

Holden Municipal Light Department
Financial Statements
December 31, 2017 and 2016

HOLDEN MUNICIPAL LIGHT DEPARTMENT
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DECEMBER 31, 2017 AND 2016

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GOULET, SALVIDIO
& ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Holden Municipal Light Department
Holden, Massachusetts 01520

We have audited the accompanying financial statements of Holden Municipal Light Department, as of and for the years ended December 31, 2017 and 2016, 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.

Auditors' 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 auditors' 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.

Basis for Qualified Opinion

Management has reported its December 31, 2016 portion of the net pension liability (NPL) based on reports provided by the Worcester Regional Retirement System (WRRS) that are not in compliance with GASB standards. Government accounting standards require that the NPL be reported using actuarial data that is no more than 30 months and one day old. The WRRS provided NPL information using data from an actuarial valuation dated January 1, 2014. The amount by which this departure would affect the assets, liabilities, net position, and revenues of the Department has not been determined.

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Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Holden Municipal Light Department and do not purport to, and do not present fairly the financial position of the Town of Holden, Massachusetts, as of December 31, 2017 and 2016, and the changes in financial position, or, where applicable, its cash flows for the years then ended in accordance 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, Other Postemployment Benefits and Net Pension Liability information on pages three through seven and 40 through 45, 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 sufficient evidence 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 Operation and Maintenance Expenses on pages 46 and 47 are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
March 29, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Holden Municipal Light Department's annual financial report, management provides narrative discussion and analysis of the financial activities of the Department for the years ended December 31, 2017 and 2016. The Department'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 the Department's financial position as of a specific point in time. As of December 31, 2017, net position totaled \$9,774,239 a decrease of \$47,402 or .05% from 2016.

The Statements of Revenues, Expenses and Changes in Net Position, summarizes our operating results and reveals how much of a profit was earned for the year. As discussed in more detail below, net income (loss) before contributions and transfers for the years ending December 31, 2017 and 2016 was \$131,706 and \$(61,871), 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 operating activities, investing activities and financing activities for the same period.

Summary of Net Position

	<u>2017</u>	<u>2016</u>
Current Assets	\$ 4,998,084	\$ 4,588,530
Noncurrent Assets	<u>15,797,793</u>	<u>14,091,048</u>
Total Assets	<u>20,795,877</u>	<u>18,679,578</u>
Deferred Outflows of Resources	<u>1,449,027</u>	<u>792,714</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 22,244,904</u>	<u>\$ 19,472,292</u>
Current Liabilities	\$ 2,022,780	\$ 1,436,679
Noncurrent Liabilities	<u>6,073,103</u>	<u>4,965,318</u>
Total Liabilities	<u>8,095,883</u>	<u>6,401,997</u>
Deferred Inflows of Resources	<u>4,374,782</u>	<u>3,248,654</u>

Summary of Net Position (Continued)

	<u>2017</u>	<u>2016</u>
Net Position:		
Net Investment in Capital Assets	9,753,777	9,624,252
Net Position Restricted for Depreciation	1,582,019	1,344,164
Unrestricted Net Position	<u>(1,561,557)</u>	<u>(1,146,775)</u>
 Total Net Position	 <u>9,774,239</u>	 <u>9,821,641</u>
 Total Liabilities, Deferred Inflows and Net Position	 <u>\$ 22,244,904</u>	 <u>\$ 19,472,292</u>

Summary of Changes in Net Position

	<u>2017</u>	<u>2016</u>
Operating Revenues	\$ 14,159,471	\$ 14,129,063
Operating Expenses	<u>14,165,305</u>	<u>14,217,807</u>
Operating Income (Loss)	(5,834)	(88,744)
Nonoperating Revenues (Expenses)	<u>137,540</u>	<u>26,873</u>
Income (Loss) Before Contributions and Transfers	131,706	(61,871)
Net Position, January 1	9,821,641	10,032,415
Transfers Out – Payment in Lieu of Taxes	<u>(179,108)</u>	<u>(148,903)</u>
Net Position, December 31	<u>\$ 9,774,239</u>	<u>\$ 9,821,641</u>

Financial Highlights

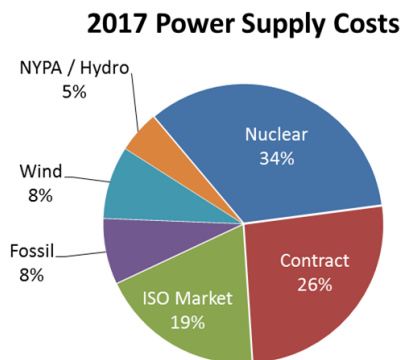
Operating Revenues (Expenses):

Operating revenues increased by \$30,408 or 0.2% in 2017 compared to 2016. Revenue from sales of electricity decreased by \$207,847 which was offset from the Virgin Islands Water and Power Authority for mutual aid assistance provided after Hurricanes Irma and Maria in September 2017. Other operating revenue increased by \$238,255, principally due to grant revenue from the Massachusetts Department of Energy Resources for the installation of LED street lights. Operating expenses decreased by \$52,502 (0.4%), with decreases in power production expenses partially offset by increased pension expense in accordance with GASB Statements #68 and #71.

As a result of the increased operating revenues and decreased operating expenses, operating income increased by \$82,910 from 2016 to 2017. Energy sales (KWH) decreased by 1,470,265 (1.4%) in 2017 compared to 2016 due to decreased activity across the residential, commercial and industrial sectors.

Power Portfolio:

The Department's power portfolio by expense for 2017 is below. Major resources from which the Department purchases power are via long term project entitlements (nuclear - 34%) and the MMWEC-owned and operated natural gas fueled intermediate/ peaking plant (Stony Brook – 8%); one year, or shorter, system power contracts (26%); the ISO-New England power market (19%); wind (Berkshire Wind and Hancock Wind – 8%) and hydro power from the New York Power Authority and local sources (5%). The Department's long term generation contracts yield consistent and cost effective power. However, in the deregulated power market, opportunities to participate in long-term generation contracts are less and less frequent.



During 2017 and 2016, the Department entered into various system power commitments that locked in about 20% of our needs through 2021 at very attractive prices that will result in stable rates in the coming years. These power purchases will considerably reduce the Department's exposure to the ISO-New England market prices that can be volatile at times.

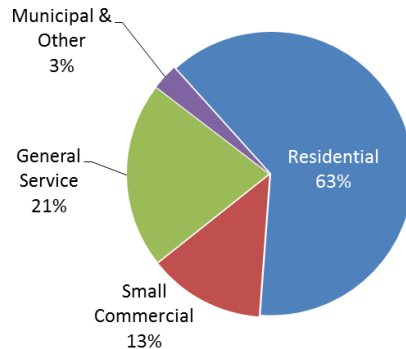
Rates:

In 2009, a cost of service study was performed that resulted in new rates that went into effect in October of that year. The overall changes were revenue neutral with modest increases to the residential and general service customers and a notable decrease to small commercial customers. The Department's rates are made up of a base rate component that includes the fixed component of the Department's projected purchased power expense, along with a power cost adjustment (PCA) that tracks variable (fuel-related) changes in power costs. The PCA is adjusted quarterly and reflects both historical and projected power costs. During 2010, the PCA rate was reduced 4 times to reflect decreases in the power costs, lowering rates by 2.1 cents per KWH, resulting in an overall reduction in the cost of electricity to customers by 12% to 14%. The PCA rate was reduced slightly once again in August 2013. In July 2014, the PCA rate was increased by 1.0 cent per KWH to provide for the recovery in increased power expenses from the winter of 2013–14 and 2014-15. In January 2016, the PCA rate was reduced by 0.75 cents per KWH to reflect decreases in the power costs.

Customer Portfolio:

The majority (63%) of operating revenue comes from residential customers, although commercial and industrial customers represent a large portion as well. While industrial and commercial customers represent 7% of the total number of customers, these customers provided 34% of sales revenue.

2017 Sources of Revenue



Utility and Debt Administration:

Utility Plant In Service: Total Utility Plant In Service at net book value for the end of 2017 is \$9,753,777. Of this amount \$6,714,332 represents Distribution Plant, \$2,805,085 represents General Plant, \$72,500 represents Land and \$161,860 represents Construction in Progress.

Debt Administration: The Department remains a vertically integrated utility, as do all municipal light departments in Massachusetts. This means that the Department is allowed under the Massachusetts Utility Restructuring Laws to retain ownership and control over electrical generation assets. Investor owned utilities, such as National Grid, and Eversource (Northeast Utilities / NSTAR), were required to sell their generation assets as a result of the same restructuring laws.

The Town of Holden, through the Department, 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 of its members and other utilities. As of December 31, 2017, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is approximately \$11,425,000, of which the Department's share is \$384,000. The debt service and interest has been, and will continue to be paid with revenues received from the sales of electricity.

The Town of Holden, through the Department, is also a member of the Berkshire Wind Power Cooperative Corporation (BWPEC). BWPEC was formed by MMWEC and 14 municipal light departments. As of December 31, 2017, BWPEC's total future debt service requirement on outstanding bonds issued for the project is \$62,399,000, of which the Department's share is \$4,329,000. The debt service and interest has been, and will continue to be paid with revenues received from the sales of electricity.

Significant Balances and Transactions:

Rate Stabilization Fund

The Department's Rate Stabilization Fund is managed by MMWEC. This fund was created following passage of the Massachusetts Restructuring Law of 1997 and is to be utilized for unexpected escalation in costs such as price spikes in energy prices, transmission cost increases and other cost increases. During

the summer of 2008, the Department (and the region) experienced very high costs of power from the energy markets. Due to under-collection of fuel charges during that period, the Department's cash position required the transfer of \$250,000 from the Fund. In 2009, an additional \$500,000 transfer was needed to pay for debris removal following the 2008 ice storm. During 2010, several sizable payments were made to the Fund. In 2013, 2015, 2016 and 2017 additional payments were made and balance as of December 31, 2017 and 2016 was \$4,031,318 and \$2,799,404, respectively.

Depreciation Fund

The Department maintains a depreciation fund, which is managed by the Town of Holden Treasurer. This fund is used to pay for large capital investments such as new vehicles 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. The Department set aside 3% of gross cost of plant in 2017 and 2016 to be used for capital improvements and additions. Balances as of December 31, 2017 and 2016 were \$1,582,019 and \$1,344,164 respectively.

Purchased Power Working Capital

Purchased Power Working Capital is an amount held by MMWEC, which requires that it hold a set amount of capital from which it may pay the Department's power obligations when they are due. The fund is replenished as needed from the Department's monthly invoice payments. Income earned is applied as a credit to purchased power invoices from MMWEC. The balance as of the end of 2017 and 2016 was \$1,109,881 and \$1,104,277, respectively.

Other Postemployment Benefits

The Other Postemployment Benefits Liability Trust Fund was established in 2011. The Fund is held under the custodianship of the Town of Holden. Contributions are based on actuarial studies and have been made annually since 2013. The balance in the trust as of December 31, 2017 and 2016 was \$1,365,582 and \$1,134,636, respectively.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

OPERATING FUND

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 797,925	\$ 833,895
Accounts Receivable, Net	849,131	867,527
Other Receivables, Net	801,759	319,102
Materials and Supplies	384,112	348,738
Unbilled Revenue	991,714	941,746
Prepaid Expenses	63,562	173,245
Purchased Power Working Capital	<u>1,109,881</u>	<u>1,104,277</u>
 TOTAL CURRENT ASSETS	 <u>4,998,084</u>	 <u>4,588,530</u>
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	1,582,019	1,344,164
Customer Deposits	246,326	237,186
Rate Stabilization Fund	4,031,318	2,799,404
Other Postemployment Benefit Asset	184,353	86,042
Utility Plant Assets, Net	<u>9,753,777</u>	<u>9,624,252</u>
 TOTAL NONCURRENT ASSETS	 <u>15,797,793</u>	 <u>14,091,048</u>
 TOTAL ASSETS	 <u>20,795,877</u>	 <u>18,679,578</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflows of Resources Related to Pensions	<u>1,449,027</u>	<u>792,714</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u><u>\$ 22,244,904</u></u>	 <u><u>\$ 19,472,292</u></u>

See Accompanying Notes to Financial Statements

HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

OPERATING FUND

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,536,557	\$ 1,265,873
Accrued Expenses	<u>486,223</u>	<u>170,806</u>
TOTAL CURRENT LIABILITIES	<u>2,022,780</u>	<u>1,436,679</u>
NONCURRENT LIABILITIES:		
Customer Advances for Construction	53,413	57,394
Customer Deposits	246,326	237,186
Accrued Expenses	66,568	35,002
Net Pension Liability	<u>5,706,796</u>	<u>4,635,736</u>
TOTAL NONCURRENT LIABILITIES	<u>6,073,103</u>	<u>4,965,318</u>
TOTAL LIABILITIES	<u>8,095,883</u>	<u>6,401,997</u>
DEFERRED INFLOWS OF RESOURCES:		
Contribution in Aid of Construction	204,232	166,736
Deferred Inflows of Resources Related to Pensions	139,232	167,922
Rate Stabilization Reserve	<u>4,031,318</u>	<u>2,913,996</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>4,374,782</u>	<u>3,248,654</u>
NET POSITION:		
Net Investment in Capital Assets	9,753,777	9,624,252
Net Position Restricted for Depreciation	1,582,019	1,344,164
Unrestricted Net Position	<u>(1,561,557)</u>	<u>(1,146,775)</u>
TOTAL NET POSITION	<u>9,774,239</u>	<u>9,821,641</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 22,244,904</u></u>	<u><u>\$ 19,472,292</u></u>

See Accompanying Notes to Financial Statements

HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Sales of Electricity	\$ 13,634,520	\$ 13,842,367
Other Operating Revenues	<u>524,951</u>	<u>286,696</u>
TOTAL OPERATING REVENUES	<u>14,159,471</u>	<u>14,129,063</u>
OPERATING EXPENSES:		
Operation and Maintenance	13,358,896	13,426,834
Depreciation	<u>806,409</u>	<u>790,973</u>
TOTAL OPERATING EXPENSES	<u>14,165,305</u>	<u>14,217,807</u>
OPERATING INCOME (LOSS)	<u>(5,834)</u>	<u>(88,744)</u>
NONOPERATING REVENUES (EXPENSES):		
Grant Revenue	106,655	0
Net Investment Income	32,354	27,633
Interest Expense	<u>(1,469)</u>	<u>(760)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>137,540</u>	<u>26,873</u>
Income (Loss) Before Contributions and Transfers	131,706	(61,871)
NET POSITION - JANUARY 1	9,821,641	10,032,415
Transfers Out - Payment in Lieu of Taxes	<u>(179,108)</u>	<u>(148,903)</u>
NET POSITION - DECEMBER 31	<u><u>\$ 9,774,239</u></u>	<u><u>\$ 9,821,641</u></u>

See Accompanying Notes to Financial Statements

HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 13,693,007	\$ 13,756,632
Cash Paid to Suppliers	(8,436,355)	(10,514,630)
Cash Paid to Employees	(1,730,037)	(1,417,111)
Cash Paid for Benefits	(1,019,085)	(910,102)
Payment in Lieu of Taxes	(179,108)	(148,903)
	<u>2,328,422</u>	<u>765,886</u>
Net Cash Provided by Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Interest Expense	(1,469)	(760)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Grant Income	106,655	0
Contribution in Aid of Construction	0	48,671
Net Transfers To Depreciation Fund	(211,518)	(218,099)
Additions to Plant Assets	(941,043)	(735,399)
	<u>(1,045,906)</u>	<u>(904,827)</u>
Net Cash Used by Capital and Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Investment Income	412	245
Net Transfers to OPEB Trust Fund	(106,800)	(125,825)
Net Transfers To Rate Stabilization Fund	(1,201,489)	(200,000)
	<u>(1,307,877)</u>	<u>(325,580)</u>
Net Cash Used by Investing Activities		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(26,830)	(465,281)
CASH AND CASH EQUIVALENTS - Beginning	<u>1,071,081</u>	<u>1,536,362</u>
CASH AND CASH EQUIVALENTS - Ending	<u>\$ 1,044,251</u>	<u>\$ 1,071,081</u>

See Accompanying Notes to Financial Statements

HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (5,834)	\$ (88,744)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	811,521	794,624
Contribution in Aid of Constriction Amortization	(5,112)	(3,651)
Payment in Lieu of Taxes	(179,108)	(148,903)
Rate Stabilization	1,386,897	200,000
(Increase) Decrease Assets:		
Accounts Receivable	18,396	(310,263)
Other Receivables	(482,657)	(181,125)
Materials and Supplies	(35,374)	(26,956)
Unbilled Revenue	(49,968)	51,853
Prepaid Expenses	109,683	87,776
Deferred Outflows Related to Pensions	(656,313)	(496,497)
Increase (Decrease) Liabilities:		
Accounts Payable	270,684	2,541
Accrued Expenses	46,983	8,012
Net Pension Liability	1,071,060	621,341
Deferred Inflows of Resources Related to Pensions	(28,690)	167,922
Other Postemployment Benefit Obligation	8,489	20,852
Customer Advances for Construction	38,625	57,394
Customer Deposits	9,140	9,710
Net Cash Provided by Operating Activities	<u>\$ 2,328,422</u>	<u>\$ 765,886</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

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

	<u>2017</u>	<u>2016</u>
Operating Cash	\$ 797,925	\$ 833,895
Customer Deposits	<u>246,326</u>	<u>237,186</u>
	<u>\$ 1,044,251</u>	<u>\$ 1,071,081</u>

Cash paid for interest during 2017 and 2016 was \$1,469 and \$760, respectively.

See Accompanying Notes to Financial Statements

HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF FIDUCIARY NET POSITION
DECEMBER 31, 2017 AND 2016

OPEB TRUST FUND

ASSETS

	<u>2017</u>	<u>2016</u>
Funds on Deposit with Town Treasurer		
Cash and Investments	\$ 1,365,582	\$ 1,134,636

NET POSITION

NET POSITION - Restricted	<u>\$ 1,365,582</u>	<u>\$ 1,134,636</u>
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HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPEB TRUST FUND

	<u>2017</u>	<u>2016</u>
ADDITIONS:		
Contributions:		
Employer	\$ 106,800	\$ 125,825
Net Investment Income	<u>124,146</u>	<u>56,605</u>
Total Additions	<u>230,946</u>	<u>182,430</u>
CHANGES IN NET POSITION	230,946	182,430
NET POSITION - JANUARY 1	<u>1,134,636</u>	<u>952,206</u>
NET POSITION - DECEMBER 31	<u>\$ 1,365,582</u>	<u>\$ 1,134,636</u>

See Accompanying Notes to Financial Statements

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Holden Municipal Light Department is a component unit of the Town of Holden, Massachusetts. The Department purchases power from various sources and sells it to the ultimate consumers at rates on file with the Massachusetts Department of Public Utilities (DPU). The Town Manager appoints the manager of the Department who shall be responsible for operation and management. Contractual obligations, rates and policies of the Department are approved by the Town Manager and Board of Selectmen, acting in their capacity as Light Commissioners.

Regulation and Basis of Accounting

The Department'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.

The electric rates of the Department are proposed by the Municipal Electric Power Advisory Board, a volunteer group appointed by the Town Manager. The rates are approved by the Board of Selectmen acting in their capacity as Light Commissioners. These rates may be changed once every three months. Rate schedules are filed with the DPU. While the DPU exercises general supervisory authority over certain activities of the Department, 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 department assets in service at the beginning of the year, exclusive of land and land rights. Therefore, no depreciation is taken in the year of department additions. Massachusetts law stipulates that the Department may change from the statutory depreciation rate only with the approval of the DPU up to five percent. The Department used a rate of 3% for 2017 and 2016.

Cash and Cash Equivalents

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

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 Department, which are applied to customers' consumption of electricity. The Department has a purchased power cost adjustment clause pursuant to which increased purchased power costs (costs in excess of amounts recovered through base rates) are billable to customers.

Taxes

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

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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

Reclassification

Certain prior year amounts, with no effect on previously stated net income, have been reclassified to conform to the 2017 presentation.

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.

Materials and Supplies

Materials and supplies are valued using the average cost method.

Customer Discounts

The Department allows a discount on certain components of customer bills paid within 15 days of the billing date. Since the Department bills in defined batches throughout the month, some receivables outstanding at year end will be subject to a discount when paid. The Department posts revenue and receivables at gross, accounting for this discount when it is earned by early cash payment.

Compensated Absences

In accordance with Department policies, employees are allowed to accumulate sick days, up to a maximum of 180 days. Upon termination of employment with the Department, the employee will not be paid for any accumulated sick days. Upon retirement up to 30 days will be paid for accumulated sick time.

Employees are not permitted to carry over vacation time from one year to the next. Upon termination of employment with, or retirement from, the Department, the employee will be paid for unused and accrued vacation time based on the employee's base rate of pay at the time of termination.

Accounts Receivable Policy

The Department carries its accounts receivable at cost less an allowance for doubtful accounts of \$18,000 for 2017 and 2016. The Department can place a lien against a property if payment is not made. For non-owners, the Department requires a deposit that can be applied to any unpaid amounts. In addition, the Department has the right to shut off service to customers, subject to certain state regulations, if the customer is not making payments. On a periodic basis, the Department does evaluate its account receivables to determine if any write-offs are necessary.

Operating Revenue

Operating revenue includes revenues and expenses related to the continuing operations of the Department. 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 Department collects sales and use 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.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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

Contribution in Aid of Construction

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Worcester Regional Retirement System (System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report a separate section for deferred outflows and deferred inflows of resources. These separate financial statement elements, deferred outflows and inflows of resources, represent a consumption of net position that applies to a future period and so will not be recognized as an outflow/inflow of resources (expense/expenditure) until then.

NOTE 2 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS:

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, is required to be implemented for periods beginning after June 15, 2017. The Light Department is currently evaluating the effect this pronouncement will have on the basic financial statements.

NOTE 3 - OTHER RECEIVABLES:

Other receivables consist of the following:

	<u>2017</u>	<u>2016</u>
Merchandise and Jobbing	\$ 220,737	\$ 225,207
Berkshire Wind RECs	33,058	91,062
Mutual Aid	545,776	0
Liens	<u>2,188</u>	<u>2,833</u>
Total Other Receivables	<u>\$ 801,759</u>	<u>\$ 319,102</u>

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4 - PREPAID EXPENSES:

Prepayments consist of the following:

	<u>2017</u>	<u>2016</u>
Power Contracts, Net	\$ 29,489	\$ 139,386
Insurance Expense	<u>34,073</u>	<u>33,859</u>
Total Prepaid Expenses	<u>\$ 63,562</u>	<u>\$ 173,245</u>

NOTE 5 - PURCHASED POWER WORKING CAPITAL:

As described more fully in Note 14, the Department is a Member and Participant of the Massachusetts Municipal Wholesale Electric Company (MMWEC). The purchased power working capital is an amount held by MMWEC. The implementation of the Working Capital Program began in 1985. MMWEC Participants approved certain working capital amendments to the various power purchase agreements. MMWEC requires that they hold a set amount of capital from which it may pay the Department's power obligations when they are due. They replenish the fund as needed from the Department's monthly invoice payments. The income earned allocated to the Light Department will be applied as a credit to MMWEC Power Sales Billing. The balance in the Fund as of December 31, 2017 and 2016 is \$1,109,881 and \$1,104,277, respectively.

NOTE 6 - DEPRECIATION FUND:

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

NOTE 7 - RATE STABILIZATION FUND:

The Rate Stabilization Fund was created as an aftermath of the 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, 2017 and 2016 was \$4,031,318 and \$2,799,404, respectively. The balance in the fund is offset by a deferred inflow of resources for the accumulated provision for rate refund. These funds are commingled and deposited in external investment pools. The total amount of these investment pools as of December 31, 2017 and 2016 was \$80,389,045 and \$75,376,417, respectively, of which Holden Municipal Light Department's ownership was approximately 5.01% and 3.71%, respectively.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 8 - RELATED PARTY:

The Department bills the Town of Holden for electric light usage and other projects. The amount included in revenue was approximately \$432,800 and \$489,308 for December 31, 2017 and 2016, respectively. Accounts receivable from the Town was \$34,304 and \$66,169 at December 31, 2017 and 2016, respectively.

The Department reimburses the Town for various services and makes a payment in lieu of taxes. During the years ended December 31, 2017 and 2016, the total amount paid for these services and payment in lieu of taxes was \$1,031,295 and \$926,969, respectively. At year end 2017 and 2016, amounts payable to the Town was zero.

NOTE 9 - UTILITY PLANT ASSETS:

	Balance January 1, 2017	Increases	Decreases	Balance December 31, 2017
Capital Assets Not Being Depreciated:				
Land	\$ 72,500	\$ 0	\$ 0	\$ 72,500
Construction in Progress	103,915	69,554	(11,609)	161,860
Total Capital Assets Not Being Depreciated	176,415	69,554	(11,609)	234,360
Capital Assets Being Depreciated:				
Distribution Plant	20,799,694	718,168	(96,778)	21,421,084
General Plant	6,249,929	164,930	(40,840)	6,374,019
Total Capital Assets Being Depreciated	27,049,623	883,098	(137,618)	27,795,103
Less Accumulated Depreciation For:				
Distribution Plant	(14,191,176)	(612,354)	96,778	(14,706,752)
General Plant	(3,410,610)	(199,164)	40,840	(3,568,934)
Total Accumulated Depreciation	(17,601,786)	(811,518)	137,618	(18,275,686)
Capital Assets Being Depreciated, Net	9,447,837	71,580	0	9,519,417
Utility Plant Assets, Net	<u>\$ 9,624,252</u>	<u>\$ 141,134</u>	<u>\$ (11,609)</u>	<u>\$ 9,753,777</u>

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 9 - UTILITY PLANT ASSETS (Continued):

Depreciation expense for the years ended December 31, 2017 and 2016 was \$811,521 and \$794,624, respectively. Depreciation expense reported on the Statements of Revenues, Expenses and Changes in Net Position is net of amortization of \$5,112 and \$3,651 related to contribution in aid of construction for the years ended December 31, 2017 and 2016, respectively.

NOTE 10 - NET INVESTMENT IN CAPITAL ASSETS:

	<u>2017</u>	<u>2016</u>
Cost of Capital Assets Acquired	\$ 28,029,463	\$ 27,226,038
Less: Accumulated Depreciation	<u>(18,275,686)</u>	<u>(17,601,786)</u>
Net Investment in Capital Assets	<u>\$ 9,753,777</u>	<u>\$ 9,624,252</u>

NOTE 11 - CASH AND INVESTMENTS:

A cash and investment pool is maintained by the Town Treasurer and available for use for depreciation and operating funds of the Department. The Town has established a separate cash and investment pool for the OPEB funds.

Investment policies authorize the investment in obligations of the U.S. Treasury, certificates of deposit, money market accounts and bank deposits. The investments that are held to maturity and mature within one year are recorded at cost or amortized cost. The investments that mature outside of one year are recorded at fair value. The Treasurer may also invest trust funds in securities which are legal for the investment of funds under the laws of the Commonwealth. These investments that don't have a maturity date are recorded at fair value.

Custodial Credit Risk - Deposits

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

Custodial Credit Risk – Depreciation Investments

Investment custodial risk is the risk that, in the event of a failure by the counterparty, the Department will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Department does not have custodial risk exposure at December 31, 2017 and 2016. The Department's account is with Commonwealth Financial Network LLC, which is protected in accordance with the Securities Investor Protection Corporation ("SIPC") up to \$500,000 including cash claims up to \$250,000.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 11 - CASH AND INVESTMENTS (Continued):

Custodial Credit Risk – Depreciation Investments (continued)

They have also arranged for additional insurance protection for cash and investments to supplement its SIPC coverage. The additional insurance protection covers total account net equity in excess of \$500,000/\$100,000. The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Depreciation Investments

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, provides a definition of fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described as follows:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Department has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

- Common Stocks, Corporate Bonds, Mutual Funds and U.S. Government Securities:
Valued at closing price as reported on the active market on which the individual securities are traded.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 11 - CASH AND INVESTMENTS (Continued):

Depreciation Investments (continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Department management believes its valuations methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The table below sets forth, by level within the fair value hierarchy, the Department's investments in the Depreciation Fund at fair value at December 31, 2017 and 2016. As of December 31, 2017 and 2016, the Department did not have any investments that were measured using Level 2 or Level 3 inputs.

Description	December 31, 2017 Quoted Prices in Active Markets for Identical Assets (All Level 1)	December 31, 2016 Quoted Prices in Active Markets for Identical Assets (All Level 1)
Corporate Bonds:		
Credit Rating		
A+	\$ 49,515	\$ 0
A	29,229	25,841
A-	66,863	0
AA-	8,309	0
BBB+	82,390	162,889
BBB	25,884	0
U.S. Government Securities	668,025	594,077
Equities	160,768	139,246
Mutual Funds	67,136	64,676
Total Investments	1,158,119	986,729
Other:		
Money Market	9,157	26,119
Certificates of Deposits	409,891	327,663
Accrued Interest	4,852	3,653
Total Other Securities	423,900	357,435
Total	\$ 1,582,019	\$ 1,344,164

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 11 - CASH AND INVESTMENTS (Continued):

Depreciation Investments (continued)

Maturities of Certificate Deposits are as follows:

	Ratings as of Year End	2017 Total Value	2017 < 1 Year	2017 1-5 Years	2016 Total Value
<u>Term Securities</u>					
Certificate of Deposit	Exempt	\$ 409,891	\$ 204,728	\$ 205,163	\$ 327,663

As of December 31, 2017 and 2016, there were no investments in any one issuer (excluding U.S. Treasury securities and mutual funds) that represented 5% or more of the total investments.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND:

The Other Postemployment Benefits Liability Trust Fund was authorized at the Annual Town Meeting on May 18, 2009 and the fund was established on April 20, 2011. The Trust Fund was established to reduce the unfunded actuarial liability of health care and other postemployment benefits to zero as of an actuarially acceptable period of years and to meet the normal cost of all future benefits for which the government unit is obligated. The Fund is held under the custodianship of the Town of Holden. The Department's investments are classified as held to maturity and are recorded at the estimated fair market value. Fair values are based on the quoted market price of the investments. The balance in the Trust as of December 31, 2017 and 2016 was \$1,365,582 and \$1,134,636, respectively.

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, provides a definition of fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below.

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Department has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND (Continued):

Level 3

Inputs to valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

- **Mutual Funds:**
Valued at closing price as reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Department management believes its valuations methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The table below sets forth, by level within the fair value hierarchy, the Department's OPEB Trust Fund investments at fair value at December 31, 2017 and 2016. As of December 31, 2017 and 2016, the Department did not have any investments that were measured using Level 2 or Level 3 inputs.

<u>Description</u>	December 31, 2017 Quoted Prices in Active Markets for Identical Assets (All Level 1)	December 31, 2016 Quoted Prices in Active Markets for Identical Assets (All Level 1)
Mutual Funds	\$ 1,359,993	\$ 1,129,848
<u>Other Securities:</u>		
Money Market	<u>5,589</u>	<u>4,788</u>
Total	<u>\$ 1,365,582</u>	<u>\$ 1,134,636</u>

As of December 31, 2017 and 2016, there were no investments in any one issuer (excluding U.S. Treasury securities and mutual funds) that represented 5% or more of the total investments.

The Trust has adopted GASB 74 for the year ending December 31, 2017, which introduces a new actuarial cost method, discount rate as well as new disclosures and methodologies for reporting plan liabilities and OPEB expenses.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND (Continued):

Plan Administration:

The Town of Holden administers the retiree health care benefits program-a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees.

Plan Membership:

At December 31, 2017, OPEB plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits payments	12
Active plan members	<u>23</u>
	<u>35</u>

Benefits provided:

The Town provides health care, dental and life insurance benefits for retirees and their dependents. Benefits are provided through the Group Insurance Commission the full cost of benefits is shared between the Town and retirees.

Contributions:

The Town annually contributes an actuarially determined contribution based on the results of the most recent actuarial valuation.

Investment Policy:

The Trust has a long-term approach which enables the Town of Holden to purchase certain investments which are limited to: Cash 0-10%, Alternative Investments 0-20%, Fixed Income 30-50% and Equities 30-70%. The Trust has also adopted the M.G.L. Chapter 203C section Massachusetts Prudent Investor Act which allows the trustee to invest and manage Trust assets as a prudent investor would, considering the purposes, terms and other circumstances of the Trust.

Rate of Return:

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of OPEB plan investments by the proportion of time they are available to earn a return during that period. The rate of return is then calculated by solving, through an iterative process, for the rate that equates the sum of the weighted external cash flows into and out of the OPEB plan investments to the ending fair value of OPEB plan investments.

Net OPEB Liability of the Plan:

The components of the net OPEB liability at December 31, 2017, were as follows:

Total OPEB Liability	\$ 1,719,616
Fiduciary Net Position	<u>(1,365,582)</u>
Net OPEB Liability	<u>\$ 354,034</u>

Fiduciary net position as a percentage of the total OPEB liability was 79.41%.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND (Continued):

Actuarial Assumptions:

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment rate of return	6.92%, net of investment expenses, including inflation
Discount Rate	7.00%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate	5%
Pre-Retirement Mortality-	RP-2000 Employee Mortality Table, base year 2009, projected with generationally with scale BB and a base year 2009 for males and females.
Post-Retirement Mortality-	RP-2000 Healthy Annuitant Mortality Table, projected generationally with scale BB and a base year 2009 for males and females.
Disabled Mortality-	RP-2000 Healthy Annuitant Mortality Table, projected generationally with scale BB and a base year 2012 for males and females.

The long-term expected rate of return on OPEB plan investments was determined using a building – block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2017 are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Equity- Large Cap	25.00%	4.50%
Domestic Equity- Small/Mid Cap	11.25%	6.50%
International Equity- Developed Market	10.00%	5.00%
International Equity- Emerging Market	3.75%	7.00%
Domestic Fixed Income	40.00%	2.00%
International Fixed Income	0.00%	3.00%
Alternatives	10.00%	7.50%
Real Estate	0.00%	6.50%
Cash	0.00%	0.00%

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND (Continued):

Discount Rate:

The discount rate used to measure the total OPEB liability was 7%. The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made in accordance with the Plan's funding policy. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate- The following presents the net OPEB liability calculated using the discount rate of 6%, as well as what the net OPEB liability would be if it were calculated using a discount rate 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate:

	1% Decrease 6%	Current Discount Rate 7%	1% Increase 8%
Net OPEB Liability	\$ 412,278	\$ 354,034	\$ 295,790

Sensitivity of the Net Pension Liability to Changes in the Healthcare Cost Trend Rates- The following presents the net OPEB liability calculated using current healthcare cost trend rates as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (4%) or 1-percentage point higher (6%) than the current healthcare cost trend rates:

	1% Decrease 4%	Current Healthcare Cost Trend Rates 5%	1% Increase 6%
Net OPEB Liability	\$ 276,742	\$ 354,034	\$ 450,639

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS:

The Department was required to implement GASB Statement 45, *Accounting for Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)* beginning with the year ending December 31, 2008. As allowed by GASB 45, the Department 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. The Department participates in the Town sponsored single employer defined benefit health plan. The Department 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, 2016 the Department's membership consisted of the following:

Current retirees, beneficiaries	15
Current active members	<u>23</u>
Total	<u>38</u>

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (Continued):

Funding Policy. The Department 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 the Department by the Town, which aggregated approximately \$273,635 and \$245,730 for the years ended December 31, 2017 and December 31, 2016, respectively. The cost of providing these benefits for retirees is about 50% of the premium. Retired plan members and beneficiaries currently receiving benefits are required to contribute 20% for health insurance (that are not participating in Medicare plans) and either 26% or 50% for the Medicare depending on the plan they choose. A surviving spouse may continue coverage for lifetime by paying under the same arrangement. Retirees are required to pay 50% annually for the cost of a \$5,000 life insurance benefit, if elected.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Department 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, 2016, actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost trend rate of 5%. The health care cost trend rate differs between the master medical and other healthcare plans. The Department's unfunded actuarial accrued liability is being amortized assuming 30 year level dollar basis.

Annual OPEB Costs. The Department'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.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (Continued):

The following shows the components of the Department's annual OPEB cost for the years ending December 31, 2017 and 2016, the amount actually contributed to the plan, and changes in the Department's net OPEB obligation based on an actuarial valuation as of June 30, 2016.

	<u>2017</u>	<u>2016</u>
Annual Required Contribution (ARC)	\$ 170,471	\$ 164,897
Interest on OPEB Obligation	(3,165)	1,324
Adjustments to ARC	3,405	(1,426)
Amortization of Actuarial (Gains)/Losses	<u>(78,650)</u>	<u>(77,291)</u>
Annual OPEB Expense	92,061	87,504
Expected benefit payments	<u>(83,572)</u>	<u>(66,652)</u>
Increase in net OPEB obligation	8,489	20,852
Net OPEB obligation (asset), beginning of year	(86,042)	18,931
Transfers to OPEB Trust Fund	<u>(106,800)</u>	<u>(125,825)</u>
Net OPEB Obligation/(Asset), end of year	<u>\$ (184,353)</u>	<u>\$ (86,042)</u>

The Department'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 (asset)</u>
2015	\$ 181,217	97%	\$ 18,931
2016	\$ 87,504	220%	\$ (86,042)
2017	\$ 92,061	207%	\$ (184,353)

The funded status is as follows:

Actuarial Accrued Liability (AAL)	\$ 1,529,283
Value of Plan Assets	<u>(1,365,582)</u>
Unfunded Actuarial Accrued Liability	\$ 163,701
Funded Ratio (actuarial value of plan members)	89.30%
Covered Payroll (active plan members)	\$ 1,730,037
UAAL as a Percentage of Covered Payroll	9.46%

HOLDEN MUNICIPAL LIGHT DEPARTMENT
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NOTE 14 - MMWEC PARTICIPATION:

Town of Holden, acting through its Light Department, 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.

Holden Municipal Light Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Municipal Light 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 15 - PENSION PLAN:

Plan Description-The Light Department, through the Town of Holden, is a member of the Worcester Regional Retirement System 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 cost-sharing multiple-employer contributory defined benefit plan for all county employees and employees of participating towns and districts except those employees who are covered by teachers' retirement board. The Plan's separately issued financial statements can be obtained by contacting Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Benefits Provided-The System provides retirement, disability and death benefits to plan members and beneficiaries. 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 member's highest three-year average annual rate of regular compensation. For members who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
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NOTE 15 - PENSION PLAN (Continued):

There are three classes of membership in the retirement system: Group 1, Group 2, and Group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, Group 4 consists of police officers, firefighters, and other hazardous positions.

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 if hired after 1978 and if classified in group 1 or 2. A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with 10 years of service if in group 1, 55 years of age with 10 years of service if in group 2, and 55 years of age if classified in group 4 or hired prior to 1978. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions normal retirement is at age 55).

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 creditable service, level of compensation, veterans' status, and group classification.

Employees who resign from state 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. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Contributions- Active members are required to contribute at rates from 5-9% 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. The Department is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the member units based on the actuarial study.

The actuarially determined Department contribution is an amount, when combined with employee contributions, is expected to finance the cost of benefits earned by the employees during the year, with an additional amount to finance the unfunded liability. The Department's required contribution to the System for the years ended December 31, 2017 and 2016 were \$330,956 and \$293,803, respectively, which were paid during calendar year 2016 and 2015, respectively.

Pension Liabilities- At December 31, 2017 and 2016, the Light Department reported a liability of \$5,706,796 and \$4,635,736, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and 2015, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of January 1, 2016 and January 1, 2014, respectively. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating member units. At the measured date of December 31, 2016 and 2015, the Town's proportion was 3.864289% and 3.846862%, respectively.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 15 - PENSION PLAN (Continued):

The Department's portion of the net pension liability was based on the percentage of the Department's contributions to the total Town's contributions as of the measured date of December 31, 2016 and 2015. At the measured date of December 31, 2016 and 2015, the Department's portion was 17.63150% and 16.97743% of the Town's total contributions, respectively.

Pension Expense- For the years ended December 31, 2017 and 2016, the Department recognized a pension expense of \$709,225 and \$623,722, respectively. For the years ended December 31, 2017 and 2016, the Department reported deferred outflows of resources related to pensions of \$1,449,027 and \$792,714, respectively, consisting of the differences between expected and actual experience which amounted to \$46,534 and zero, respectively, differences between projected and actual investment earnings which amounted to \$198,029 and \$228,913, respectively, changes of assumptions which amounted to \$675,017 and \$171,398, respectively, the changes in proportion and differences between employer contributions and proportionate share of contributions at the Plan and Department level which amounted to \$206,279 and \$61,447, respectively and the amount paid for contributions made subsequent to the measurement date which amounted to \$323,168 and \$330,956, respectively. For the years ended December 31, 2017 and 2016, the Department reported deferred inflows of resources related to pensions of \$139,232 and 167,922, respectively consisting of the changes in proportion and differences between employer contributions and proportionate share of contributions at the Plan level.

The Department's deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Years Ended December 31:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2018	\$ 264,409	\$ 35,064
2019	264,409	35,064
2020	263,800	35,064
2021	202,618	33,658
2022	<u>130,623</u>	<u>382</u>
Total	<u>\$ 1,125,859</u>	<u>\$ 139,232</u>

As discussed in the previous paragraph, deferred outflows of resources related to pensions as of December 31, 2017 was \$1,449,027, which includes \$323,168 of contributions made subsequent to the measurement date that does not get amortized.

Actuarial Assumptions-The total pension liability as of December 31, 2017, was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 15 - PENSION PLAN (Continued):

Actuarial Assumptions (continued)
Amortization Method

Unfunded Actuarial Accrued Liability (UAL):

Increasing dollar amount at 4% to reduce the Unfunded Actuarial Accrued Liability to zero on or before June 30, 2035. The annual increase in appropriation is further limited to 9.95%.

Early Retirement Incentive Programs (ERI) for 2002 and 2003:

Increasing dollar amount at 4.5% to reduce the Unfunded Actuarial Accrued Liability attributable to zero on or before June 30, 2028.

Early Retirement Incentive Program (ERI) for 2010:

Level dollar amount to reduce the Unfunded Actuarial Accrued Liability attributable to ERI to zero on or before June 30, 2022.

Remaining Amortization Period

19 years, except for ERI for 2002 and 2003 (12 years) and 2010 (6 years)

Asset Valuation Method

The Actuarial Value of Assets is the market value of assets as of the valuation date reduced by the sum of:

- a. 80% of gains and losses of the prior year,
- b. 60% of gains and losses of the second prior year,
- c. 40% of gains and losses of the third prior year and
- d. 20% of gains and losses of the fourth prior year

Inflation Rate

3%

Projected Salary Increases

Group 1: 6%-4.25%, based on Service
Group 4: 7%-4.75%, based on Service

Cost of Living Allowance

Cost-of-Living Allowances (COLA) are assumed to be 3% of the pension amount, capped at \$480 per year

Rates of Retirement

Varies based upon age for general employees, police and fire employees.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 15 - PENSION PLAN (Continued):

Actuarial Assumptions (continued)

Mortality Rates:

Healthy Retirees	RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB
Disabled Retirees	RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation
Annuity Savings Fund Interest Rate	2.00% per year
Administrative Expenses	\$1,100,000 in 2016, increasing 4% per year

Investment Policy- The Plan's asset allocation policies are established by the Public Reserve Investment Trust (PRIT). Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major category asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measured date of December 31, 2016 are summarized in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Global Equity	40%	4.97%
Fixed Income	22%	2.29%
Private Equity	11%	6.50%
Real Estate	10%	3.50%
Timber/Natural Resources	4%	3.00%
Hedge Funds	13%	3.48%

Discount Rate-The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from participating employers will be made in accordance with Sections 22D and 22F of Chapter 32 of the Massachusetts General Laws. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 15 - PENSION PLAN (Continued):

Sensitivity of the Net Pension Liability to Changes in the Discount Rate- The table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate.

	1% Decrease	Current	1% Increase
	6.75%	Discount Rate 7.75%	8.75%
Proportionate share of the Net Pension Liability	\$ 6,873,903	\$ 5,706,796	\$ 4,721,565

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

NOTE 16 - CONTINGENT LIABILITIES:

Legal and Environmental Matters

The Department is not party to any pending legal proceedings. The Department is subject, like other electric utilities, to evolving standards administered by federal, state and local authorities relating to the quality of the environment. These standards affect the siting of electric property, ambient air and water quality, plant safety and other environmental factors. These standards have had an impact on the Department's operations in the past and they will continue to have an impact on future operations, capital costs and construction.

Berkshire Wind Cooperative Corporation

The Holden Municipal Light Department (Department) is a Member of the Berkshire Wind Cooperative Corporation (Cooperative).

The Cooperative is organized under Chapters 157 and 164: Section 47C of the State of Massachusetts Statutes and constitutes a municipal lighting plant cooperative. The Cooperative was formed by Massachusetts Municipal Wholesale Electric Company (MMWEC) and 14 Municipal Light Departments (Members) for the purpose of financing, owning, constructing and operating wind generation facilities located on Brodie Mountain in the towns of Hancock and Lanesborough, Massachusetts (Berkshire Wind Facility).

The Cooperative has constructed and installed 10 1.5-megawatt wind turbines at the Berkshire Wind Facility. The Cooperative provides wind energy to MMWEC pursuant to the Berkshire Wind Power Purchase Agreement dated May 21, 2008 between MMWEC and the Cooperative. Under this agreement, MMWEC entered into a Power Sales Contract with the Cooperative pursuant to which MMWEC has agreed to purchase 100% of the capacity and energy output and, to the extent uncommitted to any third party under existing agreements, associated environmental energy attributes of a wind power generating facility to be owned, constructed and operated by the Cooperative at the Berkshire Wind Facility.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 16 - CONTINGENT LIABILITIES (Continued):

Berkshire Wind Cooperative Corporation (continued)

MMWEC sells all of the capability of the Berkshire Wind Facility (Capability) to the Members of the Cooperative (Members) under Power Purchase Agreements (PPAs). Among other things, the PPAs require each Cooperative Member to pay its *pro rata* share of the costs related to the Berkshire Wind Facility, which costs include debt service on the bonds issued by the Cooperative to finance the Berkshire Wind Facility, plus 10% of the debt service to be paid into a Reserve and Contingency Fund. In addition, should a Cooperative Member fail to make any payment when due, other Cooperative Members may be required to increase (step-up) their payments and correspondingly their share of the Capability to an additional amount.

The Cooperative has issued revenue bonds, which are payable solely from, and secured solely by, the revenues derived from the Berkshire Wind Facility. The revenues are used solely to provide for the payment of any bond issue relating to the Berkshire Wind Facility and to pay the Cooperative's cost of owning and operating the Berkshire Wind Facility.

The Holden Municipal Light Department has entered into a PPA with the Berkshire Wind Cooperative Corporation. Under the PPA, each Participant is unconditionally obligated to make all payments due to the Berkshire Wind Cooperative Corporation, whether or not the Berkshire Wind Facility is completed or operating, and notwithstanding the suspension or interruption of the output of the Berkshire Wind Facility. In addition, under the PPA, the Department is required to pay to the Cooperative its share of the Operation and Maintenance (O&M) costs of the Berkshire Wind Facility.

As of December 31, 2017, total capital expenditures for the Berkshire Wind Facility amounted to \$59,256,145, of which \$4,111,000 presents the amount associated with the Department's share of the Capability of the Berkshire Wind Facility of which it is a Member, although such amount is not allocated to the Department.

The Cooperative's debt outstanding for the Berkshire Wind Facility includes bonds totaling \$46,000,000, of which \$3,191,000 is associated with the Department's share of Capability of the Berkshire Wind Facility of which it is a Member, although such amount is not allocated to the Department. As of December 31, 2017, the Cooperative's total future debt service requirement on outstanding bonds issued for the Projects is \$62,399,000, of which \$4,329,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of the Holden Municipal Light Department required payments under the PSA, exclusive of the Reserve and Contingency Fund billings, to the Cooperative at December 31, 2017 and estimated for future years is shown below:

For Years Ending December 31,	2018	\$	354,000
	2019		350,000
	2020		331,000
	2021		330,000
	2022		329,000
	2023 to 2027		1,648,000
	2028 to 2030		<u>987,000</u>
	Total	\$	<u>4,329,000</u>

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 16 - CONTINGENT LIABILITIES (Continued):

Other Power Supply

The Department has entered into a Service Agreement with MMWEC, under which MMWEC performs bulk power supply services to the Department, including services related to owned generation, purchased power contracts or other power supply arrangements.

Under the terms of the Service Agreement, the Department is committed to purchase additional power through MMWEC in the amount of \$1,899,770 in 2018, \$1,376,244 in 2019, \$692,118 in 2020, \$726,257 in 2021, \$347,334 in 2022, \$351,714 in 2023 and \$359,705 in 2024.

MMWEC Contingencies and Liabilities

Through its membership in MMWEC, the Department is contingently liable on various projects in which they participate as detailed below.

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

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 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.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 16 - CONTINGENT LIABILITIES (Continued):

MMWEC Contingencies and Liabilities (continued)

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

As of December 31, 2017, total capital expenditures for MMWEC's Projects amounted to \$1,583,481,000, of which \$49,247,000 represents the amount associated with the Department's share of Project Capability. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$10,680,000, of which \$354,000 is associated with the Department's share of Project Capability. As of December 31, 2017, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$11,425,000, of which \$384,000 is anticipated to be billed to the Department in the future.

The aggregate amount of the Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2017 and estimated for future years is shown below:

		<u>ANNUAL COSTS</u>
For Years Ending December 31,	2018	\$ 53,000
	2019	<u>331,000</u>
	Total	<u>\$ 384,000</u>

In addition, under the PSAs, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Department's total O&M costs including debt service under the PSAs were \$3,062,000 and \$4,501,000 for the years ended December 31, 2017 and 2016, respectively.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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(\$000)

	PERCENTAGE SHARE	TOTAL PROJECT EXPENDITURES TO DATE	PARTICIPANTS SHARE	DEBT ISSUED & OUTSTANDING 12/31/2017	PARTICIPANTS SHARE	TOTAL DEBT SERVICE ON BONDS OUTSTANDING	PARTICIPANTS SHARE
Stony Brook Peaking Project	3.1984	\$ 59,792	\$ 1,912	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	2.4979	174,406	4,356	-	-	-	-
Nuclear Mix No. 1-SBK	2.7392	12,578	345	-	-	-	-
Nuclear Mix No. 1-MLS	2.7392	119,823	3,282	-	-	-	-
Nuclear Project No. 3-MLS	0.8978	148,404	1,332	3,195	29	3,312	30
Nuclear Project No. 4-SBK	2.6400	333,722	8,810	-	-	-	-
Nuclear Project No. 5-SBK	1.0403	90,779	944	225	2	231	2
Wyman Project	-	8,452	-	-	-	-	-
Project No. 6-SBK	4.4477	635,525	28,266	7,260	323	7,882	352
TOTAL		<u>\$ 1,583,481</u>	<u>\$ 49,247</u>	<u>\$ 10,680</u>	<u>\$ 354</u>	<u>\$ 11,425</u>	<u>\$ 384</u>

	PERCENTAGE SHARE	OPERATION & MAINTENANCE 12/31/2016	PARTICIPANTS SHARE	OPERATION & MAINTENANCE 12/31/2017	PARTICIPANTS SHARE
Stony Brook Peaking Project	3.1984	\$ 4,008	\$ 128	\$ 4,487	\$ 144
Stony Brook Intermediate Project	2.4979	28,039	700	16,662	416
Nuclear Mix No. 1-SBK	2.7392	723	20	686	19
Nuclear Mix No. 1-MLS	2.7392	6,038	165	6,532	179
Nuclear Project No. 3-MLS	0.8978	22,939	206	15,756	141
Nuclear Project No. 4-SBK	2.6400	27,748	733	16,344	431
Nuclear Project No. 5-SBK	1.0403	7,615	79	4,704	49
Wyman Project	-	961	-	976	-
Project No. 6-SBK	4.4477	55,538	2,470	37,834	1,683
TOTAL		<u>\$ 153,609</u>	<u>\$ 4,501</u>	<u>\$ 103,981</u>	<u>\$ 3,062</u>

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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(\$000)

		2018		2019	
	PERCENTAGE SHARE	ANNUAL COST	PARTICIPANTS SHARE	ANNUAL COST	PARTICIPANTS SHARE
Stony Brook Peaking Project	3.1984	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	2.4979	-	-	-	-
Nuclear Mix No. 1-SBK	2.7392	-	-	-	-
Nuclear Mix No. 1-MLS	2.7392	-	-	-	-
Nuclear Project No. 3-MLS	0.8978	3,346	30	-	-
Nuclear Project No. 4-SBK	2.6400	-	-	-	-
Nuclear Project No. 5-SBK	1.0403	235	2	-	-
Wyman Project	-	-	-	-	-
Project No. 6-SBK	4.4477	503	22	7,456	331
TOTAL		\$ 4,084	\$ 54	\$ 7,456	\$ 331

HOLDEN MUNICIPAL LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS

OPERATING FUND

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
7/1/2008	12/31/2008	\$ -	\$ 1,592,000	\$ 1,592,000	0.00%	\$ 1,132,571	140.57%
7/1/2008	12/31/2009	\$ -	\$ 1,592,000	\$ 1,592,000	0.00%	\$ 1,132,571	140.57%
7/1/2010	12/31/2010	\$ -	\$ 1,870,208	\$ 1,870,208	0.00%	\$ 1,132,571	165.13%
7/1/2010	12/31/2011	\$ 432,063	\$ 1,870,208	\$ 1,438,145	23.10%	\$ 1,028,441	139.84%
7/1/2012	12/31/2012	\$ 562,173	\$ 1,827,847	\$ 1,265,674	30.76%	\$ 1,177,256	107.51%
7/1/2012	12/31/2013	\$ 700,545	\$ 1,827,847	\$ 1,127,302	38.33%	\$ 1,225,353	92.00%
7/1/2014	12/31/2014	\$ 839,321	\$ 1,672,910	\$ 934,399	50.17%	\$ 1,243,011	75.17%
7/1/2014	12/31/2015	\$ 952,206	\$ 1,672,910	\$ 720,704	56.92%	\$ 1,341,783	53.71%
6/30/2016	12/31/2016	\$1,134,636	\$ 1,451,472	\$ 316,836	78.17%	\$ 1,417,111	22.36%
6/30/2016	12/31/2017	\$1,365,582	\$ 1,529,283	\$ 163,701	89.30%	\$ 1,730,037	9.46%

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	6/30/2016
Actuarial Cost Method	Individual Entry Age Normal Cost Method
Amortization Method	30 year level dollar basis
Remaining Amortization Period	20 years

Actuarial Assumptions

Assumed Retirement Age	65
Discount Rate:	7.00%
Projected Salary Increases	3.00%
Health Care Cost Trend Rate	5%

See Independent Auditors' Report

HOLDEN MUNICIPAL LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
NET PENSION LIABILITY

OPERATING FUND

Schedule of the Department's Proportionate Share of the Net Pension Liability (NPL)

Actuarial Valuation Date	Measurement Date	For the Year Ending	Department's Portion of the NPL	Department's Proportionate Share of the NPL	Department's Total Employee Payroll	Percentage of Total Employee Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability
1/1/2014	12/31/2014	12/31/2015	0.6746%	\$ 4,014,395	\$ 1,341,783	299.18%	47.94%
1/1/2014	12/31/2015	12/31/2016	0.6531%	\$ 4,635,736	\$ 1,417,111	327.13%	44.52%
1/1/2016	12/31/2016	12/31/2017	0.6813%	\$ 5,706,796	\$ 1,730,037	329.87%	42.00%

Schedule of Contributions

Actuarial Valuation Date	Measurement Date	For the Year Ending	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Department's Total Employee Payroll	Contribution as a Percentage of Department's Total Employee Payroll
1/1/2014	12/31/2014	12/31/2015	\$ 266,600	\$ 266,600	\$ -	\$ 1,341,738	19.87%
1/1/2014	12/31/2015	12/31/2016	\$ 293,803	\$ 293,803	\$ -	\$ 1,417,111	20.73%
1/1/2016	12/31/2016	12/31/2017	\$ 330,956	\$ 330,956	\$ -	\$ 1,730,037	19.13%

Note: These schedules are intended to present information for 10 years. Until a 10 year trend is compiled, information is presented for those years for which information is available.

See Independent Auditors' Report

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
NET PENSION LIABILITY

OPERATING FUND

NOTE A – PENSION PLAN

Changes of Assumptions

Some actuarial assumptions and methods used in the January 1, 2016 valuation have changed since the last valuation, including adopting new mortality tables and mortality improvement scales, increasing the salary increase assumption for all employees, increasing administrative expense assumption from \$1,000,000 to \$1,100,000, and decreasing the long-term rate of return from 8% to 7.75%.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

OPEB TRUST FUND

	<u>2017</u>
Total OPEB Liability:	
Service Cost	\$ 57,336
Interest	114,771
Changes of Benefit Terms	-
Differences between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments	(68,333)
Net Change in Total OPEB Liability	<u>103,774</u>
 Total OPEB Liability - Beginning	 <u>1,615,842</u>
Total OPEB Liability - Ending	<u><u>\$ 1,719,616</u></u>
 Plan Fiduciary Net Position:	
Contributions-Employer	\$ 194,158
Net Investment Income	105,867
Benefit Payments	(68,333)
Administrative Expenses	-
Other	-
Net Change in Plan Fiduciary Net Position	<u>231,692</u>
 Plan Fiduciary Net Position - Beginning	 <u>1,133,890</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ 1,365,582</u></u>
 Net OPEB Liability - Ending	 <u><u>\$ 354,034</u></u>
 Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	 79.41%
 Covered Payroll	 \$ 1,730,037
 Net OPEB Liability as a Percentage of Covered Payroll	 20.46%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, OPEB plans should present information for those years for which information is available.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF OPEB EMPLOYER CONTRIBUTIONS

OPEB TRUST FUND

For Fiscal Year Ended June 30	<u>2017</u>
Actuarially Determined Contributions	\$ 93,634
Contributions in relation to the actuarially determined contribution	<u>(194,158)</u>
Contribution Deficiency (Excess)	<u><u>\$ (100,524)</u></u>
Covered Payroll	\$ 1,730,037
Contributions as a percentage of covered payroll	11.22%

Notes to Schedule

Valuation Date:

Actuarially determined contributions are determined as of July 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used in calculations of actuarially determined contributions:

Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	7% over 30 years on a closed amortization period
Amortization Period	30 years
Asset Valuation Method	Market Value
Inflation	2.75%
Healthcare Cost Trend Rates	5%
Investment Rate of Return	6.92%, net of OPEB plan investment expense, including inflation

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, OPEB plans should present information for those years for which information is available.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF INVESTMENT RETURNS

OPEB TRUST FUND

2017

Annual Money-Weighted rate of Return,
net of investment expenses

8.63%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, OPEB plans should present information for those years for which information is available.

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HOLDEN MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF SALES OF ELECTRICITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	<u>2017</u>	<u>2016</u>
SALES OF ELECTRICITY:		
Residential	\$ 8,567,640	\$ 8,471,926
Commercial	1,791,846	1,911,671
Industrial	2,874,746	2,991,739
Municipal	257,668	318,225
Private Lighting	42,113	48,252
Street Lights	<u>100,507</u>	<u>100,554</u>
TOTAL SALES OF ELECTRICITY	<u><u>\$ 13,634,520</u></u>	<u><u>\$ 13,842,367</u></u>

See Independent Auditors' Report

HOLDEN MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	<u>2017</u>	<u>2016</u>
Power Production Expenses:		
Purchased Power	\$ 10,143,198	\$ 10,531,483
Distribution Expenses:		
Station Expenses	189,186	150,249
Customer Installation Expenses	32,648	35,342
Transportation Expenses	72,472	71,100
Miscellaneous Distribution Expenses	184,383	224,382
Maintenance of Overhead Lines	356,871	285,572
Maintenance of Street Lights and Signal Systems	15,957	26,641
	<u>851,517</u>	<u>793,286</u>
Total Distribution Expenses		
Customer Account Expenses:		
Meter Reading Expenses	27,228	17,690
Customer Records and Collection	299,907	281,428
	<u>327,135</u>	<u>299,118</u>
Total Customer Account Expenses		
Administrative and General Expenses:		
Administrative and General Salaries	554,658	498,251
Office Supplies and Expenses	141,431	112,471
Outside Services Employed	139,873	103,155
Injuries and Damages	37,013	30,610
Employees' Pensions and Benefits	1,019,085	910,102
Miscellaneous General Expenses	113,674	122,566
Maintenance of General Plant	31,312	25,792
	<u>2,037,046</u>	<u>1,802,947</u>
Total Administrative and General Expenses		
TOTAL OPERATION AND MAINTENANCE EXPENSES	<u>\$ 13,358,896</u>	<u>\$ 13,426,834</u>

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