

HINGHAM MUNICIPAL LIGHTING PLANT
Financial Statements
December 31, 2011 and 2010

HINGHAM MUNICIPAL LIGHTING PLANT
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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Hingham Municipal Lighting Plant
350 Lincoln Street – Suite 1101
Hingham, MA 02043

We have audited the accompanying financial statements of Hingham Municipal Lighting Plant of Hingham, Massachusetts, as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Lighting Plant's management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Hingham Municipal Lighting Plant and do not purport to, and do not, present fairly the financial position of the Town of Hingham, Massachusetts, as of December 31, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Hingham Municipal Lighting Plant as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-6 is not a required part of the basic financial statements but is supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
May 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Hingham Municipal Lighting Plant's annual financial report, management provides narrative discussion and analysis of the financial activities of the Hingham Municipal Lighting Plant for the years ended December 31, 2011 and 2010. The Plant's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements:

The basic financial statements include (1) the statements of net assets (2) the statements of revenues, expenses and changes in net assets (3) the statements of cash flows and (4) notes to the financial statements.

The Statements of Net Assets are designed to indicate our financial position as of a specific point in time. At December 31, 2011, it shows our net worth has increased 8.2% over the year ended December 31, 2010. This net increase is attributed to the Lighting Plant's increase in kilowatt-hour sales.

The Statements of Revenues, Expenses and Changes in Net Assets, summarizes our operating results and reveals how much net income was earned for the year. As discussed in more detail, our net income for December 31, 2011 and 2010 was \$2,421,745 and \$855,696, respectively.

The Statements of Cash Flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financing activities for the same period.

Summary of Net Assets – Operating Fund

	<u>2011</u>	<u>2010</u>
Current Assets	\$ 5,705,733	\$ 4,893,641
Noncurrent Assets	<u>34,541,647</u>	<u>32,675,314</u>
Total Assets	<u>\$ 40,247,380</u>	<u>\$ 37,568,955</u>
Current Liabilities	\$ 6,342,996	\$ 6,644,089
Noncurrent Liabilities	<u>3,867,376</u>	<u>3,170,465</u>
Total Liabilities	<u>10,210,372</u>	<u>9,814,554</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	23,567,612	24,690,476
Unrestricted	<u>6,469,396</u>	<u>3,063,925</u>
Total Net Assets	<u>30,037,008</u>	<u>27,754,401</u>
Total Liabilities and Net Assets	<u>\$ 40,247,380</u>	<u>\$ 37,568,955</u>

Summary of Changes in Net Assets – Operating Fund

	2011	2010
Operating Revenues	\$ 30,072,813	\$ 29,662,513
Operating Expenses	27,685,136	28,861,961
Operating Income	2,387,677	800,552
Nonoperating Revenues	34,068	55,144
Income Before Contributions and Transfers	2,421,745	855,696
Transfers In – Restricted for Capital Projects	419,315	67,699
Transfers Out – Payments in Lieu of Taxes	(558,453)	(536,557)
Beginning Assets	27,754,401	27,367,563
Ending Net Assets	\$ 30,037,008	\$ 27,754,401

Financial Highlights:

Operating revenues increased \$410,300 in 2011 or approximately 1.39%. This increase in revenue can be attributed to increase in kilowatt sales for the year.

Operating expenses decreased \$1,176,825 in 2011, or approximately 4.1 %. This decrease in expenses can be attributed to stability power cost rates.

Over the past several years the Lighting Plant has experienced significant load growth in its system, even in a down economy, and will continue to grow at a reasonable rate over the next few years. The Hingham Shipyard project continues to add stores and tenants to their commercial area and additional residential housing will be completed in the near future. The Lighting Plant has prepared for this growth by developing a rolling five year Capital Plan to identify the required projects to meet this unprecedented growth. This growth has required capital spending by the Lighting Plant to provide the facilities necessary to accommodate these new customers and development. The Lighting Plant was able to fund these capital infrastructure improvements from internal sources with no borrowing required. The Lighting Plant continues to improve its reliability by funding a maintenance and replacement program for the areas in the Town where it is required. The financial statements show a significant increase in maintenance and repair costs for the year, showing the expense for this program.

The Hingham Municipal Lighting Plant experienced, on July 22, 2011, its all-time peak usage at 56.6 MW. This represents an increase in peak load of 19% in the past two years. During 2011, the kilowatt-hour usage in the system experienced a flat sales year. The Light Plant estimates a more normal year in 2011, with some slight increase in kilowatt-hour usage.

Financial Highlights (Continued):

The Lighting Plant has a 5% owner's interest in the Energy New England Company. This organization is the premier power supply and risk management organization in New England and its ownership is made up of several Massachusetts and one Connecticut municipal electric system. This ownership and relationship gives the Lighting Plant an opportunity to bolster its power supply portfolio and strengthen its risk management area, by having professional power supply individuals assisting the system in its short and long term supply options. The ownership also serves as an investment for the system in an organization that is growing its business. ENE has been instrumental in HMLP increasing its renewable energy portfolio and being able to secure purchase power contracts at very attractive rates.

The Light Plant entered into a cooperative with Braintree Electric Light Department, both with 50% ownership in the South Shore Energy Cooperative, to allow the Light Plant to provide consulting service on power projects to other companies.

Beginning in the 2nd half of 2012 Light Plant customers will be able to pay their bills online or with a credit card which should improve the customer service experience.

In August Tropical Storm Irene hit Hingham. Sometime after the storm subsided Plymouth County was declared as Federal disaster area. As the Light Plant is a municipal operation we were eligible to apply for Federal dollars to help defray the cost of repairs. Based on the dollars we spent and FEMA's reimbursement policies, the Plant should receive approximately \$70,000.

The former General Manager left the Light Plant to become CEO of an energy services company. His replacement came from within the Hingham Municipal Lighting Plant staff. Prior to assuming the General Manager position he was the Assistant General Manager. He brings years of experience from having worked in electric operations for both investor and publicly owned utilities.

Debt Administration and Utility Plant:

Debt Administration

The Hingham Municipal Lighting Plant remains a vertically integrated utility, as do all Municipal Light Departments in Massachusetts. This means that we are allowed under the Massachusetts Utility Restructuring Laws to retain our ownership and control over our electrical generation assets. Investor owned utilities, such as National Grid and NSTAR, have been required to sell their generation assets as a result of the same restructuring laws.

The generation assets, which we have a vested ownership in, along with the other municipal electrical systems in New England, are financed through municipal bonds. The collective debt owed under these bonds stand today at approximately \$358 million of which Hingham Municipal Lighting Plant's share is just over \$13.3 million. The interest has been, and will continue to be paid with revenues received from the sales of electricity.

Debt Administration and Utility Plant (Continued):

Utility Plant

Net utility plant decreased by \$1,122,864 from 2010. This decrease is the difference between the current year additions of \$744,447 and the annual depreciation write off of \$1,849,550, plus the loss on disposal of an asset of \$17,761. The Light Plant continues to add infrastructure to its system to provide service to the new growth in Town.

The Lighting Plant continues to work on the installation and implementation of a new Enterprise Resource Planning (ERP) computer program with Cogsdale. The Cogsdale billing system went into production in late 2007. This system allows all components of the business; Customer Service, Financial, Inventory, Work Order, Project Accounting and Billing will reside on the same database and make the financial information and reporting more readily available. The remaining Work Order, Purchasing and Inventory modules of the system will be installed in 2012, as a new release of the software package has been received and installed.

In an effort to keep power outages to a minimum and provide an asset database, the Lighting Plant completed a mapping of the town's electrical distribution system. This will greatly assist the linemen in locating and switching circuits. The Lighting Plant will have the capability to locate the poles, transformers, meters, and other types of services that are on the mapping system.

Beginning in 2012 we will install a SCADA system which will allow us to remotely monitor the load on our circuits at any given moment. The installation of this technology will give us the ability to move load from one circuit to another as the system dictates.

Significant Balances and Transactions:

Pension Fund

The Pension Fund's purpose is to set aside monies for retirement costs attributable to the Lighting Plant's retirees for whom the Town of Hingham is assessed annually by Massachusetts Contributory Retirement System, and to satisfy the Plant's anticipated future pension liabilities for its current employees. The Lighting Plant's pension system liability was met with a transfer to the pension system in October 2007 and fully funded the pension obligation for the Hingham Municipal Lighting Plant's employees as of July 1, 2007. This is a significant liability that the Lighting Plant has been able to address and put itself in a position to have the liability fully funded several years ahead of the required date. The fund has recovered from the losses to the Massachusetts Contributory Retirement System in 2008 to the pre-2008 levels and remains almost fully funded based on the last actuarial study of the liability.

OPEB Trust Fund

The Other Postemployment Benefits Fund's purpose is to set aside monies for costs attributable to the Lighting Plant's retiree's medical costs. The Lighting Plant has set aside funds for this liability and the current fund is seventy percent funded, well ahead of the potential need for the fund to be fully funded. The fund is being managed by an experienced wealth management firm, based on the Light Plant Investment Policy Statement.

Significant Balances and Transactions (Continued):

Depreciation Fund

The Lighting Plant maintains a depreciation fund, which is managed by the Town of Hingham Treasurer. This fund is used to pay for large capital investments such as new trucks and other long-term assets. Items such as these would be purchased from the operating funds, which would then be replenished by funds transferred from the depreciation fund. The depreciation fund is required by state statute.

Rate Stabilization Fund

These funds are for unexpected escalation in costs, such as the decommissioning of nuclear power plants before the end of their operating license, unusual price spikes in fuel prices and transmission cost increases. We will also use this fund to help us maintain our competitive position when the investor-owned utilities are no longer collecting their “stranded costs*” several years down the line. When that happens, we will use the rate stabilization fund to mitigate our higher costs until our own stranded costs are paid off. Our rate stabilization balance at December 31, 2011 and 2010 was \$2,167,054 and \$1,856,420, respectively.

- * Stranded costs refer to long-term debt or contractual obligations previously incurred that are higher than the new market costs. The investor-owned utilities were required to sell their generation assets as a condition to recover their stranded costs. The proceeds from the sales were used to pay off some of their costs. In place of owning generation, we have long-term power contracts.

Purchased Power Working Capital

The purchased power working capital is an amount held by Energy New England (ENE), our power supply agent. ENE requires that they hold a set amount of capital from which it may pay our power obligations when they are due. They replenish the fund as needed from our monthly invoice payments.

Insurance Escrow Reserve Fund

The insurance escrow reserve fund was set up to help reduce future costs of our general liability policy. Years ago management considered having a self-insurance fund for our excess liability needs because the insurance market was hard (high premiums and difficulty in finding coverage). Our current plan is to hold the amount in excess of the self-retention for nuisance claims or where damages exceed the covered limit.

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2011 AND 2010

OPERATING FUND

ASSETS

	2011	2010
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 500	\$ 13,358
Accounts Receivable, Net	2,684,309	2,561,425
Other Receivable	134,871	67,893
Materials and Supplies	1,310,863	613,321
Prepaid Power Contracts	833,984	865,547
Purchased Power Working Capital	741,206	772,097
TOTAL CURRENT ASSETS	5,705,733	4,893,641
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	6,843,356	4,511,467
Customer Deposits	1,521,039	1,175,646
Insurance Reserve Fund	253,687	253,687
Rate Stabilization Fund	2,167,054	1,856,420
Investments	188,899	187,618
Utility Plant Assets, Net	23,567,612	24,690,476
TOTAL NONCURRENT ASSETS	34,541,647	32,675,314
TOTAL ASSETS	\$ 40,247,380	\$ 37,568,955

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
 STATEMENTS OF NET ASSETS
 DECEMBER 31, 2011 AND 2010

OPERATING FUND

LIABILITIES

	2011	2010
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,158,866	\$ 1,532,044
Accounts Payable - Related Party	2,803,183	2,422,522
Accrued Expenses	107,294	126,466
Customer Advances for Construction	2,217,518	2,512,482
Sales Tax Payable	56,135	50,575
TOTAL CURRENT LIABILITIES	6,342,996	6,644,089
NONCURRENT LIABILITIES:		
Customer Deposits	1,558,659	1,175,645
Net Other Postemployment Benefits Obligation	141,663	138,400
Rate Stabilization Reserve	2,167,054	1,856,420
TOTAL NONCURRENT LIABILITIES	3,867,376	3,170,465
TOTAL LIABILITIES	10,210,372	9,814,554
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	23,567,612	24,690,476
Unrestricted	6,469,396	3,063,925
TOTAL NET ASSETS	30,037,008	27,754,401
TOTAL LIABILITIES AND NET ASSETS	\$ 40,247,380	\$ 37,568,955

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

OPERATING FUND

	2011	2010
OPERATING REVENUES:		
Sales of Electricity	\$ 29,905,120	\$ 29,465,571
Other Operating Revenues	167,693	196,942
TOTAL OPERATING REVENUES	30,072,813	29,662,513
OPERATING EXPENSES:		
Operations and Maintenance	25,835,586	27,051,496
Depreciation	1,849,550	1,810,465
TOTAL OPERATING EXPENSES	27,685,136	28,861,961
OPERATING INCOME	2,387,677	800,552
NONOPERATING REVENUES (EXPENSES):		
Investment Income	49,122	61,735
Interest Expense	(2,414)	(6,591)
Disaster Recovery Revenue	70,427	0
Disaster Recovery Costs	(83,067)	0
TOTAL NONOPERATING REVENUES (EXPENSES)	34,068	55,144
Income Before Contributions and Transfers	2,421,745	855,696
NET ASSETS - January 1	27,754,401	27,367,563
Transfers In - Restricted for Capital Projects	419,315	67,699
Transfers Out - Payments in Lieu of Taxes	(558,453)	(536,557)
NET ASSETS - December 31	\$ 30,037,008	\$ 27,754,401

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

OPERATING FUND

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 30,265,965	\$ 29,690,720
Cash Paid to Suppliers	(23,500,939)	(23,854,230)
Cash Paid to Employees	(2,457,161)	(2,389,952)
Cash Paid for Benefits	(944,777)	(900,729)
Payment in Lieu of Taxes	(509,777)	(480,963)
Net Cash Provided by Operating Activities	2,853,311	2,064,846
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Net Disaster Revenue (Costs)	(12,640)	0
Interest Expense	(2,414)	(6,591)
Net Cash Provided (Used) by Financing Activities	(15,054)	(6,591)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Accounts Payable - Related Party	380,661	(282,227)
Additions to Plant Assets	(726,686)	(945,245)
Customer Advances for Construction	124,351	196,899
Net Cash Used in Capital and Related Financing Activities	(221,674)	(1,030,573)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Income	49,122	61,735
Rate Stabilization Reserve	310,634	115,259
Proceeds from Disposition of Investments	(1,281)	4,915
Net Cash Provided by Investing Activities	358,475	181,909
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,975,058	1,209,591
CASH AND CASH EQUIVALENTS - Beginning	7,810,578	6,600,987
CASH AND CASH EQUIVALENTS - Ending	\$ 10,785,636	\$ 7,810,578

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

OPERATING FUND

RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:

	2011	2010
Operating Income	\$ 2,387,677	\$ 800,552
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,849,550	1,810,465
Payment in Lieu of Taxes	(509,777)	(480,963)
Non-Cash Payment in Lieu of Taxes	(48,676)	(55,594)
(Increase) Decrease in Assets:		
Accounts Receivable	(122,884)	(60,629)
Other Receivables	(66,978)	(42,308)
Materials and Supplies	(697,542)	(21,423)
Deferred Debits	0	16,413
Prepaid Expenses	31,563	38,166
Purchased Power Working Capital	30,891	(92,017)
Increase (Decrease) in Liabilities:		
Accounts Payable	(373,178)	83,832
Accrued Expenses	(19,172)	(44,497)
Sales Tax Payable	5,560	4,954
Customer Deposits	383,014	88,836
Net Other Postemployment Benefits Obligation	3,263	19,059
	\$ 2,853,311	\$ 2,064,846

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

The following accounts are considered to be cash or cash equivalents for the statements of cash flows:

	2011	2010
Depreciation Fund	\$ 6,843,356	\$ 4,511,467
Operating Cash	500	13,358
Customer Deposits	1,521,039	1,175,646
Insurance Reserve Fund	253,687	253,687
Rate Stabilization Fund	2,167,054	1,856,420
	\$ 10,785,636	\$ 7,810,578

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2011 AND 2010

OPEB IRREVOCABLE TRUST FUND

ASSETS

	2011	2010
ASSETS:		
Funds on Deposit with Town Treasurer		
Cash and Cash Equivalents	\$ 1,458,883	\$ 1,475,161

NET ASSETS

NET ASSETS:		
Held in Trust for Other Postemployment Benefits	\$ 1,458,883	\$ 1,475,161

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CHANGES IN NET ASSETS
DECEMBER 31, 2011 AND 2010

OPEB IRREVOCABLE TRUST FUND

	2011	2010
ADDITIONS:		
Interest Earned on Invested Funds	\$ 23,366	\$ 4,741
Net Appreciation (Depreciation) in Fair Value of Investments	(34,929)	0
Management and Related Fees	(4,715)	0
Total Additions	(16,278)	4,741
CHANGE IN NET ASSETS	(16,278)	4,741
NET ASSETS - January 1	1,475,161	1,470,420
NET ASSETS - December 31	\$ 1,458,883	\$ 1,475,161

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Hingham Municipal Lighting Plant is a component unit of the Town of Hingham, Massachusetts. The Lighting Plant purchases power from various sources and sells it to the ultimate consumers at rates submitted to the Massachusetts Department of Public Utilities (DPU). The Municipal Lighting Board appoints a manager of municipal lighting who under direction and control of the Municipal Lighting Board, has full charge of the operations and management of the Plant.

Regulation and Basis of Accounting

The Municipal Lighting Plant complies with Generally Accepted Accounting Principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The Lighting Plant uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Under Massachusetts Law, electric rates of the Lighting Plant are set by the Municipal Light Board and may be changed not more than once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities. While the DPU exercises general supervisory authority over the Lighting Plant, the rates are not subject to DPU approval. Rates must be set such that net earnings from operations do not exceed 8% of the cost of the utility plant.

Depreciation

Depreciation of the utility plant is computed on the straight-line method at three percent of cost of plant in service at the beginning of the year, exclusive of land and land rights. Massachusetts law stipulates that the Lighting Plant may change from the statutory depreciation rate only with the approval of the DPU. The Lighting Plant has used a rate of 4% for 2011 and 2010, respectively. The Lighting Plant charges maintenance to expense when incurred. Replacements and betterments are charged to the utility plant.

Revenues

Revenues from the sale of electricity are recorded on the basis of bills rendered from monthly readings taken on a cycle basis. The revenues are based on rates established by the Lighting Plant, which are applied to customers' consumption of electricity. The Lighting Plant's rates contain an adjustable component pursuant to which increased power costs (power costs in excess of amounts recovered through base rates) are billable to customers.

Taxes

The Lighting Plant is exempt from federal income taxes. Although also exempt from property taxes, the Lighting Plant pays amounts in lieu of taxes to the Town of Hingham.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2010 presentation with no effect on previously reported net income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Lighting Plant considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Materials and Supplies

Materials and supplies are valued using the average cost method.

Compensated Absences

In accordance with Plant policies, employees are allowed to accumulate sick days, up to a maximum of 200 days. Upon termination of employment with the Lighting Plant, the employee will be paid at a rate of \$10 per day for the first 100 days and \$20 per day for the next 100 days.

Union employees are permitted to carry over 10 vacation days from one year to the next. Upon termination of employment with the Lighting Plant, the employee will be paid for unused vacation time based on the employee's base rate of pay at the time of termination.

Accounts Receivable

The Lighting Plant carries its accounts receivable at cost. A receivable is considered past due if payments have not been received by the plant within 60 days. At that time, the Lighting Plant will send a delinquent notice specifying a termination date. The termination notice is sent out giving the customer at least seventy-two hours' notice before termination. On a periodic basis, the Lighting Plant does evaluate its accounts receivable to determine if any write-offs are necessary. Accounts receivable are stated net of an allowance for doubtful accounts of \$50,000 for 2011 and 2010.

Sales Tax

The Lighting Plant collects sales tax. The amount received is credited to a liability account and as payments are made, this account is charged. At any point in time, this account represents the net amount owed to the taxing authority for amounts collected but not remitted.

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011 AND 2010

NOTE 2 - INSURANCE RESERVE FUND:

The Lighting Plant has set up an insurance fund, which is to be used to reduce the future costs of insurance expense. The Lighting Plant keeps the amount separate in their records.

NOTE 3 - DEPRECIATION FUND:

Pursuant to provisions of the Commonwealth's General Laws, cash in an amount equivalent to the annual depreciation expense is transferred from unrestricted funds to the depreciation fund. Interest earned on the balance of the fund must also remain in the fund. Such cash may be used for the cost of plant, nuclear decommissioning costs, the costs of contractual commitments, and deferred costs related to such commitments which the Municipal Lighting Board determines are above market value.

NOTE 4 - RATE STABILIZATION FUND:

The rate stabilization fund was created as an aftermath of deregulation. These funds are for unexpected escalation in costs, such as the decommissioning of nuclear power plants before the end of their operating license, unusual price spikes in fuel prices and transmission cost increases. The lighting plant will also use this fund to help them maintain their competitive position when the investor-owned utilities are no longer collecting their stranded costs several years down the line. The rate stabilization fund balance at December 31, 2011 and 2010 was \$2,167,054 and \$1,856,420, respectively.

NOTE 5 - PURCHASED POWER WORKING CAPITAL:

The purchased power working capital are amounts held by power supply agents. Agents are required to hold a set amount of capital from which it may pay our power obligations when due. They replenish the fund as needed from our monthly invoice payments. The income earned allocated to the Lighting Plant will be applied as a credit to monthly power billing. Balances as of December 31, are as follows:

	2011	2010
Watson	\$ 130,916	\$ 261,845
MMWEC	1,505	1,505
ENE	608,785	508,747
Total	\$ 741,206	\$ 772,097

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 6 - UTILITY PLANT ASSETS:

	Balance January 1, 2011	Increases	Decreases	Balance December 31, 2011
Capital assets not being depreciated:				
Land	\$ 17,856	\$ 0	\$ 0	\$ 17,856
Construction in Progress	159,246	0	0	159,246
 Total	 177,102	 0	 0	 177,102
Capital assets being depreciated:				
Transmission Plant	1,540,036	3,686	0	1,543,722
Distribution Plant	39,712,219	585,778	(30,919)	40,267,078
General Plant	4,986,511	154,983	(28,078)	5,113,416
 Total	 46,238,766	 744,447	 (58,997)	 46,924,216
Less accumulated depreciation for:				
Transmission Plant	(1,179,837)	(61,602)	0	(1,241,439)
Distribution Plant	(17,634,369)	(1,588,489)	30,919	(19,191,939)
General Plant	(2,911,186)	(199,459)	10,317	(3,100,328)
 Total accumulated depreciation	 (21,725,392)	 (1,849,550)	 41,236	 (23,533,706)
 Capital assets being depreciated, Net	 23,717,079	 (1,105,103)	 (17,761)	 22,594,215
 Utility Plant Assets, Net	 <u>\$ 24,690,476</u>	 <u>\$ (1,105,103)</u>	 <u>\$ (17,761)</u>	 <u>\$ 23,567,612</u>

NOTE 7 - INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT:

	2011	2010
Cost of Capital Assets Acquired	\$ 47,101,318	\$ 46,415,868
Less: Accumulated Depreciation	<u>23,533,706</u>	<u>21,725,392</u>
 Invested in Capital Assets, Net of Related Debt	 <u>\$ 23,567,612</u>	 <u>24,690,476</u>

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 8 - OTHER RECEIVABLES:

Other receivables consist of the following:

	2011	2010
Merchandise and Jobbing	\$ 64,444	\$ 67,893
Disaster Recovery	70,427	0
Total Other Receivables	\$ 134,871	\$ 67,893

NOTE 9 - INVESTMENTS:

The Lighting Plant owns shares of Hydro Quebec Phase II stock. The securities are stated at cost. Fair market value approximates stated value.

Hingham Municipal Lighting Plant invested \$150,000 for a 5% ownership interest in Energy New England, LLC. Energy New England, LLC, is a non public energy and energy services cooperative formed to aggregate the resources and collective buying power of municipal electric systems. Products and services include power supply/power brokering, risk management, all requirements contracts, total system resource management, consolidated wholesale billing, report preparation and filing and energy market services. The investment is stated at cost.

Hingham Municipal Lighting Plant invested \$10,000 for a 50% ownership in South Shore Energy Cooperative, LLC a nonpublic municipal consulting services cooperative . At December 31, 2011 and 2010 the investment was stated at cost.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT INVESTMENTS:

Custodial Credit Risk - Deposits

The HMLP's deposits with the Town Treasurer. Funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC). The amount of insurance coverage for the Department deposits is not determinable because the limits of insurance are computed on a town-wide basis.

Custodial Credit Risk - Investments

Investment custodial risk is the risk that, in the event of a failure by the counterparty, the Department will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Department invests in U.S. Treasury/Agency Securities, Money Market Funds, Mutual Funds and Corporate Bonds. It is not practical to disclose the Department's custodial risk exposure at December 31, 2011. The investments are protected in accordance with the FDIC and DIF.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT INVESTMENTS (Continued):

	Ratings as of <u>Year End</u>	2011 Fair <u>Value</u>	2011 Under 1 <u>Year</u>	2011 1-5 Years	2011 Over 5 Years	2010 Fair Value
<u>Term Securities</u>						
U.S. Treasury/Agency Securities	AAA+	\$ 413,960	\$ 40,483	\$ 318,665	\$ 54,812	\$ 0
Corporate Bonds	AAA	31,762	0	31,762	0	0
Corporate Bonds	A	77,092	0	45,619	31,473	0
Corporate Bonds	BAA	<u>30,085</u>	<u>0</u>	<u>30,085</u>	<u>0</u>	<u>0</u>
Total Term Securities		552,899	<u>\$ 40,483</u>	<u>\$ 426,131</u>	<u>\$ 86,285</u>	0
<u>Other Securities</u>						
Equity Securities		214,484				0
Equity Mutual Funds		225,547				0
Fixed Income Mutual Funds		432,660				0
Money Market Mutual Funds		<u>33,293</u>				<u>1,475,161</u>
Total Investments		<u>\$ 1,458,883</u>				<u>\$ 1,475,161</u>

Gain (Loss) on Investments

	<u>2011</u>	<u>2010</u>
Realized Gain (Loss) on Investments	\$ 2,052	\$ 0
Unrealized Gain (Loss) on Investments	<u>(36,981)</u>	<u>0</u>
Gain (Loss) on Investments	<u>\$ (34,929)</u>	<u>\$ 0</u>

NOTE 11 - CUSTOMER ADVANCES FOR CONSTRUCTION:

There is a project under construction in Hingham. The Lighting Plant has received \$1,991,931 from a customer for the renovation to the shipyards. As of December 31, 2011 the Lighting Plant has incurred costs of \$1,597,243.

There are smaller projects of which the Lighting Plant has received \$225,587 from their customers. As of December 31, 2011, the Lighting Plant has incurred costs of \$109,856 related to these projects.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 12 - CONCENTRATION OF CREDIT RISK:

The Hingham Municipal Lighting Plant's deposits with the Town Treasurer are commingled and invested with deposits from other Town funds. Accordingly, it is not practical to disclose the related bank balance and credit risk of such cash deposits for the Lighting Plant. Funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC). The amount of insurance coverage for Lighting Plant deposits is not determinable because the limits of insurance are computed on a town-wide basis.

NOTE 13 - UNBILLED REVENUE:

No recognition is given to the amount of sales to customers which are unbilled at the end of the accounting period.

NOTE 14 - RELATED PARTY:

The Lighting Plant provides electrical service to the Town for all schools, municipal buildings and street lighting at average rates per kilowatt-hour, which approximate those billed to other customers. Revenues from billings to the Town were approximately \$1,344,689 in 2011 and \$1,296,970 in 2010. Included in the accompanying statements of net assets as of December 31, 2011 and 2010 is \$115,895 and \$95,890, respectively, of amounts due from the Town.

The Town provides to the Lighting Plant, police detail, various insurance and other expenses, which amounted to approximately \$961,883 in 2011 and \$906,402 in 2010.

In 2011 and 2010, the Lighting Plant made payments in lieu of property taxes to the Town in the amount of \$558,453 and \$536,557, respectively. Included in the payments for 2011 and 2010 is \$48,676 and \$55,594 for street lighting not billed to the town.

In addition, the Lighting Plant owes the Town \$2,293,406 and \$1,941,559 as of December 31, 2011 and 2010, respectively.

NOTE 15 - PENSION PLAN:

The Lighting Plant is a member of the contributory retirement system administered by the Town of Hingham Retirement Board, which, in turn is a member of the Massachusetts Contributory Retirement System, which is governed by M.G.L. c.32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The plan is a contributory defined benefit plan for all county employees and employees of participating towns and districts except those employees who are covered by the teacher's retirement board.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 15 - PENSION PLAN (Continued):

Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

A \$30,000 salary cap, upon which members' benefits were calculated, was removed by the Retirement Board effective January 1, 1991. Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total contributions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired after 1978 contribute an additional 2% of annual pay above \$30,000. These contributions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employees' Retirement Administration's Commission (PERAC's) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including: whether or not the disability is work related, the member's age, years of credible service, level of compensation, veterans' status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total contributions.

In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those contributions.

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

The Town of Hingham is assessed annually for its share for the current year pension payments which includes the retired employees of the Town of Hingham Municipal Lighting Plant. The Plant then reimburses the Town for the Plant's share of this assessment.

The amount of pension expense charged to operations for years ended December 31, 2011, 2010 and 2009, was approximately \$253,663, \$245,259 and \$186,355, respectively.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 15 - PENSION PLAN (Continued):

The plan's separately issued financial statements can be obtained by contacting the Town of Hingham Retirement Board at 210 Central Street, Hingham, MA 02043.

NOTE 16 - MMWEC PARTICIPATION:

The Town of Hingham, acting through its Lighting Plant, is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its *pro rata* share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund.

In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

Hingham Municipal Lighting Plant has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Lighting Plant is required to make certain payments to MMWEC payable solely from Lighting Plant revenues. Under the PSAs, each Participant is unconditionally obligated to make payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

NOTE 17 - LEASES:

The Lighting Plant has an operating lease agreement to lease antenna space. This lease expires in 2012 and has one sixty-month renewal option. Rent expense related to this lease was approximately \$13,788 and \$5,548 for the years ended December 31, 2011 and 2010, respectively.

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011 AND 2010

NOTE 17 - LEASES (Continued):

Beginning January 1, 2010, the Lighting Plant entered into an operating lease agreement to lease office space. This lease expires in 2012 and has two one year renewal options. Rent expense related to this lease was approximately \$122,645 and \$102,000 for the years ended December 31, 2011 and 2010, respectively.

		<u>Annual Cost</u>
December 31, 2012	\$	107,548

NOTE 18 - RISK MANAGEMENT:

Self Insurance Trust

Hingham Municipal Lighting Plant participates in Mass Municipal Self Insurance Trust (the Trust) with 17 other municipal light departments for the purpose of sharing general liability risks. Through the Trust, Hingham Municipal Lighting Plant is insured for \$500,000 per occurrence, with a \$50,000 deductible. Each participating light department contributes to the Trust based on its share of the group's total kilowatt-hour sales. Payments for claims under the deductible limit are funded by Trust assets, or, if required, additional contributions from the participants.

The Town is also self-insured for those employees electing indemnity plans. The Town also provides preferred provider health plans, which are premium-based health plans, for the employees not electing indemnity plans.

The Town is self-insured for other general liability; however Chapter 258 of the Massachusetts General Laws limits the liability to a maximum of \$100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain and breach of contract.

Generally accepted accounting principles requires that liabilities for self insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At December 31, 2011 and 2010, the Lighting Plant considers it's pro rata share of these losses to be immaterial to its financial statements.

NOTE 19 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Hingham Municipal Lighting Plant (HMLP) has implemented GASB Statement 45, *Accounting for Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. As allowed by GASB 45, the Lighting Plant has established the net OPEB obligation at zero at the beginning of the transition year and has applied the measurement recognition requirements of GASB 45 on a prospective basis.

Plan Description. HMLP participates in the town sponsored single employer defined benefit health plan. HMLP provides certain health care and life insurance benefits for eligible retirees and their spouses. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 19 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

As of June 30, 2009 HMLP's membership consisted of the following:

Current retirees, beneficiaries	29	
Current active members	29	
Total	58	

Funding Policy. HMLP recognizes the cost of providing these benefits, in accordance with government accounting standards, on a pay-as-you-go basis, by expensing the annual insurance premiums charged HMLP by the Town, which aggregated approximately \$293,104 for the year ended December 31, 2011. The cost of providing these benefits for retirees is about 50% of the premium. Retired plan members currently receiving benefits are required to contribute 50% of the cost of benefits provided depending on the plan they choose. HMLP contributes \$3.07 monthly for a life insurance benefit, if elected.

Funded Status and Funding Progress. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Annual OPEB Costs. HMLP'S annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following shows the components of the Lighting Plant's annual OPEB cost for the year ending December 31, 2011, the amount actually contributed to the plan, and changes in the Lighting Plant's net OPEB obligation based on an actuarial valuation as of June 30, 2009:

	2011	2010
Normal cost with interest	\$ 91,737	\$ 87,369
Amortization of unfunded actuarial accrued liability with interest	38,284	36,635
Annual required contribution	130,021	124,004
Contributions made	(126,758)	(104,945)
Increase in net OPEB obligation	3,263	19,059
Net OPEB obligation - Beginning of year	138,400	119,341
Net OPEB obligation - End of year	\$ 141,663	\$ 138,400

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011 AND 2010

NOTE 19 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

The Lighting Plant's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Year ended</u>	<u>Annual OPEB costs</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2009	\$ 112,794	78%	\$ 119,341
2010	\$ 124,004	85%	\$ 138,400
2011	\$ 130,021	97%	\$ 141,663

Legislature was passed allowing Municipal Light Departments to create a trust, in order to fund their OPEB obligation.

The funded status is as follows:

Actuarial accrued liability (AAL)	\$ 2,116,139
Value of plan assets	<u>1,458,883</u>
Unfunded actuarial accrued liability	\$ 657,256
Funded ratio (actuarial value of plan assets/AAL)	69%
Covered payroll (active plan members)	\$ 2,389,952
UAAL as a percentage of covered payroll	27%

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Lighting Plant and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of June 30, 2009, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included an 8.0% investment rate of return and an annual healthcare cost trend rate of 8.5%, initially, reduced by decrements to an ultimate rate of 5% after 9 years. The health care cost trend rate differs between the master medical and other healthcare plans. The Lighting Plant's unfunded actuarial accrued liability is being amortized assuming 4.5% increases on a closed basis. The remaining amortization period at June 30, 2009 was thirty years.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 20 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through May 7, 2012, the date on which the financial statements were available to be issued. Management believes there are no other subsequent events that are required to be disclosed.

NOTE 21 - COMMITMENTS AND CONTINGENCIES:

The Lighting Plant is subject to various legal proceedings covering a range of matters that arise in the ordinary course of its business activities. No provision for loss on litigation and/or claims has been made. Management and legal counsel do not anticipate that any related settlement would have a material adverse effect on the Lighting Plant's financial position.

Power Purchase Commitments

Hingham Municipal Lighting Plant has entered into various power contracts through Energy New England (ENE), as their acting agent. These power contracts began in 2008 and go through to the year 2015.

Hingham Municipal Lighting Plant has entered into a contract with Braintree Electric Lighting Department as a 10% entitlement owner to the Wattson Power Plant. This purchase power contract is effective from 2009 thru 2029.

The Lighting Plant has entered into a six year contract with Miller Hydro for renewable energy, with an energy price of \$57 per MWH.

The Lighting Plant has entered into a fifteen year contract with Spruce Mountain Wind Farm for renewable energy, with an energy price of \$.099 per Kwh, and with a commitment to purchase 1.5 MW.

The Lighting Plant has entered into a three year contract with Granby Landfill, with an energy price of \$.065 per Kwh.

The Lighting Plant has entered into a life of unit contract with Taunton Municipal Light Department and Braintree Electric Light Departments ownership for these contracts represents 2.7275% and 2.2989%, respectively.

Through membership in MMWEC, the Lighting Plant is contingently liable on various projects in which they participated as described below.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 21 - COMMITMENTS AND CONTINGENCIES (Continued):

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC), and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) (formerly FPL Energy Seabrook LLC), the majority owner and an indirect subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC). The operating license for Seabrook Station extends to March, 2030. NextEra Seabrook has stated its intention to request an extension of the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings.

Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the Light Plant.

Seven municipal light departments that are Participants under PSAs with MMWEC have submitted a demand for arbitration of a dispute relating to charges under the PSAs. MMWEC cannot predict the outcome of the arbitration demand, but in the opinion of MMWEC management, it will not have a material adverse effect on the financial position of MMWEC.

Total capital expenditures for MMWEC's Projects amounted to \$1,581,599,000 of which \$62,326,000 represents the amount associated with the Lighting Plant's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Lighting Plant. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$358,420,000, of which \$13,334,000 is associated with the Lighting Plant's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Lighting Plant. As of December 31, 2011, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$380,165,000, of which \$14,258,000 is anticipated to be billed to the Lighting Plant in the future.

In addition, under the PSAs, the Lighting Plant is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Lighting Plant's total O&M costs including debt service under the PSAs were \$7,137,000 and \$7,318,000 for the years ended December 31, 2011 and 2010, respectively.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 21 - COMMITMENTS AND CONTINGENCIES (Continued):

HMLP's annual energy costs related to its long-term power purchase commitments as of 2011 are approximately as follows:

	<u>MMWEC</u>	<u>ENE</u>	<u>Watson</u>	<u>Total</u>
Years Ending December 31, 2012	\$ 2,861,000	\$ 6,482,826	\$ 1,508,430	\$ 10,852,256
2013	2,743,000	4,546,467	1,504,917	8,794,384
2014	2,568,000	1,703,023	1,504,661	5,775,684
2015	2,421,000	1,300,239	1,504,089	5,225,328
2016	2,198,000	1,036,037	1,503,206	4,737,243
2017-2021	1,467,000	3,057,806	7,503,795	12,028,601
2022-2026	0	2,935,243	7,484,696	10,419,939
2027-2029	<u>0</u>	<u>0</u>	<u>2,586,413</u>	<u>2,586,413</u>
Total	<u>\$ 14,258,000</u>	<u>\$21,061,641</u>	<u>\$ 25,100,207</u>	<u>\$ 60,419,848</u>

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(\$000)

	PERCENTAGE SHARE	TOTAL PROJECT EXPENDITURES TO DATE	PARTICIPANT'S SHARE	DEBT ISSUED & OUTSTANDING 12/31/2011	PARTICIPANT'S SHARE	TOTAL DEBT SERVICE ON BONDS OUTSTANDING	PARTICIPANT'S SHARE
Stony Brook Peaking Project	5.3307	\$ 59,218	\$ 3,157	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	4.3870	167,588	7,352	-	-	-	-
Nuclear Mix No. 1-SBK	3.4281	10,956	376	1,728	59	1,470	50
Nuclear Mix No. 1-MLS	3.4281	121,046	4,150	19,097	655	16,240	557
Nuclear Project No. 3-MLS	1.4311	147,417	2,110	68,710	983	72,021	1,031
Nuclear Project No. 4-SBK	3.4180	336,269	11,494	72,850	2,490	76,631	2,619
Nuclear Project No. 5-SBK	1.6644	91,427	1,522	21,370	356	22,559	375
Wyman Project	-	8,609	-	-	-	-	-
Project No. 6-SBK	5.0331	639,069	32,165	174,665	8,791	191,244	9,626
TOTAL		\$ 1,581,599	\$ 62,326	\$ 358,420	\$ 13,334	\$ 380,165	\$ 14,258

	PERCENTAGE SHARE	OPERATION & MAINTENANCE 12/31/2010	PARTICIPANT'S SHARE	OPERATION & MAINTENANCE 12/31/2011	PARTICIPANT'S SHARE
Stony Brook Peaking Project	5.3307	\$ 4,951	\$ 264	\$ 4,306	\$ 230
Stony Brook Intermediate Project	4.3870	26,601	1,167	25,624	1,124
Nuclear Mix No. 1-SBK	3.4281	1,965	67	1,239	42
Nuclear Mix No. 1-MLS	3.4281	16,571	568	17,540	601
Nuclear Project No. 3-MLS	1.4311	28,451	407	29,304	419
Nuclear Project No. 4-SBK	3.4180	39,545	1,352	38,376	1,312
Nuclear Project No. 5-SBK	1.6644	10,783	179	10,428	174
Wyman Project	-	1,556	-	1,751	-
Project No. 6-SBK	5.0331	65,838	3,314	64,280	3,235
TOTAL		\$ 196,261	\$ 7,318	\$ 192,848	\$ 7,137

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(\$000)

	PERCENTAGE SHARE	2012 ANNUAL COST	PARTICIPANT'S SHARE	2013 ANNUAL COST	PARTICIPANT'S SHARE	2014 ANNUAL COST	PARTICIPANT'S SHARE
Stony Brook Peaking Project	5.3307	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	4.3870	-	-	-	-	-	-
Nuclear Mix No. 1-SBK	3.4281	869	30	616	21	215	7
Nuclear Mix No. 1-MLS	3.4281	8,183	281	5,804	199	2,023	69
Nuclear Project No. 3-MLS	1.4311	14,993	215	14,307	205	14,063	201
Nuclear Project No. 4-SBK	3.4180	16,216	554	16,200	554	15,014	513
Nuclear Project No. 5-SBK	1.6644	4,673	78	4,546	76	4,293	71
Wyman Project	-	-	-	-	-	-	-
Project No. 6-SBK	5.0331	33,834	1,703	33,529	1,688	33,910	1,707
TOTAL		<u>\$ 78,768</u>	<u>\$ 2,861</u>	<u>\$ 75,002</u>	<u>\$ 2,743</u>	<u>\$ 69,518</u>	<u>\$ 2,568</u>

	PERCENTAGE SHARE	2015 ANNUAL COST	PARTICIPANT'S SHARE	2016 ANNUAL COST	PARTICIPANT'S SHARE	2017 to 2020 ANNUAL COST	PARTICIPANT'S SHARE
Stony Brook Peaking Project	5.3307	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	4.3870	-	-	-	-	-	-
Nuclear Mix No. 1-SBK	3.4281	-	-	-	-	-	-
Nuclear Mix No. 1-MLS	3.4281	-	-	-	-	-	-
Nuclear Project No. 3-MLS	1.4311	14,311	205	9,182	131	5,165	74
Nuclear Project No. 4-SBK	3.4180	13,672	467	11,128	380	4,401	151
Nuclear Project No. 5-SBK	1.6644	4,000	67	3,370	56	1,677	27
Wyman Project	-	-	-	-	-	-	-
Project No. 6-SBK	5.0331	33,412	1,682	32,411	1,631	24,148	1,215
TOTAL		<u>\$ 65,395</u>	<u>\$ 2,421</u>	<u>\$ 56,091</u>	<u>\$ 2,198</u>	<u>\$ 35,391</u>	<u>\$ 1,467</u>

Goulet, Salvidio & Associates, P.C.
Certified Public Accountants

James F. Goulet, CPA, MST
Catherine A. Kuzmeskus, CPA

Michael A. Salvidio, CPA
James R. Dube, CPA

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

The Board of Commissioners
Hingham Municipal Lighting Plant
350 Lincoln Street – Suite 1101
Hingham, MA 02043

Our audits were made for the purpose of forming an opinion on the financial statements of Hingham Municipal Lighting Plant for the years ended December 31, 2011 and 2010, which was presented in the preceding section of this report. The supplemental information presented on pages 31 and 32 is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
May 7, 2012

HINGHAM MUNICIPAL LIGHTING PLANT
SCHEDULES OF SALES OF ELECTRICITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

OPERATING FUND

	2011	2010
SALE OF ELECTRICITY:		
Residential	\$ 13,506,622	\$ 13,492,076
Commercial and Industrial	14,994,606	14,618,482
Municipal	1,344,689	1,296,970
Security Lighting	59,203	58,043
 TOTAL SALES OF ELECTRICITY	 \$ 29,905,120	 \$ 29,465,571

See Independent Auditors' Report on Supplemental Information

HINGHAM MUNICIPAL LIGHTING PLANT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

OPERATING FUND

	2011	2010
POWER PRODUCTION EXPENSES:		
Purchased Power	\$ 20,568,847	\$ 21,806,853
Other Purchased Power	1,012,400	1,033,605
Total Power Production Expenses	21,581,247	22,840,458
DISTRIBUTION EXPENSES:		
Miscellaneous Distribution Expenses	579,525	634,424
MAINTENANCE EXPENSES:		
Maintenance of Lines	843,718	899,966
Maintenance - Other	18,453	16,095
Total Maintenance Expenses	862,171	916,061
CUSTOMER ACCOUNTS:		
Customer Accounting and Collection Expense	648,008	643,431
Uncollectible Accounts	194	5,464
Meter Reading Expense	151,053	144,192
Total Customer Accounts	799,255	793,087
GENERAL AND ADMINISTRATIVE EXPENSES:		
Administrative and General Salaries	238,199	282,434
Office Supplies and Expenses	25,925	37,917
Outside Services Employed	284,082	190,650
Property Insurance	132,405	141,831
Injuries and Damages	17,944	4,636
Employees' Pension and Benefits	944,777	900,729
Dues, Meetings and Other General Expenses	106,734	113,780
Transportation	112,949	76,057
Rent	122,645	102,991
Maintenance of General Plant	27,728	16,441
Total General and Administrative Expenses	2,013,388	1,867,466
TOTAL OPERATIONS AND MAINTENANCE EXPENSES	\$ 25,835,586	\$ 27,051,496

See Independent Auditors' Report on Supplemental Information