,377,889)	0.00%	2,191,546	-62.87%
2010	-	1,508,180	(1,508,180)	0.00%	2,431,733	-62.02%
2011	578,616	1,232,312	(653,696)	46.95%	2,310,423	-28.29%
2012	638,729	1,322,713	(683,984)	48.29%	2,402,950	-28.46%
2013	709,988	1,377,085	(667,097)	51.56%	2,526,409	-26.40%
2014	787,672	1,577,326	(789,654)	49.94%	2,554,283	-30.91%
2015	832,108	1,812,137	(980,029)	45.92%	2,667,712	-36.74%
2016	946,940	1,959,006	(1,012,066)	48.34%	2,754,507	-36.74%
2017	1,109,665	1,788,495	(678,830)	62.04%	2,840,852	-23.90%
2018	1,104,672	2,086,472	(981,800)	52.94%	3,052,639	-32.16%

Schedule of Employer Contributions - Post Retirement Medical Plan

Schedule 4

For the Years Ended December 31st for the Years Listed

Contribution Year	Annual Required Contribution	Percentage Contributed
2008	$ 126,339	60.59%
2009	136,327	29.98%
2010	152,622	7.70%
2011	163,289	372.11%
2012	84,795	79.17%
2013	87,470	79.81%
2014	85,815	100.00%
2015	92,836	100.00%
2016	125,900	100.00%
2017	111,243	100.00%
2018	121,858	91.29%

Schedule of Changes in Net Position Schedule 5

For the Year Ended December 31, 2018

(with comparative totals for the year ended December 31, 2017)

	2018						2017
	Appropriated			Unappropriated			
	Funded Debt Retired Through Surplus	Mortgage Payment	Water Supply Protection Fund and Restricted Reserves	Contributions in Aid of Construction (CIAC)	Unappropriated	Total	Total
Beginning Balance	$ 18,521,504	$ 1,525,000	$ 1,006,102	$ 12,624,262	$ 5,498,588	$ 39,175,456	$ 38,097,559
Net income before CIAC	-	-	3,539	-	1,362,086	1,365,625	892,536
Additions to CIAC	-	-	-	759,703	-	759,703	445,191
Amortization of CIAC	-	-	-	(277,071)	-	(277,071)	(259,830)
Use of restricted reserves	-	-	(14,000)	-	14,000	-	-
Current year appropriation	-	-	91,215	-	(91,215)	-	-
Loan principal payments	812,995	15,000	-	-	(827,995)	-	-
Ending Balance	$ 19,334,499	$ 1,540,000	$ 1,086,856	$ 13,106,894	$ 5,955,464	$ 41,023,713	$ 39,175,456

Schedules of Operating Expenses

Schedule 6

For the Years Ended December 31, 2018 and 2017

	2018	2017
Source and Pumping Operations		
Labor	$ 135,543	$ 130,888
Officer	8,854	8,976
Pensions and benefits	108,130	129,409
Purchased water	30,683	9,621
Purchased power	261,963	249,995
Transportation expense	(4,369)	(4,481)
Materials and supplies	(85,979)	(75,850)
Contractual services	31,632	29,639
Equipment rental	401	400
Insurance - vehicles	1,356	1,396
Insurance - workers' compensation	1,597	1,522
Total source and pumping operations	489,811	481,515
Source and Pumping Maintenance		
Labor	200,856	213,152
Officer	13,120	14,618
Pensions and benefits	160,234	210,743
Materials and supplies	79,932	105,901
Contractual services	12,243	11,259
Transportation expense	(6,474)	(7,297)
Insurance - vehicles	2,009	2,274
Insurance - workers' compensation	2,366	2,479
Total source and pumping maintenance	464,286	553,129
Water Treatment		
Labor	236,135	215,492
Officer	15,424	14,778
Pensions and benefits	188,378	213,057
Purchased power	19,481	21,246
Materials and supplies	39,742	26,323
Chemicals	192,042	183,800
Contractual services	46,057	43,403
Transportation expense	(7,611)	(7,377)
Equipment Rental	2,500	-
Insurance - vehicles	2,362	2,299
Insurance - workers' compensation	2,781	2,506
Total water treatment	737,291	715,527

Schedules of Operating Expenses

Schedule 6 (Continued)

For the Years Ended December 31, 2018 and 2017

	2018	2017
Transportation and Distribution - Operations		
Labor	$ 441,250	$ 427,751
Officer	28,823	29,335
Pensions and benefits	352,010	422,917
Purchased power	15,303	11,672
Materials and supplies	30,487	25,948
Contractual services	3,029	3,063
Transportation expense	(14,222)	(14,644)
Insurance - vehicles	4,414	4,563
Insurance - workers' compensation	5,197	4,974
Total transportation and distribution - operations	866,291	915,579
Transportation and Distribution - Maintenance		
Labor	263,729	227,138
Officer	17,227	15,577
Pensions and benefits	210,391	224,571
Materials and supplies	139,234	94,264
Contractual services	166,632	17,861
Transportation expense	(8,500)	(7,776)
Insurance - vehicles	2,638	2,423
Insurance - workers' compensation	3,106	2,641
Total transportation and distribution - maintenance	794,457	576,699
Customer Accounts Expenses		
Labor	214,070	218,883
Officers	33,607	37,723
Pensions and benefits	185,471	237,424
Materials and supplies	20,474	22,350
Contractual services	157,493	157,634
Transportation expense	(6,900)	(7,493)
Insurance - vehicles	2,142	2,335
Insurance - workers' compensation	2,738	2,793
Bad debt expense	(506)	(1,631)
Total customer accounts expenses	608,589	670,018

Schedules of Operating Expenses

Schedule 6 (Continued)

For the Years Ended December 31, 2018 and 2017

Administrative and General Expenses		
Labor	$ 267,953	$ 251,570
Officers	157,488	163,042
Pensions and benefits	318,588	383,618
Purchased power	10,153	9,554
Materials and supplies	73,762	79,857
Contractual services	118,609	77,524
Insurance - general liability	50,495	50,971
Transportation expense	(8,636)	(8,612)
Insurance - vehicles	2,681	2,684
Insurance - workers' compensation	4,704	4,512
Miscellaneous expense	32,949	26,738
Total administrative and general expenses	1,028,746	1,041,458
Operating Expenses before Depreciation	4,989,471	4,953,925
Depreciation Expense	1,265,598	1,248,389
Total Operating Expenses	$ 6,255,069	$ 6,202,314

2018 OPERATIONAL REPORT

PERSONNEL

Education:

The District's employees attended several educational meetings and seminars covering many subjects that included:

Applied Hydraulics
Ergonomics in the Workplace
Confined Space Simulated Rescue
DOT Reasonable Cause Supervisory Training
Work Zone Safety & Traffic Control
Fire Extinguisher Safety
Heartsaver First Aid, CPR, AED
Asbestos Supervisor/Contractor Refresher
Treatment & Distribution I & II Cert. Prep
Treatment & Distribution III & IV Cert. Prep
Basic and Advanced Erosion and Sedimentation Control Practices
Disaster Management for Water Utilities
Forklift Training
Risk Management Plan
Water Loss Management
Safe Work Procedures for Respirable Crystalline Silica in Construction
Chainsaw Safety
Lock Out Tag Out
Backflow Prevention
Video Display Terminal Training
Bloodborne Pathogens
Sexual Harassment
Trenching and Excavation
Residential Sprinklers
Hazardous Communications
Communicating Risk to Your Customers
Perfluorinated Compounds (PFASs)
Management Candidate School
Developing Your Emotional Intelligence
Extremely Hazardous Substance Plan
Chlorine System Review
Cybersecurity Awareness
Hearing Conservation Training and Evaluation

SERVICES

New Installations	Renewals	Total Active Services
47	75	11,502

METERING

Meters:

Number in service at beginning of year	13,808
New installations	119
Number in service at end of year	13,927

Meters serving seasonal customers are installed in the spring and after removal during the fall are tested then stored for the winter. Area plumbers, along with District personnel, set seasonal meters in a cooperative program 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)

	SIZE	2017	ADDED	RETIRED	2018
Deep	20"	75,218			75,218
Deep	16"	112,846			112,846
Deep	12"	186,982	6,166		193,148
Deep	10"	105,505		1,418	
Deep	8"	335,179	2,645	1,704	336,120
Surface	8”	1,932			1,932
Deep	6"	145,786		3,316	142,470
Surface	6”	1,745			1,745
Deep	4'	20,932	162		21,094
Surface	4"	3,801			3,801
Deep	3"	11,434			11,434
Surface	3"	31,128	380		31,508
Deep	2½"	279			279
Surface	2½"	388			388
Deep	2"	58,069	52		58,121
Surface	2"	14,586	1,099	1,264	14,421
Deep	1½"	918			918
Surface	1½"	7,062			7,062
Deep	1¼"	3,188			3,188
Surface	1¼"	3,034			3,034
Deep	1"	10,299		16	10,283
Surface	1"	20,689			20,689
Deep	¾"	2,856			2,856
Surface	¾"	4,065			
		1,157,921	**10,504**	**7,718**	**1,160,707**

2018 MAINS INSTALLED

TOWN	LOCATION	SIZE	MATERIAL	LENGTH	REMARKS
Arundel	Cottage Preserve	12”	DI	1117’	Main Extension
Biddeford	Alcott Lane	2"	Copper	37’	Main Extension
		2”	PVC	250’	Main Extension
Kennebunk	Longfellow Lane	8”	DI	42’	Main Extension
		8”	PVC	827’	Main Extension
		4”	PVC	132’	Main Extension
	Storer Street	12”	DI	155’	Main Relay
		12”	HDPE	1128’	Main Relay
	Larrabee Way	4”	HDPE	30’	Main Relay
	Grasshopper Lane	2”	PVC	36’	Main Relay
	Lord Street	2”	Copper	16’	Main Relay
	Webhannet Place	8”	PVC	183’	Main Extension
Kennebunkport	Harbor Drive	2”	CTS Plastic	32’	Main Relay
		2”	HDPE	760’	Main Relay
	Lands End Road	3”	HDPE	380’	Main Relay
		2”	HDPE	20’	Main Relay
	North Street	12”	DI	1962’	Main Relay
	Oak Street	8”	HDPE	896’	Main Relay
		8”	DI	31’	Main Relay
	West Street	8”	HDPE	458’	Main Relay
	Wildes District Road	12”	PVC	1598’	Main Relay
		12”	DI	106’	Main Relay
Ogunquit	Norseman Lane	8”	PVC	180’	Main Relay
Wells	Main Street	8”	DI	28’	Main Extension

HYDRANTS - 2018

During 2018, 2 public and 11 private hydrants were installed, no public hydrants were abandoned and 1 private hydrant became public, making a total of 736 public and 298 private hydrants in the District's system.

Installations

TOWN	NO.	OWNERSHIP	LOCATION
Arundel	6-12	Private	Patriots Way @ Frontier Way intersection
	6-13	Private	Patriots Way @ 58 Patriots Way
	6-14	Private	Frontier Way @ 12 Frontier Way
Kennebunk	1-194	Public	Lake Brook Drive @ Port Road
	1-195	Private	Lake Brook Drive @ Turnaround
	1-196	Private	Webhannet Place @ Unit #7
	1-197	Private	Webhannet Place @ Unit #13
	1-198	Private	Webhannet Place @ Unit #30
	1-199	Private	Longfellow Lane @ Unit #22
	1-200	Private	Longfellow Lane @ Unit #19
	1-201	Private	Longfellow Lane @ Unit #10
Kennebunkport	2-111	Public	North Street @ #121 North Street
Wells	4-102	Private	Millbrooke Farm Drive

Replacements

TOWN	NO.	OWNERSHIP	LOCATION
Kennebunk	1-70	Public	19 Storer Street across from Sayward Street
	1-71	Public	45 Storer Street
	1-84.1	Public	89 Fletcher @ middle entrance to High School
	1-87.2	Public	149 Fletcher Street @ Maine Turnpike Northbound
	1-94	Public	Alfred Road @ Thompson Road
Kennebunkport	2-12	Public	Corner of Oak Street and West Street
	2-13	Public	Corner of Oak Street and Locke Street
	2-70	Public	140 Wildes District Road across from Lands End Road
Wells	4-10	Public	1650 Post Road

Abandoned

TOWN	NO.	OWNERSHIP	LOCATION
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Transferred from Private to Public

TOWN	NO.	OWNERSHIP	LOCATION
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MONTHLY PUMPING RECORDS

Gallons Pumped

		2017	2018
January		48,457,700	56,822,800
February		44,982,100	47,084,900
March		51,048,400	50,080,800
April		58,402,700	59,647,800
May		84,285,500	95,752,800
June		122,748,300	134,309,800
July		164,700,700	173,124,000
August		163,295,400	160,339,700
September		121,149,100	116,443,800
October		94,138,100	69,940,800
November		50,548,500	50,922,900
December		52,379,300	50,852,900
Subtotals	(KKWWD)	1,056,135,800	1,065,323,000
	(Biddeford/Saco)	7,383,700	3,253,100
	(York Water District)	0	0
TOTAL		**1,063,519,500**	**1,068,576,100**

MONTHLY SNOW AND RAINFALL

	2017		2018	
	Snow Inches	Rain Inches	Snow Inches	Rain Inches
January	17.2	1.68	19.2	1.44
February	48.9	4.42	17.3	2.51
March	28.1	1.36	34.2	0.82
April	16.3	4.98	---	7.32
May	---	6.01	---	1.03
June	---	2.55	---	4.08
July	---	1.97	---	6.72
August	---	3.06	---	3.16
September	---	2.12	---	5.80
October	---	4.03	---	5.22
November	---	2.18	16.0	10.04
December	19.6	0.84	3.0	3.09
Subtotals	**130.1**	**35.20**	**89.70**	**51.23**
Snow/Liquid Equivalent		13.01		8.97
TOTAL PRECIPITATION		**48.21**		**60.20**