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CERTIFIED PUBLIC ACCOUNTANTS

**KENNEBUNK SEWER DISTRICT
FINANCIAL REPORT**



DECEMBER 31, 2010 and 2009



Communication • Trust • Commitment

**KENNEBUNK SEWER DISTRICT
FINANCIAL REPORT
DECEMBER 31, 2010 and 2009**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 8
Introduction of the Financial Statements	
Comparison of Financial Statements for Current and Prior Years	
Economic Factors	
BASIC FINANCIAL STATEMENTS	
Statement 1 - Statements of Net Assets	9
Statement 2 - Statements of Revenues, Expenses, and Changes in Net Assets	10
Statement 3 - Statements of Cash Flows	11
NOTES TO BASIC FINANCIAL STATEMENTS	12 - 19
SUPPLEMENTAL DATA	
Schedule 1 - Schedule of Changes in Net Assets	20
Schedule 2 - Schedules of Operating Expenses	21
Schedule 3 - Schedules of Investment Earnings	22
Schedule 4 - Schedules of Cash and Investments	23

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CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kennebunk Sewer District
Kennebunk, Maine

We have audited the accompanying financial statements of the business-type activities of Kennebunk Sewer District as of December 31, 2010 and 2009 and for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Kennebunk Sewer District as of December 31, 2010 and 2009, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The accompanying supplemental information presented in Schedules 1 to 4 is not necessary for a fair presentation of the financial statements but is presented as additional financial data. This information has been subjected to the same tests and other auditing procedures applied in the audit of the financial statements referred to above and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Berry Talbot Royer

Certified Public Accountants
March 11, 2011



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**Kennebunk Sewer District
Management's Discussion and Analysis
Year Ended December 31, 2010**

Introduction of the Financial Statements

Overview of Financial Report

The District is a quasi-municipal Corporation established in 1955 by a special act of the Maine State Legislature to provide and maintain sewerage systems and related facilities to protect the local waters and provide benefit to the inhabitants of the town of Kennebunk. The District is governed by a five person Board of Trustees who serve for staggered three-year terms.

The District uses a proprietary fund with two board designated funds. The District's fund is financed and operated in a manner similar to private businesses. The board designated funds are the sewer facility impact fees, collection system impact fees, equity buy in fees and the capital reserve funds.

This Management's Discussion and Analysis (MD&A) serves as an introduction to the audited basic financial statements and notes. The MD&A is the District management's analysis of it's financial condition and performance. It is presented to give the reader more insight on the District's finances.

The District's basic financial statements include:

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

Comparison of Financial Statements for Current and Prior Years

Condensed Statement of Net Assets:

			<u>Difference</u>	
	<u>2010</u>	<u>2009</u>	<u>\$</u>	<u>%</u>
Current Assets	\$ 2,112,007	\$ 3,100,362	\$ -988,355	-31.88%
Other Assets	-	1,682	-1,682	-100.00%
Capital Assets	19,763,243	18,268,986	1,494,257	8.18%
Special Funds	<u>2,787,215</u>	<u>3,058,647</u>	<u>- 271,432</u>	-8.87%
Total Assets	24,662,465	24,429,677	232,788	.96%
Current Liabilities	620,245	693,229	- 72,984	-10.53%
Long-term Debt	<u>2,798,000</u>	<u>3,446,664</u>	<u>- 648,664</u>	-18.82%
Total Liabilities	<u>3,418,245</u>	<u>4,139,893</u>	<u>-721,648</u>	-17.43%
Net Assets				
Invested in Capital				
Assets,	16,758,243	14,517,167	2,241,076	15.44%
Net of Related Debt	<u>4,485,977</u>	<u>5,772,617</u>	<u>-1,286,640</u>	-22.29%
Unrestricted				
Total Net Assets	<u>\$ 21,244,220</u>	<u>\$ 20,289,784</u>	<u>\$ 954,436</u>	<u>4.71%</u>

Current Assets

The net decrease of the current assets and special funds by \$1,259,787 was primarily the result of FEMA funds paid out for the flood mitigation project account.

The decrease of \$1,010,520 in cash and cash equivalents is related to net cash decrease from capital and related financing activities primarily due to expenditures for utility property, payment of long-term debts, and monies received from (FEMA). The net decrease in the capital and related financing activities is reduced by the surplus balance from MainePERS Individual Unpooled Unfunded Actuarial Liability (IUUAL). (Please refer to the cash flow statement for details).

Other assets were reduced by \$1,682 in 2010. The reduction was due to the current year amortization.

Capital Assets

Capital assets increased by \$1,494,257 in 2010. That increase consisted of:

Construction Work in Progress	\$ -2,763,007
Buildings – Treatment Plant, Net	4,313,483
Pump Stations	212
Sewers and Force Mains	260,219
Transportation Equipment	- 4,332
Other Equipment	-6,030
Less: Depreciation Expense, Net	<u>- 306,288</u>
	<u>\$ 1,494,257</u>

Long-term Debt

Long-term debt decreased by \$ 648,664 in 2010. The decrease was primarily due to the repayment of long term debt. (One bond was retired and the SRF was paid off).

Current Liabilities

Current liabilities decreased by \$72,984 in 2010. This was primarily due to the decrease in the current portion of the long term debt.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>\$</u>	<u>%</u>
Operating Revenue	\$ 2,156,374	\$ 2,088,061	\$ 68,313	3.27
Net Special Funds Revenue	<u>29,340</u>	<u>34,297</u>	<u>-4,957</u>	-14.45
Total Revenue	<u>2,185,714</u>	<u>2,122,358</u>	<u>63,356</u>	2.99
Depreciation Expense	- 537,258	-500,651	-36,607	7.32
Other Operating Expense	-1,472,617	-1,437,440	-35,177	2.45
Net Non-operating Expense (Income)	<u>650,664</u>	<u>-428,061</u>	<u>1,078,725</u>	-186.07
Total Expenses	<u>-1,359,211</u>	<u>-2,366,152</u>	<u>1,006,941</u>	<u>-42.56</u>
Change in Net Assets before Contribution	826,503	-243,794	1,070,297	-439.02
Contributions	<u>127,933</u>	<u>1,734,763</u>	<u>-1,606,830</u>	-92.63
Change in Net Assets	<u>954,436</u>	<u>1,490,969</u>	<u>-536,533</u>	-35.99
Beginning Net Assets	<u>20,289,784</u>	<u>18,798,815</u>	<u>1,490,969</u>	7.93
Ending Net Assets	<u>\$ 21,244,220</u>	<u>\$ 20,289,784</u>	<u>\$ 954,436</u>	<u>4.71</u>

Special Funds Revenue

The sources of the special funds revenue are interest income collected during the year.

Depreciation Expense

Depreciation expense went from \$500,651 in 2009 to \$537,258 in 2010 an increase of 7.31%. This increase can be attributed to new equipment purchased and placed on line.

Other Operating Expense

Non-depreciating operating expense increased from \$1,437,440 in 2009 to \$1,472,617 in 2010, an increase of 2.45 %. The expenses consisted of:

	<u>2010</u>	<u>2009</u>	<u>Difference</u>	
			<u>\$</u>	<u>%</u>
Salaries and Wages	\$ 269,716	\$ 280,769	\$ -11,053	-3.94
Fringe Benefits	107,216	83,848	23,368	27.87
Insurance	63,383	50,682	12,701	25.06
Legal and Audit Fees	15,761	42,399	-26,638	-62.83
Contracted Services	23,082	26,626	-3,544	-13.31
Office Supplies	5,449	4,530	919	20.29
Postage	10,117	12,603	-2,486	-19.73
Travel & Trips to Seminars	2,573	2,865	-292	-10.19
Permits and Fees	7,230	6,120	1,110	18.14
Miscellaneous Expenses	3,738	8,511	-4,773	-56.08
Plant Maintenance and Operation Expenses	948,174	904,804	43,370	4.79
Vehicle O&M	16,178	13,683	2,495	18.23
	<u>\$ 1,472,617</u>	<u>\$ 1,437,440</u>	<u>\$ 35,177</u>	<u>2.45</u>

Expense category explanations:

Legal/Audit Expenses - Legal and Audit expenses decreased in 2010 because contentious legal issues were resolved in 2009, the FEMA project was completed and there were no other circumstances requiring extra expenses.

Contracted services - This category includes services provided to the District by outside vendors for new accounting software and server, computer consulting, office equipment repairs and water readings for billing. These expenses decreased by approximately 13.31%.

Permits & Fees - The increase in this category is primarily due to the additional Mousam River Flow meters which monitor the levels of the river. This is particularly important during storm events to warn KSD of impending flood conditions so that measures may be taken to help prevent damage to District facilities.

Miscellaneous Expenses - These expenses are comprised of Bank Charges, Advertising, Engineering fees and Damage Claims. The decrease of this expense mainly was comprised of the HVAC project coming to an end.

Vehicle O&M - Higher than anticipated repair expenses occurred in 2010.

Net Non-Operating Expense

This item is primarily made up of interest and amortization expense; interest income from the operating and board designated funds, non-utility income, and the gain on the sale of operating property.

Contributions

Contributions occur when development takes place within the District's service area and capital assets are transferred to District ownership and the net sewer impact fees and equity buy in fees collected (net of sewer impact fees, equity buy in fees and refunds) during the year. The contributions for 2010 and 2009 were:

	<u>2010</u>	<u>2009</u>	<u>Difference</u>	
			\$	%
Sewer Pumping Station	\$ -	\$ 136,660	\$ -136,660	-100.00
Federal Grant Revenue	47,030	1,462,339	-1,415,309	-96.78
Net Sewer Impact Fees and Equity Buy In Fees	<u>80,903</u>	<u>135,764</u>	<u>-54,861</u>	-40.41
	<u>\$ 127,933</u>	<u>\$ 1,734,763</u>	<u>\$ -1,606,830</u>	<u>-92.63</u>

Overall Financial Position and Results of Operations

To determine the change in the District's financial position in the past year we have focused on two elements: financial ratios and revenue stability.

Financial Ratios:

Two of the key financial ratios for analyzing the District's financial position are the current ratio and the coverage ratio. During 2010, the current ratio decreased to 3.41 from 4.47. At the same time the coverage ratio increased from 2.14 to 2.23.

	<u>2010</u>	<u>2009</u>
Current Ratio:		
Current Assets	\$ 2,112,007	\$3,100,362
Current Liabilities	\$ 620,245	\$ 693,229
Current Ratio	3.41	4.47

Coverage Ratio:

	<u>2010</u>	<u>2009</u>
Operating Revenue	\$ 2,156,374	\$ 2,088,061
Interest Income	41,084	46,042
Miscellaneous Income	<u>46,156</u>	<u>48,816</u>
Gross Revenue	2,243,614	2,182,919
Operating Expenses	2,009,875	1,938,091
Depreciation	<u>(537,258)</u>	<u>(500,651)</u>
Total Expenses	<u>1,472,617</u>	<u>1,437,440</u>
Net Available – Debt Service	<u>\$ 770,997</u>	<u>\$ 745,479</u>
Regular Principal Payments	\$ 287,000	\$ 287,000
Interest Expense	<u>58,569</u>	<u>60,690</u>
	<u>\$ 345,569</u>	<u>\$ 347,690</u>
Coverage Ratio	2.23	2.14

Revenue Stability

Most of the District's operating revenue, 99.1 % in 2010 and 98.9 % in 2009 comes from sewer user fees. These revenue sources are stable and were relatively unchanged between 2010 and 2009.

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

The sewer user fees were increased in 2010 by approximately 3%.

Operating expenses (including depreciation) were up by approximately 3.7% overall in 2010.

2010 and 2009 Operating Revenue:

<u>2010</u>	<u>2009</u>	<u>Difference</u>	
		<u>\$</u>	<u>%</u>
<u>\$ 2,156,374</u>	<u>\$ 2,088,061</u>	<u>\$ 68,313</u>	<u>3.27</u>

2010 and 2009 Operating Expense:

<u>2010</u>	<u>2009</u>	<u>Difference</u>	
		<u>\$</u>	<u>%</u>
<u>\$ 2,009,875</u>	<u>\$ 1,938,091</u>	<u>\$ 71,784</u>	<u>3.7</u>

Sewer Impact Fund

Sewer facility impact fees and equity buy in fees are one time charges for new construction or changes of use that result in more wastewater discharged to the public sewer. Funds collected will help defray the costs of the present and any future upgrade to the wastewater treatment facility.

The Equity buy in fees began on April 1, 2010 and impact fees were increased by 1.3% in 2010 to mirror the increase in the construction cost index published by the Engineering News Record.

2010 and 2009 Revenue:

	<u>2010</u>	<u>2009</u>	<u>Difference</u>	
			<u>\$</u>	<u>%</u>
Sewer Impact Fees and Equity Buy In Fees	\$ 80,903	\$ 135,764	\$ -54,861	-40.41
Interest Income	<u>15,057</u>	<u>21,175</u>	<u>-6,118</u>	<u>-28.89</u>
	<u>\$ 95,960</u>	<u>\$ 156,939</u>	<u>\$ -60,979</u>	<u>-38.86</u>

There were 21 sewer connections in 2010 compared to 25 in 2009.

2010 and 2009 Capital Reserves Revenue:

	<u>2010</u>	<u>2009</u>	<u>Difference</u>	
			<u>\$</u>	<u>%</u>
Interest Income	<u>\$ 14,283</u>	<u>\$ 13,122</u>	<u>\$ 1,161</u>	<u>8.85</u>

Significant Budget Variances

The District is not legally required to adopt budgetary accounting and reporting. However, an annual budget is prepared by management and approved by the Board of Trustees. The budget is prepared on the operating and maintenance costs and on the capital expenditures.

Significant Capital Asset and Long-term Debt Activity

Every year, the District Manager prepares the capital budget. He submits this to the Board of Trustees for approval. Throughout the year, capital purchases are made and paid for through the operating and maintenance fund. In October or November of each year, the Board votes to reimburse the operating and maintenance account for the amount that has been spent on capital expenditures from the previous year. If capital expenditures are incurred during the year, which are not included in the capital budget, the District Manager will submit this expenditure to the Board of Trustees for approval for the transfers of funds from the special funds to the operating and maintenance fund.

Overall, utility property increased by \$4,563,552 from \$23,927,902 to \$ 28,491,454. The allowance for depreciation increased by \$306,288, net of dispositions. Net utility property increased from \$18,268,985 in 2009 to \$19,763,243 in 2010. This was due to work in progress and from the reconstruction of the wastewater treatment facility due to the April 2007 Patriots Day Flood (PDF).

Long Term Debt

There were no new bonds issued in 2010.

The total bonded debt (both the Long-term debt and the current portion) activity of 2010 is detailed below:

<u>Beginning Balance</u>	<u>Issues</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>\$ 3,751,189</u>	<u>\$ -</u>	<u>\$ 746,189</u>	<u>\$ 3,005,000</u>

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Kennebunk Sewer District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Willis Emmons, District Manager, Kennebunk Sewer District, P.O. Box 648, Kennebunk, ME 04043 -0648.

**KENNEBUNK SEWER DISTRICT
DECEMBER 31, 2010 and 2009**

BASIC FINANCIAL STATEMENTS

**KENNEBUNK SEWER DISTRICT
STATEMENTS OF NET ASSETS
DECEMBER 31,**

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and Cash Equivalents	\$ 1,645,062	\$ 2,384,150
Accounts Receivable, Net of Allowance	421,251	407,638
Federal Grant Receivable	-	271,077
Other Receivables	-	76
Prepaid Expenses	45,694	37,421
Total Current Assets	<u>2,112,007</u>	<u>3,100,362</u>
Special Funds - Internally Restricted and Board Designated:		
Cash	2,787,215	3,058,647
Utility Property:		
Operating Property	28,491,454	23,927,902
Less: Accumulated Depreciation	<u>(8,728,211)</u>	<u>(8,421,923)</u>
	19,763,243	15,505,979
Construction Work In Progress	-	2,763,007
Net Utility Property	<u>19,763,243</u>	<u>18,268,986</u>
Deferred Charges:		
Unamortized Debt Issuance Costs	-	1,682
TOTAL ASSETS	<u>24,662,465</u>	<u>24,429,677</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	185,814	126,378
Accrued Liabilities	224,931	256,696
Constructor Bond Deposit	2,500	5,000
Current Portion of Long-Term Debt	<u>207,000</u>	<u>305,155</u>
Total Current Liabilities	620,245	693,229
Long-Term Debt	<u>2,798,000</u>	<u>3,446,664</u>
TOTAL LIABILITIES	<u>3,418,245</u>	<u>4,139,893</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	16,758,243	14,517,167
Unrestricted	<u>4,485,977</u>	<u>5,772,617</u>
TOTAL NET ASSETS	<u>\$ 21,244,220</u>	<u>\$ 20,289,784</u>

See Accompanying Independent Auditors' Report and Notes to Financial Statements.

KENNEBUNK SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
DECEMBER 31,

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Sewer Charges, Net of Abatements	\$ 2,137,798	\$ 2,065,848
Other Sewer Services	18,576	22,213
Total Operating Revenues	<u>2,156,374</u>	<u>2,088,061</u>
OPERATING EXPENSES		
General and Administration	508,265	518,953
Plant Maintenance and Operation	460,181	472,753
Maintenance and Operating Personnel Costs	487,993	432,051
Vehicle Maintenance and Operation	16,178	13,683
Depreciation Expense	537,258	500,651
Total Operating Expenses	<u>2,009,875</u>	<u>1,938,091</u>
NET OPERATING INCOME	146,499	149,970
NON-OPERATING REVENUES OR (EXPENSES)		
Interest Income (Undesignated)	11,744	11,745
Special Funds' Interest Income	29,340	34,297
Interest Expense	(58,569)	(60,690)
Non-Utility Income	46,156	48,816
Impairment Recovery (Loss)	389,584	(418,750)
MainePERS Contribution Refunded	282,219	-
Gain (Loss) on Sale of Equipment	(18,788)	(4,891)
Amortization of Debt Issuance Expenses	(1,682)	(1,681)
Bad Debts	-	(2,610)
Net Non-operating Revenues	<u>680,004</u>	<u>(393,764)</u>
CHANGE IN NET ASSETS BEFORE CONTRIBUTIONS	826,503	(243,794)
CONTRIBUTIONS		
Pump Station	-	136,660
Federal Grant Revenue	47,030	1,462,339
Sewer Impact Fees, Net	80,903	135,764
	<u>127,933</u>	<u>1,734,763</u>
CHANGE IN NET ASSETS	954,436	1,490,969
NET ASSETS - AT BEGINNING OF YEAR	<u>20,289,784</u>	<u>18,798,815</u>
NET ASSETS - AT END OF YEAR	<u>\$ 21,244,220</u>	<u>\$ 20,289,784</u>

See Accompanying Independent Auditors' Report and Notes to Financial Statements.

**KENNEBUNK SEWER DISTRICT
STATEMENTS OF CASH FLOWS
DECEMBER 31,**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 2,188,993	\$ 2,114,412
Cash Payments to Suppliers and Contractors	(837,406)	(884,367)
Cash Payments to Employee Services	(566,724)	(616,200)
Net Cash Provided by Operating Activities	<u>784,863</u>	<u>613,845</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of Long-Term Debt	(746,819)	(287,000)
Interest Expense Paid	(87,931)	(61,456)
Sewer Impact Fees Collected, Net	80,903	135,764
Expenditures for Utility Property	(1,680,447)	(2,247,815)
Federal Grant Revenues	318,108	1,437,024
Proceeds from Court Settlement	-	750,000
Constructor Bond Deposit Received (Paid)	(2,500)	5,000
Net Cash Used by Financing Activities	<u>(2,118,686)</u>	<u>(268,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income Received	41,084	46,042
Proceeds from Matured Investments	-	40,280
MaincPERS Contribution Refunded	282,219	
Net Cash Provided by Investing Activities	<u>323,303</u>	<u>86,322</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,010,520)	431,684
CASH AND CASH EQUIVALENTS - AT BEGINNING OF YEAR	<u>5,442,797</u>	<u>5,011,113</u>
CASH AND CASH EQUIVALENTS - AT END OF YEAR	<u>\$ 4,432,277</u>	<u>\$ 5,442,797</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Operating Income	\$ 146,499	\$ 149,970
Non-Utility Income	46,156	48,816
Adjustments not affecting cash:		
Depreciation	537,258	500,651
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(13,537)	(19,855)
Prepaid Expenses	(8,273)	2,753
(Decrease) Increase in:		
Accounts Payable	35,707	(65,578)
Accrued Liabilities	41,053	(2,912)
Net Cash Provided by Operating Activities	<u>\$ 784,863</u>	<u>\$ 613,845</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash Components:		
Internally Restricted and Board Designated	\$ 2,787,215	\$ 3,063,685
Operating	1,645,062	2,379,112
	<u>\$ 4,432,277</u>	<u>\$ 5,442,797</u>
Utility Property Acquired Through Non-Cash Transactions	<u>\$ -</u>	<u>\$ 136,660</u>

See Accompanying Independent Auditors' Report and Notes to Financial Statements.

**KENNEBUNK SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009**

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

This summary of significant accounting policies of the Kennebunk Sewer District, hereinafter called the "District", is presented to assist in understanding the representations of the District's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Business

The District is a quasi-municipal corporation established in 1955 by a special act of the Maine State Legislature to provide and maintain a sewerage system and related facilities for the benefit of the inhabitants of the District. The District is governed by a five person Board of Trustees who serve for staggered three-year terms. The District extends normal trade credit to their customers, which consist of residential dwellings, commercial entities, and governmental agencies.

Basis of Accounting

The accounting records of the District are maintained and the financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary funds are the net charges to customers for sewer usage. Operating expenses include expenses on plant maintenance and operations, vehicle operations and maintenance, maintenance an operating personnel costs, administrative and general, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating income and expenses.

Revenue Recognition

The District's revenue is comprised of fixed and variable fees for residential and commercial customers. Fixed charges are assessed to pay outstanding debt and budgeted operations and maintenance expenses. Water consumption is used to assess variable fees. The District bills quarterly and the current year charges are based on prior year water usage plus current year fixed charges.

Cash and Cash Equivalents

For purposes of the statement of cash flows the District considers cash on hand, deposits in banks and all highly liquid debt instruments purchased with 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.

**KENNEBUNK SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009**

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts

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. Maine State Statute allows the District to lien property if sewer bills remain unpaid.

Utility Property

Utility property is stated at cost and depreciated on the straight-line method over their estimated useful lives. Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

Charges for additions to utility plant accounts include all reasonable and necessary costs for labor, materials, and overhead plus an allowance for the current cost of funds used for construction purposes.

Deferred Charges

Costs incurred to issue long-term debt, together with any discounts allowed at the time of sale are capitalized and amortized over the term of the bond.

Contributions in Aid of Construction

Pursuant to Governmental Accounting Standards Board Codification sections Nos. 2200.172 and 2200.138, contributions in aid are to be reported as income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled \$706 and \$505 for 2010 and 2009, respectively.

**KENNEBUNK SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009**

NOTE 2 - SPECIAL FUNDS, DEPOSITS, AND INVESTMENTS

The Board of Trustees has internally restricted various cash and investment accounts for future capital projects. These special fund balances are as follows as of December 31,:

	<u>Cash and Investments</u>	
	<u>2010</u>	<u>2009</u>
Sewer Impact Fees	\$ 1,490,730	\$ 1,616,228
Capital Reserve	<u>1,296,485</u>	<u>1,442,419</u>
Total Special Funds	<u>\$ 2,787,215</u>	<u>\$ 3,058,647</u>

Special Fund - Sewer Impact Fees

The District collects facility impact fees in order to provide funds for future plant improvements. These fees are considered contributed capital and are included in revenue pursuant to GASB CS 2200.136 - 137. The net amount collected during 2010 and 2009 was \$80,903 and \$135,764, respectively.

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

	<u>2010</u>	<u>2009</u>
Cash	<u>\$ 1,490,730</u>	<u>\$ 1,616,228</u>
Restricted Investment Earnings	<u>\$ 15,057</u>	<u>\$ 21,175</u>

Special Fund - Capital Reserve

Equipment purchases, capital replacement, and other reserves funds are appropriated by the District's Board of Trustees from earnings, and are invested as follows at December 31:

	<u>2010</u>	<u>2009</u>
Cash	<u>\$ 1,296,485</u>	<u>\$ 1,442,419</u>
Restricted Investment Earnings	<u>\$ 14,283</u>	<u>\$ 13,122</u>

**KENNEBUNK SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009**

NOTE 2 - SPECIAL FUNDS, DEPOSITS, AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the bank's failure, the District will not be able to recover the value of its deposits and investments that are in the possession of an outside party.

Deposits and MainPERS Investment

As of December 31, 2010, the District's total bank balance plus MainePERS was exposed to custodial credit risk as follows:

Uninsured, but collateral held by the pledging bank's trust department or agent in the District's name	\$ 3,412,014
Uninsured and uncollateralized	<u>289,996</u>
	<u>\$ 3,702,010</u>

On July 29, 2010, the Maine Public Employees Retirement System (MainePERS) issued a new guidance regarding the distribution of the Individual Unpooled Unfunded Actuarial Liability (IUUAL) surplus balances to the Participating Local Districts (PLD). As a result of this change, the District can choose among several options and one of those options is for the District to request for a refund of their surplus balance.

Due to the above new ruling, the District recorded its surplus balance in 2010 in cash and cash equivalents, and revenue was recognized for the same amount.

NOTE 3 - ACCOUNTS RECEIVABLE

At December 31, the accounts receivable, net of allowance for bad debts, is as follows:

	<u>2010</u>	<u>2009</u>
Accounts Receivable	\$ 425,251	\$ 411,638
Less: Allowance for Bad Debts	<u>(4,000)</u>	<u>(4,000)</u>
	<u>\$ 421,251</u>	<u>\$ 407,638</u>

**KENNEBUNK SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	December 31, 2009	Increases	Decreases	December 31, 2010
Utility Property, Not Being Depreciated:				
Land and Easements	\$ 111,506	\$ -	\$ -	\$ 111,506
Construction Work in Progress	2,763,006	-	(2,763,006)	-
Utility Property, Being Depreciated:				
Buildings	12,482,481	4,577,429	(263,947)	16,795,963
Pump Stations	5,903,638	212	-	5,903,850
Sewers and Forced Mains	4,739,552	262,751	(2,532)	4,999,771
Transportation Equipment	135,123	-	(4,332)	130,791
Other Equipment	153,202	-	(6,030)	147,172
Development Master Plan	117,145	-	-	117,145
Dam	29,476	-	-	29,476
Building - Rental Property	<u>255,780</u>	<u>-</u>	<u>-</u>	<u>255,780</u>
Total	26,690,909	4,840,392	(3,039,847)	28,491,454
Less: Accumulated Depreciation	<u>(8,421,923)</u>	<u>(537,258)</u>	<u>230,970</u>	<u>(8,728,211)</u>
Net Utility Property	<u>\$ 18,268,986</u>	<u>\$ 4,303,134</u>	<u>\$ (2,808,877)</u>	<u>\$ 19,763,243</u>

The District's depreciation expense for the years ended December 31, 2010 and 2009 was \$537,131 and \$500,651, respectively. The depreciation expenses of utility property acquired by capital grants and by donation are included in the above amount.

The District capitalizes interest cost on borrowings incurred during the new construction of the berm. Capitalized interest is added to the cost of the underlying assets which is part of the construction in progress amount. For 2010 and 2009, the District capitalized \$6,781 and \$13,784, respectively of interest.

**KENNEBUNK SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009**

NOTE 5 - LONG-TERM DEBT

Long-term debt is summarized as follows at December 31, 2010:

Business-Type Activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Bonds Payable	<u>\$ 3,751,189</u>	<u>\$ -----</u>	<u>\$ 746,189</u>	<u>\$ 3,005,000</u>	<u>\$ 207,000</u>

Maine Municipal Bond Bank

2004 Sewer Bond maturing October 1, 2024, annual payments of \$100,000, annual interest rate of 1.5%; authorized and issued \$2,000,000. \$ 1,400,000

2005 Waste Water Bond maturing April 1, 2025, annual payments of \$107,000, annual interest rate of 1.46%; authorized and issued \$2,140,000. 1,605,000

\$ 3,005,000

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

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2011	\$ 207,000	\$ 43,652
2012	207,000	40,590
2013	207,000	37,528
2014	207,000	34,465
2015	207,000	31,403
2016 - 2020	1,035,000	111,083
2021 - 2025	<u>935,000</u>	<u>34,528</u>
Total	<u>\$ 3,005,000</u>	<u>\$ 333,249</u>

**KENNEBUNK SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009**

NOTE 6 - EMPLOYEE RETIREMENT PLANS

MEPERS Defined Benefit Plan

Effective July 1, 1995, the District became a participant of the Maine Public Employees State Retirement System's (MEPERS) cost sharing multiple employer consolidated retirement plan. Accordingly, due to the consolidation, details of the pension obligation pertaining to the District can no longer be presented. Additional information may be obtained from the MEPERS.

Under the participating local district (PLD) consolidated retirement plan, participants contribute 6.5% of gross compensation. The District's contribution to the plan is 2.8% of gross compensation. This amount is either increased or decreased by the amortization of the District's Initial Unpooled Unfunded Actuarial Liability (IUUAL) credit over the next 10 years. For the years ended December 31, 2010 and 2009, the District was not required to make any contributions.

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

MEPERS 401(a) Defined Contribution Plan - The District adopted the Maine Public Employees State Retirement System Defined Contribution plan for the benefit of its employees. Employees are eligible to participate after six months of service. Each participant shall make pre-tax contributions to the plan at 6.5% of gross compensation. The plan was amended to allow the District to contribute 4.7% to the plan on behalf of the participating employees. Employees are vested in employer contributions after three years of participation. The two plans are currently being funded by the IUUAL credit above.

MEPERS Deferred Compensation Plan

The District offers a deferred compensation plan to its employees and is established pursuant to legislation and in accordance with the requirements of Section 457 of the United States Internal Revenue Code of 1986. Under the plan, eligible employees may contribute a portion of their salary on a pre-tax basis up to the maximum annual contribution allowed by the IRS. The Maine Public Employees State Retirement System sponsors the plan and the District does not make contributions on behalf of the participants.

NOTE 7 - INCOME TAX STATUS

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

**KENNEBUNK SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009**

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions; and natural disaster for which the District carries commercial insurance. Based on the coverage provided by commercial insurance purchased, the District is not aware of material actual or potential claim liabilities, which is to be recorded at December 31, 2010.

NOTE 9 - IMPAIRMENT OF ASSETS AND RESTORATION COST REIMBURSEMENT

In 2007 the District's buildings were damaged by flood. The cost to restore the damaged part of the buildings was estimated at \$3,103,506. The restoration was completed in 2010. The Federal Emergency Management Agency (FEMA) and the State of Maine reimbursed the District 75% and 15%, respectively of the restoration cost.

During 2009, the District received a settlement from the contractor of its defective heating and ventilation system in the amount of \$750,000. The net estimated cost of the impaired asset was \$1,168,750. The impairment loss reported for the defective heating and ventilation system was \$418,750. In 2010, the District's heating and ventilation system was restored and the reasonable estimate of the impaired asset was changed to a net of \$779,166; thus impairment loss recovery of \$389,584 was recognized.

NOTE 10 - RECLASSIFICATIONS

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. The reclassifications had no effect on previously reported results of operations or net assets.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through March 11, 2011, the date the financial statements were available to be issued.

**KENNEBUNK SEWER DISTRICT
DECEMBER 31, 2010 and 2009**

SUPPLEMENTAL DATA

**KENNEBUNK SEWER DISTRICT
SCHEDULE OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010 WITH COMPARATIVE AMOUNTS FOR 2009**

	<u>Board Designated Funds</u>				2010 Total	2009 Total
	Sewer Impact Funds	Capital Reserve	Contributed Capital	Undesignated		
BALANCE AT BEGINNING OF YEAR	\$ 1,616,226	\$ 2,114,419	\$ 8,943,807	\$ 7,615,332	\$ 20,289,784	\$ 18,798,815
Change in Net Assets						
Operating Income (Loss)	-	-	-	146,499	146,499	149,970
Impairment (Loss) Recovery, Net	-	-	-	389,584	389,584	(418,750)
MainePERS Contribution Refunded	-	-	-	282,219	282,219	-
Federal Grant Revenue	-	-	47,030	-	47,030	1,462,339
Contributed Pump Station	-	-	-	-	-	136,660
Net Other Income (Expense)	-	-	-	(32,883)	(32,883)	(21,056)
Sewer Impact Fees, Net	80,903	-	-	-	80,903	135,764
Interest Income	15,057	14,283	-	11,744	41,084	46,042
Net Fund Transfers	(221,456)	(160,216)	-	381,672	-	-
Reversal of 2009 Appropriation for Capital Assets	-	(672,000)	-	672,000	-	-
Appropriation for 2010 Capital Assets	-	593,500	-	(593,500)	-	-
BALANCE AT END OF YEAR	\$ 1,490,730	\$ 1,889,986	\$ 8,990,837	\$ 8,872,667	\$ 21,244,220	\$ 20,289,784

**KENNEBUNK SEWER DISTRICT
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31,**

	<u>2010</u>	<u>2009</u>
<u>GENERAL AND ADMINISTRATION</u>		
Salaries and Wages	\$ 269,716	\$ 280,769
Fringe Benefits	107,216	83,848
Insurance	63,383	50,682
Legal and Audit Fees	15,761	42,399
Contractual Services	23,082	26,626
Office Supplies	5,449	4,530
Postage	10,117	12,603
Travel and Trips to Seminars	2,573	2,865
Permits and Fees	7,230	6,120
Equipment Maintenance Contracts and Repairs	696	661
Bank Charges	730	715
Advertising	706	505
Dues and Subscriptions	1,606	6,630
	<u>508,265</u>	<u>518,953</u>
Total General and Administration	<u>\$ 508,265</u>	<u>\$ 518,953</u>
<u>PLANT MAINTENANCE AND OPERATION</u>		
Utilities	\$ 193,070	\$ 205,687
Maintenance and Repairs	79,474	55,229
Chemical Supplies	53,563	34,053
Sludge Spreading and Analysis	80,797	79,735
General and Miscellaneous	32,049	78,696
Tools and Supplies	1,323	1,969
Telephone and Pagers	5,737	4,714
Uniforms	3,988	3,897
Safety Equipment and Training	8,903	7,785
Waste Disposal	1,277	988
	<u>460,181</u>	<u>472,753</u>
Total Plant Maintenance and Operation	<u>\$ 460,181</u>	<u>\$ 472,753</u>
<u>MAINTENANCE AND OPERATING PERSONNEL COSTS</u>		
Salaries and Wages	\$ 349,187	\$ 332,695
Fringe Benefits	138,806	99,356
	<u>487,993</u>	<u>432,051</u>
Total Maintenance and Operating Personnel Costs	<u>\$ 487,993</u>	<u>\$ 432,051</u>
<u>VEHICLE MAINTENANCE AND OPERATION</u>		
Fuel, Tires and Lubrication	\$ 9,867	\$ 8,854
Maintenance and Repairs	6,311	4,829
	<u>16,178</u>	<u>13,683</u>
Total Vehicle Maintenance and Operation	<u>\$ 16,178</u>	<u>\$ 13,683</u>

**KENNEBUNK SEWER DISTRICT
SCHEDULES OF INVESTMENT EARNINGS
YEARS ENDED DECEMBER 31,**

	<u>2010</u>	<u>2009</u>
<u>INTEREST INCOME</u>		
Internally Restricted Reserves:		
Impact Fees	\$ 15,057	\$ 21,175
Capital Reserves	14,283	13,122
Total	<u>29,340</u>	<u>34,297</u>
Operating Funds:		
Interest Income - Undesignated	<u>11,744</u>	<u>11,745</u>
Total Investment Earnings	<u>\$ 41,084</u>	<u>\$ 46,042</u>

**KENNEBUNK SEWER DISTRICT
SCHEDULES OF CASH AND INVESTMENTS
YEARS ENDED DECEMBER 31,**

		<u>2010</u>	<u>2009</u>
CURRENT ASSET	BANK		
Cash			
Change Fund		\$ 100	\$ 100
Petty Cash - Administration		100	100
Operating and Maintenance - Checking	Kennebunk Savings Bank	92,582	91,124
Operation and Maintenance - Savings	Kennebunk Savings Bank	1,040,848	929,751
Patriots Day Flood - Checking	Kennebunk Savings Bank	158,673	610,027
HVAC Savings	Kennebunk Savings Bank	20,179	748,010
Portable Generator	Kennebunk Savings Bank	5,079	5,038
TOTAL CASH AND INVESTMENTS - CURRENT ASSET		<u>1,317,561</u>	<u>2,384,150</u>
SPECIAL FUNDS - INTERNALLY RESTRICTED AND BOARD DESIGNATED			
Cash			
Cash - Impact Fees	Kennebunk Savings Bank	866,779	811,977
Cash - Equity Buy in Fee	Kennebunk Savings Bank	69,864	-
Turnpike Zone - Impact Fees	Kennebunk Savings Bank	43,174	42,829
Route 1 North - Impact Fees	Kennebunk Savings Bank	3,245	3,125
Route 1 South - Impact Fees	Kennebunk Savings Bank	4,101	3,415
CD# 8000156258	Kennebunk Savings Bank	251,288	-
CD# 19148821948740	KeyBank	-	251,576
CD# 7000194713	People's United Bank	252,279	251,567
CD# 8000143258	Kennebunk Savings Bank	507,675	502,099
CD# 1021036557	State Farm	255,499	252,135
CD# 1001238910	Saco and Biddeford Savings	-	251,739
K & E	Kennebunk Savings Bank	45,282	-
Capital Reserve	Kennebunk Savings Bank	533,312	688,185
TOTAL SPECIAL FUNDS		<u>\$ 2,832,498</u>	<u>\$ 3,058,647</u>