

KENNEBUNK LIGHT AND POWER DISTRICT

Financial Statements

**For the Years Ended
December 31, 2015 and 2014**

KENNEBUNK LIGHT AND POWER DISTRICT
Financial Statements
For the Years ended December 31, 2015 and 2014

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements:	
Statements of Net Position	7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Basic Financial Statements	10-20
Required Supplementary Information:	
Schedule of District's Proportionate Share of the Net Pension Liability	21
Schedule of District Contributions	22
Notes to Required Supplementary Information	23

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, 2015 and 2014, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2015 and 2014, and 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, described 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 25, 2016, 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 25, 2016
South Portland, Maine

KENNEBUNK LIGHT AND POWER DISTRICT
Management's Discussion and Analysis
December 31, 2015

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, tree trimmers, 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, 2015. 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 \$8,013,119 (net position). Included in this amount is \$404,876 of unrestricted net position.
- The net position decreased by approximately 0.4% from the previous year.
- The District's unrestricted cash decreased by 17% during the year while accounts receivable increased by 39.3% and accounts payable increased by 13.3%.
- Operating revenues increased by 15.8% during 2015.
- Operating expenses increased by 16.6% during 2015.
- KLPD incurred no additional debt in 2015.

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 2015 totaled \$1,838,983, which was an increase of 1.7%. Other assets were \$606,972, which consisted of \$604,884 of restricted cash and investments and \$2,088 of other assets. In total, other assets decreased 1.1%. Net capital assets decreased a net of 0.4%, or \$45,075, due to capital asset retirements exceeding additions, and \$360,000 of annual depreciation.

Current liabilities ended the year at \$1,622,890, an increase of 8.6%. The non-current liabilities are the District's bonds payable and net pension liability, which increased 2.0%.

The largest portion of the District's net position (90.2%) reflects its net investment in capital assets (e.g., land, buildings, equipment, vehicles, and infrastructure), less 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 (4.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$404,877 is unrestricted and may be used to meet the District's ongoing obligations to its consumers and creditors.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
	2015	2014 (Restated)
Operating revenues	\$13,288,474	\$11,476,462
Operating expenses	<u>13,122,696</u>	<u>11,251,778</u>
Operating income	165,778	224,684
Non-operating expenses	<u>(321,270)</u>	<u>(212,557)</u>
Income (loss) before contributions	(155,492)	12,127
Capital contributions	<u>119,474</u>	<u>174,260</u>
Change in net position	(36,018)	186,387
Net position, beginning of year	<u>8,049,137</u>	<u>7,862,750</u>
Net position, end of year	\$ 8,013,119	\$ 8,049,137

The operating revenues for 2015 were \$13,288,474, which included fees collected for energy, transmission and delivery, which was an increase of 15.8% from the previous year. Electricity revenue increased 22.8%, regional network service revenue increased by 11.5%, transmission revenue increased by 1.9%, and delivery revenue increased by 0.25%.

Operating expenses totaled \$13,122,696, an increase of 16.6% in 2015.

FINANCIAL ANALYSIS:

Net income (loss) before contributions for the year ended December 31, 2015 was \$(155,492), compared to \$12,127 for the year ended December 31, 2014. The District's change in net position was \$(36,018) when capital contributions are added.

The District's 2015 budget, approved by the Board of Trustees in early 2015, projected a net income before contributions of \$(70,300). Actual net income before contributions was \$(155,492), which was \$85,192 less income than budget.

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

CAPITAL ASSETS:

CAPITAL ASSETS				
	<u>Balance</u> <u>12/31/14</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>12/31/15</u>
Capital assets not being depreciated:				
Work in process	\$3,008	255,225	180,000	78,233
Total capital assets not being depreciated	3,008	255,225	180,000	78,233
Capital assets being depreciated:				
Operating property	16,721,485	239,700	26,375	16,934,810
Total capital assets being depreciated	16,721,485	239,700	26,375	16,934,810
Less accumulated depreciation for:				
Operating property	6,368,713	360,000	26,375	6,702,338
Total accumulated depreciation	6,368,713	360,000	26,375	6,702,338
Total capital assets being depreciated, net	10,352,772	(120,300)	-	10,232,472
Capital assets, net	\$10,355,780	134,925	(180,000)	10,310,705

Net capital assets for 2015 make up 80.5% of the District's total assets. The investment includes land, buildings, general equipment, distribution equipment, and production equipment. Additions in 2015 to the capital assets being depreciated amounted to \$239,700. Of that amount, the major capital expenditures were \$56,132 for the purchase of transformers and \$26,846 in substation equipment. The balance was made up 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:

LONG-TERM LIABILITIES					
	<u>Beginning</u> <u>Balance</u> <u>(restated)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable	\$3,282,000	-	197,000	3,085,000	209,000
Net pension liability	229,301	263,023	-	492,324	-
Accrued Comp	14,055	-	2,755	11,300	-
Total long-term debt	\$3,525,356	263,023	199,755	3,588,624	209,000

At the end of the current fiscal year, the District had bonded debt of \$3,085,000 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

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 2016 fiscal year budget:

- A planned 1% rate increase for delivery at the beginning of 2016, due to the increased operating expenses.
- Continued increased costs of professional services for research and studies being completed on the three hydro dams the District owns.

REQUEST FOR INFORMATION:

This discussion and analysis is designed to provide a general overview of the District's hierarchy and 2015 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, 2015 and 2014

	2015	2014 (restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 781,062	941,033
Accounts receivable, net of allowance of \$80,726 and \$96,213	806,819	579,075
Accounts receivable - unbilled (delivery)	99,778	125,287
Prepaid expenses	9,092	18,666
Inventory	142,232	139,062
Notes receivable	-	5,039
Total current assets	1,838,983	1,808,162
Noncurrent assets:		
Other assets:		
Restricted cash	297,271	303,702
Restricted investments	307,613	307,613
Other assets, net of amortization	2,088	2,372
Total other assets	606,972	613,687
Capital assets:		
Work in process	78,233	3,008
Operating property	16,934,810	16,721,485
Less: accumulated depreciation	(6,702,338)	(6,368,713)
Net capital assets	10,310,705	10,355,780
Total noncurrent assets	10,917,677	10,969,467
Total assets	12,756,660	12,777,629
DEFERRED OUTFLOWS OF RESOURCES		
Deferred purchased power and transmission	203,458	205,915
Deferred outflows of resources related to pensions	124,764	106,878
Total deferred outflows of resources	328,222	312,793
LIABILITIES		
Current liabilities:		
Accounts payable	1,086,055	958,422
Accrued payroll and taxes	14,240	6,398
Accrued interest	69,960	74,252
Accrued compensated absences	11,300	14,055
Unearned revenue	9,988	4,512
Customer deposits	191,299	190,449
Customer advances for construction	31,048	38,363
Current portion of bonds payable	209,000	197,000
Total current liabilities	1,622,890	1,483,451
Noncurrent liabilities:		
Net pension liability	492,324	229,301
Bonds payable, net of current portion	2,876,000	3,085,000
Total noncurrent liabilities	3,368,324	3,314,301
Total liabilities	4,991,214	4,797,752
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	80,549	243,533
Total deferred inflows of resources	80,549	243,533
NET POSITION		
Net investment in capital assets	7,225,705	7,073,780
Restricted	382,537	382,503
Unrestricted	404,877	592,854
Total net position	\$ 8,013,119	8,049,137

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, 2015 and 2014

	2015	2014 (restated)
Operating revenues:		
User fees:		
Electricity	\$ 8,420,497	6,858,197
Regional network service	2,275,511	2,040,269
Transmission	335,952	329,669
Delivery	2,199,655	2,194,244
Other	56,859	54,083
Total operating revenues	13,288,474	11,476,462
Operating expenses:		
Purchased power	8,420,497	6,858,197
Regional network service	2,275,511	2,040,269
Transmission costs	335,952	329,669
Operations	452,917	454,566
Maintenance	127,644	101,649
Customer accounting and collections	136,864	134,625
General and administrative	1,013,311	971,323
Depreciation	360,000	360,000
Bad debt	-	1,480
Total operating expenses	13,122,696	11,251,778
Operating income	165,778	224,684
Non-operating revenues (expenses):		
Interest revenue	15,447	15,588
Miscellaneous revenue	6,357	1,455
Income from jobbing	5,980	2,853
Amortization of change in net pension liability	(82,153)	5,164
Interest expense	(157,680)	(166,582)
Relicensing expense	(108,936)	(70,750)
Amortization expense	(285)	(285)
Total non-operating expenses	(321,270)	(212,557)
Income (loss) before contributions	(155,492)	12,127
Capital contributions	119,474	174,260
Change in net position	(36,018)	186,387
Net position, beginning of year, as restated	8,049,137	7,862,750
Net position, end of year	\$ 8,013,119	8,049,137

See accompanying notes to basic financial statements.

KENNEBUNK LIGHT AND POWER DISTRICT
Statements of Cash Flows
For the years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from customers and users	\$ 13,091,606	11,482,811
Payments to suppliers	(11,956,243)	(10,093,503)
Payments to employees	(767,828)	(770,806)
Net cash provided by operating activities	367,535	618,502
Cash flows from capital and related financing activities:		
Purchase of capital assets	(314,925)	(421,663)
Proceeds from collection of notes receivable	5,039	7,679
Capital contributions	119,474	174,260
Principal payments on long-term debt	(197,000)	(187,000)
Interest payments on long-term debt	(161,972)	(170,691)
Net cash used in capital and related financing activities	(549,384)	(597,415)
Cash flows from investing activities:		
Interest on investments	15,447	15,588
Net cash provided by investing activities	15,447	15,588
Net increase (decrease) in cash	(166,402)	36,675
Cash and cash equivalents at beginning of year	1,244,735	1,208,060
Cash and cash equivalents at end of year	\$ 1,078,333	1,244,735
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 165,778	224,684
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	360,000	360,000
Bad debt expense	-	1,480
Miscellaneous revenue	6,357	1,455
Income from jobbing	5,980	2,853
Relicensing expense	(108,936)	(70,750)
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(227,744)	84,285
(Increase) decrease in accounts receivable - unbilled (delivery)	25,509	(2,651)
(Increase) decrease in prepaid expenses	9,574	1,714
(Increase) decrease in inventory	(3,170)	(10,691)
(Increase) decrease in deferred purchase power and transmission	2,457	146,399
Increase (decrease) in accounts payable	127,633	(44,165)
Increase (decrease) in accrued payroll and taxes	7,842	2,344
Increase (decrease) in accrued compensated absences	(2,755)	(235)
Increase (decrease) in unearned revenue	5,476	3,524
Increase (decrease) in customer deposits	849	(5,247)
Increase (decrease) in advances for construction	(7,315)	(76,497)
Net cash provided by operating activities	367,535	618,502

See accompanying notes to basic financial statements.

KENNEBUNK LIGHT AND POWER DISTRICT
Notes to Basic Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 \$80,726 and \$96,213 as of December 31, 2015 and 2014, 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, miscellaneous payments, and the District's early payoff of its initial unpooled unfunded actuarial liability (IUUAL) payment amount to the Maine Public Employees Retirement System.

Notes Receivable - The notes receivable represent customer line extension contracts. In accordance with Maine Public Utilities Commission (MPUC), the District recognizes customer line extension contracts when earned. These contracts bear no interest and the monthly principal amounts are added to the customers' monthly utility billings. The District no longer provides financing for customer line extensions and requires customers to pay in full. The notes receivable balance represents those customers that obtained financing prior to the District changing its policy.

Capital Assets - Operating property, the related labor, and the related overhead are capitalized at cost if purchased and fair 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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The deferred outflows 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. They also include changes in proportion and differences between District contributions and proportionate share of contributions and changes of assumptions, which are deferred and amortized over the average expected remaining service lives of the active and inactive members of the plan.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has two types of deferred inflows related to pensions, which qualify for reporting in this category. Deferred inflows related to pensions includes the net difference between expected and actual experience, which is deferred and amortized over the average expected remaining service lives of the active and inactive members of the plan. Finally, the district reports a deferred inflow of resources, which represents the net difference between projected and actual earnings on pension plan investments, which is deferred and amortized over a five-year period.

The District's deferred power and transmission balance is considered a deferred outflow as net position will be reduced in the future when these expenditure are recognized.

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.

Deferred Purchased Power and Transmission - 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.

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, 2015 and 2014, unused vacation time amounted to \$11,300 and \$14,055, respectively.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Unearned Revenue - Unearned revenue is associated with the Village Green Program.

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.

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.

DEPOSITS AND INVESTMENTS

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, 2015, the District reported deposits of \$1,078,333 with a bank balance of \$1,105,767. Of that amount, \$799,377 of the District's bank balance was covered by FDIC insurance, and \$306,390 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.

At December 31, 2015, the District reported investments with the following maturities:

	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>
U.S. Treasury	\$ 307,613	-	-	307,613
Total investments	\$ 307,613	-	-	307,613

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, 2015, 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.

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

RESTRICTED CASH AND INVESTMENTS

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.

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, 2015 and 2014, 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>2015</u>	<u>2014</u>
1983 bond sinking fund	\$ 9,847	9,842
Rural development reserve account	57,864	57,835
2007 bond sinking fund	314,826	314,826
Customer meter deposits	191,299	190,449
Customer advances for construction	31,048	38,363
Total restricted cash and investments	\$ 604,884	611,315

NOTES RECEIVABLE

The following is a schedule of activity for the notes receivable as of December 31:

	<u>2015</u>	<u>2014</u>
Balance – January 1	\$ 5,039	12,718
Customer billing for existing line extension contracts	(5,039)	(7,679)
Balance – December 31	\$ -	5,039
Current portion	\$ -	5,039
Long-term portion	-	-
Total notes receivable	\$ -	5,039

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

CAPITAL ASSETS

The following is a summary of the changes in capital assets from December 31, 2015 and 2014:

	Balance <u>12/31/14</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>12/31/15</u>
Capital assets not being depreciated:				
Work in process	\$ 3,008	255,225	180,000	78,233
Total capital assets not being depreciated	3,008	255,225	180,000	78,233
Capital assets being depreciated:				
Operating property	16,721,485	239,700	26,375	16,934,810
Total capital assets being depreciated	16,721,485	239,700	26,375	16,934,810
Less accumulated depreciation for:				
Operating property	6,368,713	360,000	26,375	6,702,338
Total accumulated depreciation	6,368,713	360,000	26,375	6,702,338
Total capital assets being depreciated, net	10,352,772	(120,300)	-	10,232,472
Capital assets, net	\$ 10,355,780	134,925	(180,000)	10,310,705

CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions of the District for the year ended December 31, 2015:

	Beginning Balance (restated)	<u>Additions</u>	<u>Deletions</u>	Ending balance	Due within one year
Bonds payable	\$ 3,282,000	-	197,000	3,085,000	209,000
Net pension liability	229,301	263,023	-	492,324	-
Accrued compensated absences	14,055	-	2,755	11,300	-
Total long-term liabilities	\$ 3,525,356	263,023	199,755	3,588,624	209,000

BONDS PAYABLE

The following is a summary of the long-term debt payable at December 31, 2015 and 2014:

<u>Issue</u>	Amount <u>issued</u>	Maturity <u>date</u>	Interest <u>rate</u>	Balance <u>12/31/15</u>	Balance <u>12/31/14</u>
Bond 1983 GMAC	\$ 945,000	2023	5.00%	385,000	417,000
Bond 2007 BNY	3,835,000	2027	4.25-5%	2,700,000	2,865,000
				3,085,000	3,282,000
Less: current portion				209,000	197,000
Total long-term debt				\$ 2,876,000	3,085,000

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

BONDS PAYABLE, CONTINUED

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

	<u>Principal</u>	<u>Interest</u>	<u>Total debt service</u>
2016	\$ 209,000	152,500	361,500
2017	219,000	142,900	361,900
2018	224,000	132,850	356,850
2019	234,000	121,650	355,650
2020	244,000	109,950	353,950
2021-2025	1,390,000	348,250	1,738,250
2026-2027	565,000	42,750	607,750
Totals	\$ 3,085,000	1,050,850	4,135,850

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

	<u>2015</u>	<u>2014</u>
Purchased power adjustments:		
Electricity - deferred (outflow)	\$ (709,033)	(692,034)
Transmission - deferred inflow	505,575	486,119
Deferred (outflow) of resources - December 31	\$ (203,458)	(205,915)

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>2015</u>	<u>2014</u>
Net position	\$ 8,144,123	8,415,093
Deferred (outflow)	(203,458)	(205,915)
Net position, without deferred power/transmission	\$ 7,940,665	8,209,178

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

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>2015</u>	<u>2014</u>
Capital assets	\$ 17,013,043	16,724,493
Accumulated depreciation	(6,702,338)	(6,368,713)
Bonds payable	(3,085,000)	(3,282,000)
<u>Net investment of capital assets</u>	<u>\$ 7,225,705</u>	<u>7,073,780</u>

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

	<u>2015</u>	<u>2014</u>
1983 bond sinking fund	\$ 9,847	9,842
2007 bond sinking fund	314,826	314,826
Rural development reserve account	57,864	57,835
<u>Total restricted net position</u>	<u>\$ 382,537</u>	<u>382,503</u>

COMMITMENTS

The District has entered into contracts for the purchase of electricity. The following is a summary of the contract commitments at December 31, 2015:

<u>Contract Period</u>	<u>Total Quantity</u>	<u>Contract Price</u>
Calendar year 2016 – 100% (KLPD)	Usage	78.98-73.30 per MWH
Calendar year 2016 – 100% (Industrial)	Usage	70.63-78.41 per MWH
Calendar year 2017 – 100% (KLPD)	Usage	85.33 per MWH
Calendar year 2018 – 100% (KLPD)	Usage	94.41 per MWH

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

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.maineopers.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 7.0% and 6.5% (January through June 2015 and 2014, respectively) and 7.5% and 7.0% (July through December 2015 and 2014, respectively) of their annual pay. The District's contractually required contribution rates were 7.8% and 6.5% (January through June 2015 and 2014, respectively) and 8.9% and 7.8% (July through December 2015 and 2014, 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 \$69,897 and \$56,831 for the years ended December 31, 2015 and 2014, respectively.

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

At December 31, 2015, the District reported a liability of \$492,324 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the District's proportion of the PLD Plan was 0.1543%.

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

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED

For the year ended December 31, 2015 and 2014, the District recognized pension expense of \$152,050 and \$61,995, respectively. At December 31, 2015, 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	\$ -	43,353
Net difference between projected and actual earnings on pension plan investments	-	37,196
Changes in proportion and differences between District contributions and proportionate share of contributions	42,467	-
Changes of assumptions	43,508	
District contributions subsequent to the measurement date	38,789	-
Total	\$ 124,764	\$ 80,549

An amount of \$38,789 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, 2016. 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:

2016	\$ (2,436)
2017	(2,436)
2018	(27,687)
2019	37,985

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary Increases, per year	3.5% to 9.5%
Investment return, per annum, compounded annually	7.125%
Cost of living benefit increases, per annum	2.55%

Mortality rates were based on the RP2000 Combined Mortality Table projected forward to 2015 using Scale AA.

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

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2010.

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, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US equities	20%	5.2%
Non-US equities	20%	5.5%
Private equity	10%	7.6%
Real estate	10%	3.7%
Infrastructure	10%	4.0%
Hard assets	5%	4.8%
Fixed income	25%	0.7%
<u>Total</u>	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.125%. 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.

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 7.125%, 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 (6.125%) or 1 percentage-point higher (8.125%) than the current rate:

	1% Decrease <u>(6.125%)</u>	Current Discount Rate <u>(7.125%)</u>	1% Increase <u>(8.125%)</u>
District's proportionate share of the net pension liability	\$ 980,856	\$ 492,324	\$ 29,166

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

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED

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, 2015.

NEW PRONOUNCEMENTS AND RESTATEMENT OF NET POSITION

For the fiscal year ended December 31, 2015, the District has elected to implement Statement No. 68 of the Governmental Accounting Standards Board – *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. As a result of implementing GASB Statement No. 68, the District has restated the beginning net position as of December 31, 2013, to account for the addition of the District's proportionate share of the net pension liability of \$398,095 and deferred outflows for the District's contributions subsequent to the measurement date of \$26,975, which effectively decreased the District's net position as of December 31, 2013 by \$371,120.

KENNEBUNK LIGHT AND POWER DISTRICT
Required Supplementary Information

Schedule of District's Proportionate Share of the Net Pension Liability
Maine Public Employees Retirement System Consolidated Plan (PLD)

Last 10 Fiscal Years*

	<u>2015*</u>	<u>2014*</u>
District's proportion of the net pension liability	0.1543%	0.1490%
District's proportionate share of the net pension liability	\$ 492,324	229,301
District's covered-employee payroll	834,656	791,890
District's proportion share of the net pension liability as a percentage of its covered-employee payroll	58.99%	28.96%
Plan fiduciary net position as a percentage of the total pension liability	88.27%	94.10%

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

KENNEBUNK LIGHT AND POWER DISTRICT
Required Supplementary Information, Continued

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

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 69,897	56,831
Contributions in relation to the contractually required contribution	<u>(69,897)</u>	<u>(56,831)</u>
Contribution deficiency (excess)	\$ -	-
District's covered-employee payroll	834,656	791,890
Contributions as a percentage of covered- Employee payroll	8.37%	7.18%

* Only two years of information available

KENNEBUNK LIGHT AND POWER DISTRICT
Notes to Required Supplementary Information

Changes of Benefit Terms - None

Changes of Assumptions - The PLD Plan changed the discount rate from 7.25% in the 2014 valuation to 7.125% in the 2015 valuation. The PLD Plan also changed the cost of living benefits increase assumption from 3.12% in the 2014 valuation to 2.55% in the 2015 valuation.