

**KENNEBEC WATER DISTRICT
REGULAR BOARD OF TRUSTEES MEETING
THURSDAY – MAY 19, 2016 at 7:30 AM**

The meeting was called to order at 7:30 a.m. by President Hodsdon.

Trustees present: Al Hodsdon, President; Karl Dornish, Vice-President; J. Michael Talbot, Treasurer; Allan Fuller, Clerk; Joan Sanzenbacher, Trustee; Bill Boucher, Trustee; Patricia Gorman, Trustee

Trustees absent: Jeff Earickson, Assistant Treasurer; Gary Coull, Trustee; Mark McCluskey, Trustee

Trustee Talbot left the meeting at 8:55 a.m.

Also present: Jeff LaCasse, General Manager; Jefferson Longfellow, KWD Engineer; Sue Markatine, Recording Secretary

Betty Hastings, KWD Finance Manager, joined the meeting at 7:40 a.m. and left the meeting at 9:10 a.m.

ITEM 1: INTRODUCTION OF GUESTS

Mr. Hank Farrah, one of the principals of KWD's auditing firm Runyon Kersteen Ouellette (RKO), joined the meeting at 7:55 a.m. and left the meeting at 9:10 a.m.

ITEM 2: REVIEW AND APPROVE THE MINUTES OF THE REGULAR BOARD OF TRUSTEES' MEETING OF MAY 5, 2016.

Motion by Trustee Talbot, "to accept the minutes of the Regular Board of Trustees' Meeting of May 5, 2016," seconded by Trustee Dornish.

Vote: Motion carried unanimously.

ITEM 3: FINANCIALS

A. ACCOUNT WARRANT

May 19, 2016

CHECKS RELEASED		Check	Dollar
Vendor	Description	Date	Amount
Eurofins Eaton Analytical Inc.	Unregulated Contaminant Sampling for EPA	05/04/16	515.00
Postmaster	Bulk Mail Postage-Billing	05/05/16	306.91
Dorothy Butler	Refund Monies-Home Sold and Final Bill Paid Twice	05/05/16	76.12
Carrot-Top Industries Inc.	Maine Flag & U. S. A. Flag-WTP	05/05/16	120.54
Central Maine Power	Monthly Electricity-Variou Locations	05/05/16	6,883.25
Constellation NewEnergy	Monthly Electricity-Variou Locations	05/05/16	4,527.58
Eastern Fire Services Inc.	Replace CO2 Releasing Panel-WTP	05/05/16	1,954.00
Electrical Controls of Maine	Electrical Safety Program-Arc Flash Analysis-WTP	05/05/16	1,759.94
Environmental Projects Inc.	Disposal of Potassium Permanganate fr Dry Chem Feeder	05/05/16	150.00
Flow Elements Inc.	10" Bray Lugged Butterfly Valve-WTP	05/05/16	2,279.11
General Alum N. E. Corp.	Alum-WTP	05/05/16	4,428.90
GWI	Monthly Internet Service	05/05/16	224.82
Hilltop Cleaning Service	Monthly Cleaning Service	05/05/16	611.00
J & S Oil Company Inc.	Diesel Fuel	05/05/16	161.71
Kennebec County Reg. of Deeds	Lien Discharge Filing Fees-2 Properties	05/05/16	44.00
Kennebec Water District	Monthly Petty Cash	05/05/16	66.99
Maine Public Emp. Retirement	Monthly Employer Contribution	05/05/16	6,557.09
Maine Water Utilities Association	Backhoe Training-4 Employees	05/05/16	200.00
Maine Water Works Supply	Meter Gaskets/Spool/Bolts/Washers	05/05/16	507.84
Treasurer, State of Maine	Monthly Sales Tax	05/05/16	2,233.78
Treasurer, State of Maine	Highway Opening Application-2 Locations	05/05/16	100.00
Treasurer, State of Maine	Water Testings	05/05/16	591.00
MainePERS	Monthly Group Life Premiums	05/05/16	668.18
Modern Industries Inc.	Granular Activated Carbon Water Sample Testing	05/05/16	350.00
Pollard Water	Square Lab Jars	05/05/16	334.78
E. J. Prescott Inc.	Meter Gasket Rubbers	05/05/16	108.00
Staples Credit Plan	UPS Backup/Digital Recorder/Pads/Index Tab Sheets	05/05/16	153.96
Vassalboro Car Care	Lube/Oil/Filter/Air Filter/Wiper Fluid-3 Vehicles	05/05/16	108.84
Walmart Community/GEMB	Vinegar/Distilled H2O/Beverages/Cleaning Supplies-WTP	05/05/16	118.05
G H Berlin Windward	Mobile Heavy-Medium Oil-M-4	05/05/16	198.50
BNY Mellon Corporate Trust	2004 Bond Principal & Interest-April	05/05/16	38,150.55
Treasurer, State of Maine	WTP Lab Certification Fee-2 Years	05/09/16	650.00
Alere Escreen	Preemployment Drug Testing-2 Employees	05/12/16	124.00
Atwork Franchise Inc.	Flaggers-75 Hours	05/12/16	1,140.00
BNY Mellon Corporate Trust	2004 Bond Principal & Interest-May	05/12/16	38,150.55
Eagle Rental	Light Tower Rental-Fairfield Leak	05/12/16	240.00
Earthlink Business	Monthly Telephone Service	05/12/16	317.56
Electrical Controls of Maine	Arc Flash Training-WTP	05/12/16	1,715.28
FedEx	Water Sampling Freight Charge	05/12/16	21.15
Formax A Div. of Bescorp Inc.	Annual Service Contract-Folder/Sorter Machine	05/12/16	1,524.00
Wex Bank	Monthly Vehicle Fuel Usage	05/12/16	1,225.23
Bruce Hall	Refund Monies-Home Sold and Final Bill Paid Twice	05/12/16	89.71
HD Supply Waterworks LTD	Work Lights with Case	05/12/16	75.00
Hussey Communications Inc.	Monthly Internet Service	05/12/16	212.00
M C Disposal Inc./DBA CMD	Monthly Rubbish Removal & Portapotty Rental	05/12/16	163.00
Maine Central Railroad, Treasurer	Real Estate Taxes-Water Pipe-Fairfield	05/12/16	16.00

Maine Municipal Association	Unemployment Taxes	05/12/16	146.97
Maine Oxy/Spec Air Gases & Tech.	3-Year Lease for Commercial Gas Cylinders	05/12/16	220.00
Maine Water Works Supply	2 Hydrants/Pipe/Sonophones/Service Box Lids	05/12/16	6,359.86
Treasurer, State of Maine	Water Testing	05/12/16	90.00
Fanado Pelotte	Excavator/Wheeler-Various Locations	05/12/16	1,331.25
E. J. Prescott Inc.	Grip Ring Accessory Packs	05/12/16	1,201.79
Quill Corporation	Towels	05/12/16	129.97
Rodgers Aero-Tech	Heat, Ventilation, Air Condition Filters-WTP	05/12/16	247.28
Spiller's	Toner for Wide Format Copier	05/12/16	280.00
Walmart Community/GEMB	Beverages/Glue	05/12/16	42.58
Waterville Sewerage District	Quarterly Sewer Bills-Various Locations	05/12/16	137.70
F. W. Webb Company	Anti-Seize Lube	05/12/16	27.95
Whittemore & Sons	V-Belts for Pavement Saw	05/12/16	97.80
Postmaster	Bulk Mail Postage-Billing	05/13/16	341.26
TOTAL WARRANT			\$130,808.33

Motion by Trustee Talbot, “to ratify the total warrant of checks released for \$130,808.33”, seconded by Trustee Sanzenbacher.

Vote: Motion carried unanimously.

B. Discussion of Response from Audit Firm and Regulators

As part of their packet, the Trustees were provided with a copy of RKO’s responses to KWD’s concerns regarding the auditing adjustment entries warranted by RKO and Mr. LaCasse’s comments regarding the RKO responses. RKO has stated that if KWD does not conform to the audit changes, RKO would view the financials as being in noncompliance with the generally accepted accounting principles (GAAP) and would issue a qualified (unclean) opinion of the KWD financial statements. Mr. LaCasse made some inquires to learn the impact to KWD’s financial status or bond rating if RKO did in fact issue a qualified opinion. His findings were that both the Maine Public Utilities Commission (MPUC) and the liability insurers did not view this as a formidable concern. This is chiefly due to the fact that KWD is regulated by the MPUC and files an annual MPUC Financial Report which is extremely comprehensive. Due to accounting standard requirements this report differs somewhat from the financial audited report required by the Government Account Standards Board (GASB) and prepared by RKO. However, when speaking to a rep from the Maine Municipal Bond Bank, there was an indication that the Board who approves bond funding could regard a qualified statement as a deficiency. Although KWD has already been approved through the State Revolving Funds (SRF) for the Western Avenue Pump Station Capital Improvement Project, there is also an upcoming application review and approval process by the Maine Municipal Bond Bank. For this reason and the fact that KWD has not been able to close fiscal year 2015 and to begin processing monthly financials for 2016, Mr. LaCasse opined that KWD should consider complying with RKO’s auditing adjustment requirements and move ahead. In all actuality, these adjustments are net position based, and do not affect the financial status of KWD as considered from an operational standpoint.

One of the key contentions between KWD and RKO is the requirement by RKO to accrue December meter readings as accounts receivable revenue, but which are not actually billed until January. The billing cycle for KWD has not changed since the early 1980s and no prior auditing firm

has requested this from KWD. Betty explained that the billing accrual required by RKO is for all water services provided up until December 31st. For instance if a quarterly “book” dates from September 28th to December 28th, in addition to the full quarter (the full quarter figures for these period of books are available in January), it is necessary to accrue the additional three days to the end of the year. Another example is if a quarterly “book” dates from December 19th to March 19th, these meters are not read until March 19th; therefore, in order to acquire a more accurate number for the period from December 19th to December 31st, RKO had informed Betty she would be required to continue accruing up until the audit date which is typically in March and then estimate the last few quarterly books. This will delay Betty the ability to close and finalize the accounting entries for the fiscal year and to complete the MPUC Annual Report until the audit date. In the past, Betty has always prepared the financials including the various analysis and schedules, and this information was made available to the auditors before they were on site in order to simplify the audit process and complete the fiscal close and MPUC report in a timely manner.

At this time Mr. Farrah from RKO joined the Board meeting and introductions were made. Mr. Farrah addressed and the Trustees discussed the auditing adjustment concerns. He conveyed the fact that the RKO changes do not affect the MPUC reporting requirements. GASB and GAAP are the standards RKO is required to follow for the KWD (and other utilities nationwide) audited financial statements to be proper. The question was posed to Mr. Farrah as to the number of MPUC regulated utilities RKO audits and if a list could be provided. Mr. Farrah answered that he would have to review the RKO client list, but he believes there are at least seven.

The first subject focused on was the aforementioned unbilled receivables. Mr. Farrah explained that KWD is providing water service for the fiscal year up until the end date of December 31st. Although not billed, this service has been provided to the customers and the monies are owed to KWD for this period of time, and it is necessary to capture it as revenue. He explained that RKO did a preliminary calculation of the unbilled receivables; however, after reviewing the figures Betty computed, which took approximately three days, it was found that her numbers were much more accurate and were used for accrual purposes. Mr. Farrah stressed the fact that RKO is not attempting to alter the means KWD conducts its business procedures for actual billing processing purposes and is not seeking adjustments on a monthly basis throughout the calendar year. This unbilled revenue figure is a one-time adjustment calculated at year end. The accrual number calculated and added to the balance sheet for 2014 was \$824,509 and the number for 2015 was \$816,958 for a net change of \$7,551 affecting the income statement. Trustee Hodsdon commented that the invoices do not become an accounts receivable figure until they are actually billed. Mr. Farrah explained that the bill date and due date is not relevant, the water service was provided in fiscal year 2015 up until December 31st, and there is respective revenue due from the customers, and according to GAAP accounting it is necessary to accrue for these monies. Trustee Dornish mentioned that KWD has been utilizing the same billing method since the 1980s and asked why this billing accrual was not a requirement from any other auditing firm. Mr. Farrah stated that he is unsure of the reason other auditing firms did not necessitate this adjustment. Because his firm reviewed the KWD billing cycle and noted KWD did not bill in December, the fact that there were unbilled receivables became apparent. Betty brought up the point discussed earlier in the meeting, regarding having to accrue up to the point that the auditors are actually on site in March. Mr. Farrah responded that this was a misstatement by his firm, adding that Betty can estimate several of the quarterly books which have not been read as of the date she is ready to close and before the auditors arrive.

The next item discussed was the RKO requirement of expensing monies when they are withdrawn from the cash account reserved strictly for the intended project, and, as governed by the

MPUC, can only be used for the particular project unless approved prior by the MPUC. For instance, over the course of numerous years, KWD placed funds in reserve accounts for high cost projects such as tank painting and granular active carbon replacement at the WTP with plans to avoid the need to fund an excessive expense in the year when these projects are undertaken. At the time the funds were placed in the reserve account, the monies were a debited expense for the project. RKO is stating that the year when these funds are actually utilized for the project, it is necessary to record them as an expense, which has the appearance of expensing for the same project twice. Mr. Farrah explained that the MPUC allows utilities to record the monies as an expense recoupable by its rates when it is moved from a general account to a reserve account for a specific project. However, according to GAAP accounting, this movement from account to account is not allowed to be recognized as an expense/liability because no service and/or materials have actually been provided by and monies due a vendor. The monies have to be recorded as an expense during the year the work is conducted for the project. Therefore, for financial statement purposes only, the amounts in the reserve accounts have been re-classified from a liability (essentially an accounts payable) account to an equity account, and the amount utilized in 2015 from the reserve accounts for projects were re-classified as an expense. This transaction does not interfere with the present and future method, which is allowed by the MPUC, in which KWD records the transfers of monies for a dedicated reserve account project. Trustee Dornish asked how the accounting of the reserve accounts differs from a prepaid expense. Mr. Farrah clarified that a prepaid expense would be a payment “already made to a vendor” for a service over a set course of time. For example, if a costly insurance premium is paid for in one lump sum to an agency for two years of insurance coverage, you could utilize and credit a prepaid account line item and debit the insurance expense on a monthly basis instead of having the totality of the expense recorded in one particular month.

The next discussion was in regards to the surplus money KWD received from MainePERS in 2015. At the Board’s suggestion, Mr. LaCasse requested the funds to be considered as a “transfer of assets” rather than income. The reasons being is that although the monies were previously in the possession of MainePERS, the funds were always KWD’s assets, and KWD has been planning to utilize this fund in the same means as MainePERS, in a dedicated reserve account to be used to fund the KWD monthly employer contribution. Mr. Farrah explained that although these assets were transferred from MainePERS to KWD, because prior to this transfer KWD did not have these assets documented on its balance sheet, these monies are required to be recorded as “extraordinary income”. In addition, it is necessary to record the MainePERS monthly employer contribution as an expense. If KWD does decide to set up an actual reserve account, as it has for the tank painting and granular active carbon replacement, for GAAP purposes only, RKO will consider and reclassify the transactions as noted in the above paragraph. Trustee Dornish inquired if the monies could be utilized for projects and financial obligations other than the employer portion of the MainePERS. Mr. Farrah stated that because the monies are presently not in a dedicated reserve account, it is the KWD’s Board decision as to the means to utilize the funds.

The final item Mr. Farrah addressed was the delay, into the middle of April, by MainePERS in providing utilities, including KWD, the accounting entries due to GASB Statement No. 68 which dictates methods to recognize and account for liabilities related to pension plans. Because GASB 68 was new, there was a learning curve for MainePERS. Mr. Farrah has conversed with MainePERS staff and MainePERS has informed him that they anticipate having the schedules available by January 31st for future years. He added that there is an extremely complex formula to compile these actuarial figures and to attempt to estimate this would be impossible without the aid of an actuary.

The Board members were satisfied with Mr. Farrah's clarification of RKO's obligation to follow both GASB and GAAP rules, and his explanation regarding the required auditing changes for the KWD financial statements.

Continuing with the audit findings, previously the Trustees were provided with a Management Report from RKO which reviewed the audit's general findings and included comments regarding proposed recommendations for accounting improvements. Overall, KWD was found to have solid controls and accounting standards with no significant deficiencies or material weaknesses identified. However, Mr. Farrah did point out that one recommendation is for increased segregation of duties. Because the KWD's Finance Manager virtually controls all accounting entries and also reconciles the bank statements, RKO suggests implementing a policy of having a different person with check signing authorization. Mr. Farrah stressed this is a recommendation for all entities his firm audits and is a sound accounting practice. Presently, Mr. LaCasse and Betty Hastings have check signing authorization. The Board members requested this item be added to the agenda for discussion at the June 2nd meeting.

On behalf of the Board, President Hodsdon thanked Betty Hastings and Hank Farrah for attending and participating in today's meeting.

C. Conference Call with Audit Firm

See agenda item B. above.

D. Other

None

ITEM 4: MOTION ISSUES

A. Main Replacement Bid Award

Note: This agenda item was reviewed at 7:50 a.m. before the arrival of Mr. Farrah from RKO.

The Trustees were provided with the bid tabulation for the Nelson Street (Waterville), Union Street (Waterville), and Stuart Street (Winslow) main replacement projects. Two companies responded to the bid solicitation. Mr. Longfellow recommended awarding the contract to the lowest bidder, Steve McGee Construction. KWD has past work experience with this company and has been satisfied with this company's performance.

Motion by Trustee Sanzenbacher, "to award the contract to the low bidder, Steve McGee Construction, for the 2016 main replacement projects for \$539,490.00," seconded by Trustee Gorman.

Vote: Motion carried unanimously.

B. Other

None

ITEM 5: TRUSTEES

A. Comments, Concerns, Ideas

Typically, the Board holds only one meeting per month during the summer months. Mr. LaCasse recommended holding two meetings in the month of June. At the second meeting, a determination can be made if one or two meetings are necessary in July.

B. Review of Vassalboro Select Board Meeting on ARI/Outlet Stream

Trustee Fuller reported on the Town of Vassalboro's selectmen's meeting on May 5th he attended to hear the presentation by a Vassalboro resident regarding the Alewife Restoration Initiative (ARI). The ARI aims to bring migrating alewives back to China Lake with a stated expectation of improving water quality. This project involves removing or providing fishways at six Outlet Stream dams. Included in this plan is to remove the Masse dam in East Vassalboro, and many residents at the meeting expressed outrage regarding this plan. Charlie Hartman presented at this meeting against removing the Masse dam contending it would harm the ecology of the Outlet Stream and create unpleasant surroundings for area residents. Charlie Hartman also pointed out that in Dr. Lake's Kleinschmidt Report the conclusion was that alewife restoration should not impede water quality by a great degree or improve water quality by a great degree. KWD's position has been to remain neutral regarding the alewife restoration plan, and with the contention that ratepayers' monies should not be used to fund a fish passage project. Trustee Fuller also stated that the China Region Lakes Alliance President did thank KWD for its continued support regarding projects regarding the lake such as the Courtesy Boat Inspections which impedes boats from introducing invasive species.

Trustee Fuller stated that Maine Rivers, part of the ARI coalition, has scheduled another public meeting regarding this subject on May 26th at the East Vassalboro Grange Hall in order to explain the ARI plans and to listen to residents' concerns. Trustee Fuller plans on attending this meeting also.

The Trustees thanked Trustee Fuller for attending these meetings and reporting back to the Board.

C. Other

Mr. LaCasse reviewed the status of terms for the present Board. Terms expiring this year are as follows: Trustee Earickson and Trustee Talbot from Waterville; Trustee Dornish from Winslow; Trustee Hodsdon from Fairfield; and Trustee Coull from Vassalboro. The appropriate municipalities will be notified of the upcoming openings for the general election. Trustees interested in running for re-election should speak to their respective city/town officials regarding the appropriate steps necessary to be placed on the ballot.

ITEM 6: ENGINEER'S REPORT**A. Engineer's Report**

China Lake Elevation: 170.8
Stream Flow: 14 cfs

Geographic Information System (GIS) updates have been Josh's, KWD's Assistant Engineer, main focus. The primary work has transitioned to getting the services mapped along Main Street in Vassalboro. The secondary area of work has been on the upper part of Kennedy Memorial Drive, Airport Road, Jefferson Street, and Washington Avenue. As KWD gets these areas better mapped, staff is better able to explain the service needs as there are multiple redevelopment plans underway on these roads.

The Western Avenue Pumping Station (WAPS) project has been utilizing much of the time during the past few weeks. Although the final phases of design are underway, we have had to make some modifications to how the bypass pumping can be done. To restrain the existing valves, bypass pump, and then replace the piping in the station itself is going to require some extraordinary structural work. Because of this, Wright-Pierce and I have had to do some brainstorming to come up with a new solution. Although it is not a preferred solution, the lower costs should override any downsides to the alternate methods.

The main projects have been put out to bid with the bid opening set for Wednesday, May 18th.

Jefferson Longfellow, P. E.

Mr. Longfellow explained that for the first phase of the WAPS project, Wright-Pierce is planning to install and connect the back-up generator. The reason for this is to have an alternative power source in the event problems arise during the major phase of the project and during the bypass pumping.

Due to low river flow, M-4 has not been generating on a regular basis. Because they had not been tested in approximately 18 years, A. C. Electric tested the M-4 relay-system batteries. Mr. Longfellow was pleased to report that the batteries overall conditions were satisfactory, with only a few cells having to be replaced. CMP will require relay testing at some point, which will require the power to be switched off for approximately an hour. This power shut down will affect other KWD buildings, including the Business Office.

Trustee Sanzenbacher asked if the gas company installations are still ongoing, and if KWD staff continues to have to dedicate time for service and main locates. Mr. Longfellow responded that presently Summit Natural Gas new service installations are fairly limited, but it continues to inspect the pipeline and fittings previously installed. KWD still continues to locate for Summit but is not as inundated with requests as the previous years.

Motion by Trustee Sanzenbacher, "to accept the Engineer's Report as presented," seconded by Trustee Dornish.

Vote: Motion carried unanimously.

ITEM 7: GENERAL MANAGER'S REPORT**A. Project Update (Funding Options, MPUC Filing, Etc.)**

Mr. LaCasse informed the Trustees that Sheridan Construction should complete the KWD Intake Building project by the end of next week.

The Board was advised that Mr. LaCasse filed the Chapter 63 application with the Maine Public Utilities Commission and received approval for the WAPS project.

B. Lead Testing in Schools Update

The Trustees were provided with a letter compiled by Mr. LaCasse addressed to the area superintendents and principals regarding lead testing in the elementary schools. This letter was just recently mailed; therefore, there has been no responses as of yet. The Board members commented that they were impressed with this well-written letter.

Next, Mr. LaCasse updated the Trustees on the KWD lead gooseneck experiment to gather data on the impacts of residence time on lead leaching. WTP staff has been measuring the lead content of water in this pipe using several scenarios. Utilizing the KWD finished water, which contains a corrosion control chemical, there proved to be a level of 2 to 3 thousand parts per billion (ppb). The lead level for the China Lake raw water tested at 6,200 ppb. The EPA action level standard is no more than 15 ppb. This supports the fact that although there is no lead leaching within the KWD distribution system, structures which have lead within their private plumbing systems could be susceptible to a lead action level.

C. Other (Closing)

At the May 5th meeting, the Board authorized KWD to purchase the property located at 6 South Street. Mr. LaCasse informed the Trustees that the closing on this property is scheduled for May 6th.

Motion by Trustee Sanzenbacher, "to accept the General Manager's Report as presented," seconded by Trustee Dornish.

Vote: Motion carried unanimously.

ITEM 8: EXECUTIVE SESSION (IF NECESSARY)

None

ITEM 9: PUBLIC PARTICIPATION

None

Motion by Trustee Dornish, “to adjourn the meeting,” seconded by Trustee Gorman.

Vote: Motion carried unanimously.

Meeting adjourned at 9:35 a.m.

Sue Markatine, Recording Secretary