

HINGHAM MUNICIPAL LIGHTING PLANT
Financial Statements
December 31, 2014 and 2013

HINGHAM MUNICIPAL LIGHTING PLANT
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DECEMBER 31, 2014 AND 2013

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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 as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hingham Municipal Lighting Plant as of December 31, 2014 and 2013, and the respective changes in financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2014 and 2013, and the changes in 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Other Postemployment Benefits information on pages three through seven and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Sales of Electricity and Schedules of Operations and Maintenance Expenses on pages 33 and 34 are presented for purposes of additional analysis and are 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 applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 to the financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
May 21, 2015

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, 2014 and 2013. 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, 2014, it shows our net worth has increased 7.8% over the year ended December 31, 2013.

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, 2014 and 2013 was \$3,214,158 and \$1,701,780, 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

	2014	2013
Current Assets	\$ 6,214,642	\$ 4,928,935
Noncurrent Assets	<u>41,211,903</u>	<u>38,606,462</u>
Total Assets	<u>\$ 47,426,545</u>	<u>\$ 43,535,397</u>
Current Liabilities	\$ 3,899,843	\$ 3,363,308
Noncurrent Liabilities	<u>1,685,564</u>	<u>1,684,154</u>
Total Liabilities	<u>5,585,407</u>	<u>5,047,462</u>
Deferred Inflows of Resources	<u>4,339,349</u>	<u>3,701,087</u>
Net Position:		
Net Investment in Capital Assets	22,406,335	22,964,320
Net Position Restricted for Depreciation	12,651,262	10,129,197
Unrestricted Net Position	<u>2,444,192</u>	<u>1,693,331</u>
Total Net Position	<u>37,501,789</u>	<u>34,786,848</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 47,426,545</u>	<u>\$ 43,535,397</u>

Summary of Changes in Net Position – Operating Fund

	2014	2013
Operating Revenues	\$ 31,468,866	\$ 29,473,287
Operating Expenses	28,317,584	27,823,804
Operating Income	3,151,282	1,649,483
Nonoperating Revenues	62,876	52,297
Income Before Contributions and Transfers	3,214,158	1,701,780
Transfers In – Restricted for Capital Projects	0	1,710,875
Transfers Out – Payments in Lieu of Taxes	(499,217)	(500,935)
Beginning Net Position	34,786,848	31,875,128
Ending Net Position	\$ 37,501,789	\$ 34,786,848

Financial Highlights:

Operating revenues increased \$1,995,579 in 2014 or approximately 6.8%.

Operating expenses increased \$493,780 in 2014, or approximately 1.8 %. This increase in expenses can be attributed to rising power cost charges. We expect our power supply costs to continue to rise. We have taken steps which should offset this increase.

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 2, 2014, its annual peak usage at 50.5 MW. This represents a decrease in peak load of 10.3% from 2013 and is approximately 12.5% less than our all-time peak which occurred in 2011. During 2014 the kilowatt-hour usage in the system experienced a decrease of 1%. The Lighting Plant estimates kilowatt-hour usage to be flat for 2014.

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.

The number of customers who pay their bills online or with a credit card continues to rise.

The weather in 2014 was generally colder than what we normally experience which is reflected in a decrease in total and peak sales. There were not any record setting single snowstorms and total accumulation was typical but the winter months were very cold resulting in record setting high power costs over the winter months. The summer was cooler than normal.

HMLP acquired land from the Town upon which we are building 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. In 2014 permits were secured and a general contractor and his sub-contractors were selected.

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 \$167 million of which Hingham Municipal Lighting Plant's share is just over \$6.4 million. The interest has been, and will continue to be paid with revenues received from the sales of electricity.

Utility Plant

Net utility plant decreased by \$557,985 from 2013. This decrease is the difference between the current year additions of \$1,914,015 and the annual depreciation write off of \$2,472,000. The Light Plant continues to add infrastructure to its system to provide service to the new growth in Town.

Debt Administration and Utility Plant (Continued):

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.

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. A further benefit to this mapping will be achieved when the online outage management system we purchased in 2013 is fully operational. This system will help us better track outages and identify the likely source of the trouble.

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. We increased our contributions to this fund to better position us for any increases.

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, 2014 AND 2013

OPERATING FUND

ASSETS

	2014	2013
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 856,331	\$ 192,383
Accounts Receivable, Net	2,381,881	2,177,685
Accounts Receivable, Related Party	113,603	76,463
Other Receivable	174,648	402,103
Materials and Supplies	774,561	802,962
Prepaid Power Contracts	873,829	180,926
Purchased Power Working Capital	1,039,789	1,096,413
TOTAL CURRENT ASSETS	6,214,642	4,928,935
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	12,651,262	10,129,197
Customer Deposits	1,625,389	1,595,453
Insurance Reserve Fund	253,687	253,687
Rate Stabilization Fund	4,098,355	3,486,930
Investments	176,875	176,875
Utility Plant Assets, Net	22,406,335	22,964,320
TOTAL NONCURRENT ASSETS	41,211,903	38,606,462
TOTAL ASSETS	\$ 47,426,545	\$ 43,535,397

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

OPERATING FUND

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2014	2013
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,935,280	\$ 1,568,058
Accounts Payable - Related Party	791,757	747,888
Accrued Expenses	100,729	172,328
Customer Advances for Construction	1,021,313	825,793
Sales Tax Payable	50,764	49,241
TOTAL CURRENT LIABILITIES	3,899,843	3,363,308
NONCURRENT LIABILITIES:		
Customer Deposits	1,619,411	1,587,578
Net Other Postemployment Benefits Obligation	66,153	96,576
TOTAL NONCURRENT LIABILITIES	1,685,564	1,684,154
TOTAL LIABILITIES	5,585,407	5,047,462
DEFERRED INFLOWS OF RESOURCES:		
Contribution in Aid of Construction	240,994	214,157
Rate Stabilization Reserve	4,098,355	3,486,930
TOTAL DEFERRED INFLOWS OF RESOURCES	4,339,349	3,701,087
NET POSITION:		
Net Investment in Capital Assets	22,406,335	22,964,320
Net Position Restricted for Depreciation	12,651,262	10,129,197
Unrestricted Net Position	2,444,192	1,693,331
TOTAL NET POSITION	37,501,789	34,786,848
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 47,426,545	\$ 43,535,397

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, 2014 AND 2013

OPERATING FUND

	2014	2013
OPERATING REVENUES:		
Sales of Electricity	\$ 31,288,843	\$ 29,127,010
Other Operating Revenues	180,023	346,277
TOTAL OPERATING REVENUES	31,468,866	29,473,287
OPERATING EXPENSES:		
Operations and Maintenance	25,856,139	25,907,684
Depreciation	2,461,445	1,916,120
TOTAL OPERATING EXPENSES	28,317,584	27,823,804
OPERATING INCOME	3,151,282	1,649,483
NONOPERATING REVENUES (EXPENSES):		
Investment Income	64,281	54,739
Interest Expense	(1,405)	(2,442)
TOTAL NONOPERATING REVENUES (EXPENSES)	62,876	52,297
Income Before Contributions and Transfers	3,214,158	1,701,780
NET POSITION - JANUARY 1	34,786,848	31,875,128
Transfers In - Capital Projects	0	1,710,875
Transfers Out - Payments in Lieu of Taxes	(499,217)	(500,935)
NET POSITION - DECEMBER 31	\$ 37,501,789	\$ 34,786,848

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

OPERATING FUND

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 31,682,338	\$ 29,926,176
Cash Paid to Suppliers	(21,838,943)	(21,209,389)
Cash Paid to Employees	(2,701,262)	(2,561,240)
Cash Paid for Benefits	(1,001,795)	(787,171)
Payment in Lieu of Taxes	(499,217)	(500,935)
	5,641,121	4,867,441
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest Expense	(1,405)	(2,442)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net Investment Transactions in the Depreciation Fund	(2,472,000)	(1,916,112)
Additions to Plant Assets	(1,914,015)	(1,879,341)
Contribution in Aid of Construction	37,392	214,157
	(4,348,623)	(3,581,296)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Income	2,791	7,174
Net Transfer to Rate Stabilization Fund	(600,000)	(1,000,000)
Proceeds from Disposition of Investments	0	5,090
	(597,209)	(987,736)
NET INCREASE IN CASH AND CASH EQUIVALENTS	693,884	295,967
CASH AND CASH EQUIVALENTS - JANUARY 1	2,041,523	1,745,556
CASH AND CASH EQUIVALENTS - DECEMBER 31	\$ 2,735,407	\$ 2,041,523

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

OPERATING FUND

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

	2014	2013
Operating Income	\$ 3,151,282	\$ 1,649,483
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	2,461,445	1,916,120
Payment in Lieu of Taxes	(499,217)	(500,935)
Rate Stabilization Reserve	611,425	610,368
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Accounts Receivable	(204,196)	216,848
Accounts Receivable, Related Party	(37,140)	4,156
Other Receivables	227,455	(164,301)
Materials and Supplies	28,401	122,990
Prepaid Expenses	(692,903)	606,865
Purchased Power Working Capital	56,624	(297,698)
Increase (Decrease) in Liabilities:		
Accounts Payable	367,222	407,746
Accounts Payable - Related Party	43,869	(79,287)
Accrued Expenses	(71,599)	4,034
Sales Tax Payable	1,523	(188)
Customer Deposits	31,833	94,844
Customer Advances for Construction	195,520	301,342
Net Other Postemployment Benefits Obligation	(30,423)	(24,946)
	\$ 5,641,121	\$ 4,867,441

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

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

	2014	2013
Operating Cash	\$ 856,331	\$ 192,383
Customer Deposits	1,625,389	1,595,453
Insurance Reserve Fund	253,687	253,687
	\$ 2,735,407	\$ 2,041,523

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2014 AND 2013

OPEB TRUST FUND

ASSETS

	2014	2013
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Cash and Cash Equivalents	\$ 17,113	\$ 66,180
Investments	1,689,072	1,588,572
	\$ 1,706,185	\$ 1,654,752
NET POSITION		
NET POSITION - Restricted	\$ 1,706,185	\$ 1,654,752

HINGHAM MUNICIPAL LIGHTING PLANT
 STATEMENTS OF CHANGES IN NET POSITION
 DECEMBER 31, 2014 AND 2013

OPEB TRUST FUND

	2014	2013
ADDITIONS:		
Interest Earned on Invested Funds	\$ 43,210	\$ 39,023
Net Appreciation (Depreciation) in Fair Value of Investments	15,999	66,572
Management and Related Fees	(7,776)	(7,516)
Total Additions	51,433	98,079
CHANGE IN NET POSITION	51,433	98,079
NET POSITION - January 1	1,654,752	1,556,673
NET POSITION - December 31	\$ 1,706,185	\$ 1,654,752

See Accompanying Notes to Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

The statutory provision for depreciation of utility plant is computed on the straight-line method at three percent of cost of the Lighting Plant's assets in service at the beginning of the year, exclusive of land and land rights. Therefore, no depreciation is taken in the year of the Lighting Plant's additions. Massachusetts law stipulates that the Lighting Plant may change from the statutory depreciation rate only with the approval of the DPU up to five percent. The Lighting Plant used a rate of five and four percent for 2014 and 2013, respectively. The Lighting Plant charges maintenance and repairs to expense when incurred. Replacement 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 2013 financial statements have been reclassified to conform to the 2014 presentation with no effect on previously reported net income.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

Net Position

The Lighting Plant's net position is categorized as net investments in capital assets, restricted for depreciation and unrestricted.

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.

Contribution in Aid of Construction

Contributions in Aid of Construction represents non-refundable payments received from consumers and developers for extension of electric services for assets owned and maintained by Hingham Municipal Lighting Plant. These amounts are recorded as a deferred inflow of resources net of amortization.

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 both 2014 and 2013.

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.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

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 yet 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 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

GASB Statement 68, *Accounting and Financial Reporting for Pensions*, is required to be implemented for periods beginning after June 15, 2014. The Lighting Plant is currently evaluating the effect this pronouncement will have on the basic financial statements.

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. Accordingly, it is not practical to disclose the related bank balance and credit risk of such cash deposits for Hingham Municipal 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 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.

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2014 AND 2013

NOTE 3 - CONCENTRATION OF CREDIT RISK (Continued):

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.

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, 2014 and 2013 was \$253,687.

NOTE 5 - DEPRECIATION FUND:

Pursuant to provisions of the Commonwealth's General Laws, the Lighting Plant is required to maintain a restricted cash fund to finance utility plant additions. 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.

	<u>Ratings as of Year End</u>	<u>2014 Fair Value</u>	<u>2014 Under 1 Year</u>	<u>2014 1-5 Years</u>	<u>2013 Fair Value</u>
<u>Term Securities</u>					
Certificate of Deposits	N/A	\$ 3,837,000	<u>\$ 2,750,000</u>	<u>\$ 1,087,000</u>	\$ 5,018,000
<u>Other Securities</u>					
Century Bank Savings Account		7,597,189			5,106,237
Massachusetts Municipal Depository Trust		1,200,019			0
Money Market Mutual Funds		<u>17,054</u>			<u>4,960</u>
Total Investments		<u>\$ 12,651,262</u>			<u>\$10,129,197</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.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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, 2014 and 2013 was \$4,098,355 and \$3,486,930, respectively. The balance in the fund is offset by a corresponding deferred inflow of resources for the accumulated provision for rate refund. These funds are commingled and deposited in investment pools. Accordingly it is not practical to disclose the credit risk of such funds.

NOTE 7 - OTHER RECEIVABLES:

Other receivables consist of the following:

	2014	2013
Merchandise and Jobbing	\$ 27,851	\$ 226,662
Spruce Mountain Wind REC's	143,377	171,610
Liens Receivable	0	578
Interest Receivable	3,420	3,253
Total Other Receivables	\$ 174,648	\$ 402,103

NOTE 8 - 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:

	2014	2013
Watson	\$ 179,458	\$ 236,082
MMWEC	1,505	1,505
ENE	858,826	858,826
Total	\$ 1,039,789	\$ 1,096,413

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
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 9 - INVESTMENTS (Continued):

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, 2014 and 2013 the investment was stated at cost.

NOTE 10 - UTILITY PLANT ASSETS:

	Balance January 1, 2014	Increases	Decreases	Balance December 31, 2014
Capital Assets Not Being Depreciated:				
Land	\$ 434,863	\$ 0	\$ 0	\$ 434,863
Construction in Progress	345,279	943,408	0	1,288,687
Total Capital Assets Not Being Depreciated	<u>780,142</u>	<u>943,408</u>	<u>0</u>	<u>1,723,550</u>
Capital Assets Being Depreciated:				
Transmission Plant	1,564,111	19,164	0	1,583,275
Distribution Plant	41,989,284	403,356	0	42,392,640
General Plant	5,888,967	548,087	(80,751)	6,356,303
Total Capital Assets Being Depreciated	<u>49,442,362</u>	<u>970,607</u>	<u>(80,751)</u>	<u>50,332,218</u>
Less Accumulated Depreciation For:				
Transmission Plant	(1,364,937)	(78,205)	0	(1,443,142)
Distribution Plant	(22,376,325)	(2,099,347)	0	(24,475,672)
General Plant	(3,516,922)	(294,448)	80,751	(3,730,619)
Total Accumulated Depreciation	<u>(27,258,184)</u>	<u>(2,472,000)</u>	<u>80,751</u>	<u>(29,649,433)</u>
Capital Assets Being Depreciated, Net	<u>22,184,178</u>	<u>(1,501,393)</u>	<u>0</u>	<u>20,682,785</u>
Utility Plant Assets, Net	<u>\$ 22,964,320</u>	<u>\$ (557,985)</u>	<u>\$ 0</u>	<u>\$ 22,406,335</u>

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 11 - NET INVESTMENT IN CAPITAL ASSETS:

	2014	2013
Cost of Capital Assets Acquired	\$ 52,055,768	\$ 50,222,504
Less: Accumulated Depreciation	29,649,433	27,258,184
Net Investment in Capital Assets	\$ 22,406,335	\$ 22,964,320

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 \$1,422,102 in 2014 and \$1,281,070 in 2013. Included in the accompanying statements of net assets as of December 31, 2014 and 2013 is \$113,603 and \$76,463, respectively, of amounts due from the Town.

The Town provides to the Lighting Plant, police detail, various insurances and other expenses, which amounted to approximately \$1,249,312 in 2014 and \$1,179,882 in 2013. As of December 31, 2014 and 2013 amounts payable to the Town were \$791,757 and \$747,888, respectively.

In 2014 and 2013, the Lighting Plant made payments in lieu of property taxes to the Town in the amount of \$499,217 and \$500,935, respectively.

NOTE 13 - 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).

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 13 - PENSION PLAN (Continued):

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, 2014, 2013 and 2012, was approximately \$267,580, \$246,899 and \$240,076, 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 14 - LEASES:

During 2012, the Lighting Plant extended an operating lease agreement to lease antenna space. This lease expires in 2017 and has one sixty-month renewal option. Rent expense related to this lease was approximately \$15,903 and \$15,146 for the years ended December 31, 2014 and 2013, respectively.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 14 - LEASES (Continued):

During 2013, the Lighting Plant extended an operating lease agreement to lease office space. This lease expires in 2015. Rent expense related to this lease was approximately \$122,335 and \$137,659 for the years ended December 31, 2014 and 2013, respectively.

Future Minimum Lease Payments:

	Annual Cost
December 31, 2015	110,148
2016	17,533
2017	18,410
Total	\$ 146,091

NOTE 15 - 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 the Lighting Plant's 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 16 - OTHER POSTEMPLOYMENT BENEFIT TRUST FUND:

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.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
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NOTE 16 - OTHER POSTEMPLOYMENT BENEFIT TRUST FUND (Continued):

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. The Trust is under custodianship of the treasurer of the Town of Hingham. The balance in the Trust as of December 31, 2014 and 2013 was \$1,706,185 and \$1,654,752, respectively.

	Ratings as of <u>Year End</u>	2014 Fair <u>Value</u>	2014 Under 1 year	2014 1-5 years	2014 6-10 years	2013 Fair <u>Value</u>
<u>Term Securities:</u>						
U.S. Government Securities	Exempt	\$ 420,408	\$ 50,910	\$ 249,807	\$ 119,691	\$ 270,260
Corporate Bonds	AAA	0	0	0	0	15,296
Corporate Bonds	AA+	30,728	0	30,728	0	30,836
Corporate Bonds	AA	31,380	0	31,380	0	30,633
Corporate Bonds	A	72,909	0	72,909	0	104,080
Corporate Bonds	A-	116,386	0	116,386	0	85,973
Corporate Bonds	BBB+	94,010	0	94,010	0	64,034
Corporate Bonds	BBB	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>30,746</u>
Total Term Securities		765,821	<u>\$ 50,910</u>	<u>\$ 595,220</u>	<u>\$ 119,691</u>	631,858
<u>Other Securities</u>						
Equity Securities		231,592				287,156
Equity Mutual Funds		289,495				278,849
Fixed Income Mutual Funds		402,164				390,709
Money Market Mutual Funds		<u>17,113</u>				<u>66,180</u>
Total Investments		<u>\$ 1,706,185</u>				<u>\$ 1,654,752</u>

Gain (Loss) on Investments

	<u>2014</u>	<u>2013</u>
Realized Gain (Loss) on Investments	\$ 41,363	\$ 29,461
Unrealized Gain (Loss) on Investments	<u>(25,364)</u>	<u>37,111</u>
Gain (Loss) on Investments	<u>\$ 15,999</u>	<u>\$ 66,572</u>

There were no investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments during 2014.

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2014 AND 2013

NOTE 17 - RISK MANAGEMENT:

Self-Insurance Trust

The Lighting Plant participates in Massachusetts Municipal Utility Self-Insurance Trust Fund (the Trust) with 17 other municipalities for the purpose of sharing excess liability and officers' liability risks. Through the Trust, general liability coverage provides for \$500,000 per occurrence, with a \$50,000 deductible that would be paid by the Lighting Plant. Environmental insurance coverage provides for \$1,500,000 per occurrence, with a \$100,000 deductible that would be paid by the Lighting Plant. Each participating municipality contributes to the Trust based on its share of the group's total kilowatt-hour sales. Payments for claims over 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, 2014 and 2013, the Lighting Plant considers its pro rata share of these losses to be immaterial to its financial statements.

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, 2014 HMLP's membership consisted of the following:

Current retirees, beneficiaries	15
Current active members	<u>27</u>
 Total	 <u><u>42</u></u>

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

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

HMLP by the Town, which aggregated approximately \$285,895 and \$247,970 for the years ended 2014 and 2013, respectively .

December 31, 2014 and 2013. 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, 2014 and 2013, 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, 2014:

	2014	2013
Normal cost with interest	\$ 44,778	\$ 46,935
Amortization of unfunded actuarial accrued liability with interest	18,744	11,818
Annual required contribution	63,522	58,753
Contributions made	(93,945)	(83,699)
Increase (Decrease) in net OPEB Obligation	(30,423)	(24,946)
Net OPEB obligation - Beginning of year	96,576	121,522
Net OPEB obligation - End of year	\$ 66,153	\$ 96,576

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:

Year ended	Annual OPEB costs	Percentage of OPEB cost contributed	Net OPEB obligation
2012	\$ 56,009	136%	\$ 121,522
2013	\$ 58,753	142%	\$ 96,576
2014	\$ 63,522	148%	\$ 66,153

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

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:

	2014
Actuarial accrued liability (AAL)	\$ 2,048,846
Value of plan assets	(1,706,185)
Unfunded actuarial accrued liability	\$ 342,661
Funded ratio (actuarial value of plan assets/AAL)	83.3%
Covered payroll (active plan members)	\$ 2,701,262
UAAL as a percentage of covered payroll	12.7%

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, 2014, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included an 7.75% investment rate of return and an annual healthcare cost trend rate of 7.0%, 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, 2014 was twenty-seven 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.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 19 - COMMITMENTS AND CONTINGENCIES (Continued):

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 2026.

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 2014 energy price for Watson was \$0.27891/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. The average 2014 energy price for Potter was \$4.21/kWh. Potter's per kWh price was so high because it barely ran in 2014. HMLP only purchased 41k kWh last year. In 2013 we bought 308.7k kWh. The average 2013 energy price for Potter was \$0.51511/kWh. Because the capacity charges for HMLP associated with Potter are the same regardless of how often a plant runs (or not), \$123.8k/annually, the average per kWh gets skewed if there are so few kWh hours to work into the formula. 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 2014 energy price for Seabrook was \$0.07252/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 2014 energy price for Millstone was \$0.08661/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 2014 energy price for Miller Hydro was \$0.05339/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 2014 energy price for Spruce Mountain Wind was \$.03703/kWh.

HMLP was a 2¾% entitlement owner in Taunton's Cleary power plant which can burn either oil or natural gas. The contract was for the life of the unit. Our contract with TMLP allowed us to no longer buy power from their Cleary plant if certain conditions came to fruition. Those things happened and we informed TMLP that effective March 2014 we would no longer buy power from them.

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 2014 energy price for Granby Landfill is \$0.04648/kWh.

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 2014 energy price for the Intermediate units is \$0.18021.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 19 - COMMITMENTS AND CONTINGENCIES (Continued):

Power Purchase Commitments (continued)

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 2014 energy price for the NYPA units is \$0.04521/kWh.

HMLP has contracts with NextEra and Shell Energy North America which allows us to buy energy when various price points come into play. Our per kWh for NextEra was \$.07231 and for Shell was \$.1219.

MMWEC Contingencies and Liabilities

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, 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), the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 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). 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 opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

Total capital expenditures for MMWEC's Projects amounted to \$1,616,889,000, of which \$63,687,000 represents the amount associated with the Lighting Plant's Project Capability 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 \$167,110,000, of which \$6,381,000 is associated with the Lighting Plant's share of Project Capability of the Projects in

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 19 - COMMITMENTS AND CONTINGENCIES (Continued):

MMWEC Contingencies and Liabilities (continued)

which it participates, although such amount is not allocated to the Lighting Plant. As of December 31, 2014, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$152,675,000, of which \$5,892,000 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 \$6,361,000 and \$6,315,000 for the years ended December 31, 2014 and 2013, respectively.

HMLP's annual energy costs related to its long-term power purchase commitments as of December 31, 2014 are approximately as follows:

	<u>MMWEC</u>	<u>ENE</u>	<u>Watson</u>	<u>Total</u>
Years Ending December 31, 2015	2,283,000	5,103,355	1,557,541	8,943,896
2016	2,139,000	3,514,587	1,544,352	7,197,939
2017	1,054,000	2,980,005	1,543,653	5,577,658
2018	226,000	2,501,619	1,542,805	4,270,424
2019	188,000	2,345,429	1,541,522	4,074,951
2020-2024	0	9,672,325	7,597,062	17,269,387
2025-2029	<u>0</u>	<u>2,192,287</u>	<u>5,721,554</u>	<u>7,913,841</u>
Total	<u>\$ 5,890,000</u>	<u>\$ 28,309,607</u>	<u>\$ 21,048,489</u>	<u>\$ 55,248,096</u>

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2014 AND 2013
 (\$000)

	PERCENTAGE SHARE	TOTAL PROJECT EXPENDITURES TO DATE	PARTICIPANT'S SHARE	DEBT ISSUED & OUTSTANDING 12/31/2014	PARTICIPANT'S SHARE	TOTAL DEBT SERVICE ON BONDS OUTSTANDING	PARTICIPANT'S SHARE
Stony Brook Peaking Project	5.3307	\$ 59,275	\$ 3,160	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	4.3870	174,109	7,638	-	-	-	-
Nuclear Mix No. 1-SBK	3.4281	13,389	459	-	-	-	-
Nuclear Mix No. 1-MLS	3.4281	120,498	4,131	-	-	-	-
Nuclear Project No. 3-MLS	1.4311	150,507	2,154	32,660	467	28,657	410
Nuclear Project No. 4-SBK	3.4180	345,196	11,799	32,260	1,103	28,671	980
Nuclear Project No. 5-SBK	1.6644	93,686	1,559	9,865	164	8,867	148
Wyman Project	-	8,797	-	-	-	-	-
Project No. 6-SBK	5.0331	651,432	32,787	92,325	4,647	86,480	4,354
TOTAL		\$ 1,616,889	\$ 63,687	\$ 167,110	\$ 6,381	\$ 152,675	\$ 5,892

	PERCENTAGE SHARE	OPERATION & MAINTENANCE 12/31/2013	PARTICIPANT'S SHARE	OPERATION & MAINTENANCE 12/31/2014	PARTICIPANT'S SHARE
Stony Brook Peaking Project	5.3307	\$ 3,591	\$ 191	\$ 4,648	\$ 248
Stony Brook Intermediate Project	4.3870	21,672	951	32,241	1,414
Nuclear Mix No. 1-SBK	3.4281	1,378	47	971	33
Nuclear Mix No. 1-MLS	3.4281	11,868	407	8,743	300
Nuclear Project No. 3-MLS	1.4311	25,453	364	26,549	380
Nuclear Project No. 4-SBK	3.4180	34,522	1,180	30,617	1,046
Nuclear Project No. 5-SBK	1.6644	9,018	150	8,122	135
Wyman Project	-	1,693	-	3,094	-
Project No. 6-SBK	5.0331	60,105	3,025	55,736	2,805
TOTAL		\$ 169,300	\$ 6,315	\$ 170,721	\$ 6,361

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(\$000)

	PERCENTAGE SHARE	2015 ANNUAL COST	PARTICIPANT'S SHARE	2016 ANNUAL COST	PARTICIPANT'S SHARE	2017 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	3,492	50
Nuclear Project No. 4-SBK	3.4180	13,142	449	11,128	380	4,401	150
Nuclear Project No. 5-SBK	1.6644	3,821	64	3,370	56	1,559	26
Wymann Project	-	-	-	-	-	-	-
Project No. 6-SBK	5.0331	31,087	1,565	31,225	1,572	16,460	828
TOTAL		\$ 62,361	\$ 2,283	\$ 54,905	\$ 2,139	\$ 25,912	\$ 1,054

	PERCENTAGE SHARE	2018 ANNUAL COST	PARTICIPANT'S SHARE	2019 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	1,672	24	-	-
Nuclear Project No. 4-SBK	3.4180	-	-	-	-
Nuclear Project No. 5-SBK	1.6644	117	2	-	-
Wymann Project	-	-	-	-	-
Project No. 6-SBK	5.0331	3,980	200	3,728	188
TOTAL		\$ 5,769	\$ 226	\$ 3,728	\$ 188

HINGHAM MUNICIPAL LIGHTING PLANT
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2014 AND 2013

Schedule of Funding Progress - Other Postemployment Benefits:

Actuarial Valuation Date	For the Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Payroll
1/1/2010	12/31/2009	\$ (1,470,420)	\$ 2,116,139	\$ 645,719	69.49%	\$ 2,271,331	28.43%
1/1/2010	12/31/2010	\$ (1,474,784)	\$ 2,116,139	\$ 641,355	69.69%	\$ 2,389,952	26.84%
1/1/2010	12/31/2011	\$ (1,458,883)	\$ 2,116,139	\$ 657,256	68.94%	\$ 2,389,952	27.50%
6/30/2012	12/31/2012	\$ (1,556,673)	\$ 1,732,899	\$ 176,226	89.83%	\$ 2,023,648	8.71%
6/30/2012	12/31/2013	\$ (1,654,752)	\$ 1,732,899	\$ 78,147	95.49%	\$ 2,561,240	3.05%
6/30/2014	12/31/2014	\$ (1,706,185)	\$ 2,048,846	\$ 342,661	83.28%	\$ 2,701,262	12.69%

Schedule of Actuarial Methods and Assumptions

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

Actuarial Methods

Valuation Date	6/30/2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Assumed to increase annually by 4.0%
Remaining Amortization Period	27 years as of 6/30/14

Actuarial Assumptions

Discount Rate:	7.75% full pre-funding
Health Care Cost Trend Rate	Initially 7%, reduced by decrements of .5% per year; ultimate rate of 5%

See Independent Auditors' Report

HINGHAM MUNICIPAL LIGHTING PLANT
 SCHEDULES OF SALES OF ELECTRICITY
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

OPERATING FUND

	2014	2013
SALES OF ELECTRICITY:		
Residential	\$ 14,247,548	\$ 13,369,665
Commercial and Industrial	15,544,982	14,417,421
Municipal	1,422,102	1,281,070
Security Lighting	74,211	58,854
 TOTAL SALES OF ELECTRICITY	 \$ 31,288,843	 \$ 29,127,010

See Independent Auditors' Report

HINGHAM MUNICIPAL LIGHTING PLANT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

OPERATING FUND

	2014	2013
POWER PRODUCTION EXPENSES:		
Purchased Power	\$ 20,922,031	\$ 21,410,850
Other Purchased Power	629,908	506,919
Total Power Production Expenses	21,551,939	21,917,769
DISTRIBUTION EXPENSES:		
Miscellaneous Distribution Expenses	693,784	671,065
MAINTENANCE EXPENSES:		
Maintenance of Lines	687,921	636,563
Maintenance - Other	20,830	33,305
Total Maintenance Expenses	708,751	669,868
CUSTOMER ACCOUNTS:		
Customer Accounting and Collection Expense	758,588	758,189
Uncollectible Accounts	7,312	10,558
Meter Reading Expense	194,389	180,126
Total Customer Accounts	960,289	948,873
GENERAL AND ADMINISTRATIVE EXPENSES:		
Administrative and General Salaries	170,501	169,764
Office Supplies and Expenses	22,606	20,500
Outside Services Employed	160,935	179,694
Property Insurance	170,614	163,151
Employees' Pension and Benefits	1,001,795	787,171
Dues, Meetings and Other General Expenses	96,511	102,124
Transportation	106,279	69,295
Rent	122,335	137,659
Maintenance of General Plant	89,800	70,751
Total General and Administrative Expenses	1,941,376	1,700,109
TOTAL OPERATIONS AND MAINTENANCE EXPENSES	\$ 25,856,139	\$ 25,907,684

See Independent Auditors' Report