

Financial Statements

Sanford Sewerage District

December 31, 2013

Contents

Sanford Sewerage District

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Independent Auditors' Report

**To the Board of Trustees
Sanford Sewerage District
Sanford, Maine**

We have audited the accompanying financial statements of the Sanford Sewerage District (a quasi-municipal corporation) as of December 31, 2013, which collectively comprise the Sanford Sewerage District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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 audit. We conducted our audit 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Sanford Sewerage District as of December 31, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance 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 page 3 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.

Purdy Pownall & Company
Professional Association

Portland, Maine
July 23, 2014

District Office
Telephone: 324-5313
Fax 324-5087

Treatment Plant
Telephone: 324-0047
Fax: 324-9830

SANFORD SEWERAGE DISTRICT

281 River Street * P.O. Box 338
SPRINGVALE, ME 04083-0338

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Sanford Sewerage District's financial performance provides an overview of the financial activities for the year ended December 31, 2013. Please read it in conjunction with the Sewerage District's financial statements.

USING THIS ANNUAL REPORT

This financial annual report consists of the financial statements and reflects the self-supporting activities of the Sewerage District that are funded primarily through the user charges for sewer services for the public it serves.

Statement of Net Position, Statement of Revenue, Expenses, and Changes in Net Position, and Statement of Cash Flows

The financial statements provide an indication of the Sewerage District's financial health. The Statement of Net Position includes all of the assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes, and which are restricted as a result of Board decisions. The Statement of Revenue, Expenses, and Changes in Net Position reports all of the revenues and expenses during the periods indicated. The Statement of Cash Flows reports the cash provided and used by operating activities, as well as other sources such as investment income and cash payments for debt service and capital additions and betterments.

For the year ended December 31, 2013, net position changed as follows:

	<u>2013</u>	<u>2012</u>
Beginning net position, as reported	\$ 15,105,338	\$ 14,959,528
Restatement (See Note K)	(81,966)	---
Prior period adjustments (See Note L)	(643,660)	---
Increase in net position	<u>152,454</u>	<u>145,810</u>
Ending net position	<u>\$ 14,532,166</u>	<u>\$ 15,105,338</u>

The District implemented GASB No. 65 in 2013 and with this new standard debt issuance costs are no longer amortized over the term, but rather are current period costs decreasing the District net position by \$81,966. GASB No. 18 required a prior period adjustment regarding the liability for accrued sludge site remediation to report liability for closure based on the percentage of capacity utilized beginning 2013 for a decrease in net assets of \$709,000. The second prior year adjustment necessary was to capitalize prior year engineering and design cost for the Goodall Pump Station increased in net position by \$65,340. Discounting these two adjustments reflects an increase of approximately 10.7%. The capital asset acquisitions placed in service during 2013 total to \$534,146. This is related to the Pleasant Street major sanitary line improvement, construction in progress to Goodall & Rtc. 109 pump stations, and designing a bio-solid compost facility. A solar wall was replaced which is a supplemental heating source at the treatment facility. Equipment was purchased to address the operator's safety in confined spaces. The excess of revenues over expenses was \$152,454 for the year.

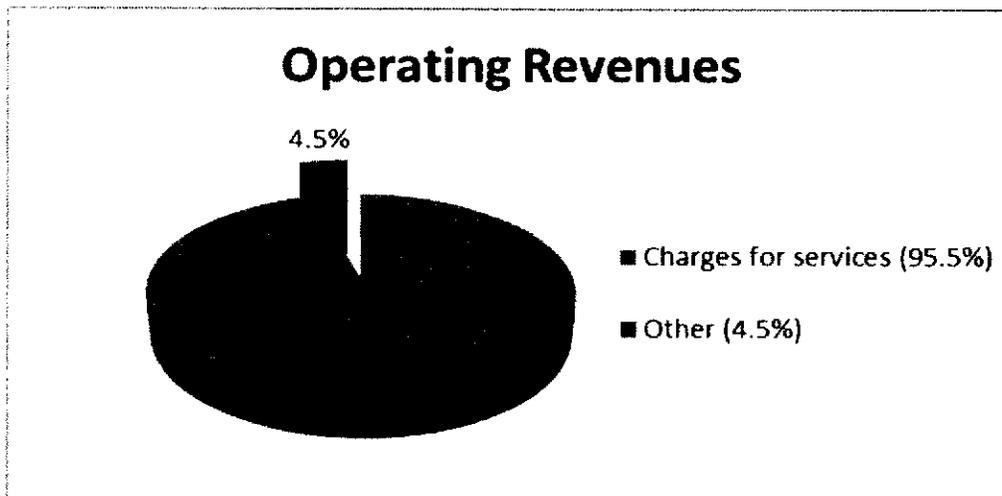
The following is a summary of the statements of net position as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Current and other assets	\$ 2,756,588	\$ 3,240,106	\$ (483,518)
Capital assets, net of accumulated depreciation	<u>26,259,439</u>	<u>26,590,528</u>	<u>(331,089)</u>
Total Assets	29,016,027	29,830,634	(814,607)
Current and other liabilities	1,258,027	1,209,245	48,782
Long-term liabilities	<u>13,225,834</u>	<u>13,516,051</u>	<u>(290,217)</u>
Total Liabilities	14,483,861	14,725,296	(241,435)
Net Position:			
Net investment in capital assets	13,948,404	13,850,229	98,175
Restricted, expendable	351,523	451,093	(99,570)
Unrestricted	<u>232,239</u>	<u>804,016</u>	<u>(571,777)</u>
Net Position	<u>\$ 14,532,166</u>	<u>\$ 15,105,338</u>	<u>\$ (573,172)</u>

The following schedule presents a summary of operating revenues for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Operating Revenue			
Charges for services	\$ 2,960,601	\$ 3,221,878	\$ (261,277)
Other	<u>139,066</u>	<u>138,911</u>	<u>115</u>
	<u>\$ 3,099,667</u>	<u>\$ 3,360,789</u>	<u>\$ (261,122)</u>

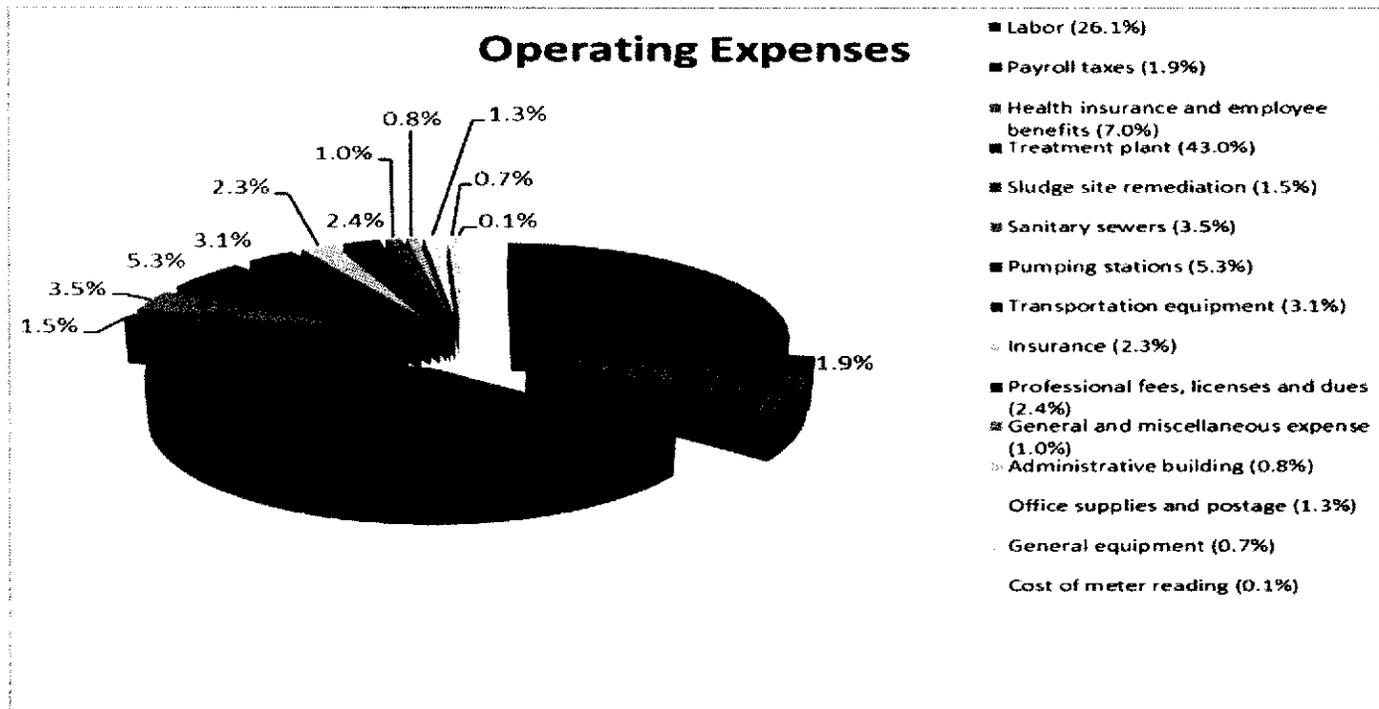
This represents an approximate 7.7% decrease from the prior year.



Operating revenues consists of sewerage consumption fees, service charges and connection fees. A significant pattern in decline of usage due to weakened local and regional economy of the past several years regarding home and business closures and decrease in residential usage explains the 7.7% decrease in this year alone. To reverse this trend in revenue, the District has notified the public in 2013 of a rate increase to be implemented in the billing cycle beginning February 2014. The net result is an average increase per household of 11.3%.

The following schedule presents a summary of operating expenses for the years ended December 31, 2013 and 2012.

Operating Expenses	<u>2013</u>	<u>2012</u>	<u>Change</u>
Labor	\$ 730,965	\$ 689,899	\$ 41,066
Payroll taxes	52,936	49,749	3,187
Health insurance and employee benefits	196,959	184,364	12,595
Treatment plant	1,203,211	1,181,392	21,819
Sludge site remediation	42,000	500,000	(458,000)
Sanitary sewers	97,506	74,357	23,149
Pumping stations	148,723	127,680	21,043
Transportation equipment	85,632	85,181	451
Insurance	64,071	67,279	(3,208)
Professional fees, licenses and dues	66,018	42,738	23,280
General and miscellaneous expense	28,659	41,596	(12,937)
Administrative building	23,341	23,501	(160)
Office supplies and postage	36,142	34,472	1,670
General equipment	18,923	14,769	4,154
Cost of meter reading	3,000	3,000	---
	<u>\$ 2,798,086</u>	<u>\$ 3,119,977</u>	<u>\$ (321,891)</u>



The District is making a strong effort to control costs and keep increases within our control to a minimum while still operating a well maintained sewerage distribution and treatment system. Our objective is to be proactive in the operation and maintenance of the treatment plant, pump stations, and sewer lines as much as possible. However, the increases associated with the higher cost in fuel, electricity, chemicals, equipment and construction supplies are reflected in the actual increase in the Districts' cash expenditure by \$136,109 compared to 2012. (Understand the Sludge Site Remediation, due to the GASB No. 18, which is non-cash expenditure, was adjusted down to \$42,000 compared to 2012 non-cash adjustment expenditure of \$500,000). Taking this into consideration, our operating expense represents an approximate 5.1% increase from the prior year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2013, the Sewerage District had approximately \$39.7 million invested in capital assets including equipment, structures, vehicles, collection & distribution lines, office equipment, land and land improvements (See table below). There was approximately \$534,000 in additions to capital assets, which included approximately \$81,000 of construction in progress and no disposals during the year.

Land and land improvements	\$	368,659
Stabilization ponds		693,877
Administrative building		142,860
Treatment plant		27,701,987
Sludge site		24,759
Sanitary sewers		3,828,026
Pumping stations		2,464,794
Treatment plant equipment		3,663,658
Collection system equipment		299,438
Transportation equipment		423,822
Furniture and office equipment		36,879
Construction in progress		<u>81,338</u>
TOTAL	\$	<u>39,730,097</u>

This year's major additions included:

- 2013 Sanitary Sewers – Collection System (CS) \$336,888 - Construction cost was for 2013 major sanitary sewer improvement project replacing 1600 feet on Pleasant Street, which was in coordination with the Sanford Water District and the City of Sanford to improve infrastructure as a whole.
- Installation of Translucent Panels \$45,604 - This was to upgrade and replace panels in the solar heating wall to utilize solar heat in the administration building at the Wastewater Treatment Plant Facility.
- Mousam Flowserve Pump \$35,050 - A main pump upgrade at the Mousam Pump Station.
- Rescue Hoist, Wall Mount Assembly \$8,408 is designated as safety equipment.
- 3 HP Little John Digester \$6,663 should help reduce operational and maintenance costs.

Debt

At year-end, the Sewerage District had approximately \$12.3 million in outstanding notes and bonds compared to \$13.3 million last year (see Note E). The following table shows a comparison by year:

	<u>2013</u>	<u>2012</u>
General obligation debt	<u>\$12,311,035</u>	<u>\$13,329,452</u>

The debt outstanding and the bond amount paid off in 2013 are as follows:

Bond Payable to Maine Municipal Bond Bank, in the original amount of \$18,170,555 borrowed from the Clean Water Revolving Loan Fund is due in October 2024, annual principal payment of \$908,528 including semi-annual interest at 2.13% and semi-annual interest only payments. The total outstanding debt of the Wastewater Treatment Facility loans was \$9,909,781 as of December 31, 2013.

Bond Payable to Maine Municipal Bond Bank to provide funding for Phase II of the above noted upgrade in the original amount of \$2,157,209, due in April 2027, annual principal payment of \$107,860 including semi-annual interest at 1.5% and semi-annual interest only payments. The total outstanding debt for Phase II loan was \$1,510,046 as of December 31, 2013.

Bond Payable to Maine Municipal Bond Bank, in the original amount of \$1,000,000 of which \$59,750 was forgiven at closing, due in October 2031, annual principal payment of \$47,013 including semi-annual interest at 1.0% and semi-annual interest only payments. The total outstanding debt for the Goodall Pump Station Upgrade Project loan was \$846,225 as of December 31, 2013.

2013 Revolving Loan from Maine Municipal Bond Bank, in the original amount of \$456,000, due in October 2033, annual principal payment of \$22,800 with annual interest at 1.42% over the loan term. Proceeds of this capital improvement bond will be distributed for approved expenses through the requisition process that is in place for the Clean Water State Revolving Loan Fund Program. Cumulative advances for approved expenses to the upgrade to the 109 Pump Station and the Bio-Solids Compost Facility were \$44,983 through December 31, 2013.

This summary of debt activity and the reduction of the District long-term debt was \$1,018,417 putting our general obligation debt to \$12,311,035.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board of Trustees of the Sanford Sewerage District understands the need to maintain appropriate cash flow and to make the following necessary improvements to the sanitary system between 2014 and 2017. Implementation of the 2014 average rate increase of approximately 11.3% will also help to correct the revenue shortfall in 2013. Since our last rate increase in 2007, the District has worked to limit increasing expenses through internal cost control and finding supplemental revenue.

The 2014 rate increase will be to address the capital improvements needed to upgrade the Route 109 Pump Station with a projected cost of \$500,000. The budget and plans for 2014-2015 is the design and building of a Bio-Solids Compost Facility estimated to cost \$2,000,000. The planned 2015 upgrade on the Route 99 Pump Station is at an estimated cost of \$500,000.

In addition to the 2014 rate increase, further increases are needed and will be applied primarily to the compost facility and sludge landfill site closure projects. The landfill that is at near capacity is planned for closure in 2016-2017 at a projected cost of \$2,000,000. Approved at the February 2014 Board of Trustees district meeting, the three phase rate increases are as follows;

- Beginning February of 2014, an increase in the service charge from \$22.50 to \$25.00 per quarter and an increase in the sewer charge rate from \$6.20 per 100 cubic feet to \$6.90
- Beginning February of 2015 an increase in the sewer charges to \$7.30 per 100 cubic feet, increasing the average annual sewer bill by 4.9%.
- Beginning February 2016, sewer charges rates will increase further to \$7.50 per 100 feet, increasing the average sewer bill annual bill by 2.3%. During each of these two yearly sewerage fee increase, the service charge will remain the same.

This financial management strategy will spread the potential immediate impact of increases over a three year period. The increases will cover the costs for strategic capital improvements, while offsetting decreasing revenues associated with declining usage. This proposed plan will leave the District on sound financial footing, continuing its ability to meet the needs of a changing community.

CONTACTING THE SEWERAGE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Sewerage District's finances and to show the Sewerage District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent of the Sanford Sewerage District at:

Superintendent
Sanford Sewerage District
281 River Street
PO Box 338
Springvale, Maine 04083-0338

Telephone: 207-324-5313
Fax: 207-324-5087

Statement of Net Position

Sanford Sewerage District

As of December 31, 2013

Assets

Current Assets

Cash and cash equivalents	\$	1,368,159
Accounts receivable, net of allowance for doubtful accounts of \$35,000		650,267
Unbilled receivable		343,529
Liens receivable		316,215
Bond proceeds receivable		25,423
Inventory		33,493
Prepaid expenses		19,502
Total Current Assets		<u>2,756,588</u>

Utility Property

Property and equipment		39,730,097
Less: accumulated depreciation		<u>(13,470,658)</u>
Net Utility Property		<u>26,259,439</u>

Total Assets 29,016,027

Liabilities

Current Liabilities

Accounts payable		56,781
Accrued expenses		115,045
Long-term debt, current		<u>1,086,201</u>
Total Current Liabilities		<u>1,258,027</u>

Long-term Liabilities

Accrued sludge site remediation		2,001,000
Long-term debt, less current portion		<u>11,224,834</u>
Total Long-term Liabilities		<u>13,225,834</u>

Total Liabilities 14,483,861

Net Position

Net investment in capital assets		13,948,404
Restricted, expendable		351,523
Unrestricted		<u>232,239</u>

Net Position \$ 14,532,166

See accompanying independent auditors' report and notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Position

Sanford Sewerage District

For the Year Ended December 31, 2013

Operating Revenues

Charges for services	\$ 2,960,601
Other	139,066
Total Operating Revenues	3,099,667

Operating Expenses

Treatment plant	1,589,945
Sludge site remediation	42,000
Sanitary sewers	355,483
Administrative salaries	228,429
Pumping stations	193,305
Transportation equipment	85,632
Insurance	64,071
Professional fees, licenses and dues	66,018
General and miscellaneous expense	28,660
Administrative building	40,790
Office supplies and postage	36,142
Employee health insurance	24,904
Administrative payroll tax expense	17,184
General equipment	18,923
Employee benefits	3,600
Cost of meter reading	3,000
Total Operating Expenses	2,798,086

Operating Income 301,581 -

Non-Operating Revenues (Expenses)

Interest and lien charge income	100,004
Interest expense	(249,131)
Net Non-Operating Expenses	(149,127) -

Increase in Net Position 152,454

Net position at beginning of year, as reported	15,105,338
Restatement (See Note K)	(81,966)
Prior period adjustments (See Note L)	(643,660)
Net assets at beginning of year, as restated	14,379,712
Net Position at End of Year	\$ 14,532,166

See accompanying independent auditors' report and notes to financial statements.

Statement of Cash Flows (1 of 2)

Sanford Sewerage District

For the Year Ended December 31, 2013

Cash Flows from Operating Activities

Cash receipts:

Cash receipts from customers \$ 3,248,774

Cash disbursements:

Cash payments to and on behalf of employees (977,260)

Cash payments to suppliers and vendors (810,379)

Net Cash Provided by Operating Activities 1,461,135

Cash Flows from Capital and Related Financing Activities

Proceeds from long-term borrowing 168,892

Purchases of property and equipment (534,146)

Principal payments on long-term debt (1,063,400)

Debt interest payments (253,772)

Net Cash Used by Capital and Related Financing Activities (1,682,426)

Cash Flows from Investing Activities

Interest and lien charge income 100,004

Net Cash Provided by Investing Activities 100,004

Decrease in Cash and Cash Equivalents (121,287)

Cash and cash equivalents at beginning of year 1,489,446

Cash and Cash Equivalents at End of Year \$ 1,368,159

See accompanying independent auditors' report and notes to financial statements.

Statement of Cash Flows (2 of 2)

Sanford Sewerage District

For the Year Ended December 31, 2013

Reconciliation of Operating Income to

Net Cash Provided by Operating Activities:

Net operating income	\$	301,581
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		930,576
Accrued sludge site remediation		42,000
(Increase) decrease in operating assets:		
Accounts receivable		68,136
Unbilled receivable		51,443
Liens receivable		29,528
Inventories		3,249
Prepaid expenses		3,999
Increase (decrease) in operating liabilities:		
Accounts payable		26,357
Accrued expenses		4,266
Net Cash Provided by Operating Activities	\$	<u>1,461,135</u>

Supplemental Disclosure of Non-Cash Investing Activity:

Property and equipment purchased using trade credit	\$	<u>25,423</u>
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See accompanying independent auditors' report and notes to financial statements.

Notes to Financial Statements

Sanford Sewerage District

Note A - Summary of Significant Accounting Policies

Nature of Operations

The Sanford Sewerage District (District) is a quasi-municipal corporation located in Sanford, Maine. It was incorporated in 1947 to construct, maintain and operate a system of sewers, commercial and industrial waste disposal, sewerage treatment, and storm and surface water drainage system and related facilities to the inhabitants of the District.

Accounting Method

The District maintains its accounting records on the accrual basis in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Basis of Presentation

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions and activities. A fund is a separate accounting entity with a self-balancing set of accounts. The District uses proprietary fund accounting.

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

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 revenue of the District's proprietary funds are charges to customers for sales and services; operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Notes to Financial Statements - Continued

Sanford Sewerage District

Note A - Summary of Significant Accounting Policies - Continued

Net position is classified into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances (if any), net of unamortized debt expenses and unspent debt proceeds.
- Restricted - This component consists of net position with constraints placed on its use, either externally or internally. Constraints include those by creditors (such as through debt covenants), grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation or by the Board.
- Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Cash and Cash Equivalents

The District considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents.

Accounts Receivable and Revenue Recognition

Operating revenues consist primarily of sewer and septic fees which are billed quarterly based upon current water consumption. Customers are billed on or about the last week of the month following the end of a cycle and payments are due in full prior to the next quarter's billing. The District is divided into three billing sections which are staggered so there is a quarterly billing each month. The District records unbilled revenues based upon an estimate of the remaining billings of the three sections at year-end.

Inventories

Inventory consists of supplies and materials on hand. Inventories are stated at the lower of cost or market. Cost is determined generally on a first-in, first-out basis.

Utility Property

Acquisitions of property, plant and equipment are capitalized at cost and depreciated using the straight-line method over the asset's useful life. The depreciation on property, plant and equipment acquired with contributions in aid of construction is included in operating expenses. Estimated useful lives are as follows: Land improvements, 20 years; administrative building, 10-33 years; treatment plant, 5-50 years; sanitary sewers, 30-99 years; pumping stations, 5-50 years; treatment plant equipment, 5-25 years; collection system equipment, 5-20 years; transportation equipment, 5-10 years; furniture and office equipment, 4 years. Depreciation expense for the year ended December 31, 2013 was \$930,576.

Expenditures for repairs and maintenance are expensed when incurred and betterments are capitalized. Interest costs associated with the construction of new plant and equipment additions are capitalized. Assets sold or otherwise disposed of are removed from the accounts at original cost, plus the cost of removal less salvage, along with the related depreciation allowances, and any gain or loss is recognized.

Notes to Financial Statements - Continued

Sanford Sewerage District

Note A - Summary of Significant Accounting Policies - Continued

Preliminary Surveys for Plant Expansion or Modification

Expenses incurred for preliminary surveys for plant expansion or modification are deferred and charged to the operating property when the project is completed or to expense if the project is abandoned.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncement

During the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement (GASBS) No. 65 *Items Previously Reported as Assets and Liabilities*. Balances reported in net asset position were changed with the implementation of the new standard (See Note L).

Note B - Cash

The District conducts all of its banking transactions with its depository bank.

Deposits

At December 31, 2013, the carrying amount of the District's deposits was \$1,368,159, and the bank balance was \$1,386,492. The difference between the carrying amount and bank balance relates to outstanding checks, deposits in transit and cash on hand at year-end.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy on custodial risk. At December 31, 2013, none of the District's bank balance of \$1,386,492 was exposed to credit risk.

Notes to Financial Statements - Continued

Sanford Sewerage District

Note C - Accounts Receivable

The District's accounts receivable consisted of the following at December 31, 2013:

Accounts receivable - sewer fees	\$ 672,966
Accounts receivable - miscellaneous	<u>12,301</u>
	685,267
Less allowance for doubtful accounts	<u>(35,000)</u>
	<u>\$ 650,267</u>

An allowance for doubtful accounts is determined by management using an analysis of prior bad debt expense and a review of current accounts receivable. Uncollectible accounts are written-off in the year in which they are deemed uncollectible. There were no write-offs of uncollectible accounts during the year ended December 31, 2013.

Note D - Utility Property

Utility property at December 31, 2013 consisted of the following:

Land and land improvements	\$ 368,659
Stabilization ponds	693,877
Administrative building	142,860
Treatment plant	27,701,987
Sludge site	24,759
Sanitary sewers	3,828,026
Pumping stations	2,464,794
Treatment plant equipment	3,663,658
Collection system equipment	299,438
Transportation equipment	423,822
Furniture and office equipment	36,879
Construction in progress (not depreciated)	<u>81,338</u>
Total utility property	39,730,097
Less accumulated depreciation	<u>13,470,658</u>
Net utility property	<u>\$ 26,259,439</u>

The following summarizes the activity for utility property for the year ended December 31, 2013:

Balance as of January 1, 2013 - <i>as previously stated</i>	\$ 39,129,951
<i>Prior Period Adjustment (See Note L)</i>	<u>66,000</u>
Balance as of January 1, 2013 - <i>restated</i>	39,195,951
Additions	534,146
Disposals	-
Balance as of December 31, 2013	<u>\$ 39,730,097</u>

Notes to Financial Statements - Continued

Sanford Sewerage District

Note E - Long-Term Debt

At December 31, 2013, long-term debt consisted of the following:

Bond payable to Maine Municipal Bond Bank, in the original amount of \$18,170,555, due in October 2024, annual principal payments of \$908,528 including semi-annual interest at 2.13% and semi-annual interest only payments. \$ 9,909,781

Bond payable to Maine Municipal Bond Bank, in the original amount of \$2,157,209, due in April 2027, annual principal payments of \$107,860 including semi-annual interest at 1.50% and semi-annual interest only payments. 1,510,046

Bond payable to Maine Municipal Bond Bank, in the original amount of \$1,000,000 of which \$59,750 was forgiven at closing, due in October 2031, annual principal payments of \$47,013 including semi-annual interest at 1.00% and semi-annual interest only payments. 846,225

Revolving loan from Maine Municipal Bond Bank, in the original amount of \$456,000, due in October 2033, annual principal payments of \$22,800 with annual interest at 1.42% over the loan term. Proceeds of this capital improvement bond will be distributed for approved expenses through the requisition process that is in place for the Clean Water State Revolving Loan Fund Program. Cumulative advances for approved expenses through December 31, 2013 are:

	<u>44,983</u>
Total debt	12,311,035
Less current portion	<u>1,086,201</u>
Long-term debt	<u>\$ 11,224,834</u>

The following is a summary of debt activity for the year ended December 31, 2013:

Payable as of January 1, 2013	\$ 13,329,452
Additions	44,983
Reductions	<u>1,063,400</u>
Payable as of December 31, 2013	<u>\$ 12,311,035</u>

Notes to Financial Statements - Continued

Sanford Sewerage District

Note E - Long-Term Debt - Continued

The principal maturities of the notes payable for the next five years and in five year increments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	\$ 1,086,201	\$ 232,069	\$ 1,318,270
2015	1,085,584	214,379	1,299,963
2016	1,063,401	188,129	1,251,530
2017	1,063,401	170,280	1,233,681
2018	1,063,401	149,478	1,212,879
2019-2023	5,296,597	484,656	5,781,253
2024-2028	1,511,414	102,373	1,613,787
2029-2033	141,036	10,014	151,050
	<u>\$ 12,311,035</u>	<u>\$ 1,551,378</u>	<u>\$ 13,862,413</u>

Note F - Risk Management

The District is exposed to various risks 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 which should be recorded at December 31, 2013.

The District maintains a worker's compensation fund, an unemployment compensation fund and a property and casualty fund as part of various pools with the Maine Municipal Association (MMA). Contributions are made during the year and are invested in the respective funds by MMA to administer benefits for the District, if any. Currently, the District's contributions and income exceed the payment of benefits. These plans do not allow for retroactive premium adjustment by the pool and the pool retains the risk of loss. Therefore, these amounts are not part of the District's financial statements.

Note G - Contingency

Grant Funds

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Notes to Financial Statements - Continued

Sanford Sewerage District

Note H - Contingent Liability for Landfill Closure and Post-Closure Care Costs

The District is licensed as the operator of a landfill for the storage of wastewater treatment sludge. Upon the landfill becoming inactive, the District is required by federal and state law to close the landfill, including final cover, stormwater management, landfill gas control, and to provide postclosure care for a period of 30 years following closure. Management expects that the landfill will be full during 2015. Based on management's estimate of cubic capacity used and capacity available, 96% of the capacity has been used at December 31, 2013. During the year ended December 31, 2013, a prior period adjustment was needed to correct the beginning balance to reflect management's estimate (See Note L).

While an engineering study was not completed by the District, consultation was given by an engineering firm and management has estimated that the closure will cost approximately \$2,000,000. Management has also estimated that the cost of monitoring will be \$3,000 to \$4,000 per year, with a total present value of \$84,000. The total liability is estimated to be \$2,084,000. These estimates are subject to adjustment for inflation and to account for any changes in landfill conditions, regulatory requirements, technologies, or cost estimates. The liability for these closure and post-closure care activities as of December 31, 2013 is \$2,001,000. During the year ended December 31, 2013, expenditures for landfill closure and post-closure care costs totaled \$42,314.

Note I - Retirement Plans

Maine Public Employees Retirement System - Consolidated Plan

Substantially all eligible employees of the District participate in the Maine Public Employees Retirement System (MPERS). The Maine Public Employees Retirement System Consolidated Plan is a cost sharing public multiple-employer retirement system established by the Maine State legislature. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the State legislature. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. A complete report may be obtained by contacting the Maine Public Employees Retirement System at 46 State House Station, Augusta, ME 04333.

Effective July 1, 1994, the District joined the Consolidated Plan of the MPERS. Upon entry, the District ceased to be an individual sponsor of the participating local district plan #89 and instead became a participant in the Consolidated Plan. As a participant in the plan, the District is entitled to its initial unpooled actuarial liability (surplus of \$212,931 as of June 30, 2013, which is the most recent end of the Plan year) which resulted from excess funding in the previous plan. The Maine Public Employees Retirement System Consolidated Plan utilizes the "entry age normal actuarial cost method". The amortization period as of the most recent valuation by MSRS (June 30, 2013) was 15 years. Actuarial liabilities are not separately amortized for each individual plan. The present value of the actuarial liability at June 30, 2013 was \$2,465,934,744 and the actuarial accrued value of assets was \$2,136,036,197, leaving a polled unfunded actuarial liability for the Consolidated Plan of \$329,898,547.

Notes to Financial Statements - Continued

Sanford Sewerage District

Note I - Retirement Plans - Continued

Plan members are required to contribute 6.5% for the Regular AN Plan of their annual covered salary and the Sanford Sewerage District is required to contribute an actuarially determined rate. The current rate is 3.4% for the Regular AN Plan of annual covered payroll. The contribution rates of plan members and the District are established and may be amended by the MPERS Board of Trustees. The amount of eligible compensation for the year ended December 31, 2013 was \$594,266 and the employee contributions to the Plan were \$38,628. Due to the availability of the initial unpooled unfunded actuarial surplus when the District joined the Plan, the District's contribution to the MPERS Consolidated Plan for the year ended December 31, 2013 was \$44.

Deferred Compensation Plan

Additionally, the District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is also administered by MPERS. The plan, available to District employees who wish to participate, permits employees to defer a portion of their salary, up to certain prescribed limits, until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. There is no District contribution available under the plan.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the participants. All assets are protected by a trust arrangement from any claims on the District and from any use by the District other than paying benefits to employees and their beneficiaries in accordance with the plan.

Note J - Restricted Net Assets

Restricted net assets consisted of the following at December 31, 2013:

Flexible Spending Account - <i>Employee funds</i>	\$ 841
Flexible Spending Account - <i>Board designated</i>	10,000
Bond Sinking Fund - <i>Board designated</i>	<u>340,682</u>
Total Restricted Net Assets	<u>\$ 351,523</u>

The District has established separate bank accounts for the flexible spending funds and the sinking fund for debt retirement. The flexible spending account is to be used to pay the claims for employee reimbursements under the terms of the plan. The sinking fund for debt retirement requires an annual contribution of no less than 2% and no more than 5% of the indebtedness outstanding in the District's name and is to be used only for debt retirement.

Notes to Financial Statements - Continued

Sanford Sewerage District

Note K - Restatement

During the year ended December 31, 2013, the District implemented GASBS No. 65 as of January 1, 2013. Under the new standard, debt issuance costs are no longer amortized over the term of debt, but rather are current period costs. As such, the balance carried as deferred financing costs as of the beginning of the year are retroactively expensed into equity. The effect on the District's net position was a decrease of \$81,966.

Note L - Prior Period Adjustments

During the year ended December 31, 2013, adjustments were made to net position as of January 1, 2013. The combined prior period adjustments reduced net position by \$643,660.

A prior period adjustment was necessary to correct the beginning balance in the liability for accrued sludge site remediation to report the liability for closure, post-closure and monitoring costs based on the percentage of capacity utilized as of the beginning of the year. The effect of this adjustment was an increase to liabilities and a decrease to net position of \$709,000.

A prior period adjustment was also necessary to capitalize previously expensed engineering and design costs for the Goodall Pump Station. The effect of this adjustment was an increase to utility property of \$66,000, an increase to accumulated depreciation of \$660, for a net increase to net position of \$65,340.