

***TOWN OF SOUTHWEST HARBOR  
WATER & SEWER DISTRICT***

***FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT***

***FOR THE FISCAL YEAR  
ENDED DECEMBER 31, 2018***

# James W. Wadman

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**CERTIFIED PUBLIC ACCOUNTANT**

James W. Wadman, C.P.A.  
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## *INDEPENDENT AUDITOR'S REPORT*

Southwest Harbor Water & Sewer District  
P.O. Box 1100  
Southwest Harbor, Maine 04679

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities of the Southwest Harbor Water and Sewer District, as of and for the year ended December 31, 2018, including the related notes to the financial statements, which collectively comprise the Southwest Harbor Water and Sewer District's basic 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 opinions 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 audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Southwest Harbor Water and Sewer District, as of December 31, 2018, and

the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully Submitted,

*James W. Wadman, CPA*

James W. Wadman, C.P.A.

April 30, 2019

**SOUTHWEST HARBOR WATER AND SEWER DISTRICT**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2018**

The management of the Southwest Harbor Water and Sewer District (the District) offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2018. We encourage readers to consider this information in conjunction with the financial statements and accompanying notes that follow.

**FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT**

**Government-wide Highlights:**

*Net Position* – As of the close of the fiscal year ended December 31, 2018, the District reported combined ending net position of \$5,765,943 with \$88,933 being unrestricted net position. Unrestricted net position represents the amount available to be used to meet the District's ongoing obligations to citizens and creditors. The District's total net position decreased by \$86,502 (a 1.5% decrease) for the fiscal year ended December 31, 2018. The unrestricted net position represents approximately 6.7% of the total District expenditures for the year.

**Long-Term Debt:**

The District's total long-term debt obligations had a net decrease of \$39,562 (1.7%) during the current fiscal year. There was new debt issued for water filtration as well as the raw water pump station and infrastructure. Existing debt obligations were retired according to schedule. The District and the Town of Southwest Harbor (the Town) agreed to adjusted terms of repayment. The District will now repay the Town over 20 years. New debt for the raw water pump station and infrastructure is financed through the District but is to be retired by payments from the Town.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include two components: 1) government-wide financial statements, and 2) notes to the financial statements. These components are described below:

**Government-wide Financial Statements**

The government-wide financial statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting and are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The statement of net position includes all assets of the District (including infrastructure, if applicable) as well as all liabilities (including long-term debt, if applicable), with the difference between the two reported as net position. The statement of activities shows how the District's net position changed during the year, regardless of the timing of related cash flows. The government-wide financial statements can be found on pages 7 - 9 of this report.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 10 - 15 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

The largest portion of the District's net position (98.5%) reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges and other immovable assets); less any related debt used to acquire those assets that is still outstanding. The District uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although, the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	<i>Water Fund 2018</i>	<i>Water Fund 2017</i>
Current Assets	\$ 508,931	\$ 400,920
Noncurrent Assets	\$ 80,002	\$ 0
Capital Assets	\$ 5,406,035	\$ 5,329,025
Deferred Outflows	\$ 160,031	\$ 173,940
<i>Total Assets and Deferred Outflows</i>	\$ 6,154,999	\$ 5,903,885
Other Liabilities	\$ 384,212	\$ 140,573
Long-Term Liabilities	\$ 732,094	\$ 812,263
Net Position;		
Invested in Capital Assets	\$ 4,462,828	\$ 4,413,073
Unrestricted	\$ 575,865	\$ 537,976
<i>Total Liabilities and Net Position</i>	\$ 6,154,999	\$ 5,903,885

	<i>Sewer Fund 2018</i>	<i>Sewer Fund 2017</i>
Current Assets	\$ 222,687	\$ 208,190
Capital Assets	\$ 1,991,561	\$ 2,159,218
<i>Total Assets</i>	\$ 2,214,248	\$ 2,367,408
Other Liabilities	\$ 273,704	\$ 200,404
Long-Term Liabilities	\$ 1,213,295	\$ 1,265,607
Net Position;		
Invested in Capital Assets	\$ 1,214,181	\$ 1,328,033
Unrestricted	\$ (486,932)	\$ (426,636)
<i>Total Liabilities and Net Position</i>	\$ 2,214,248	\$ 2,367,408

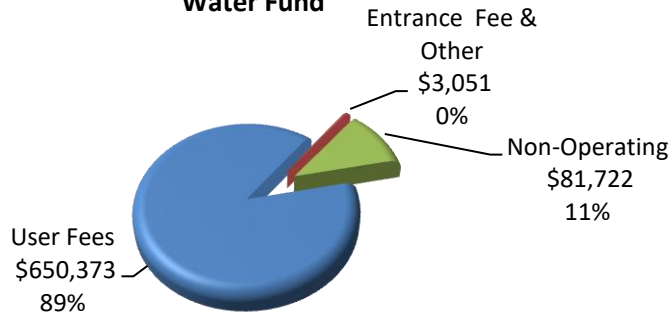
**Changes in Net Position**

The District's net position decreased by \$86,502 which consisted of an increase in the Water Fund net position of \$87,645 and a decrease in the Sewer Fund net position of (\$174,147). The District maintained user fee rates as compared to the prior fiscal year for water bud included an increase for sewer. The main reason for the current year increase in the Water Fund was controlled costs as well as contributions in aid of construction. The decrease in the Sewer Fund was mainly due to additional unexpected costs for sludge disposal, under budgeted debt service expense and unforeseen repair and maintenance costs.

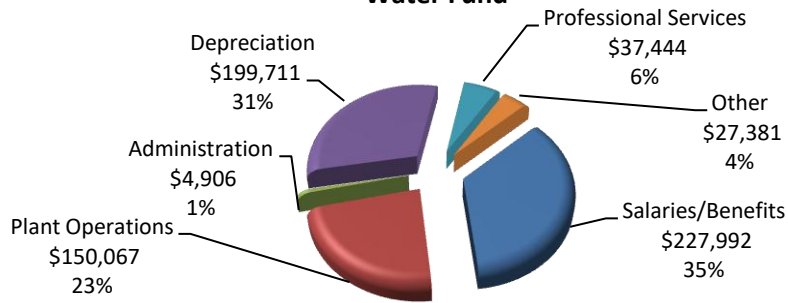
	<i>Water Fund 2018</i>	<i>Water Fund 2017</i>
<i>Revenues;</i>		
User Fees	\$ 650,373	\$ 688,194
Entrance Fees & Other	\$ 3,051	\$ 8,858
Non-Operating	\$ 81,722	\$ 89,986
<i>Total Revenues</i>	\$ 735,146	\$ 787,038
<i>Expenses;</i>		
Salaries & Benefits	\$ 227,992	\$ 210,076
Plant Operations	\$ 150,067	\$ 144,262
Administration	\$ 4,906	\$ 2,221

Depreciation	\$ 199,711	\$ 180,703
Professional Services	\$ 37,444	\$ 51,390
Miscellaneous	\$ 11,692	\$ 10,689
Interest Expense	\$ 15,689	\$ 15,405
<i>Total Expenses</i>	\$ 647,501	\$ 614,746
<i>Changes in Net Position</i>	\$ 87,645	\$ 172,292

**Revenues by Source - Business-Type -  
Water Fund**

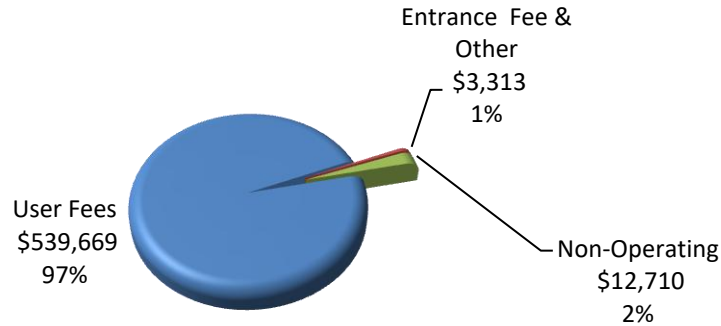


**Expenditures by Source - Business-Type -  
Water Fund**

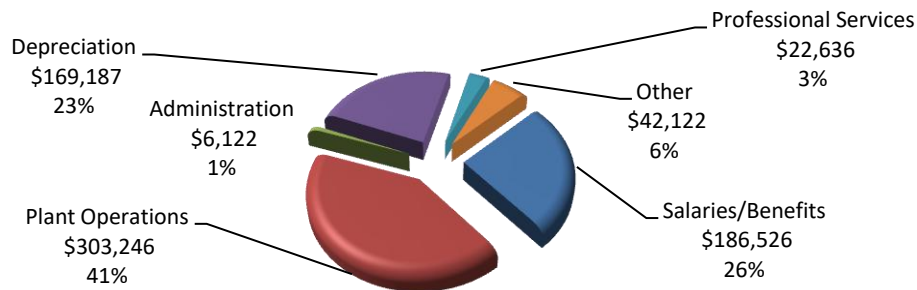


	<i>Sewer Fund 2018</i>	<i>Sewer Fund 2017</i>
<i>Revenues;</i>		
User Fees	\$ 539,669	\$ 575,854
Entrance Fees & Other	\$ 3,313	\$ 4,109
Non-Operating	\$ 12,710	\$ 2,108
<i>Total Revenues</i>	\$ 555,692	\$ 582,071
<i>Expenses;</i>		
Salaries & Benefits	\$ 186,526	\$ 165,175
Plant Operations	\$ 303,246	\$ 274,317
Administration	\$ 6,122	\$ 6,065
Depreciation	\$ 169,187	\$ 167,710
Professional Services	\$ 22,636	\$ 19,590
Miscellaneous	\$ 14,890	\$ 13,710
Interest Expense	\$ 27,232	\$ 26,737
<i>Total Expenses</i>	\$ 729,839	\$ 673,304
<i>Changes in Net Position</i>	\$ (174,147)	\$ (91,233)

**Revenues by Source - Business-Type -  
Sewer Fund**



**Expenditures by Source - Business-Type -  
Sewer Fund**



**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The District's investment in capital assets for its business-type activities amounts to \$13,490,364; net of accumulated depreciation of \$6,092,767, leaving a net book value of \$7,397,597. Current year additions for the Water Fund include \$58,180 for a raw water pump station upgrade, \$29,830 for a water actuator upgrade, \$38,388 for SCADA system and software, \$21,823 for meters and installations, \$19,518 for hydrants, \$3,000 for capacity development and \$91,915 of construction work in progress. Additions for the Sewer Fund include \$1,530 for general laboratory equipment. There were no current year retirements or impairments. Additional information on the District's capital assets can be found in Note 3 of the notes to the financial statements on pages 13 - 14 of this report.

**Debt**

The District has total bonded debt outstanding of \$1,720,587 and debt due to the Town of \$507,462 that are backed by the full faith and credit of the District. The outstanding debt had a net decrease of \$39,562 during the current fiscal year. During the year, the terms were adjusted for the debt due to the Town to be repaid over 20 years rather than 15 years. The District incurred new debt through Maine Municipal Bond Bank for both water filtration as well as the raw water pump station and infrastructure upgrades. The latter of which will be retired by the Town. Additional information on the District's long-term debt can be found in Note 5 of the notes to the financial statements on pages 14-15 of this report.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances for all water and sewer users, investors and creditors. This financial report seeks to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Southwest Harbor Water and Sewer District, P.O. Box 1100, Southwest Harbor, ME 04679.

**SOUTHWEST HARBOR WATER & SEWER DISTRICT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2018**

(Exhibit I)

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total District</u>
<u>Assets &amp; Deferred Outflows</u>			
<u>Assets</u>			
<u>Current Assets:</u>			
Cash - Checking	\$35,035	\$77,841	\$112,876
Accounts Receivable - Users, net of Allowance	\$167,878	\$144,846	\$312,724
Accounts Receivable - Other	\$146,999		\$146,999
Due from Other Funds	\$159,019		\$159,019
<u>Noncurrent Assets:</u>			
Receivable for long-term debt obligation from the Town of Southwest Harbor	\$80,002		\$80,002
<u>Capital Assets:</u>			
Organization, Land and Improvements	\$59,715	\$27,525	\$87,240
Other Capital Assets	\$7,828,332	\$5,574,792	\$13,403,124
Accumulated Depreciation	(\$2,482,012)	(\$3,610,755)	(\$6,092,767)
<u>Net Capital Assets</u>	<u>\$5,406,035</u>	<u>\$1,991,561</u>	<u>\$7,397,597</u>
<u>Total Assets</u>	<u>\$5,994,968</u>	<u>\$2,214,248</u>	<u>\$8,209,217</u>
<u>Deferred Outflows of Resources</u>			
Acquisition Adjustments, Net of Amortization	\$160,031		\$160,031
<u>Total Deferred Outflows of Resources</u>	<u>\$160,031</u>	<u>\$0</u>	<u>\$160,031</u>
<u>Total Assets &amp; Deferred Outflows</u>	<u>\$6,154,999</u>	<u>\$2,214,248</u>	<u>\$8,369,248</u>
<u>Liabilities &amp; Net Position</u>			
<u>Current Liabilities:</u>			
Due to Other Funds		\$159,019	\$159,019
Accounts Payable	\$162,853	\$30,730	\$193,584
Accrued Interest	\$1,786	\$4,127	\$5,913
Current Portion of Due to Town		\$26,023	\$26,023
Current Portion of Long-Term Debt	\$219,572	\$53,805	\$273,377
<u>Total Current Liabilities</u>	<u>\$384,211</u>	<u>\$273,704</u>	<u>\$657,915</u>
<u>Long Term Liabilities:</u>			
Compensated Absences	\$8,459	\$8,281	\$16,740
Due to Town of Southwest Harbor		\$507,462	\$507,462
General Obligation Bonds Payable	\$943,207	\$777,380	\$1,720,587
Current Portion of Due to Town		(\$26,023)	(\$26,023)
Current Portion of Long-Term Debt	(\$219,572)	(\$53,805)	(\$273,377)
<u>Total Long-Term Liabilities</u>	<u>\$732,094</u>	<u>\$1,213,295</u>	<u>\$1,945,389</u>
<u>Total Liabilities</u>	<u>\$1,116,306</u>	<u>\$1,486,999</u>	<u>\$2,603,304</u>
<u>Net Position (Deficit):</u>			
Net Investment in Capital Assets	\$4,462,828	\$1,214,181	\$5,677,010
Unrestricted	\$575,865	(\$486,932)	\$88,933
<u>Total Net Position</u>	<u>\$5,038,694</u>	<u>\$727,249</u>	<u>\$5,765,943</u>
<u>Total Liabilities &amp; Net Position</u>	<u>\$6,154,999</u>	<u>\$2,214,248</u>	<u>\$8,369,248</u>

The Notes to the Financial Statements are an Integral Part of this Statement.



**SOUTHWEST HARBOR WATER & SEWER DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN NET POSITION**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

(Exhibit II)

	<u>Water</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>	<u>Total District</u>
<i>Operating Revenues:</i>			
User Fees	\$650,373	\$539,669	\$1,190,042
Entrance Fees and Permits	\$3,051	\$3,313	\$6,364
<u>Total Operating Revenues</u>	<u>\$653,423</u>	<u>\$542,982</u>	<u>\$1,196,405</u>
<i>Operating Expenses:</i>			
Salaries & Benefits	\$227,992	\$186,526	\$414,518
Utilities	\$60,707	\$37,043	\$97,750
Chemicals	\$12,356		\$12,356
Repairs, Maintenance, Materials & Supplies	\$77,004	\$65,847	\$142,850
Sludge Disposal		\$200,357	\$200,357
Depreciation & Amortization	\$199,711	\$169,187	\$368,898
Office Supplies & Expenses	\$4,906	\$6,122	\$11,028
Fees/Licensing	\$5,895	\$2,774	\$8,669
Insurance	\$5,796	\$12,116	\$17,912
Professional Services	\$37,444	\$22,636	\$60,081
<u>Total Operating Expenses</u>	<u>\$631,810</u>	<u>\$702,608</u>	<u>\$1,334,418</u>
<i>Operating Profit (Loss)</i>	\$21,613	(\$159,625)	(\$138,013)
<i>Non-Operating Revenues (Expenses)</i>			
Interest Earned	\$292	\$210	\$503
Interest Expense	(\$15,689)	(\$27,232)	(\$42,922)
Non-Utility Income	\$1,427		\$1,427
Contributions in Aid of Construction	\$80,002	\$12,500	\$92,502
<u>Total Non-Operating Revenues (Expenses)</u>	<u>\$66,032</u>	<u>(\$14,522)</u>	<u>\$51,510</u>
<i>Change in Net Position</i>	\$87,645	(\$174,147)	(\$86,502)
<i>Beginning Net Position</i>	<u>\$4,951,049</u>	<u>\$901,397</u>	<u>\$5,852,445</u>
<i>Ending Net Position</i>	<u>\$5,038,694</u>	<u>\$727,249</u>	<u>\$5,765,943</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

**SOUTHWEST HARBOR WATER & SEWER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

(Exhibit III)

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total District</u>
<b><u>Cash Flows from Operating Activities:</u></b>			
Received from Customers	\$709,956	\$564,345	\$1,274,301
Received from Other	(\$111,041)		(\$111,041)
Paid to Suppliers for Goods and Services	(\$216,796)	(\$389,956)	(\$606,751)
Paid to Employees for Services	(\$159,091)	(\$126,768)	(\$285,858)
Net Transfers (to)/from Other Funds	(\$71,106)	\$71,106	\$0
<b><u>Net Cash Flows from Operating Activities</u></b>	<b><u>\$151,922</u></b>	<b><u>\$118,728</u></b>	<b><u>\$270,650</u></b>
<b><u>Cash Flows from Investing Activities:</u></b>			
Interest Earned	\$292	\$210	\$503
Non-Utility Income	\$1,427		\$1,427
<b><u>Net Cash Flows from Investing Activities</u></b>	<b><u>\$1,720</u></b>	<b><u>\$210</u></b>	<b><u>\$1,930</u></b>
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>			
Debt Proceeds	\$159,787		\$159,787
Debt Retired	(\$132,532)	(\$66,817)	(\$199,349)
Interest Paid	(\$15,689)	(\$27,232)	(\$42,922)
Contributions in Aid of Construction	\$80,002	\$12,500	\$92,502
Acquisition and Construction of Fixed Assets	(\$262,813)	(\$1,530)	(\$264,343)
<b><u>Net Cash Flow from Capital and Related Financing Activities</u></b>	<b><u>(\$171,246)</u></b>	<b><u>(\$83,079)</u></b>	<b><u>(\$254,324)</u></b>
<b><u>Net Change in Cash and Cash Equivalents</u></b>	<b><u>(\$17,604)</u></b>	<b><u>\$35,859</u></b>	<b><u>\$18,256</u></b>
<b><u>Cash and Cash Equivalents, Beginning of Year</u></b>	<b><u>\$52,639</u></b>	<b><u>\$41,982</u></b>	<b><u>\$94,621</u></b>
<b><u>Cash and Cash Equivalents, End of Year</u></b>	<b><u>\$35,035</u></b>	<b><u>\$77,841</u></b>	<b><u>\$112,876</u></b>
<b><u>Reconciliation of Operating Income to Net Cash Flows</u></b>			
<b><u>From Operating Activities</u></b>			
Operating Profit	\$21,613	(\$159,625)	(\$138,013)
<b><u>Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities</u></b>			
Depreciation	\$199,711	\$169,187	\$368,898
Compensated Absences	(\$3,059)	\$3,351	\$292
Changes in Assets and Liabilities			
Accounts Receivable	(\$205,617)	\$21,363	(\$184,254)
Accounts Payable	\$139,274	\$84,453	\$223,727
<b><u>Net Cash Flow from Operating Activities</u></b>	<b><u>\$151,922</u></b>	<b><u>\$118,728</u></b>	<b><u>\$270,650</u></b>

The Notes to the Financial Statements are an Integral Part of this Statement.

**SOUTHWEST HARBOR WATER & SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

**Note 1 - Summary of Significant Accounting Policies**

The financial statements of the Southwest Harbor Water and Sewer District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to governmental units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for the governmental accounting and financial reporting principles. The more significant of the District's accounting principles are described below.

**A. Financial Reporting Entity**

The District was organized under and pursuant to the laws of the State of Maine for the purpose of constructing and operating water and sewer systems for the water and sewer users of the Town of Southwest Harbor, Maine (the Town).

The District's financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of the GASB Codification of Government Accounting and Financial Reporting Standards, include whether:

- \* the organization is legally separate (can sue and be sued in their own name)
- \* the District holds the corporate powers of the organization
- \* the District appoints a voting majority of the organization's board
- \* the District is able to impose its will on the organization
- \* the organization has the potential to impose a financial benefit/burden on the District
- \* there is a fiscal dependency by the organization on the District

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Based on the aforementioned criteria, the District has no component units.

The District has oversight responsibility and control over all activities related to the District's functions. The District is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since the public elects the District Board members.

The accounting methods and procedures adopted by the District conform to GAAP as applied to special-purpose governments engaged only in business-type activities. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The notes to the financial statements are an integral part of the District's basic financial statements.

**B. Basis of Accounting, Measurement Focus and Financial Statement Presentation**

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No.20 Accounting and Financial Reporting for Proprietary Fund and Other Governmental Activities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues, and expenses. Enterprise Funds account for activities: (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than

with taxes or similar revenues; or (iii) that the pricing policies of the activity establishes fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 enterprise funds are charges to customers for goods and services. Operating expenses include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities and Net Position

Deposits

The District's cash and cash equivalents are considered cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition.

Accounts Receivable

All material receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The District bills quarterly to all users.

Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the asset constructed. Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water System	5-67
Sewer System	5-35
Building and Lines	20-35
Equipment	5-20
Vehicles	5

Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on length of service. Vacation and sick pay are cumulative. Unused vacation days are payable to employees upon termination of employment as long as benefits are earned and rights to receive compensation are attributable to services already rendered. Unused sick days are payable to employees upon termination of employment at the rate of 25% of accumulated time if the employee has served 20 or more years. The value of the unpaid vacation pay and sick pay has been recorded on the financial statements as compensated absences.

Interfund Activities

Interfund receivables and payables arise from interfund activity and are recorded by all funds affected in the period in which activities are executed.

### Long-Term Obligations

In the proprietary fund financial statements, long-term debt and other long-term liabilities are reported as liabilities in the Statement of Net Position.

### Deferred Inflows/Outflows of Resources

In addition to assets and liabilities, the statement of net position and the governmental fund balance sheet will report a separate section for deferred outflows and/or inflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period(s) and therefore will not be recognized as an expense/expenditure until then. Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and therefore will not be recognized as revenue until that time. The District has no items that qualify as deferred inflows of resources, but it does have items that qualify as deferred outflows. This amount will be recognized as an outflow of resources in the period that the amounts are expensed.

### Net Position

Net position is required to be 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 consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

*Restricted* - This component of net position consists of restrictions placed on net position use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or law or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. The statement of net position reports \$0 of restricted net position.

*Unrestricted* - This component consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

### D. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the period. Actual results could differ from those estimates.

### Note 2 - Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions authorized by Maine State Statutes. The District requires that, at the time funds are deposited, there is collateral in place to cover the deposits in excess of the FDIC insurance limits.

State Statutes require banks either to give bond or to pledge government securities (types of which are specifically identified in the Statutes) to the District in the amount of the District's deposits. The Statutes allow pledged securities to be reduced by the amount of the deposits insured by the Federal Deposit Insurance Corporation (FDIC).

The financial institution holding the District's cash accounts is participating in the FDIC Program. For time and savings deposit accounts, the District's savings accounts, including certificates of deposit, are insured up to \$250,000 by the FDIC. Separately, for demand deposit accounts, the District's cash accounts, including checking and money market accounts, are insured up to \$250,000 by the FDIC. Any cash deposits in excess of the \$250,000 FDIC limits are not covered by collateral and thus, custodial credit risk could exist. In order to avoid exceeding the \$250,000 FDIC limits, the bank purchases additional collateral to protect those funds.

At year-end, the District's carrying amount of deposits was \$112,720 and the bank balance was \$137,177. The District has no

uninsured and uncollateralized deposits as of December 31, 2018.

**Note 3 - Capital Assets**

Capital asset activity for the year ended December 31, 2018 was as follows:

	<i>Water Fund</i>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i><u>Business-Type Activities:</u></i>				
<i><u>Capital assets not being depreciated</u></i>				
Organization	\$27,701			\$27,701
Land and Land Rights	\$32,014			\$32,014
Construction Work in Progress	\$131,865	\$91,915	\$131,865	\$91,915
<i><u>Capital assets being depreciated</u></i>				
Structures	\$1,539,400			\$1,539,400
Lake, River and Other Intakes	\$37,199			\$37,199
Pumping Equipment	\$678,738	\$192,874		\$871,612
Water Treatment Equipment	\$910,151	\$38,388		\$948,538
Distribution Reservoirs	\$1,197,513			\$1,197,513
Mains	\$2,148,487			\$2,148,487
Services	\$474,457			\$474,457
Meters	\$194,866	\$21,823		\$216,689
Hydrants	\$110,689	\$19,518		\$130,207
Office Equipment	\$7,900			\$7,900
Transportation Equipment	\$74,997			\$74,997
Tools	\$9,740			\$9,740
Laboratory Equipment	\$21,256	\$160		\$21,416
Communication Equipment	\$10,427			\$10,427
Miscellaneous Equipment	\$17,836	\$30,000		\$47,836
<i>Total capital assets being depreciated</i>	<u>\$7,433,654</u>	<u>\$302,763</u>	<u>\$0</u>	<u>\$7,736,418</u>
<i>Less accumulated depreciation</i>	<u>\$2,296,210</u>	<u>\$185,802</u>	<u>\$0</u>	<u>\$2,482,012</u>
<i>Net capital assets being depreciated</i>	<u>\$5,137,445</u>	<u>\$116,961</u>	<u>\$0</u>	<u>\$5,254,406</u>
<i><u>Business-Type Activities, Capital Assets, net</u></i>	<u>\$5,329,025</u>	<u>\$208,876</u>	<u>\$131,865</u>	<u>\$5,406,035</u>
	<i>Sewer Fund</i>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i><u>Business-Type Activities:</u></i>				
<i><u>Capital assets not being depreciated</u></i>				
Land	\$20,791			\$20,791
Construction Work in Progress	\$12,500		\$12,500	\$0
<i><u>Capital assets being depreciated</u></i>				
Land Improvements	\$6,734			\$6,734
Building Improvements	\$63,941			\$63,941
Equipment	\$382,822	\$14,030		\$396,853
Treatment Plant & Lines	\$5,113,998			\$5,113,998
<i>Total capital assets being depreciated</i>	<u>\$5,567,495</u>	<u>\$14,030</u>	<u>\$0</u>	<u>\$5,581,525</u>

*Sewer Fund (Continued)*

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Less accumulated depreciation for</u>				
Land Improvements	\$1,930	\$337		\$2,267
Building Improvements	\$37,448	\$1,827		\$39,275
Equipment	\$318,273	\$17,936		\$336,209
Treatment Plant & Lines	\$3,083,918	\$149,087		\$3,233,005
<u>Total accumulated depreciation</u>	<u>\$3,441,569</u>	<u>\$169,187</u>	<u>\$0</u>	<u>\$3,610,756</u>
<u>Net capital assets being depreciated</u>	<u>\$2,125,926</u>	<u>(\$155,156)</u>	<u>\$0</u>	<u>\$1,970,770</u>
<u>Business-Type Activities, Capital Assets, net</u>	<u>\$2,146,717</u>	<u>(\$155,156)</u>	<u>\$12,500</u>	<u>\$1,991,561</u>

**Note 4 - Pension Plans**

The District offers full-time employees the option to contribute to a 401(k) retirement savings plan administered by ICMA Retirement Corporation. The District will match employee's contributions up to 6% of the employee's salary as approved by the Board. Total District expense and Employee contributions for the retirement plan were as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
District Expense	\$3,501	\$1,680
Employee Contributions	\$3,797	\$1,680

The Board has authority over plan provisions, requirements and amendments.

**Note 5 - Long-Term Debt**

The following is a summary of long-term debt transactions for the fiscal year ended December 31, 2018:

	<u>Water Fund</u>	<u>Town Responsible Water Fund</u>	<u>Sewer Fund</u>
<u>Long-Term Debt payable at January 1</u>	\$915,952	\$0	\$1,351,658
<u>Long-term Debt Issued</u>	\$67,872	\$91,915	\$0
<u>Long-term Debt Retired</u>	(\$132,532)	\$0	(\$66,817)
<u>Long-Term Debt payable at December 31</u>	<u>\$851,292</u>	<u>\$91,915</u>	<u>\$1,284,842</u>

The District's long-term debt consists of the following (bonds transferred to District from the Town):

In 2009, the Town issued a general obligation bond with Maine Municipal Bond Bank for the Water Department. This bond was issued for \$511,180 with repayment to be made over a period of 20 years. Of the total loan amount, \$263,100 was forgiven. No interest is charged. Principal payments of \$6,202 are due semi-annually in April and October. The balance at December 31, 2018 was \$136,444.

In 2009, the Town issued a general obligation bond with Maine Municipal Bond Bank for the Water Department. This bond was issued for \$442,820 with repayment to be made over a period of 20 years. No interest is charged. Principal payments of \$11,071 are due semi-annually in April and October. The balance at December 31, 2018 was \$243,551.

In 2010, the Town issued a general obligation bond with Maine Municipal Bond Bank for the Water Department. This bond was per annum. Interest with repayment to be made over a period of 17 years. Interest is charged at a rate varying from 2.0% to 5.5% per annum. Interest payments are due in May and with the annual principal payment in November. The balance at December 31, 2018 was \$420,750.

In 2018, the District issued a general obligation bond with Maine Municipal Bond Bank for the Water Department for water filtration improvements. This bond was issued for \$83,830 with principal forgiveness of \$20,958 for total net principal amount of

\$67,872 over a period of 5 years with varying principal payments plus interest at 1%. Interest payments are due on May 1 and with the annual principal payment on November 1. The balance at December 31, 2018 was \$50,547.

In October 2010, the Sewer Department refinanced all of their outstanding U.S.D.A. debt with Maine Municipal Bond Bank and paid off the U.S.D.A. debt. This bond was issued for \$1,207,820 with repayment to be made over a period of 23 years, with annual principal payments of \$53,805 plus interest at a variable rate of 2.0% - 5.5%. Interest payments are due on May 1 and with the annual principal payment on November 1. The balance at December 31, 2018 was \$777,380.

The Town subsidized the Sewer Department during the time that the Southwest Harbor Public Utilities District was reported as a Business-Type Activity of the Town in the amount of \$557,649. During 2017, the Town and the District agreed to repayment terms which were adjusted in 2018 to an interest rate of 0% interest over a period of 20 years with annual principal payments of \$26,023 of which 1/2 payment was approved for 2018. Payments are due by June 30. The balance at December 31, 2018 was \$507,462.

Additionally, the District's long-term debt consists of the following bonds that are to be retired by funds received from the Town of Southwest Harbor:

In 2018, the District issued a portion of a general obligation bond with Maine Municipal Bond Bank for the Water Department for raw water pump station upgrades as well as infrastructure upgrades. As voted by the Town of Southwest Harbor, the bond payments will be the responsibility of the Town. The total estimated principal of the bond is \$990,000. The terms of the bond are not yet final. The balance at December 31, 2018 was \$91,915.

The following is a summary of debt service requirements along with estimated interest:

<i>Year</i>	<i>Water Fund</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2019	\$219,572	\$11,222	\$230,794
2020	\$104,512	\$8,515	\$113,027
2021	\$104,637	\$7,241	\$111,878
2022	\$104,764	\$5,966	\$110,730
2023	\$91,938	\$4,690	\$96,628
2024-2028	\$283,239	\$8,858	\$292,097
2029-2032	\$34,545	\$0	\$34,545
	<u>\$943,207</u>	<u>\$46,492</u>	<u>\$989,699</u>

<i>Year</i>	<i>Sewer Fund</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2019	\$79,828	\$24,762	\$104,590
2020	\$79,828	\$22,895	\$102,723
2021	\$79,828	\$21,819	\$101,647
2022	\$79,828	\$20,743	\$100,571
2023	\$79,828	\$19,667	\$99,495
2024-2028	\$399,144	\$79,982	\$479,126
2029-2033	\$369,441	\$29,813	\$399,254
2033-2036	\$117,117	\$0	\$117,117
	<u>\$1,284,842</u>	<u>\$219,682</u>	<u>\$1,504,523</u>

**Note 6 - Deficit Net Position**

The Sewer Fund has an unrestricted net position deficit as of December 31, 2018 of (\$486,932). This deficit is expected to be reduced through future fee collection. The Sewer Department intends to try to fund this deficit through expense control and future rate increases.

**Note 7 - Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors or omissions, injuries to employees and natural disasters for which it carries municipal and commercial insurance. The District is not aware of any material actual or potential claim liabilities which should be recorded at December 31, 2018.