KENNEBUNK, KENNEBUNKPORT AND WELLS WATER DISTRICT

96th Annual Report

January 1, 2017 – December 31, 2017

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

TRUSTEES AND OFFICERS

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

2017 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.

2017 was a healthy year for the Water District. Although not record-breaking as with 2016, it compared reasonably well on several fronts. Compared with 2016, 2017 saw a 5.9% decrease in water production and a 2.5% decrease in total operating revenues. From a financial perspective, we received $7.0 million in total operating revenues, as compared to a record-breaking $7.18 million in 2016. All of this contributed to a projected (unaudited) net income for 2017 of approximately $250,000, as compared to a net income of $722,000 in 2016. 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 2017, as measured at our Branch Brook Filtration Plant, was the fourth lowest since the 2003 drought (the lowest was in 2015 and the next lowest was in 2016). This year's dry weather, combined with a relatively stable local economy, resulted in an annual water production of 1.062 billion gallons. This is the fourth highest annual water production since the drought of 2003 and compares to the record 1.125 billion gallons produced in 2016. Our groundwater sources produced 281 million gallons (26%) of all of our water production for 2017.

From a customer growth perspective, it appears the local economy is still healthy, with 147 customers added in 2017. This compares with 166 in 2016 and 143 in 2015, resulting in a customer growth rate of about 1.1%. Our customer base now stands at 13,808 metered accounts.

This was the seventh 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 $9.4 million of infrastructure to date at a total bonded cost of $8.9 million, at an average bond interest rate of only 0.87%.

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 0.61 will result in our 2018 workmen's compensation insurance premium being reduced to 61% 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 commitment to employee safety.

With all of the recent discussion relating to the poor condition of America's infrastructure, we are pleased to report that for the past 30-plus years, we have averaged replacing about 0.8% of our distribution system per year. This is very 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 our water rates below that of the average of Maine's water utilities. On a related note, despite maintaining this aggressive infrastructure replacement program, we have a relatively low cost of debt service, which currently stands at 12.9% 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.

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 USEPA's recommended Health Advisory Level, it was felt that erring on the side of caution was in the best interest of our customers. The details of this issue are further described on our website at www.kkw.org or at http://kkw.org/2018/02/kennebunk-river-well-pfas-information.

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 2017, our crews installed 3,400 AMI meters. As of the end of the year, 4,167 of our 13,808 customers are now served with AMI meters. For more information on our conversion to AMI meters, visit www.kkw.org or at http://kkw.org/2016/03/automated-meter-infrastructure-ami-information.

In April of 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. More details are available on our website at www.kkw.org or at http://kkw.org/2017/03/information-on-chloramines or on page 6 of our Winter 2018 newsletter at http://kkw.org/archived-newsletters.

The following is a partial list of distribution projects funded and installed by our personnel during 2017. 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.

- Green Street, Kennebunkport: Replaced 660 feet of old 6-inch cast iron (CI) main with 8-inch high density polyethylene (HDPE) main. (In conjunction with a Town sewer main replacement project and Town pavement overlay.)

- Mast Cove Lane, Kennebunkport: Replaced 250 feet of old 2-inch cast iron (CI) main with 2-inch (HDPE) main.

- Parson's Beach Road, Kennebunk: Replaced 3,600 feet of obsolete 2-inch galvanized iron pipe (GALV) seasonal main with 3-inch HDPE main.

- Spring Street, Kennebunk: Replaced 520 feet of old 2-inch wrought iron (WI) main with 8-inch polyvinyl chloride (PVC) main.

- Shore Road, Ogunquit: Replaced 1,200 feet of old 10-inch CI main with 12-inch ductile iron (DI) main. (This was the last of a two phase project that was begun in 2016 and was done in conjunction with an Ogunquit Sewer District sewer main replacement project).

- Pulpit Rock Lane, Ogunquit: Replaced 600 feet of obsolete 2-inch GALV seasonal main with 3-inch HDPE main.

- Grove Street, Ogunquit: Replaced 400 feet of obsolete 2-inch GALV seasonal main with 3-inch HDPE main.

- Maple Street, Ogunquit: Replaced 285 feet of obsolete 2-inch GALV seasonal main with 3-inch HDPE main.

- Stoney Brook Road, Ogunquit: Replaced 580 feet of obsolete 2-inch GALV seasonal main with 3" HDPE main.

In addition to the above projects, individuals and developers funded several water main extensions totaling 9000 feet in length, as compared to approximately 14,000 feet installed in 2016.

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 2017. 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,

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

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

KKW KENNEBUNK, KENNEBUNKPORT AND WELLS WATER DISTRICT

Annual Financial Statements
For the Years Ended December 31, 2017 and 2016

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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2017 and 2016, 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.

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
April 2, 2018

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, 2017

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.

Management's Discussion and Analysis

Comparison of Financial Statements for Current and Prior Years

Condensed Statements of Net Position

	2017	2016	$ Difference	% Difference
Current Assets	$ 2,267,758	$ 2,147,775	$ 119,983	5.6%
Special Funds	947,604	622,156	325,448	52.3%
Capital Assets	48,934,684	47,672,531	1,262,153	2.6%
Other Assets	65,484	65,484	-	0.0%
Total Assets	52,215,530	50,507,946	1,707,584	3.4%
Deferred outflows of resources	1,052,473	1,455,125	(402,652)	-27.7%
Current Liabilities	2,036,139	1,711,768	324,371	18.9%
Long-term Debt	7,374,666	7,276,014	98,652	1.4%
Other Liabilities	3,845,998	4,323,866	(477,868)	-11.1%
Total Liabilities	13,256,803	13,311,648	(54,845)	-0.4%
Deferred inflows of resources	835,744	553,863	281,881	50.9%
Net Investment in Capital Assets	40,066,422	39,378,016	688,406	1.7%
Unrestricted Net Position	(890,966)	(1,280,456)	389,490	30.4%
Total Net Position	$ 39,175,456	$ 38,097,560	$ 1,077,896	2.8%

Current Assets

The increase in current assets by $119,983 is primarily due to an increase in operating cash.

Special Funds

During 2017 Special Funds increased by a net amount of $325,448. The fund's cash was increased during 2017 by $323,268, appropriated by the Trustees based on 2016 earnings. The combined investment income in 2017 for all Special Funds was $2,181 (compared to $1,710 in 2016).

Capital Assets

Capital assets grew by $1,262,153 in 2017. That increase consisted of:

	Additions	Retirements	Net Change
Utility property	$ 2,236,722	$ (341,934)	$ 1,894,788
Construction Work in Progress	356,939	(40,575)	316,364
Allowance for Depreciation	(1,248,389)	299,390	(948,999)
Totals	$ 1,345,272	$ (83,119)	$ 1,262,153

The additions to utility property included $909,055 of water mains. Utility Property retirements totaled $305,214 during 2017; the largest amount was $166,410 of meters.

Management's Discussion and Analysis

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 entirely to the District's pension plan. The net decrease in 2017 of $402,652 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.

Current Liabilities

Current liabilities increased by a net amount of $324,371 in 2017 primarily from net increases in the outstanding line of credit.

Long-term Debt

Long-term debt increased by a net amount of $98,652 in 2017. The increase was largely due to a new bond issuance totaling $855,671, and off-set by debt repayments totaling $783,853. 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 $477,868 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 entirely to the District's pension plan. The net increase in 2017 of $281,881 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.

Total Net Position

Overall, the District's Total Net Position increased by $1,077,896 from 2016 to 2017. Most of the net position is in net investment in capital assets, leaving the District with a negative unrestricted net position of $890,966.

Management's Discussion and Analysis

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

	2017	2016	$ Difference	% Difference
Operating Revenue	$ 6,649,736	$ 6,846,799	$ (197,063)	-2.9%
Depreciation Expense	1,248,389	1,195,153	53,236	4.5%
Other Operating Expenses	4,953,925	4,893,220	60,705	1.2%
Total Operating Expenses	6,202,314	6,088,373	113,941	1.9%
Operating Income	447,422	758,426	(311,004)	-41.0%
Net Non-operating Income	185,283	170,861	14,422	8.4%
Contributions	445,191	1,136,845	(691,654)	-60.8%
Change in Net Position	1,077,896	2,066,132	(988,236)	-47.8%
Beginning Net Position	38,097,560	36,031,428	2,066,132	5.7%
Ending Net Position	$ 39,175,456	$ 38,097,560	$ 1,077,896	2.8%

Operating Revenue

In 2017, metered water revenue accounted for 85.6% of total operating revenue, while public and private fire protection accounted for 13.3%.

Metered water revenue ($5.69 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 2017, metered water revenue decreased by 3.41% ($200,471) due to a 5.5% reduction in pumpage from 2016, which resulted in a 5.3% decrease in billed consumption.

Public and private fire protection ($0.88 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 2017 increased by 1.43% from 2016.

Depreciation Expense

Depreciation expense increased from $1,195,153 in 2016 to $1,248,389 in 2017, an increase of 4.5%. This increase can be attributed to the general growth in capital assets during 2017.

Management's Discussion and Analysis

Other Operating Expenses

Non-depreciation operating expense increased by $60,705 between 2017 and 2016, 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.

	2017	2016	$ Difference	% Difference
Salaries/wages	$ 1,968,923	$ 1,910,944	$ 57,979	3.0%
Employee benefits	1,821,739	1,792,541	29,198	1.6%
Purchased water, power & chemicals	485,888	447,321	38,567	8.6%
Operational & maintenance supplies	278,793	274,034	4,759	1.7%
Legal and audit fees	24,210	27,879	(3,669)	-13.2%
Contracted services & equip rentals	316,573	378,723	(62,150)	-16.4%
Vehicle maintenance	(57,680)	(64,097)	6,417	-10.0%
Bad debt expense	(1,631)	1,507	(3,138)	-208.2%
Insurance	90,372	90,674	(302)	-0.3%
Miscellaneous expenses	26,738	33,694	(6,956)	-20.6%
Totals	$ 4,953,925	$ 4,893,220	$ 60,705	1.2%

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 3.0% 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 increased by a net amount of $29,198 in 2017.

Purchased water, power & chemicals – Despite the District's decrease in total pumpage during 2017 of 5.5%, there was an overall increase in these costs of $39K (8.6% increase from 2016). Purchased Power costs increased by 6.4% ($17K over 2016) as a result of normal price increases. Filtration Plant Chemical costs were 30% higher ($42K more than 2016), primarily due to an overall decrease in groundwater production from 2016. The District's ground water sources produced 26.4% of the District's total pumpage during 2017 (down from 47.2% in 2016). Purchased water costs also decreased by 69.0% ($21K less than 2016) due the shutdown of the Kennebunk River Well.

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 $4,759 or 1.7% overall from 2016.

Legal and Audit Fees – Legal and audit fees remained relatively flat between 2016 and 2017.

Contracted Services & Equipment Rentals - This category, which includes a large array of services provided to the District by outside vendors, decreased by 16.4% or approx. $62K during 2017.

Management's Discussion and Analysis

Expense category explanations (Continued):

Vehicle Maintenance – Net vehicle maintenance expense increased by $6,417 in 2017, 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.

Insurance – Insurance costs remained relatively flat between 2016 and 2017.

Net Non-Operating Income

Non-Operating Revenue primarily consists of Tank Rental Revenues ($348K). Non-Operating Expenses is made up mostly of Interest Expense ($109K) and Taxes Other Than Income Tax ($43K). Net Non-Operating Income increased by $14,422 between 2016 and 2017.

Contributions

Contributions occur when development takes place within the District's service area. The contributions for 2017 and 2016 were as follows:

	2017	2016	$ Difference	% Difference
Main Extensions	$ 141,477	$ 682,542	$ (541,065)	-79.3%
System Development Charges	250,637	331,467	(80,830)	-24.4%
Meters	53,077	55,591	(2,514)	-4.5%
Services	-	67,245	(67,245)	-100.0%
Totals	$ 445,191	$ 1,136,845	$ (691,654)	-60.8%

Management's Discussion and Analysis

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 2017, the District's current ratio decreased from 1.25 to 1.11. This means that at year end 2017, the District has $1.11 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 increased from 0.96 in 2016 to 1.18 in 2017. This means that for the year ended 2017, the District generated $1.18 in net revenues to satisfy every dollar of principal and interest payments.

Current Ratio	2017	2016
Current Assets	$ 2,267,758	$ 2,147,775
Current Liabilities	2,036,139	1,711,768
Current Ratio	1.11	1.25

Coverage Ratio	2017	2016
Operating Revenue	$ 6,649,736	$ 6,846,799
Non-operating Rental Revenue	348,421	332,276
Interest income	4,319	5,127
Miscellaneous Income	25,296	24,256
Gross revenues	7,027,772	7,208,458
Total Operating expenses	6,202,314	6,088,373
Depreciation	(1,248,389)	(1,195,153)
Other Operating Expenses	4,953,925	4,893,220
Net available for debt servic	$ 2,073,847	$ 2,315,238
Principal payments	$ 1,642,176	$ 2,280,105
Interest expense	109,400	140,746
Total debt service	$ 1,751,576	$ 2,420,851
Coverage Ratio	1.18	0.96

Management's Discussion and Analysis

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's rates increased by 3.0% effective April 2015. The District had an open rate case before the MPUC for a 6.6% increase across the board; increase is to be effective April 2018.

Most of the District's operating revenue, 99% in both 2017 and 2016, comes from water assessments. These revenue sources are normally quite stable. There was a 3.4% decrease from 2016 in metered revenues.

In addition, the District's metered water customer base is not concentrated. Residential customers, who make up 12,551 of the District's 13,808 metered connections (90.9%), provided 61.0% of all operating revenue in 2017 and 60.6% in 2016. Non-residential metered customers represented 24.6% of operating revenue in 2017 and 25.3% in 2016.

Fire protection (public and private) was 11.9% of all operating revenue for 2017, and 10.5% in 2016. The District's

operating revenue by type for 2017 and 2016 is summarized below:

	2017		2016	
	$	%	$	%
Metered - residential	$ 4,053,967	61.0%	$ 4,151,951	60.6%
Metered - non-residential	1,632,702	24.6%	1,735,189	25.3%
Public fire	711,029	10.7%	705,870	10.3%
Private fire	174,107	2.6%	166,804	2.4%
Other operational revenue	77,931	1.2%	86,985	1.3%
Total operating revenue	$ 6,649,736	100.0%	$ 6,846,799	100.0%

Significant Changes to Individual Funds

Operating and Management Fund

Operating revenue decreased by 2.5% in 2017 which resulted from a 5.3% decrease in billed consumption.

Operating expenses (excluding depreciation) were up 1.2% overall from 2016. The major expense decreases occurred in contracted services, as discussed above.

Management's Discussion and Analysis

Water Supply Protection Fund

Changes in the Water Supply Protection Fund for 2017 and 2016 are summarized below:

	2017	2016	% Difference	% Difference
Interest Income	$ 2,181	$ 1,707	$ 474	27.8%
Appropriations to the Fund	58,498	323,268	(264,770)	-81.9%
Withdrawals from the Fund	-	(132,000)	132,000	-100.0%
Net Change to the Fund	$ 60,679	$ 192,975	$ (132,296)	-68.6%

System Development Fund

Increases in the System Development Fund were due only to interest income in 2017 and 2016. Interest earned was $3 in 2017 and 2016.

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 2017 and 2016 were:

	2017	2016	% Difference	% Difference
OPEB Fund Balance	$ 1,289,080	$ 1,105,141	$ 183,939	16.6%

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 $1.89 million in 2017. The allowance for depreciation grew by $949K and construction work in progress increased by $316K. Net utility property increased from $47.7 million in 2016 to $48.9 million in 2017.

Management's Discussion and Analysis

Long Term Debt

In October 2017, the District received $.9 million in proceeds from a bond issue. The bond proceeds are related to three 2016 SRF projects. The first project was an Advanced Metering Infrastructure (AMI) project. The other two were main replacementprojects.

The total bonded debt and capital leases activity for 2017 is detailed below:

	Beginning	Issues	Retirements	Ending
Bonded debt	$ 8,012,708	$ 855,671	$ (783,853)	$ 8,084,526
Capital leases	10,130	114,826	(16,017)	108,939

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 addressedto:

Wayne A. Brockway, Treasurer,
KK&W Water District
P.O. Box 88, Kennebunk, ME 04043.

Financial Statements

Statements of Net Position

Statement 1

As of December 31, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 1,263,768	$ 972,568
Accounts receivable - trade, net	517,402	573,816
Accounts receivable - other	7,764	45,760
Materials and supplies inventory	402,633	481,686
Prepaid expenses	76,191	73,945
Total current assets	2,267,758	2,147,775
Special funds		
Water supply protection fund	946,515	621,070
System development fund	1,089	1,086
Total other special funds	947,604	622,156
Utility, plant, and equipment in service	69,182,110	67,287,322
Accumulated depreciation	(20,604,365)	(19,655,366)
Net utility, plant, and equipment in service	48,577,745	47,631,956
Construction work in progress	356,939	40,575
Total net utility, plant, and equipment	48,934,684	47,672,531
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	52,215,530	50,507,946
Deferred Outflows of Resources		
Deferred outflows for pensions	1,052,473	1,455,125

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Net Position

As of December 31, 2017 and 2016

Statement 1 (Continued)

	2017	2016
Liabilities		
Current liabilities:		
Accounts payable	$ 159,119	$ 304,853
Other accrued liabilities	28,942	30,010
Compensated absences	373,961	379,366
Line of credit	654,390	247,831
Current portion of capital leases	23,167	8,638
Current portion of long-term debt	796,560	741,070
Total current liabilities	2,036,139	1,711,768
Long-term debt:		
Long-term portion of capital leases	85,772	1,492
Long-term portion of long-term debt (including deferred debt refunds of $929 and $2,884 for 2017 and 2016)	7,288,894	7,274,522
Total long-term debt	7,374,666	7,276,014
Other long-term liabilities:		
Customer advances for construction	1,068,654	989,181
Post retirement benefits	791,992	806,082
Net pension liability	1,985,352	2,528,603
Total other long-term liabilities	3,845,998	4,323,866
Total Liabilities	13,256,803	13,311,648
Deferred Inflows of Resources		
Deferred inflows from pensions	835,744	553,863
Net Position		
Net Investment in Capital Assets	40,066,422	39,378,016
Unrestricted	(890,966)	(1,280,456)
Total Net Position	$ 39,175,456	$ 38,097,560

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Revenues, Expenses, and Changes in Net Position

Statement 2

For the Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Metered - residential	$ 4,053,967	$ 4,151,951
Metered - commercial	1,632,702	1,735,189
Public fire protection	711,029	705,870
Private fire protection	174,107	166,804
Local municipalities	57,304	56,406
Miscellaneous service revenues	20,627	30,579
Total operating revenues	6,649,736	6,846,799
Operating Expenses		
Operations and maintenance	4,953,925	4,893,220
Depreciation	1,248,389	1,195,153
Total operating expenses	6,202,314	6,088,373
Operating Income	447,422	758,426
Non-Operating Income		
Rental revenues	348,421	332,276
Interest income	4,319	5,127
Merchandise and jobbing income	8,795	1,365
Miscellaneous non-utility income	8,493	8,196
Gain on disposal of assets	8,008	14,695
Total non-operating income	378,036	361,659
Non-Operating Expenses		
Interest expense	109,400	140,746
Taxes other than income tax	42,633	43,473
Loss on disposal of assets	36,720	-
Bond issue costs	4,000	6,579
Total non-operating expenses	192,753	190,798
Change in Net Position Before Contributions	632,705	929,287
Contributions		
Mains, services, meters, and hydrants	445,191	1,136,845
Change in Net Position	1,077,896	2,066,132
Beginning Net Position	38,097,560	36,031,428
Ending Net Position	$ 39,175,456	$ 38,097,560

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Cash Flows

Statement 3

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Cash received from customers	$ 6,724,582	$ 6,643,657
Cash payments to suppliers and contractors	(1,274,409)	(1,259,218)
Cash payments for employee services	(3,668,875)	(3,510,854)
Net cash provided by operating activities	1,781,298	1,873,585
Cash Flows from Capital and Related Financing Activities		
Proceeds from borrowings	2,162,847	1,759,356
Repayment of borrowings	(1,642,176)	(2,280,105)
Repayment of capital lease obligations	(16,017)	(18,500)
Increase in bonds receivable	37,796	(37,796)
Payment of bond issue costs	(4,000)	(6,579)
Interest paid	(112,838)	(157,295)
Transfer of funds from the Water Supply Protection Fund	-	132,000
Transfer of funds to the Water Supply Protection Fund	(323,268)	(270,250)
Acquisitions and construction of operating property	(2,438,260)	(3,144,215)
Proceeds from sales of fixed assets	8,008	14,695
Losses on disposal of fixed assets	(36,720)	-
Contributions in aid of construction received	523,971	1,361,842
Net cash used by capital and related financing activities	(1,840,657)	(2,646,847)
Cash Flows from Investing Activities		
Rent income	348,421	332,276
Interest income received	4,319	5,127
Reinvested investment income	(2,181)	(1,710)
Net cash provided by investing activities	350,559	335,693
Net Increase (Decrease) in Cash and Cash Equivalents	291,200	(437,569)
Beginning Cash and Cash Equivalents	972,568	1,410,137
Ending Cash and Cash Equivalents	$ 1,263,768	$ 972,568

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Cash Flows

Statement 3 (Continued)

For the Years Ended December 31, 2017 and 2016

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	2017	2016
Operating income	$ 447,422	$ 758,426
Jobbing income	8,795	1,365
Miscellaneous non-utility income	8,495	8,195
Taxes other than income	(42,633)	(43,473)
Adjustments not affecting cash:		
Depreciation	1,248,389	1,195,153
Net actuarial adjustment for pension costs	141,282	240,388
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	57,556	(212,702)
Inventory	79,053	(94,947)
Prepaid expense	(2,246)	41,055
Groundwater recharge prepayments	-	(31,991)
(Decrease) increase in:		
Accounts payable	(145,735)	65,008
Other accrued liabilities	(4,990)	(24,591)
Post retirement benefits	(14,090)	(28,301)
Net cash provided by operating activities	$ 1,781,298	$ 1,873,585

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Plan Net Position - Fiduciary Funds

Statement 4

As of December 31, 2017 and 2016

	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

	2016		
	OPEB Medical	OPEB Sicktime	Total
Assets			
Cash and investments	$ 990,881	$ 158,201	$ 1,149,082
Liabilities			
Due to KKWWD	43,941	-	43,941
Plan Net Position			
Restricted for OPEB	$ 946,940	$ 158,201	$ 1,105,141

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Changes in Plan Net Position - Fiduciary Funds

Statement 5

For the Years Ended December 31, 2017 and 2016

	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

	2016		
	OPEB Medical	OPEB Sicktime	Total
Additions			
District contributions	$ 125,900	$ 11,518	$ 137,418
Net increase (decrease) in investment fair value	21,377	6,825	28,202
Interest, dividends, and other investment income	20,352	3,558	23,910
Total additions	167,629	21,901	189,530
Deductions			
Benefits paid	43,941	-	43,941
Administrative expense	8,856	1,423	10,279
Total deductions	52,797	1,423	54,220
Changes in Plan Net Position	114,832	20,478	135,310
Beginning Plan Net Position	832,108	137,723	969,831
Ending Plan Net Position	$ 946,940	$ 158,201	$ 1,105,141

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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.

	2017	2016
Capital assets	$ 69,539,049	$ 67,327,897
Accumulated depreciation	(20,604,365)	(19,655,366)
Bonds, notes, and leases payable	(8,847,854)	(8,270,669)
Deferred bond interest	(929)	(2,884)
Accrued interest payable	(19,479)	(20,962)
Net investment in capital assets	$ 40,066,422	$ 39,378,016

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, 2017 and 2016, the District reported deposits of $2,211,072 and $1,594,724, respectively, with a bank balance of $2,343,473 and $1,504,052, respectively. As of December 31, 2017, 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, 2017 and 2016, the OPEB Trust funds included cash and cash equivalents with a balance of $165,443 and $152,823, respectively. The Trust funds are collateralized with securities held by the pledging bank not in the District's name.

Notes to the Financial Statements

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, 2017 and 2016, $1,123,637 and $999,259 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, 2017 and 2016, investments in the OPEB trust funds consisted of the following:

	2017		2016	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Cash and cash equivalents	$ 165,443	$ 165,443	$ 152,823	$ 152,823
Government bonds	-	-	49,775	49,974
Mutual funds - fixed income	673,791	667,851	563,772	547,180
Real assets	10,412	12,984	10,330	12,544
Mutual funds - equity	188,125	225,089	222,573	237,338
Common stock	137,421	217,713	108,239	149,223
Total OPEB Trust Funds	$ 1,175,192	$ 1,289,080	$ 1,107,512	$ 1,149,082

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, 2017 and 2016, the District's investments for the OPEB trust funds in debt securities were rated as follows:

	2017	2016
Government bonds - AA+ rating	$ -	$ 49,974
Mutual funds - fixed income - not rated	667,851	547,180
Total OPEB debt securities	$ 667,851	$ 597,154

Notes to the Financial Statements

Note 3: Accounts Receivable - Trade

The amount of accounts receivable is shown net of allowance for bad debts at December 31, 2017 and 2016 were:

	2017	2016
Accounts receivable	$ 520,860	$ 579,140
Allowance for bad debts	(3,458)	(5,324)
Accounts receivable - trade, net	$ 517,402	$ 573,816

Note 4: Utility Plant and Equipment

The following is a summary of utility plant and equipment activity for the year ended December 31, 2017:

	Beginning Balance	Additions	Disposals	Ending Balance
Property Not Being Depreciated				
Organizational Costs	$ 50,709	$ -	$ -	$ 50,709
Land	4,134,160	6,142	-	4,140,302
Construction work in progress	40,575	356,939	(40,575)	356,939
Property Being Depreciated				
Structures	4,896,001	130,607	(40,506)	4,986,102
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	2,377,548	9,760	-	2,387,308
Purification equipment	2,237,616	80,252	(40,562)	2,277,306
Tanks and standpipes	2,331,956	-	-	2,331,956
Transmission and distribution mains	36,683,257	587,444	-	37,270,701
Services	6,407,897	186,979	(3,600)	6,591,276
Meters	2,577,103	909,055	(166,411)	3,319,747
Fire hydrants	1,276,057	48,747	(2,100)	1,322,704
General equipment	2,643,493	277,736	(88,754)	2,832,475
Gross plant and equipment	67,327,896	2,593,661	(382,508)	69,539,049
Accumulated depreciation	(19,655,366)	(1,248,389)	299,390	(20,604,365)
Net plant and equipment	$ 47,672,530	$ 1,345,272	$ (83,118)	$ 48,934,684

Depreciation expense for the years ended December 31, 2017 and 2016 was $1,248,389 and $1,195,153, respectively.

Notes to the Financial Statements

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, 2017 and 2016 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, 2017 and 2016 was $1,005,013 and $944,338, 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, 2017 and 2016, was $1,089 and $1,086, respectively.

Note 6: Long-Term Debt

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

	Principal	Interest	Total
Fiscal year 2018	$ 796,560	$ 106,532	$ 903,092
Fiscal year 2019	618,181	87,970	706,151
Fiscal year 2020	621,164	78,572	699,736
Fiscal year 2021	557,526	67,888	625,414
Fiscal year 2022	478,943	59,288	538,231
Fiscal years 2023 - 2027	2,442,814	195,471	2,638,285
Fiscal years 2028 - 2032	1,930,507	71,835	2,002,342
Fiscal years 2033 - 2037	638,831	14,391	653,222
Totals	$ 8,084,526	$ 681,947	$ 8,766,473

Interest expense on long-term debt, net of decreases from deferred bond refund amortization, was $105,234 and $128,719 for the years ended December 31, 2017 and 2016, 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 2017 and 2016 was $1,955 and $2,944, respectively. Deferred bond refunds remaining as of December 31, 2017 and 2016, was $929 and $2,884, respectively.

Notes to the Financial Statements

Note 6: Long-Term Debt (Continued)

Long-term bonds payable and notes payable activity for the year ended December 31, 2017 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.	186,133	-	(88,156)	97,977
$1,250,000 bond issued October 2003, 2.085% - 4.285% interest rate, matures November 2018.	166,667	-	(83,333)	83,334
$1,000,000 bond issued October 2005, 3.000% - 5.700% interest rate, matures November 2020.	266,668	-	(66,667)	200,001
$1,000,000 bond issued October 2006, 1.800% - 6.250% interest rate, matures November 2021.	333,335	-	(66,667)	266,668
$757,350 bond issued November 2008, 2.840% interest rate, matures October 2028.	504,053	-	(35,841)	468,212
$1,250,000 bond issued October 2009, 2.000% - 5.500% interest rate, matures November 2029.	812,500	-	(62,500)	750,000
$2,027,000 bond issued September 2011, 0.000% interest rate, matures April 2031.	1,216,317	-	(83,884)	1,132,433
$1,315,545 bond issued July 2012, 1.000% interest rate, matures April 2032.	1,019,305	-	(59,063)	960,242
$934,343 bond issued December 2013, 1.210% interest rate, matures October 2033.	808,109	-	(43,100)	765,009
$375,000 bond issued April 2015, 0.010% interest rate, matures October 2029.	325,032	-	(24,987)	300,045
$874,321 bond issued April 2015, 0.010% interest rate, matures October 2034.	788,064	-	(43,226)	744,838
$1,511,525 bond issued August 2016, 1.000% interest rate, matures July 2036.	1,511,525	-	(68,646)	1,442,879
$985,680 bond issued October 2017, 1.000% interest rate, matures January 2037.	-	855,671	(42,783)	812,888
Total bonds payable	7,937,708	855,671	(768,853)	8,024,526
Notes Payable				
$135,000 note issued November 2012, 3.000% interest rate, matures November 2021.	75,000	-	(15,000)	60,000
Total notes payable	75,000	-	(15,000)	60,000
Total long-term debt	8,012,708	$ 855,671	$ (783,853)	8,084,526
Current portion	741,070			796,560
Non-current portion	$ 7,271,638			$ 7,287,966

Notes to the Financial Statements

Note 7: Line of Credit

Activity on the District's line of credit during the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Repayment	Ending Balance
Line of credit	$ 247,831	$ 1,307,176	$ (900,617)	$ 654,390

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 amounts of $143,311 and $27,190 at December 31, 2017 and 2016, respectively. Accumulated amortization of the leased equipment at December 31, 2017 and 2016 was $12,604 and $4,078, respectively. Amortization of assets under capital leases is included in depreciation expense.

Interest expense related to capital leases was $1,284 and $1,170 for the years ended December 31, 2017 and 2016, respectively.

Minimum future lease payments for capital leases held by the District as the year ended December 31, 2017 are as follows:

Lease payments due in 2018	$ 26,349
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	16,565
Total minimum lease payments	117,449
Amounts representing interest	(8,510)
Present value of net minimum lease payments	108,939
Current portion of capital lease obligations	(23,167)
Non-current portion of capital lease obligations	$ 85,772

Note 9: Accrued Compensated Absences

The change in compensated absences for the year ended December 31, 2017 is as follows:

	Beginning Balance	Net Increase	Ending Balance
Accrued vacation	$ 314,354	$ (5,920)	$ 308,434
Accrued compensated time	65,012	515	65,527
Totals	$ 379,366	$ (5,405)	$ 373,961

Notes to the Financial Statements

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 $1,068,654 and $989,181 as of December 31, 2017 and 2016, 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, 2017, there were 300 employers participating in the plan.

Prior to June 30, 2015, the District's actual contributions varied from year to year due to the amortization of the District's Initial Unpooled Unfunded Actuarial Liability (IUUAL). The IUUAL was being amortized over the 3 years from July 1, 2013. Effective June 30, 2015, as a result of changes relating to GASB 68, MainePERS refunded the unamortized portion of the IUUAL to all participating districts. The District's refunded amount was $12,080. The District's contributions to the Plan for the years ended 2017 and 2016 were $255,721 and $238,497, respectively.

Employees participating are eligible for normal retirement upon attaining the age of sixty with five or more years of service or early retirement after completing twenty-five or more years of creditable service and being at least age 45. Beginning in July 2014, newly hired employees' normal retirement age will increase to age 65. Vested participants are entitled to a retirement benefit equal to a fraction of the average final compensation multiplied by the years of membership service (discounted for early retirement).

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

As of December 31, 2017 and 2016, the District reported a liability of $1,985,352 and $2,528,603, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, 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, 2017 and 2016, the District's proportion was 0.485% and 0.476%.

For the years ended December 31, 2017 and 2016, the District recognized pension expense of $397,003 and $474,673, respectively.

Notes to the Financial Statements

Note 11: Pensions (Continued)

As of December 31, 2017, 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	$ -	$ 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 $122,427, as of December 31, 2017, will be recognized as a reduction of the net pension liability in 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of December 31, 2017, will be recognized in pension expense as follows:

Fiscal year 2018	$ (515)
Fiscal year 2019	205,800
Fiscal year 2020	13,320
Fiscal year 2021	(135,170)
Total	$ 83,435

Notes to the Financial Statements

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, 2017, 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 allmembers.

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, 2017 are as follows:

- *Investment Rate of Return* – 6.875% per annum, compounded annually.
- *Inflation Rate* – 2.75% peryear
- *Annual Salary Increases, Merit, and Inflation*– 2.75% to 9.50% per year
- *Cost of Living Benefit Increases* – 2.20% for participating local districts
- *Mortality Rates* –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, isused.

Notes to the Financial Statements

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, 2017, 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 6.875% for 2017 and 6.875% for 2016. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer 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, 2017 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate.

	1% Decrease (5.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)
PLD Plan			
District's proportionate share of the net pension liability	$ 3,983,227	$ 1,985,352	$ 481,262

Pension Plan Fiduciary Net Position

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

Notes to the Financial Statements

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, 2017, the date of the latest actuarial valuation:

Active employees	38
Retired employees and beneficiaries	5
Total	43

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, 2017 and 2016, the District contributed $111,243 and $125,900 to the plan, respectively. 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.

Notes to the Financial Statements

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, 2017 and2016

	2017	2016
Annual required contribution	$ 111,243	$ 125,900
Interest on net OPEB obligation	34,476	35,520
Adjustment to annual required contribution	(45,167)	(56,845)
Annual OPEB cost	100,552	104,575
Contributions made	(111,243)	(125,900)
Change in net OPEB obligation	(10,691)	(21,325)
Net OPEB obligation - beginning of year	689,521	710,846
Net OPEB obligation - end of year	$ 678,830	$ 689,521

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 2017 and the two preceding years were as follows:

	2017	2016	2015
Annual OPEB cost	$ 100,552	$ 104,575	$ 82,279
Percentage of annual OPEB cost contributed	111%	120%	113%
Net OPEB obligation	$ 678,830	$ 689,521	$ 710,846

Notes to the Financial Statements

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, 2017, is as follows:

	2017	2016
Fair value of plan assets - beginning of year	$ 946,940	$ 832,108
District contributions	111,243	125,900
Net investment earnings	100,366	32,873
Benefits paid	(48,884)	(43,941)
Fair value of plan assets - end of year	$ 1,109,665	$ 946,940

Funded Status and Funding Progress

The funded status of the medical plan as of the most recent valuation date of December 31, 2017, is as follows:

Actuarial value of assets	$ 946,940
Actuarial accrued liability (AAL)	(1,959,006)
Unfunded AAL (UAAL)	$ (1,012,066)
Funded ratio	52.30%
Covered payroll	$ 2,840,852
UAAL as a percentage of covered payroll	-35.63%

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, 2017 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.

Notes to the Financial Statements

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, 2017 and 2016, the District contributed $11,091 and $11,518 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, 2017 and 2016, the date of the latest actuarial valuation, the summary of the changes in the sick time plan obligation is as follows:

	2017	2016
Benefit obligation - beginning of year	$ 274,762	$ 261,260
Service cost	5,887	6,773
Interest cost	7,593	7,623
Actuarial (gain) / loss	4,335	(894)
Benefits paid	-	-
Benefit obligation - end of year	$ 292,577	$ 274,762

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, 2017 and 2016, is as follows:

	2017	2016
Fair value of plan assets - beginning of year	$ 158,201	$ 137,723
District contributions	11,091	11,518
Net investment earnings	15,413	8,960
Benefits paid	(5,290)	-
Fair value of plan assets - end of year	$ 179,415	$ 158,201

Notes to the Financial Statements

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, 2017 and 2016 is as follows:

	2017	2016
Fair value of plan assets	$ 179,415	$ 158,201
Benefit obligation - end of year	(292,577)	(274,762)
Unfunded benefit obligations	$ (113,162)	$ (116,561)
Funded ratio	61.32%	57.58%

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 3.04% and 3.31% for fiscal years 2017 and 2016, respectively. The estimated long-term rate of return on plan assets of 5.00% and both fiscal years 2017 and 2016. The sick time plan's net periodic pension costs were $11,091 and $11,518 for the years ended December 31, 2017 and 2016, 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 2018	$ 108,593
Fiscal year 2019	-
Fiscal year 2020	-
Fiscal year 2021	20,722
Fiscal year 2022	42,657
Fiscal years 2023 - 2027	107,944

Note 13: Appropriations of Net Position

The District has established appropriated net position for various purposes. At December 31, 2017 and 2016, 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, 2017 and 2016 were $726,070 and $653,581, respectively. The appropriated funded debt retired through surplus balance at December 31, 2017 and 2016 was $18,521,504 and $17,794,434.

Notes to the Financial Statements

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, 2017 and 2016, the District voted to appropriate $58,498 and $323,268 to the Water Supply Protection reserve, respectively. The interest income for the years ended 2017 and 2016 was $2,181 and $1,710. The cumulative balance of the reserve at December 31, 2017 and 2016 was $1,006,102 and $945,423, 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, 2017 and 2016 was $1,525,000 and $1,510,000, 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 2017 and 2016 total rental revenue was $348,421 and $332,276, 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 year 2017, but did so in 2016.

Notes to the Financial Statements

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, 2017 and 2016. 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 April 2, 2018, the date the financial statements were available to be issued.

Required Supplementary Information

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
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

Required Supplementary Information

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	District's contribution deficiency (excess)	District's covered-employee payroll	District's contributions as a percentage of its covered-employee payroll
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

Required Supplementary Information

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	2,121,731	(1,012,066)	52.30%	2,840,852	-35.63%

Required Supplementary Information

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%

Schedule of Changes in Net Position
For the Year Ended December 31, 2017
(with comparative totals for the year ended December 31, 2016)

Schedule 5

	2017						2016
	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	$ 17,795,434	$ 1,510,000	$ 945,423	$ 12,438,901	$ 5,407,801	$ 38,097,559	$ 36,031,428
Net income before CIAC	-	-	2,181	-	890,355	892,536	1,190,283
Additions to CIAC	-	-	-	445,191	-	445,191	1,136,845
Amortization of CIAC	-	-	-	(259,830)	-	(259,830)	(260,996)
Use of restricted reserves	-	-	-	-	-	-	-
Current year appropriation	-	-	58,498	-	(58,498)	-	-
Loan principal payments	726,070	15,000	-	-	(741,070)	-	-
Ending Balance	$ 18,521,504	$ 1,525,000	$ 1,006,102	$ 12,624,262	$ 5,498,588	$ 39,175,456	$ 38,097,560

Other Supplementary Information

Schedules of Operating Expenses

Schedule 6

For the Years Ended December 31, 2017 and 2016

	2017	2016
Source and Pumping Operations		
Labor	$ 130,888	$ 130,510
Officer	8,976	9,616
Pensions and benefits	129,409	131,444
Purchased water	9,621	30,908
Purchased power	249,995	236,177
Transportation expense	(4,481)	(5,155)
Materials and supplies	(75,850)	(41,593)
Contractual services	29,639	35,534
Equipment rental	400	395
Insurance - vehicles	1,396	1,444
Insurance - workers' compensation	1,522	1,768
Total source and pumping operations	481,515	531,048
Source and Pumping Maintenance		
Labor	213,152	204,818
Officer	14,618	15,092
Pensions and benefits	210,743	206,284
Materials and supplies	105,901	56,875
Contractual services	11,259	10,878
Transportation expense	(7,297)	(8,089)
Insurance - vehicles	2,274	2,266
Insurance - workers' compensation	2,479	2,774
Total source and pumping maintenance	553,129	490,898
Water Treatment		
Labor	215,492	207,154
Officer	14,778	15,264
Pensions and benefits	213,057	208,637
Purchased power	21,246	18,059
Materials and supplies	26,323	30,962
Chemicals	183,800	141,495
Contractual services	43,403	41,260
Transportation expense	(7,377)	(8,182)
Insurance - vehicles	2,299	2,292
Insurance - workers' compensation	2,506	2,806
Total water treatment	715,527	659,747

Other Supplementary Information

Schedules of Operating Expenses

Schedule 6 (Continued)

For the Years Ended December 31, 2017 and 2016

Transportation and Distribution - Operations		
Labor	$ 427,751	$ 429,803
Officer	29,335	31,669
Pensions and benefits	422,917	432,879
Purchased power	11,672	11,597
Materials and supplies	25,948	20,639
Contractual services	3,063	3,256
Transportation expense	(14,644)	(16,975)
Insurance - vehicles	4,563	4,755
Insurance - workers' compensation	4,974	5,822
Total transportation and distribution - operations	915,579	923,445
Transportation and Distribution - Maintenance		
Labor	227,138	183,754
Officer	15,577	13,539
Pensions and benefits	224,571	185,069
Materials and supplies	94,264	111,879
Contractual services	17,861	7,092
Transportation expense	(7,776)	(7,257)
Insurance - vehicles	2,423	2,033
Insurance - workers' compensation	2,641	2,489
Total transportation and distribution - maintenance	576,699	498,598
Customer Accounts Expenses		
Labor	218,883	207,064
Officers	37,723	37,350
Pensions and benefits	237,424	229,270
Materials and supplies	22,350	15,722
Contractual services	157,634	159,727
Transportation expense	(7,493)	(8,178)
Insurance - vehicles	2,335	2,291
Insurance - workers' compensation	2,793	3,083
Bad debt expense	(1,631)	1,507
Total customer accounts expenses	670,018	647,836

Other Supplementary Information

Schedules of Operating Expenses

Schedule 6 (Continued)

For the Years Ended December 31, 2017 and 2016

Administrative and General Expenses		
Labor	$ 251,570	$ 259,813
Officers	163,042	165,498
Pensions and benefits	383,618	398,958
Purchased power	9,554	9,085
Materials and supplies	79,857	79,550
Contractual services	77,524	148,460
Insurance - general liability	50,971	48,611
Transportation expense	(8,612)	(10,261)
Insurance - vehicles	2,684	2,875
Insurance - workers' compensation	4,512	5,365
Miscellaneous expense	26,738	33,694
Total administrative and general expenses	1,041,458	1,141,648
Operating Expenses before Depreciation	4,953,925	4,893,220
Depreciation Expense	1,248,389	1,195,153
Total Operating Expenses	$ 6,202,314	$ 6,088,373

2017 OPERATIONAL REPORT

PERSONNEL

Education:

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

Applied Hydraulics	Chainsaw Safety
Asbestos Abatement	Lock Out Tag Out
Confined Space Rescue	Backflow Prevention
Introduction to Blueprints	Video Display Training
Chemical Feed Pumps 101	Bloodborne Pathogens
Fire Extinguisher Fire Safety	Boundaries & Easement
Heartsaver First Aid, CPR, AED	Trenching and Excavation
Lifting, Back Safety & Ladder Safety	Basis Math for Operators
Treatment & Distribution I & II Cert. Prep	Water Loss Management
Treatment & Distribution III & IV Cert. Prep	Developing Leadership Skills
Primary & Secondary Standards and Public Notification	PVC Valves, Connection & Joining
	Management Candidate School
Disaster Management for Water Utilities	Business Grammar & Proofreading
Construction Coordination & Project Planning	OSHA 1920 – Hazardous Communications

SERVICES

New Installations	Renewals	Total Active Services
32	72	11,455

METERING

Meters:

Number in service at beginning of year	13,661
New installations	147
Number in service at end of year	13,808

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	2016	ADDED	RETIRED	2017
Deep	20"	75,218			75,218
Deep	16"	111,966	900	20	112,846
Deep	12"	185,514	1,468		186,982
Deep	10"	106,363	17	875	105,505
Deep	8"	330,926	4,275	22	335,179
Surface	8”	0	1,932		1,932
Deep	6"	147,705	50	1,969	145,786
Surface	6”	0	1,745		1,745
Deep	4'	19,217	1,715		20,932
Surface	4"	3,801			3,801
Deep	3"	11,134	300		11,434
Surface	3"	25,487	5,641		31,128
Deep	2½"	279			279
Surface	2½"	388			388
Deep	2"	58,044	835	810	58,069
Surface	2"	20,226	60	5,700	14,586
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			10,299
Surface	1"	20,689			20,689
Deep	¾"	2,856			2,856
Surface	¾"	4,065			4,065
		1,148,379			**1,157,921**

2017 MAINS INSTALLED

TOWN	LOCATION	SIZE	MATERIAL	LENGTH	REMARKS
Arundel	Cottage Preserve	16"	DI	880'	Main Extension
		8"	PVC	903'	Main Extension
		4"	PVC	1,283'	Main Extension
Kennebunk	Flagship Circle	8"	PVC	510'	Main Extension
	Fletcher Street	16"	DI	20'	Main Relay
	Mill Street	8"	PVC	36'	Main Relay
	Parsons Beach Road	3"	HDPE	3,630'	Main Relay
		2"	HDPE	20'	Main Relay
	Spring Street	8"	PVC	560'	Main Relay
		6"	DI	3'	Main Relay
	Woodhaven Drive	10"	DI	17'	Main Relay
Kennebunkport					
	Binnacle Hill Drive	8"	PVC	1,090'	Main Extension
		4"	PVC	90'	Main Extension
	Dyke Road	8"	PVC	1,932'	Main Extension
	Green Street	8"	HDPE	560'	Main Relay
		8"	DI	8'	Main Relay
		6"	DI	36'	Main Relay
	Mast Cove Lane	2"	HDPE	250'	Main Relay
	New Biddeford Road	12"	PVC	570'	Main Extension
	Olde Port Village	12"	DI	40'	Main Extension
	Route 9 (Mills Road)	6"	PVC	1,745'	Main Extension
	Sandpiper Lane	3"	HDPE	300'	Main Extension
Wells	Millbrook Farm Drive	8"	PVC	586'	Main Extension
		4"	PVC	342'	Main Extension

2017 MAINS INSTALLED (continued)

TOWN	LOCATION	SIZE	MATERIAL	LENGTH	REMARKS
Ogunquit	Grove Street	3”	HDPE	360’	Main Relay
		2”	CU	30’	Main Relay
	Juniper Lane	3”	HDPE	325’	Main Relay
		2”	CU	20’	Main Relay
	Maple Street	3”	HDPE	158’	Main Relay
	Pulpit Rock	3”	HDPE	613’	Main Relay
	Shore Road	12”	DI	858’	Main Relay
		8”	DI	22’	Main Relay
		6”	DI	11’	Main Relay
	Stony Brook	3”	HDPE	555’	Main Relay
Kennebunk	Doanes Wharf Road	2”	PVC	45’	Main Relay
		8”	PVC	280’	
	Alfred Road	12”	PVC	4,040’	Main Extension
	Holland Road	8”	PVC	70’	Main Relay

HYDRANTS - 2017

During 2017, 5 public and 6 private hydrants were installed, no public hydrants were abandoned and 1 private hydrant became public, making a total of 735 public and 279 private hydrants in the District's system.

Installations

TOWN	NO.	OWNERSHIP	LOCATION
Arundel	#6-8	Private	Kenneth Roberts Way across from Lookout Cir.
	#6-9	Private	Kenneth Roberts Way between Cornbreak Ln. & Wiswell Cir.
	#6-10	Public	1601 Portland Road
	#6-11	Private	Kenneth Roberts Way across from Colony Lane
Kennebunk	#1-191	Public	Spring St. near Hillcrest
	#1-192	Private	Flagship Circle
	#1-193	Public	117 York Street
Kennebunkport	#2-88	Public	Corner of Dyke Rd. & Mills Rd.
	#2-109	Public	New Biddeford Road near Binnacle Hill subdivision entrance
	#2-110	Private	Binnacle Lane (cul-de-sac)
Wells	#4-101	Private	Millbrook Farm Dr. near Carding Loop

Replacements

TOWN	NO.	OWNERSHIP	LOCATION
Arundel	#6-81.3	Public	1669 Portland Road
Kennebunk	#1-60	Public	15 Water Street
	#1-77.3	Public	14 Countryfield Circle
	#1-84.3	Public	14 Intervale Road
	#1-109.2	Public	Ridgewood Drive
Ogunquit	#5-24	Public	Shore Road near Bluefin Way
Wells	#4-59	Public	104 Webhannet Drive

Abandoned

TOWN	NO.	OWNERSHIP	LOCATION
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Transferred from Private to Public

TOWN	NO.	OWNERSHIP	LOCATION
Kennebunkport	#2-34	Public	8 Pleasant Street

MONTHLY PUMPING RECORDS

Gallons Pumped

		2016	2017
January		46,464,700	48,457,700
February		47,426,500	44,982,100
March		49,588,000	51,048,400
April		60,473,900	58,402,700
May		94,284,700	84,285,500
June		137,530,200	122,748,300
July		176,034,900	164,700,700
August		179,425,100	163,295,400
September		133,439,900	121,149,100
October		95,677,700	94,138,100
November		51,576,400	50,548,500
December		52,902,900	52,379,300
Subtotal	(KKWWD)	1,124,824,900	1,056,135,800
	(Biddeford/Saco)	0	7,383,700
	(York Water District)	17,090	0
TOTAL		**1,124,842,800**	**1,063,519,500**

MONTHLY SNOW AND RAINFALL

	2016		2017	
	Snow Inches	Rain Inches	Snow Inches	Rain Inches
January	12.0	1.60	17.2	1.68
February	19.8	2.71	48.9	4.42
March	3.6	4.10	28.1	1.36
April	5.1	1.34	16.3	4.98
May	---	2.20	---	6.01
June	---	3.22	---	2.55
July	---	3.12	---	1.97
August	---	2.16	---	3.06
September	---	2.98	---	2.12
October	---	9.10	---	4.03
November	0.2	4.26	---	2.18
December	21.1	2.94	19.6	0.84
Subtotals	**61.8**	**39.73**	**130.1**	**35.20**
Snow/Liquid Equivalent		6.18		13.01
TOTAL PRECIPITATION		**45.91**		**48.21**