

HINGHAM MUNICIPAL LIGHTING PLANT
Financial Statements
December 31, 2012 and 2011

HINGHAM MUNICIPAL LIGHTING PLANT
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DECEMBER 31, 2012 AND 2011

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Goulet, Salvidio & Associates, P.C.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hingham Municipal Lighting Plant of Hingham, Massachusetts, as of and for the years ended December 31, 2012 and 2011, 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 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. Those standards require that we plan and perform the audits 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 opinion.

Opinion

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, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

The Management's Discussion and Analysis on pages three through seven is not a required part of the basic financial statements but is supplementary information. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 evidence sufficient to express an opinion or provide any assurance.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts

June 6, 2013

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, 2012 and 2011. 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 position (2) the statements of revenues, expenses and changes in net position (3) the statements of cash flows and (4) notes to the financial statements.

The Statements of Net Position are designed to indicate our financial position as of a specific point in time. At December 31, 2012, it shows our net worth has increased 6.1% over the year ended December 31, 2011.

The Statements of Revenues, Expenses and Changes in Net Position, 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, 2012 and 2011 was \$2,254,198 and \$2,421,745, 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 Position – Operating Fund

	2012	2011
Current Assets	\$ 5,226,212	\$ 5,705,733
Noncurrent Assets	35,580,270	34,541,647
Total Assets	\$ 40,806,482	\$ 40,247,380
Current Liabilities	\$ 4,440,536	\$ 6,342,996
Noncurrent Liabilities	4,490,818	3,867,376
Total Liabilities	8,931,354	10,210,372
Net Position:		
Net Investment in Capital Assets	23,001,099	23,567,612
Unrestricted	8,874,029	6,469,396
Total Net Position	31,875,128	30,037,008
Total Liabilities and Net Position	\$ 40,806,482	\$ 40,247,380

Summary of Changes in Net Position – Operating Fund

	2012	2011
Operating Revenues	\$ 28,615,026	\$ 30,072,813
Operating Expenses	26,388,457	27,685,136
Operating Income	2,226,569	2,387,677
Nonoperating Revenues	27,629	34,068
Income Before Contributions and Transfers	2,254,198	2,421,745
Transfers In – Restricted for Capital Projects	117,418	419,315
Transfers Out – Payments in Lieu of Taxes	(533,496)	(558,453)
Beginning Net Position	30,037,008	27,754,401
Ending Net Position	\$ 31,875,128	\$ 30,037,008

Financial Highlights:

Operating revenues decreased \$1,457,787 in 2012 or approximately 4.9%. This decrease in revenue can be attributed to the decrease in the PCA charge.

Operating expenses decreased \$1,296,679 in 2012, or approximately 4.7 %. This decrease in expenses can be attributed to stable power cost rates.

Over the past several years the Lighting Plant has experienced significant load growth in its system, even in a down economy. There are not any large development projects on the immediate horizon so we believe an increase in sales will be more weather dependent than based on appreciable new load. We expect the Hingham Shipyard project to continue to add stores and tenants to their commercial area and additional residential housing will be completed in the near future. We do not expect this growth to continue at the same rate as it has in the past. The Lighting Plant system is well situated for the growth we have seen by having developed 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 Hingham Municipal Lighting Plant experienced, on July 17, 2012, its annual peak usage at 51.7 MW. This represents a decrease in peak load of 9% from 2011 and 4% from 2010. During 2012 the kilowatt-hour usage in the system basically experienced an increase of 1%. The Lighting Plant estimates a slight increase in kilowatt-hour usage for 2013.

Financial Highlights (Continued):

The Lighting Plant has a 5% ownership 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 Lighting Plant entered into a cooperative with Braintree Electric Light Department, both with 50% ownership in the South Shore Energy Cooperative, to allow the Lighting Plant to provide consulting services on power projects to other companies.

During 2012, the Lighting Plant allowed customers to pay their bills online or with a credit card which should improve the customer service experience.

In October Tropical Storm Sandy hit Hingham. Days after Sandy came through another wind storm with gusts at least as high as Sandy rolled through Hingham. Sometime after these storms subsided Plymouth County was declared as Federal disaster area. As the Lighting 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 received approximately \$36,000.

The Lighting Plant is installing a SCADA system which will allow us to remotely monitor the load on our circuits at any given moment. This will be a valuable tool in managing our electrical system in times of weather and other events which stress the system by giving us the ability to move load from one circuit to another as conditions dictate.

HMLP is in the process of acquiring land from the Town upon which we will build a new service center. This new facility will allow our clerical and administrative employees to be under the same roof as our field employees. This will be a plus for the customer as it will allow them to conduct all of their on-site HMLP business in one location, will promote better communication between all our employees and customers, should provide opportunities for synergies between these groups and allow for better oversight.

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 \$284 million of which Hingham Municipal Lighting Plant's share is just over \$10.5 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 \$566,513 from 2011. This decrease is the difference between the current year additions of \$1,469,700 and the annual depreciation write off of \$1,876,967, plus the loss on the disposal of an asset for \$159,246. The Light Plant continues to add infrastructure to its system to provide service to the new growth in Town.

The Lighting Plant completed 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 were 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.

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.

OPEB Trust Fund

The Other Postemployment Benefits Trust 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 ninety 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 Lighting Plant's Investment Policy Statement.

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.

Significant Balances and Transactions (Continued):

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 POSITION
DECEMBER 31, 2012 AND 2011

OPERATING FUND

ASSETS

	2012	2011
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 800	\$ 500
Accounts Receivable, Net	2,394,533	2,591,785
Accounts Receivable, Related Party	80,619	92,524
Other Receivable	237,802	134,871
Materials and Supplies	925,952	1,310,863
Prepaid Power Contracts	787,791	833,984
Purchased Power Working Capital	798,715	741,206
TOTAL CURRENT ASSETS	5,226,212	5,705,733
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	8,175,888	6,843,356
Customer Deposits	1,491,069	1,521,039
Insurance Reserve Fund	253,687	253,687
Rate Stabilization Fund	2,476,562	2,167,054
Investments	181,965	188,899
Utility Plant Assets, Net	23,001,099	23,567,612
TOTAL NONCURRENT ASSETS	35,580,270	34,541,647
TOTAL ASSETS	\$ 40,806,482	\$ 40,247,380

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011

OPERATING FUND

LIABILITIES

	2012	2011
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,232,540	\$ 1,158,866
Accounts Payable - Related Party	827,175	2,803,183
Accrued Expenses	96,066	107,294
Customer Advances for Construction	2,235,326	2,217,518
Sales Tax Payable	49,429	56,135
TOTAL CURRENT LIABILITIES	4,440,536	6,342,996
NONCURRENT LIABILITIES:		
Customer Deposits	1,492,734	1,558,659
Net Other Postemployment Benefits Obligation	121,522	141,663
Rate Stabilization Reserve	2,876,562	2,167,054
TOTAL NONCURRENT LIABILITIES	4,490,818	3,867,376
TOTAL LIABILITIES	8,931,354	10,210,372
NET POSITION		
Net Investment in Capital Assets	23,001,099	23,567,612
Unrestricted	8,874,029	6,469,396
TOTAL NET POSITION	31,875,128	30,037,008
TOTAL LIABILITIES AND NET POSITION	\$ 40,806,482	\$ 40,247,380

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	2012	2011
OPERATING REVENUES:		
Sales of Electricity	\$ 28,469,206	\$ 29,905,120
Other Operating Revenues	145,820	167,693
	28,615,026	30,072,813
TOTAL OPERATING REVENUES		
OPERATING EXPENSES:		
Operations and Maintenance	24,511,490	25,835,586
Depreciation	1,876,967	1,849,550
	26,388,457	27,685,136
TOTAL OPERATING EXPENSES		
OPERATING INCOME	2,226,569	2,387,677
NONOPERATING REVENUES (EXPENSES):		
Investment Income	41,470	49,122
Interest Expense	(1,841)	(2,414)
Disaster Recovery Revenue	36,000	70,427
Disaster Recovery Costs	(48,000)	(83,067)
	27,629	34,068
TOTAL NONOPERATING REVENUES (EXPENSES)		
Income Before Contributions and Transfers	2,254,198	2,421,745
NET POSITION - January 1	30,037,008	27,754,401
Transfers In - Restricted for Capital Projects	117,418	419,315
Transfers Out - Payments in Lieu of Taxes	(533,496)	(558,453)
	117,418	419,315
	(533,496)	(558,453)
NET POSITION - December 31	\$ 31,875,128	\$ 30,037,008

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 28,620,900	\$ 30,336,392
Cash Paid to Suppliers	(20,897,813)	(23,500,939)
Cash Paid to Employees	(2,363,866)	(2,457,161)
Cash Paid for Benefits	(880,699)	(944,777)
Payment in Lieu of Taxes	(493,414)	(509,777)
	<u>3,985,108</u>	<u>2,923,738</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Net Disaster Revenue (Costs)	22,426	(83,067)
Interest Expense	(1,841)	(2,414)
	<u>20,585</u>	<u>(85,481)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Accounts Payable - Related Party	(1,976,008)	380,661
Additions to Plant Assets	(1,310,453)	(726,686)
Customer Advances for Construction	135,226	124,351
	<u>(3,151,235)</u>	<u>(221,674)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Income	41,470	49,122
Rate Stabilization Reserve	709,508	310,634
Proceeds from Disposition of Investments	6,934	(1,281)
	<u>757,912</u>	<u>358,475</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,612,370	2,975,058
CASH AND CASH EQUIVALENTS - Beginning	10,785,636	7,810,578
CASH AND CASH EQUIVALENTS - Ending	\$ 12,398,006	\$ 10,785,636

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

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

	2012	2011
Operating Income	\$ 2,226,569	\$ 2,387,677
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,876,967	1,849,550
Payment in Lieu of Taxes	(493,414)	(509,777)
Non-Cash Payment in Lieu of Taxes	(40,082)	(48,676)
(Increase) Decrease in Assets:		
Accounts Receivable	197,252	(126,250)
Accounts Receivable , Related Party	11,905	3,366
Other Receivables	(137,358)	3,449
Materials and Supplies	384,911	(697,542)
Prepaid Expenses	46,193	31,563
Purchased Power Working Capital	(57,509)	30,891
Increase (Decrease) in Liabilities:		
Accounts Payable	73,674	(373,178)
Accrued Expenses	(11,228)	(19,172)
Sales Tax Payable	(6,706)	5,560
Customer Deposits	(65,925)	383,014
Net Other Postemployment Benefits Obligation	(20,141)	3,263
Net Cash Provided by Operating Activities	\$ 3,985,108	\$ 2,923,738

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

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

	2012	2011
Depreciation Fund	\$ 8,175,888	\$ 6,843,356
Operating Cash	800	500
Customer Deposits	1,491,069	1,521,039
Insurance Reserve Fund	253,687	253,687
Rate Stabilization Fund	2,476,562	2,167,054
	\$ 12,398,006	\$ 10,785,636

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011

OPEB TRUST FUND

ASSETS

ASSETS:	2012	2011
Funds on Deposit with Town Treasurer		
Cash and Cash Equivalents	\$ 1,556,673	\$ 1,458,883

NET POSITION

Restricted for OPEB	\$ 1,556,673	\$ 1,458,883
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HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CHANGES IN NET POSITION
DECEMBER 31, 2012 AND 2011

OPEB TRUST FUND

	2012	2011
ADDITIONS:		
Interest Earned on Invested Funds	\$ 39,538	\$ 23,366
Net Appreciation (Depreciation) in Fair Value of Investments	65,501	(34,929)
Management and Related Fees	(7,249)	(4,715)
Total Additions	97,790	(16,278)
CHANGE IN NET POSITION	97,790	(16,278)
NET POSITION - January 1	1,458,883	1,475,161
NET POSITION - December 31	\$ 1,556,673	\$ 1,458,883

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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 Lighting Plant's financial statements are reported using the flow of 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.

Utility Plant

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 2012 and 2011, 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.

Provision for Payment in Lieu of 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.

Reclassification

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2011 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.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Lighting Plant considers all highly liquid debt instruments purchased with an original 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 2012 and 2011.

Operating Revenue

Operating revenue includes revenues and expenses related to the continuing operations of the Lighting Plant. Principal operating revenues are charges to customers for sales of electricity or services. Operating expenses are the costs of providing electricity and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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.

Unbilled Revenue:

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

NOTE 2 - 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:

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011

NOTE 2 - PURCHASED POWER WORKING CAPITAL (Continued):

	2012	2011
Watson	\$ 188,384	\$ 130,916
MMWEC	1,505	1,505
ENE	608,826	608,785
Total	\$ 798,715	\$ 741,206

NOTE 3 - CONCENTRATION OF CREDIT RISK:

The Town Treasurer is the custodian of the Hingham Municipal Lighting Plant’s cash and investments. The Plant coordinates all investment activity with the Treasurer, who has responsibility for these transactions.

Separate cash and investment pools are maintained for the depreciation fund, customer deposits, insurance reserve fund, rate stabilization fund and other postemployment benefit funds.

Investment policies authorize the investment in obligations of certificates of deposit, money market accounts and bank deposits. Since these investments are held to maturity they are recorded at cost. The treasurer may also invest trust funds in securities which are legal for the investment of funds under the laws of the Commonwealth.

Custodial Credit Risk - Deposits

In the event of bank failure, the Plant’s deposits may not be returned. Hingham Municipal Lighting Plant’s deposits with the Town Treasurer are commingled and invested with deposits from other Town funds. 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 Plant’s 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 Plant will not be able to recover the value of its investments. The Plant invests in U.S. Treasury/Agency Securities, Equity Securities, Mutual Funds and Corporate Bonds. The plant has a custodial credit risk exposure of the amount invested in equity securities. The plant tried to keep this risk at a minimum by only allowing a certain percentage of the total investments to be invested in these securities (20-60% for the OPEB Trust Funds). The investments with Rockland Trust are protected in accordance with the SIPC.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Plant tries to reduce this risk by investing in fixed income investments that mature in less than 5 years.

HINGHAM MUNICIPAL LIGHTING PLANT
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DECEMBER 31, 2012 AND 2011

NOTE 4 - 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. The Insurance Reserve Fund balance at December 31, 2012 and 2011 was \$253,687.

NOTE 5 - 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. The fund is managed by the Town Treasurer and 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.

	Ratings as of Year End	2012 Fair Value	2012 Under 1 Year	2012 1-5 Years	2011 Fair Value
<u>Term Securities</u>					
Certificate of Deposits	N/A	\$ 3,950,000	<u>\$ 1,250,000</u>	<u>\$ 2,700,000</u>	\$ 0
<u>Other Securities</u>					
Century Bank Savings Account		3,175,726			6,843,356
Money Market Mutual Funds		<u>1,050,162</u>			<u>0</u>
Total Investments		<u>\$ 8,175,888</u>			<u>\$ 6,843,356</u>

There are no realized or unrealized gains or losses due to all of the funds either being a cash equivalent or certificate of deposits which are held to maturity and recognized at their cost basis. There are no investments over 5% of the portfolio's value.

NOTE 6 - RATE STABILIZATION FUND:

The rate stabilization fund was created as an aftermath of Massachusetts Electricity Restructuring Act of 1997. 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 rate stabilization fund balance at December 31, 2012 and 2011 was \$2,476,562 and \$2,167,054, respectively.

HINGHAM MUNICIPAL LIGHTING PLANT
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NOTE 7 - OTHER POSTEMPLOYMENT BENEFIT INVESTMENTS

The Other Postemployment Benefit Liability Trust Fund was established by vote of the Board of Commissioners on January 10, 2009. The Board voted to accept the provisions of MGS Chapter 32B, Section 20 which establishes a separate Fund and a funding schedule for the Fund. The schedule and any future updates shall be designed, consistent with standards issued by the Governmental Accounting Standards Board, to reduce the unfunded actuarial liability of health care and postemployment benefits to zero as of an actuarially acceptable period of years and to meet the normal costs of all future benefits for which the government unit is obligated.

	Ratings as of <u>Year End</u>	2012 Fair Value	2012 Under 1 Year	2012 1-5 Years	2011 Fair Value
<u>Term Securities</u>					
U.S. Treasury/Agency Securities	AAA	\$ 369,245	\$ 91,043	\$ 278,202	\$ 413,960
Corporate Bonds	AAA	31,303	0	31,303	31,762
Corporate Bonds	A	143,159	0	143,159	77,092
Corporate Bonds	BAA	<u>62,127</u>	<u>0</u>	<u>62,127</u>	<u>30,085</u>
Total Term Securities		605,834	<u>\$ 91,043</u>	<u>\$ 514,791</u>	552,899
<u>Other Securities</u>					
Equity Securities		229,408			214,484
Equity Mutual Funds		244,238			225,547
Fixed Income Mutual Funds		445,427			432,660
Money Market Mutual Funds		<u>31,766</u>			<u>33,293</u>
Total Investments		<u>\$ 1,556,673</u>			<u>\$ 1,458,883</u>

Gain (Loss) on Investments

	<u>2012</u>	<u>2011</u>
Realized Gain (Loss) on Investments	\$ 7,774	\$ 2,052
Unrealized Gain (Loss) on Investments	<u>57,727</u>	<u>(36,981)</u>
Gain (Loss) on Investments	<u>\$ 65,501</u>	<u>\$ (34,929)</u>

Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Wells Fargo Bond Fund	<u>\$ 95,081</u>	6.1%

HINGHAM MUNICIPAL LIGHTING PLANT
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NOTE 8 - UTILITY PLANT ASSETS:

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012
	<u>2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>2012</u>
Capital assets not being depreciated:				
Land	\$ 17,856	\$ 416,245	\$ 0	\$ 434,101
Construction in Progress	<u>159,246</u>	<u>41,755</u>	<u>159,246</u>	<u>41,755</u>
Total	<u>177,102</u>	<u>458,000</u>	<u>159,246</u>	<u>475,856</u>
Capital assets being depreciated:				
Transmission Plant	1,543,722	0	0	1,543,722
Distribution Plant	40,267,078	823,660	(32,919)	41,057,819
General Plant	<u>5,113,416</u>	<u>188,040</u>	<u>0</u>	<u>5,301,456</u>
Total	<u>46,924,216</u>	<u>1,011,700</u>	<u>(32,919)</u>	<u>47,902,997</u>
Less accumulated depreciation for:				
Transmission Plant	(1,241,439)	(61,749)	0	(1,303,188)
Distribution Plant	(19,191,939)	(1,610,684)	32,919	(20,769,704)
General Plant	<u>(3,100,328)</u>	<u>(204,534)</u>	<u>0</u>	<u>(3,304,862)</u>
Total accumulated depreciation	<u>(23,533,706)</u>	<u>(1,876,967)</u>	<u>32,919</u>	<u>(25,377,754)</u>
Capital assets being depreciated, Net	<u>23,390,510</u>	<u>(865,267)</u>	<u>0</u>	<u>22,525,243</u>
Utility Plant Assets, Net	<u>\$ 23,567,612</u>	<u>\$ (407,267)</u>	<u>\$ 159,246</u>	<u>\$ 23,001,099</u>

NOTE 9 - NET INVESTMENT IN CAPITAL ASSETS:

	<u>2012</u>	<u>2011</u>
Cost of Capital Assets Acquired	\$ 48,378,855	\$ 47,101,318
Less: Accumulated Depreciation	<u>25,377,756</u>	<u>23,533,706</u>
Net Investment in Capital Assets	<u>\$ 23,001,099</u>	<u>23,567,612</u>

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 10 - OTHER RECEIVABLES:

Other receivables consist of the following:

	2012	2011
Merchandise and Jobbing	\$ 41,379	\$ 64,444
Spruce Mountain Wind REC's	159,370	0
Disaster Recovery	36,000	70,427
Interest Receivable	1,053	0
Total Other Receivables	\$ 237,802	\$ 134,871

NOTE 11 - 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 nonpublic 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, 2012 and 2011 the investment was stated at cost.

NOTE 12 - 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 \$1,272,227 in 2012 and \$1,344,689 in 2011. Included in the accompanying statements of net assets as of December 31, 2012 and 2011 is \$80,619 and \$92,524, 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 \$1,182,092 in 2012 and \$1,215,546 in 2011.

In 2012 and 2011, the Lighting Plant made payments in lieu of property taxes to the Town in the amount of \$533,496 and \$558,453, respectively. Included in the payments for 2012 and 2011 is \$40,082 and \$48,676 for street lighting not billed to the town.

As of December 31, 2012 and 2011 the Lighting Plant owes the Town \$827,175 and \$2,803,183, respectively.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 13 - 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, 2012 the Lighting Plant has incurred costs of \$1,628,371.

There are smaller projects of which the Lighting Plant has received \$243,395 from their customers. As of December 31, 2012, the Lighting Plant has incurred costs of \$105,839 related to these projects.

NOTE 14 - 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.

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.

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011

NOTE 14 - PENSION PLAN (Continued):

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, 2012, 2011 and 2010, was approximately \$240,076, \$253,663 and \$245,259, respectively.

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 15 - 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 \$14,424 and \$13,788 for the years ended December 31, 2012 and 2011, respectively.

During 2011, the Lighting Plant extended an operating lease agreement to lease office space. This lease expires in 2014. Rent expense related to this lease was approximately \$118,625 and \$122,645 for the years ended December 31, 2012 and 2011, respectively.

	Annual Cost
December 31, 2013	\$ 90,112
2014	93,450
Total	\$ 183,562

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.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
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NOTE 16 - MMWEC PARTICIPATION (Continued):

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 Department revenues. Under the PSAs, each Participant is unconditionally obligated to make all 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 - 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, 2012 and 2011, the Lighting Plant considers its pro rata share of these losses to be immaterial to its financial statements.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
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NOTE 18 - 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.

As of June 30, 2012 HMLP's membership consisted of the following:

Current retirees, beneficiaries		14
Current active members		27
Total		41

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 \$267,816 and \$293,104 for the years ended December 31, 2012 and 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 \$3.73 monthly for a life insurance benefit, if elected.

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 years ending December 31, 2012 and 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, 2012:

	2012	2011
Normal cost with interest	\$ 43,458	\$ 91,737
Amortization of unfunded actuarial accrued liability with interest	12,551	38,284
Annual required contribution	56,009	130,021
Contributions made	(76,150)	(126,758)
Increase (Decrease) in net OPEB Obligation	(20,141)	3,263
Net OPEB obligation - Beginning of year	141,663	138,400
Net OPEB obligation - End of year	\$ 121,522	\$ 141,663

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
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NOTE 18 - 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>
2010	\$ 124,004	61%	\$ 138,400
2011	\$ 130,021	97%	\$ 141,663
2012	\$ 56,009	136%	\$ 121,522

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

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. The schedule of funding progress, presented as required supplemental information presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The funded status is as follows:

	<u>2012</u>
Actuarial accrued liability (AAL)	\$ 1,732,899
Value of plan assets	<u>1,556,673</u>
Unfunded actuarial accrued liability	\$ 176,226
Funded ratio (actuarial value of plan assets/AAL)	90%
Covered payroll (active plan members)	\$ 2,023,648
UAAL as a percentage of covered payroll	9%

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.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
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NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

As of June 30, 2012, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included an 8.0% investment rate of return and an annual healthcare cost trend rate of 8.0%, initially, reduced by decrements to an ultimate rate of 5% after 6 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 8.0% increases on a closed basis. The remaining amortization period at June 30, 2012 was twenty-eight years.

NOTE 19 - 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 2017.

Hingham Municipal Lighting Plant has entered into a contract with Braintree Electric Lighting Department as a 10% entitlement owner to the Watson Power Plant. This purchase power contract is effective from 2009 thru 2029. Watson Units 1 and 2's entitle us to 11.4 MWs. They are natural gas fired. The average 2012 energy price for Watson was \$0.28430/kWh. HMLP is a 2.3% entitlement owner to Potter 2 CC which is a life of unit contract. Potter 2 CC entitles us to 2.1 MW. It can run on either oil or natural gas.

HMLP is a .5% entitlement owner in the Seabrook nuclear power plant and is entitled to almost 6MW. The average 2012 energy price for Seabrook was \$0.0869/kWh. This contract is a life of unit contract.

HMLP is a .1% entitlement owner in the Millstone nuclear power plant and is entitled to almost 1 ¼ MW. The average 2012 energy price for Millstone was \$0.0746/kWh. This contract is a life of unit contract.

HMLP is a 6% entitlement owner in the Miller Hydro plant for hydroelectric renewable energy and is entitled to almost 1 MW. The Lighting Plant entered into a six year contract with Miller Hydro expiring in 2016. The average 2012 energy price for Miller Hydro was \$0.06350/kWh.

HMLP has entered into a fifteen year contract 2026 with Spruce Mountain Wind Farm for renewable wind energy. We have an ownership entitlement of 9% with a commitment to purchase almost 2 MW. The average 2012 energy price for Spruce Mountain Wind was \$.04589/kWh.

HMLP is a 2¾% entitlement owner in Taunton's Cleary power plant which can burn either oil or natural gas. The contract is for the life of the unit. The average 2012 energy price for Cleary is \$0.62124/kWh.

HINGHAM MUNICIPAL LIGHTING PLANT
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NOTE 19 - COMMITMENTS AND CONTINGENCIES (Continued):

HMLP has entered into a contract running until 2017 with Granby Landfill. We are entitled to .5MWH of renewable energy and have an ownership entitlement of about 17%. The average 2012 energy price for Granby Landfill is \$0.06170.

HMLP is an entitlement owner in the Stony Brook Intermediate (4%) and Peaking (5 1/3%) units. The Intermediate units can run on either gas or oil while the peaking unit runs on oil. Units 1A, B and C of the Intermediate entitle us to a total of 14MW. Units 2A and B of the Peaking units entitle us to a total of 9.2MW. The contracts are for the life of the units. The average 2012 energy price for the Intermediate units is \$0.29267.

HMLP is a 2% entitlement owner in the NYPA Hydro Base and Peaking plants for hydroelectric renewable energy. The contracts are life of unit contracts. The average 2012 energy price for the NYPA units is \$0.02664.

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 company.

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.

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 the 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 submitted an application to extend 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).

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 19 - COMMITMENTS AND CONTINGENCIES (Continued):

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.

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. The arbitration has been stayed by agreement of the parties. 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 \$1,593,344,000, of which \$62,787,000 represents the amount associated with the Lighting Plant's share 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 \$284,005,000, of which \$10,597,000 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, 2012, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$289,247,000, of which \$10,877,000 is anticipated to be billed to the 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 \$6,235,000 and \$7,137,000 for the years ended December 31, 2012 and 2011, respectively.

HMLP's annual energy costs related to its long-term power purchase commitments as of 2012 are approximately as follows:

		<u>MMWEC</u>	<u>ENE</u>	<u>Watson</u>	<u>Total</u>
Years Ending December 31,	2013	\$ 2,572,000	\$ 4,256,923	\$ 1,530,532	\$ 8,359,455
	2014	2,412,000	1,415,203	1,530,276	5,357,479
	2015	2,283,000	1,180,813	1,529,703	4,993,516
	2016	2,139,000	1,036,036	1,528,821	4,703,857
	2017	1,054,000	610,827	1,528,121	3,192,948
	2018-2021	417,000	2,446,979	7,628,131	10,492,110
	2022-2025	0	2,446,723	7,530,484	9,977,207
	2026-2031	<u>0</u>	<u>488,519</u>	<u>1,208,352</u>	<u>1,696,871</u>
	Total	<u>\$ 10,877,000</u>	<u>\$13,882,023</u>	<u>\$ 24,014,420</u>	<u>\$ 48,773,443</u>

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(\$000)

	PERCENTAGE SHARE	TOTAL PROJECT EXPENDITURES TO DATE	PARTICIPANT'S SHARE	DEBT ISSUED & OUTSTANDING 12/31/2012	PARTICIPANT'S SHARE	TOTAL DEBT SERVICE ON BONDS OUTSTANDING	PARTICIPANT'S SHARE
Stony Brook Peaking Project	5.3307	\$ 59,223	\$ 3,157	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	4.3870	167,604	7,353	-	-	-	-
Nuclear Mix No. 1-SBK	3.4281	9,528	327	836	29	603	21
Nuclear Mix No. 1-MLS	3.4281	122,811	4,210	10,774	369	7,773	266
Nuclear Project No. 3-MLS	1.4311	147,782	2,115	55,865	799	56,707	812
Nuclear Project No. 4-SBK	3.4180	340,380	11,634	57,600	1,969	57,773	1,975
Nuclear Project No. 5-SBK	1.6644	92,467	1,539	16,875	281	16,988	283
Wyman Project	-	8,787	-	-	-	-	-
Project No. 6-SBK	5.0331	644,762	32,452	142,055	7,150	149,403	7,520
TOTAL		<u>\$ 1,593,344</u>	<u>\$ 62,787</u>	<u>\$ 284,005</u>	<u>\$ 10,597</u>	<u>\$ 289,247</u>	<u>\$ 10,877</u>

	PERCENTAGE SHARE	OPERATION & MAINTENANCE 12/31/2011	PARTICIPANT'S SHARE	OPERATION & MAINTENANCE 12/31/2012	PARTICIPANT'S SHARE
Stony Brook Peaking Project	5.3307	\$ 4,306	\$ 230	\$ 3,693	\$ 197
Stony Brook Intermediate Project	4.3870	25,624	1,124	18,800	825
Nuclear Mix No. 1-SBK	3.4281	1,559	53	1,129	39
Nuclear Mix No. 1-MLS	3.4281	17,220	590	14,547	499
Nuclear Project No. 3-MLS	1.4311	29,304	419	26,267	376
Nuclear Project No. 4-SBK	3.4180	38,376	1,312	33,870	1,158
Nuclear Project No. 5-SBK	1.6644	10,428	174	9,082	151
Wyman Project	-	1,751	-	1,169	-
Project No. 6-SBK	5.0331	64,280	3,235	59,400	2,990
TOTAL		<u>\$ 192,848</u>	<u>\$ 7,137</u>	<u>\$ 167,957</u>	<u>\$ 6,235</u>

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(\$000)

	PERCENTAGE SHARE	2013 ANNUAL COST	PARTICIPANT'S SHARE	2014 ANNUAL COST	PARTICIPANT'S SHARE	2015 ANNUAL COST	PARTICIPANT'S SHARE
Stony Brook Peaking Project	5.3307	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	4.3870	-	-	-	-	-	-
Nuclear Mix No. 1-SBK	3.4281	589	20	215	7	-	-
Nuclear Mix No. 1-MLS	3.4281	5,549	190	2,023	69	-	-
Nuclear Project No. 3-MLS	1.4311	13,987	200	14,063	201	14,311	205
Nuclear Project No. 4-SBK	3.4180	15,145	518	13,957	477	13,142	449
Nuclear Project No. 5-SBK	1.6644	4,187	70	3,934	65	3,821	64
Wyman Project	-	-	-	-	-	-	-
Project No. 6-SBK	5.0331	31,272	1,574	31,651	1,593	31,087	1,565
TOTAL		<u>\$ 70,729</u>	<u>\$ 2,572</u>	<u>\$ 65,843</u>	<u>\$ 2,412</u>	<u>\$ 62,361</u>	<u>\$ 2,283</u>

	PERCENTAGE SHARE	2016 ANNUAL COST	PARTICIPANT'S SHARE	2017 ANNUAL COST	PARTICIPANT'S SHARE	2018 to 2021 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	9,182	131	3,492	50	1,672	24
Nuclear Project No. 4-SBK	3.4180	11,128	380	4,401	150	0	1
Nuclear Project No. 5-SBK	1.6644	3,370	56	1,559	26	117	4
Wyman Project	-	-	-	-	-	-	-
Project No. 6-SBK	5.0331	31,225	1,572	16,460	828	7,708	388
TOTAL		<u>\$ 54,905</u>	<u>\$ 2,139</u>	<u>\$ 25,912</u>	<u>\$ 1,054</u>	<u>\$ 9,497</u>	<u>\$ 417</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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information presented on pages 32 and 33 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation the financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
June 6, 2013

HINGHAM MUNICIPAL LIGHTING PLANT
 SCHEDULES OF SALES OF ELECTRICITY
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	2012	2011
SALE OF ELECTRICITY:		
Residential	\$ 12,825,187	\$ 13,506,622
Commercial and Industrial	14,313,572	14,994,606
Municipal	1,272,228	1,344,689
Security Lighting	58,219	59,203
 TOTAL SALES OF ELECTRICITY	 \$ 28,469,206	 \$ 29,905,120

HINGHAM MUNICIPAL LIGHTING PLANT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	2012	2011
POWER PRODUCTION EXPENSES:		
Purchased Power	\$ 20,281,411	\$ 21,410,025
Other Purchased Power	275,724	171,222
Total Power Production Expenses	20,557,135	21,581,247
DISTRIBUTION EXPENSES:		
Miscellaneous Distribution Expenses	588,046	579,525
MAINTENANCE EXPENSES:		
Maintenance of Lines	707,613	843,718
Maintenance - Other	11,558	18,453
Total Maintenance Expenses	719,171	862,171
CUSTOMER ACCOUNTS:		
Customer Accounting and Collection Expense	674,029	648,008
Uncollectible Accounts	59,818	194
Meter Reading Expense	164,434	151,053
Total Customer Accounts	898,281	799,255
GENERAL AND ADMINISTRATIVE EXPENSES:		
Administrative and General Salaries	164,573	238,199
Office Supplies and Expenses	15,997	25,925
Outside Services Employed	216,218	284,082
Property Insurance	153,992	150,349
Employees' Pension and Benefits	880,699	944,777
Dues, Meetings and Other General Expenses	78,262	106,734
Transportation	84,730	112,949
Rent	118,625	122,645
Maintenance of General Plant	35,761	27,728
Total General and Administrative Expenses	1,748,857	2,013,388
TOTAL OPERATIONS AND MAINTENANCE EXPENSES	\$ 24,511,490	\$ 25,835,586

See Independent Auditors' Report on Supplemental Information