

**KENNEBUNK LIGHT AND POWER DISTRICT**

**Financial Statements**

**For the Years Ended  
December 31, 2017 and 2016**

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Financial Statements**  
**For the Years ended December 31, 2017 and 2016**

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## Independent Auditor's Report

Board of Trustees of  
Kennebunk Light and Power District  
Kennebunk, Maine

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Kennebunk Light and Power District, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Kennebunk Light and Power District as of December 31, 2017 and 2016, the respective changes in financial position, and cash flows thereof for the years 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, schedule of District's proportionate share of net pension liability, and schedule of District contributions, as listed in the table of contents, 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2018, on our consideration of the Kennebunk Light and Power District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kennebunk Light and Power District's internal control over financial reporting and compliance.



April 9, 2018  
South Portland, Maine

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Management's Discussion and Analysis**  
**December 31, 2017**

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The Kennebunk Light and Power District (KLPD) is a quasi-municipal corporation distributing electrical power to most of the residents of the Town of Kennebunk, as well as small adjacent areas of the Towns of Arundel, Wells, and Lyman. The Town of Kennebunk began street light service to the Town in 1893 through the establishment of an electric light department. In 1951, through a Private and Special Act of the Maine State Legislature, the Town adopted the charter of and created the Kennebunk Light and Power District. It is a consumer-owned, not-for-profit entity whose service territory is defined by a charter created by the Town and amended by the State Legislature. The Kennebunk Light and Power District ("KLPD" or the "District") distributes power to the consumers within its service territory as well as constructs and maintains the distribution system. The District also owns, operates, repairs, and maintains three small hydroelectric stations on the Mousam River within the boundaries of the Town of Kennebunk. KLPD is managed by a General Manager appointed by an elected Board of Trustees responsible for the proper conduct and management of all the affairs of the District. The General Manager appoints and is assisted in the operations of the District by a Business Manager, an Energy Services Manager, and a General Foreman. In addition, the District employs a line crew, meter reader, a hydro operator, and two customer service representatives.

As management of the District, we offer readers of its financial statements this overview and analysis of the financial activities for the year ended December 31, 2017. We encourage our readers to consider this information presented in conjunction with the audited financial statements and notes. The statements include:

- Statements of Net Position
- Statements of Revenues, Expenses, and Changes in Net Position
- Statements of Cash Flows
- Notes to Basic Financial Statements

**FINANCIAL HIGHLIGHTS:**

- At year-end, the District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$8,713,509 (net position). Included in this amount is \$824,186 of unrestricted net position.
- The net position increased by approximately 5% from the previous year.
- The District's unrestricted cash increased by 85% during the year due to net accounts receivable decrease of 4%, accounts payable increase of 19%, and decision to no longer pursue a FERC licenses for the dams.
- Operating revenues decreased by 9% during 2017.
- Operating expenses decreased by 10% during 2017.
- KLPD incurred no additional debt in 2017.

**OVERVIEW OF FINANCIAL STATEMENTS:**

Although the District is a quasi-municipal corporation, the financial activities are accounted for through one fund. There is one general operating cash account where all non-payroll activities are paid. The District has a separate payroll account in order to isolate those activities. In addition, the District has other short-term investment accounts to maximize the amount of interest earned.

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Management's Discussion and Analysis, Continued**

Current assets at the end of 2017 totaled \$2,270,110, which was an increase of 15%. Other assets were \$572,162, which consisted of \$570,667 of restricted cash and investments and \$1,495 of other assets. In total, other assets increased 1%. Net capital assets decreased .9%, or \$90,571, due to capital asset retirements exceeding additions, and \$360,000 of annual depreciation.

Current liabilities ended the year at \$1,813,534, an increase of 14%. The non-current liabilities are the District's bonds payable, accrued compensated absences, and net pension liability, which decreased by 12%.

The largest portion of the District's net position (86%) reflects its net investment in capital assets (e.g., land, buildings, equipment, vehicles, and infrastructure), less accumulated depreciation and any related outstanding debt that was used to acquire those assets. The Kennebunk Light and Power District uses these capital assets to provide a variety of services to its consumers. Accordingly, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another piece of the District's net position (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$824,186 is unrestricted and may be used to meet the District's ongoing obligations to its consumers and creditors.

<b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>		
	<b>2017</b>	<b>2016</b>
Operating revenues	\$12,213,965	\$13,411,764
Operating expenses	<u>11,813,518</u>	<u>13,061,908</u>
Operating income	400,447	349,856
Non-operating expenses	<u>-171,731</u>	<u>-298,178</u>
Income before contributions	228,716	51,678
Capital contributions	<u>216,318</u>	<u>203,678</u>
Change in net position	445,034	255,356
Net position, beginning of year	<u>8,268,475</u>	<u>8,013,119</u>
Net position, end of year	\$8,713,509	\$8,268,475

The operating revenues for 2017 were \$12,213,965, which included fees collected for energy, transmission and delivery, which was a decrease of 9% from the previous year. Electricity revenue decreased 13%, regional network service revenue decreased by 15%, transmission revenue increased by 1%, and delivery revenue increased by 11%.

Operating expenses totaled \$11,813,518, a decrease of 10% in 2017.

**FINANCIAL ANALYSIS:**

Net income (loss) before contributions for the year ended December 31, 2017 was \$228,716, compared to \$51,678 for the year ended December 31, 2016. The District's change in net position was \$445,034 when capital contributions are added.

The District's 2017 budget projected a net income before contributions of \$0. Actual net income before contributions was \$228,716, which was \$228,716 more net income than budget.

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Management's Discussion and Analysis, Continued**

**CAPITAL ASSETS:**

<b>CAPITAL ASSETS</b>				
	<u>Balance</u> <u>12/31/16</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>12/31/17</u>
Capital assets not being depreciated:				
Work in process	\$57,599	\$17,583	\$21,149	\$54,033
Total capital assets not being depreciated	57,599	17,583	21,149	54,033
Capital assets being depreciated:				
Operating property	17,229,546	272,995	13,826	17,488,715
Total capital assets being depreciated	17,229,546	272,995	13,826	17,488,715
Less accumulated depreciation for:				
Operating property	7,032,856	360,000	13,826	7,379,030
Total accumulated depreciation	7,032,856	360,000	13,826	7,379,030
Total capital assets being depreciated, net	10,196,690	(87,005)	-	10,109,685
<b>Capital assets, net</b>	<b>\$10,254,289</b>	<b>\$(69,422)</b>	<b>\$(21,149)</b>	<b>\$10,163,718</b>

Net capital assets for 2017 make up 78% of the District's total assets. The investment includes land, buildings, general equipment, distribution equipment, and production equipment. Additions in 2017 to the capital assets being depreciated amounted to \$272,995. Of that amount, the largest capital expenditures were \$103,432 for transformers. The balance consists of additions to the distribution system and other equipment.

The infrastructure of the District's distribution system is maintained in excellent condition, which is demonstrated by the small number of power outages experienced by District customers.

**DEBT ADMINISTRATION:**

<b>LONG-TERM LIABILITIES</b>					
	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable	\$2,876,000	\$ -	\$219,000	\$2,657,000	\$224,000
Net pension liability	865,230	-	196,013	669,217	-
Accrued Comp	9,137	965	-	10,102	-
<b>Total long-term debt</b>	<b>\$3,750,367</b>	<b>\$965</b>	<b>\$415,013</b>	<b>\$3,336,319</b>	<b>\$224,000</b>

At the end of the current fiscal year, the District had bonded debt of \$2,657,000 in two separate bond issues. The total debt decreased by the amount of the principal payments during the year. Additional information on the District's long-term liabilities can be found in the Notes to Basic Financial Statements, page 14.

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Management's Discussion and Analysis, Continued**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The following economic factors currently affect the Kennebunk Light and Power District and were considered in developing the 2018 fiscal year budget:

- kWh sales are expected to increase by 1.50%
- An increase in the monthly minimum charge is projected to raise delivery revenues by \$187,812
- Hydro production is projected to increase by 84,780 kwh

**REQUEST FOR INFORMATION:**

This discussion and analysis is designed to provide a general overview of the District's hierarchy and 2017 financial highlights. Any relevant questions to this discussion or any other financial information should be addressed to the General Manager and Treasurer, 4 Factory Pasture Lane, Kennebunk, Maine 04043.



**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Statements of Net Position**  
**December 31, 2017 and 2016**

	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 876,678	472,989
Accounts receivable, net of allowance of \$59,451 and \$49,362	1,109,513	1,175,647
Accounts receivable - unbilled (delivery)	156,311	138,110
Prepaid expenses	5,978	42,780
Inventory	121,630	137,698
<b>Total current assets</b>	<b>2,270,110</b>	<b>1,967,224</b>
Noncurrent assets:		
Other assets:		
Restricted cash	263,054	254,515
Restricted investments	307,613	307,613
Other assets, net of amortization	1,495	1,779
<b>Total other assets</b>	<b>572,162</b>	<b>563,907</b>
Capital assets:		
Work in process	54,033	57,599
Operating property	17,488,715	17,229,546
Less: accumulated depreciation	(7,379,030)	(7,032,856)
<b>Net capital assets</b>	<b>10,163,718</b>	<b>10,254,289</b>
<b>Total noncurrent assets</b>	<b>10,735,880</b>	<b>10,818,196</b>
<b>Total assets</b>	<b>13,005,990</b>	<b>12,785,420</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred purchased power and transmission	566,210	291,352
Deferred outflows of resources related to pensions	117,715	365,113
<b>Total deferred outflows of resources</b>	<b>683,925</b>	<b>656,465</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	1,319,681	1,113,275
Accrued payroll and taxes	15,998	17,507
Accrued interest	60,492	63,876
Unearned revenue	5,301	3,666
Customer deposits	188,062	179,557
Current portion of bonds payable	224,000	219,000
<b>Total current liabilities</b>	<b>1,813,534</b>	<b>1,596,881</b>
Noncurrent liabilities:		
Accrued compensated absences	10,102	9,137
Net pension liability	669,217	865,230
Bonds payable, net of current portion	2,433,000	2,657,000
<b>Total noncurrent liabilities</b>	<b>3,112,319</b>	<b>3,531,367</b>
<b>Total liabilities</b>	<b>4,925,853</b>	<b>5,128,248</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pensions	50,553	45,162
<b>Total deferred inflows of resources</b>	<b>50,553</b>	<b>45,162</b>
<b>NET POSITION</b>		
Net investment in capital assets	7,506,718	7,378,289
Restricted	382,605	382,571
Unrestricted	824,186	507,615
<b>Total net position</b>	<b>\$ 8,713,509</b>	<b>8,268,475</b>

*See accompanying notes to basic financial statements.*

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the years ended December 31, 2017 and 2016**

	2017	2016
Operating revenues:		
User fees:		
Electricity	\$ 7,309,416	8,439,081
Regional network service	1,928,116	2,266,010
Transmission	339,541	334,591
Delivery	2,579,057	2,315,278
Other	57,835	56,804
Total operating revenues	12,213,965	13,411,764
Operating expenses:		
Purchased power	7,309,416	8,439,081
Regional network service	1,928,116	2,266,010
Transmission costs	339,541	334,591
Operations	449,802	446,217
Maintenance	140,581	112,351
Customer accounting and collections	146,017	148,854
General and administrative	1,140,045	954,804
Depreciation	360,000	360,000
Total operating expenses	11,813,518	13,061,908
Operating income	400,447	349,856
Non-operating revenues (expenses):		
Interest revenue	13,614	15,478
Miscellaneous revenue	11,231	8,243
Amortization of change in net pension liability	(56,776)	(97,170)
Interest expense	(139,515)	(147,333)
Relicensing expense	-	(77,088)
Amortization expense	(285)	(308)
Total non-operating expenses	(171,731)	(298,178)
Income before contributions	228,716	51,678
Capital contributions	216,318	203,678
Change in net position	445,034	255,356
Net position, beginning of year	8,268,475	8,013,119
<b>Net position, end of year</b>	<b>\$ 8,713,509</b>	<b>8,268,475</b>

*See accompanying notes to basic financial statements.*

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Statements of Cash Flows**  
**For the years ended December 31, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Receipts from customers and users	\$ 12,283,269	12,963,735
Payments to suppliers	(10,652,823)	(12,095,909)
Payments to employees	(816,821)	(771,811)
Net cash provided by operating activities	813,625	96,015
Cash flows from capital and related financing activities:		
Purchase of capital assets	(269,429)	(303,584)
Capital contributions	216,318	203,678
Principal payments on long-term debt	(219,000)	(209,000)
Interest payments on long-term debt	(142,900)	(153,416)
Net cash used in capital and related financing activities	(415,011)	(462,322)
Cash flows from investing activities:		
Interest on investments	13,614	15,478
Net cash provided by investing activities	13,614	15,478
Net increase (decrease) in cash	412,228	(350,829)
Cash and cash equivalents at beginning of year	727,504	1,078,333
<b>Cash and cash equivalents at end of year</b>	<b>\$ 1,139,732</b>	<b>727,504</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 400,447	349,856
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	360,000	360,000
Miscellaneous revenue	11,231	8,243
Relicensing expense	-	(77,088)
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable	66,134	(368,828)
(Increase) decrease in accounts receivable - unbilled (delivery)	(18,201)	(38,332)
(Increase) decrease in prepaid expenses	36,802	(33,688)
(Increase) decrease in inventory	16,068	4,534
(Increase) decrease in deferred purchase power and transmission	(274,858)	(87,894)
Increase (decrease) in accounts payable	206,406	27,220
Increase (decrease) in accrued payroll and taxes	(1,509)	3,267
Increase (decrease) in accrued compensated absences	965	(2,163)
Increase (decrease) in unearned revenue	1,635	(6,322)
Increase (decrease) in customer deposits	8,505	(11,742)
Increase (decrease) in advances for construction	-	(31,048)
Net cash provided by operating activities	813,625	96,015

*See accompanying notes to basic financial statements.*

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Notes to Basic Financial Statements**

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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**Organization** - The Kennebunk Light and Power District (the District) is a quasi-governmental corporation which supplies power to various areas in and around the Town of Kennebunk, Maine. The District is governed by a board of five trustees elected for five-year terms.

**Measurement Focus and Basis of Accounting** - The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of the related cash flows.

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 District 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 nonoperating revenues and expenses.

**Cash and Cash Equivalents** - The District considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents.

**Accounts Receivable** - The District provides credit to customers in the District. The District uses the allowance method to account for uncollectible accounts receivable. The allowance for uncollectible accounts is based on prior years' experience and management's analysis of possible bad debts. The allowance was estimated at \$59,451 and \$49,362 as of December 31, 2017 and 2016, respectively.

**Prepaid Expenses** - Payments to vendors that will benefit periods beyond the fiscal year are recorded as prepaid expenses. These payments are made up of regulatory dues and miscellaneous payments

**Capital Assets** - Operating property, the related labor, and the related overhead are capitalized at cost if purchased and estimated acquisition value if donated. Depreciation is calculated at a rate varying from 2% to 4% of the cost of the utility plant at the end of the preceding year, as prescribed by the District's charter. Minor renewals, replacements, and betterments to the utility plant are charged to maintenance expense. Items of the utility plant that are being retired are removed from both the operating property account and the reserve for depreciation account based on actual or estimated original costs. Estimated original costs are based on half of the current price for the material being retired, twice the estimated cost for labor, and the current overhead rate applied to the estimated labor and materials for overhead.

**Inventories** - Inventories are valued at the lower of cost or market using the first-in first-out method. Inventories consist of expendable supplies held for consumption.

**Customer Deposits** - The District requires commercial customers to apply a deposit on their account prior to being connected to the electrical grid. The deposit provides protection to the District against the business leaving without paying their final bill. Required deposit amounts are based on the estimated monthly usage.

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Notes to Basic Financial Statements, Continued**

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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**Deferred Outflows/Inflows of Resources** - In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred outflows of resources and deferred inflows of resources. These separate financial statement elements, deferred outflows of resources and deferred inflows of resources, represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) or inflow of resources (revenue) until that time. The District has deferred outflows and inflows that relate to the net pension liability, which include the District's contributions subsequent to the measurement date, which is recognized as a reduction of the net pension liability in the subsequent year. It also includes changes in assumptions, differences between expected and actual experience, and changes in proportion and differences between District contributions and proportionate share of contributions, which are deferred and amortized over the average expected remaining service lives of active and inactive members in the plan. Additionally, deferred resources related to pensions include the net difference between projected and actual earnings on pension plan investments, which is deferred and amortized over a five-year period.

In accordance with the MPUC, the District is not allowed to generate a profit on the electricity portion of its utility billings, which includes both purchased power and transmission costs. Therefore, excess revenue is recorded as a deferred inflow of resources and excess expense is recorded as a deferred outflow of resources at the end of the fiscal year. The balance is netted together and shown as one amount on the statement of net position.

**Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Maine Public Employees Retirement System Consolidated Plan for Participating Local Districts (PLD Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Accrued Compensated Absences** - Under terms of personnel policies of the District, vacation leave is granted in varying amounts according to length of service. At December 31, 2017 and 2016, unused vacation time amounted to \$10,102 and \$9,137, respectively.

**Unearned Revenue** - Unearned revenue is associated with the Village Green Program. Under this program the district can purchase blocks renewable energy credits (REC's) on behalf of customers to allow for a renewable energy option. At year end, the balance represents receipts from customers for purchase of REC's where the district has not made the purchase.

**Restricted Net Position** - The District's net position policy states when both restricted and unrestricted resources are available for use, it is the District's intent to use restricted resources first, then unrestricted resources as they are needed.

**Income Taxes** - The District qualifies as a tax exempt organization under the provisions of the Internal Revenue Code and, accordingly, its revenue is not subject to any state or federal income taxes.

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Notes to Basic Financial Statements, Continued**

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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DEPOSITS AND INVESTMENTS

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*Custodial credit risk – deposits:* In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District currently does not have a written deposit policy for custodial credit risk, but does attempt to have all deposits insured and collateralized. As of December 31, 2017, the District reported deposits of \$1,139,732 with a bank balance of \$1,124,701. Of that amount, \$744,347 of the District's bank balance was covered by FDIC insurance, and \$380,354 was collateralized by underlying securities held by a trust company, which were in the District's name.

*Interest rate risk:* The District currently does not have a written policy for interest rate risk.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of June 30, 2017, the District had the following investments:

	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Level 1 input</u>
US Treasury	\$ 307,613	10.667	yes

*Credit Risk:* Maine statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and certain corporate stocks and bonds. The District currently does not have a written policy for credit risk. As of December 31, 2017, the District's investments in the U.S. Treasury notes were rated AA+ by Standard & Poor's.

*Custodial Credit Risk - investments:* For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the District's investments are subject to custodial credit risk. The District currently does not have a written policy for custodial credit risk.

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RESTRICTED CASH AND INVESTMENTS

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The District is required by the MPUC to set aside its yearly bond principal and interest payments due on a monthly basis into separate cash accounts called bond sinking funds. The bond payments are then made out of these accounts once they become due. These bond sinking funds are required to be used throughout the life of the bonds. Any interest earned on these accounts, however, is the District's to use and is not required by the MPUC to be kept in these separate cash accounts. The District currently has two sinking funds, one related to the 2007 bond issuance and one related to the 1983 bond issuance.

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Notes to Basic Financial Statements, Continued**

**RESTRICTED CASH AND INVESTMENTS, CONTINUED**

The District is also required by Rural Development to fund a reserve account in the amount \$5,508 per year until it reaches \$55,075. This reserve account is related to the District's 1983 bond and is to stay in effect until the bond is paid off in full in April of 2023.

Additionally, cash received by the District from customers for meter deposits and for customer advances for construction are restricted for these specified purposes.

As of December 31, 2017 and 2016, the District was in compliance with these debt service reserve requirements.

The following is a summary of the District's restricted cash and investments as of December 31:

	<u>2017</u>	<u>2016</u>
1983 bond sinking fund	\$ 9,857	9,852
Rural development reserve account	57,922	57,893
2007 bond sinking fund	314,826	314,826
Customer meter deposits	188,062	179,557
<b>Total restricted cash and investments</b>	<b>\$ 570,667</b>	<b>562,128</b>

**CAPITAL ASSETS**

The following is a summary of the changes in capital assets from December 31, 2017:

	<u>Balance</u> <u>12/31/16</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>12/31/17</u>
Capital assets not being depreciated:				
Work in process	\$ 57,599	17,583	21,149	54,033
<b>Total capital assets not being depreciated</b>	<b>57,599</b>	<b>17,583</b>	<b>21,149</b>	<b>54,033</b>
Capital assets being depreciated:				
Operating property	17,229,546	272,995	13,826	17,488,715
<b>Total capital assets being depreciated</b>	<b>17,229,546</b>	<b>272,995</b>	<b>13,826</b>	<b>17,488,715</b>
Less accumulated depreciation for:				
Operating property	7,032,856	360,000	13,826	7,379,030
<b>Total accumulated depreciation</b>	<b>7,032,856</b>	<b>360,000</b>	<b>13,826</b>	<b>7,379,030</b>
<b>Total capital assets being depreciated, net</b>	<b>10,196,690</b>	<b>(87,005)</b>	<b>-</b>	<b>10,109,685</b>
<b>Capital assets, net</b>	<b>\$ 10,254,289</b>	<b>(69,422)</b>	<b>(21,149)</b>	<b>10,163,718</b>

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Notes to Basic Financial Statements, Continued**

**CHANGES IN LONG-TERM LIABILITIES**

The following is a summary of long-term liability transactions of the District for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Bonds payable	\$ 2,876,000	-	219,000	2,657,000	224,000
Net pension liability	865,230	-	196,013	669,217	-
Accrued compensated absences	9,137	965	-	10,102	-
<b>Total long-term liabilities</b>	<b>\$ 3,750,367</b>	<b>965</b>	<b>415,013</b>	<b>3,336,319</b>	<b>224,000</b>

**BONDS PAYABLE**

The following is a summary of the long-term debt payable at December 31, 2017 and 2016:

<u>Issue</u>	<u>Amount issued</u>	<u>Maturity date</u>	<u>Interest rate</u>	<u>Balance 12/31/17</u>	<u>Balance 12/31/16</u>
Bond 1983 GMAC	\$ 945,000	2023	5.00%	307,000	346,000
Bond 2007 BNY	3,835,000	2027	4.25-5%	2,350,000	2,530,000
				2,657,000	2,876,000
Less: current portion				224,000	219,000
<b>Total long-term debt</b>				<b>\$ 2,433,000</b>	<b>2,657,000</b>

Requirements for the repayment of the outstanding debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total debt service</u>
2018	\$ 224,000	132,850	356,850
2019	234,000	121,650	355,650
2020	244,000	109,950	353,950
2021	265,000	97,750	362,750
2022	280,000	84,500	364,500
2023-2027	1,410,000	208,750	1,618,750
<b>Totals</b>	<b>\$ 2,657,000</b>	<b>755,450</b>	<b>3,412,450</b>

**DEFERRED PURCHASED POWER AND TRANSMISSION**

The District is not allowed to generate a profit on electricity or transmission per the MPUC. As a result of timing issues, excess revenue is recorded as a deferred inflow of resources, while excess expenses are recorded as a deferred outflow of resources at the end of each fiscal year.



**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Notes to Basic Financial Statements, Continued**

**DEFERRED PURCHASED POWER AND TRANSMISSION, CONTINUED**

The following are the deferred (outflows)/inflows of resources related to purchased power and transmission for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Purchased power adjustments:		
Electricity - deferred (outflow)	\$ (981,855)	(764,766)
Transmission - deferred inflow	415,645	473,414

**Deferred (outflow) of resources - December 31** **\$ (566,210)**    **(291,352)**

The following would be net position of the District if the deferred (outflows)/inflows of resources related to purchased power and transmission were not recorded for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Net position	\$ 8,713,509	8,268,475
Deferred (outflow)	(566,210)	(291,352)

**Net position, without deferred power/transmission** **\$ 8,147,299**    **7,977,123**

**NET POSITION**

Net position represents assets and deferred outflows of resources, less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and capital leases payable and adding back any unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District's net investment in capital assets was calculated as follows at December 31:

	<u>2017</u>	<u>2016</u>
Capital assets	\$ 17,542,748	17,287,145
Accumulated depreciation	(7,379,030)	(7,032,856)
Bonds payable	(2,657,000)	(2,876,000)
<b>Net investment in capital assets</b>	<b>\$ 7,506,718</b>	<b>7,378,289</b>

The following is a summary of the District's restricted net position as of December 31:

	<u>2017</u>	<u>2016</u>
1983 bond sinking fund	\$ 9,857	9,852
2007 bond sinking fund	314,826	314,826
Rural development reserve account	57,922	57,893
<b>Total restricted net position</b>	<b>\$ 382,605</b>	<b>382,571</b>

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Notes to Basic Financial Statements, Continued**

**COMMITMENTS**

The District has entered into contracts for the purchase of electricity. The following is a summary of the contract commitments at December 31, 2017:

Contract Period	Total Quantity	Contract Price
Calendar year 2018 – 100% (KLPD)	Usage	\$ 78.98 per MWH
Calendar year 2019 – 100% (KLPD)	Usage	78.98 per MWH
Calendar year 2020 – 100% (KLPD)	Usage	78.98 per MWH

**MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM**

***General Information about the Pension Plan***

**Plan Description** - Employees of the District are provided with pensions through the Maine Public Employees Retirement System Consolidated Plan for Local Participating Districts (PLD Plan) a cost-sharing multiple-employer defined benefit pension plan, administered by the Maine Public Employees Retirement System (MPERS). Benefit terms are established in Maine statute. MPERS issues a publicly available financial report that can be obtained at [www.mainebers.org](http://www.mainebers.org).

**Benefits Provided** - The PLD Plan provides defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e. eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit. In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. For PLD members, normal retirement age is 60 (65 for new members to the PLD Plan on or after July 1, 2014). The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. MPERS also provides disability and death benefits, which are established by contract under applicable statutory provisions.

**Contributions** - Employee contribution rates are defined by law or Board rule and depend on the terms of the plan under which an employee is covered. Employer contributions are determined by actuarial valuations. District employees are required to contribute 8.0% and 7.5% (January through June 2017 and 2016, respectively) and 8.0% (July through December 2017 and 2016) of their annual pay. The District's contractually required contribution rates were 9.5% and 8.9% (January through June 2017 and 2016, respectively) and 9.6% and 9.5% (July through December 2017 and 2016, respectively) of payroll. These employer contribution rates are actuarially determined as an amount that, when combined with employee contributions, are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$83,729 and \$78,782 for the years ended December 31, 2017 and 2016, respectively.

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Notes to Basic Financial Statements, Continued**

**MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED**

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

At December 31, 2017, the District reported a liability of \$669,217 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating local districts, actuarially determined. At June 30, 2017, the District's proportion of the PLD Plan was 0.1634%.

For the year ended December 31, 2017 and 2016, the District recognized pension expense of \$135,558 and \$175,953 respectively. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	32,151
Net difference between projected and actual earnings on pension plan investments	-	18,402
Changes in proportion and differences between District contributions and proportionate share of contributions	19,611	-
Changes of assumptions	56,946	-
District contributions subsequent to the measurement date	41,158	-
<b>Total</b>	<b>\$ 117,715</b>	<b>50,553</b>

An amount of \$41,158 is reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liabilities in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2018	\$ (1,360)
2019	68,438
2020	4,490
2021	(45,564)

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Notes to Basic Financial Statements, Continued**

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**MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED**

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**Actuarial Assumptions** - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary Increases, per year	2.75%-9.00%
Investment return, per annum, compounded annually	6.875%
Cost of living benefit increases, per annum	2.20%

Mortality rates were based on the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Public Equities	30.0%	6.0%
US Government	7.5%	2.3%
Private equity	15.0%	7.6%
Real estate	10.0%	5.2%
Infrastructure	10.0%	5.3%
Natural Resources	5.0%	5.0%
Traditional Credit	7.5%	3.0%
Alternative Credit	5.0%	4.2%
Diversifiers	10.0%	5.9%
<b>Total</b>	<b>100%</b>	

**Discount Rate** - The discount rate used to measure the total pension liability was 6.875%. The projection of cash flows used to determine the discount rates assumed that employee contributions will be made at the current contribution rate and that contributions from participating local districts will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liabilities.

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Notes to Basic Financial Statements, Continued**

**MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED**

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate -**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.875%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.875%) or 1 percentage-point higher (7.875%) than the current rate:

	1% Decrease <u>(5.875%)</u>	Current Discount Rate <u>(6.875%)</u>	1% Increase <u>(7.875%)</u>
District's proportionate share of the net pension liability	\$1,342,654	\$669,217	\$162,223

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS financial report.

**Payables to the Pension Plan** - None as of December 31, 2017.

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Required Supplementary Information**

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**Schedule of District's Proportionate Share of the Net Pension Liability**  
**Maine Public Employees Retirement System Consolidated Plan (PLD)**  
Last 10 Fiscal Years\*\*

	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
District's proportion of the net pension liability	0.1634%	0.1628%	0.1543%	0.1490%
District's proportionate share of the net pension liability	\$ 669,217	865,230	429,324	229,301
District's covered payroll	883,266	856,546	810,988	794,726
District's proportion share of the net pension liability as a percentage of its covered payroll	75.77%	101.01%	52.94%	28.85%
Plan fiduciary net position as a percentage of of the total pension liability	86.43%	81.60%	88.27%	94.10%

*\* The amounts presented for each fiscal year were determined as of June 30, 6 months prior.*

*\*\*Only four years of information available*

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Required Supplementary Information, Continued**

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**Schedule of District Contributions**  
**Maine Public Employees Retirement System Consolidated Plan (PLD)**  
 Last 10 Fiscal Years\*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 83,729	78,782	69,987	56,831
Contributions in relation to the contractually required contribution	(83,729)	(78,782)	(69,987)	(56,831)
<b><u>Contribution deficiency (excess)</u></b>	<b><u>\$ -</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
District's covered payroll	876,848	855,857	834,656	791,890
Contributions as a percentage of covered payroll	9.55%	9.21%	8.37%	7.18%

\* Only four years of information available

**KENNEBUNK LIGHT AND POWER DISTRICT**  
**Notes to Required Supplementary Information**

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**Changes of Benefit Terms - None**

**Changes of Assumptions – None**