

Holden Municipal Light Department
Financial Statements
December 31, 2015 and 2014

HOLDEN MUNICIPAL LIGHT DEPARTMENT
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DECEMBER 31, 2015 AND 2014

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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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Holden Municipal Light Department as of December 31, 2015 and 2014, and the respective changes in financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the 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, 2015 and 2014, and the changes in financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Other Postemployment Benefits and Net Pension Liability information on pages three through seven and 33 through 35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Sales of Electricity and Schedules of Operations and Maintenance Expenses on pages 36 and 37 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
March 22, 2016

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, 2015 and 2014. 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, 2015, net position totaled \$10,032,415 an increase of \$366,828 or 3.7% from 2014.

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 before contributions and transfers for the years ending December 31, 2015 and 2014 was \$518,029 and \$423,748, 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

	2015	2014 (As Revised)
Current Assets	\$ 4,679,388	\$ 4,594,253
Noncurrent Assets	<u>13,594,677</u>	<u>13,412,342</u>
Total Assets	<u>18,274,065</u>	<u>18,006,595</u>
Deferred Outflows of Resources	<u>296,217</u>	<u>266,600</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 18,570,282</u>	<u>\$ 18,273,195</u>
Current Liabilities	\$ 1,413,455	\$ 1,734,288
Noncurrent Liabilities	<u>4,308,475</u>	<u>4,199,142</u>
Total Liabilities	<u>5,721,930</u>	<u>5,933,430</u>
Deferred Inflows of Resources	<u>2,815,937</u>	<u>2,674,178</u>

Summary of Net Position (Continued)

	2015	2014 (As Revised)
Net Position:		
Net Investment in Capital Assets	9,683,477	9,567,550
Net Position Restricted for Depreciation	1,104,095	997,004
Unrestricted Net Position	<u>(755,157)</u>	<u>(898,967)</u>
Total Net Position	<u>10,032,415</u>	<u>9,665,587</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 18,570,282</u>	<u>\$ 18,273,195</u>

Summary of Changes in Net Position

	2015	2014 (As Revised)
Operating Revenues	\$ 14,895,506	\$ 14,451,006
Operating Expenses	<u>14,319,068</u>	<u>14,042,352</u>
Operating Income	576,438	408,654
Nonoperating Revenues (Expenses)	<u>(58,409)</u>	<u>15,094</u>
Income Before Contributions and Transfers	518,029	423,748
Net Position, January 1	9,665,587	9,393,180
Transfers Out – Payment in Lieu of Taxes	<u>(151,201)</u>	<u>(151,341)</u>
Net Position, December 31	<u>\$ 10,032,415</u>	<u>\$ 9,665,587</u>

Financial Highlights

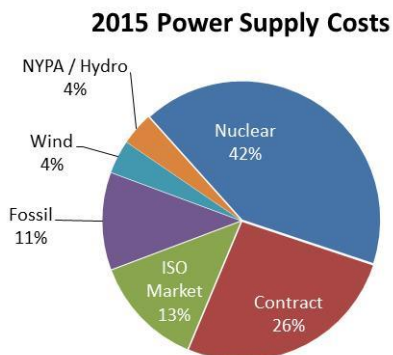
Operating Revenues (Expenses):

Operating revenues increase by \$444,500 (3.1%) in 2015 compared to 2014 due to increased KWH sales and the full year impact of the increase in the PCA rate in mid-2014. Operating expenses increased by \$276,716 (2.0%), principally due to increased pension expense in accordance with GASB Statements #68 and #71.

As a result of the increased operating revenues, operating income increased by \$167,784 from 2014 to 2015. Energy sales (KWH) increased by 2,620,837 (2.5%) in 2015 compared to 2014 due to increased activity across the residential, commercial and industrial sectors.

Power Portfolio:

The Department's power portfolio by expense for 2015 is below. Major resources from which the Department purchases power are via long term project entitlements (nuclear - 42%) and the MMWEC-owned and operated natural gas fueled intermediate/ peaking plant (Stony Brook – 11%); one year, or shorter, system power contracts (26%); the ISO-New England power market (13%); wind (Berkshire Wind – 4%) and hydro power from the New York Power Authority and local sources (4%). 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 2015 and 2014, the Department entered into various system power commitments that locked in about 20% of our needs through 2019 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.

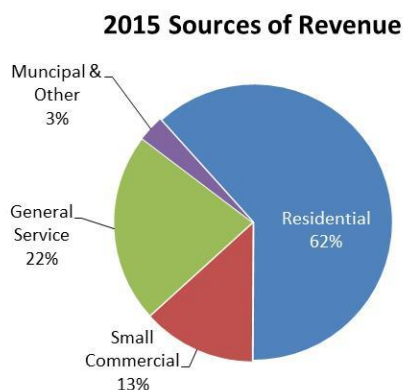
In 2006, the Town of Holden, through the Department, became a participant in Special Project 2006A of the Massachusetts Municipal Wholesale Electric Company (MMWEC) to explore the potential to construct an additional generating facility at MMWEC's Stony Brook site. Over the course of several years, numerous development activities took place resulting in payments by the Department to MMWEC totaling \$138,405. MMWEC determined that construction and operation of Project 2006A is not feasible. The Department recognized the impairment loss which is included in purchase power expense in 2014.

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.

Customer Portfolio:

The majority (62%) of operating revenue comes from residential customers, although commercial and industrial customers represent a large portion as well. While industrial and commercial customers represent 8% of the total number of customers, these customers provided 35% of sales revenue.



Utility and Debt Administration:

Utility Plant In Service: Total Utility Plant In Service at net book value for the end of 2015 is \$9,683,477. Of this amount \$6,840,710 represents Distribution Plant, \$2,675,372 represents General Plant, \$72,500 represents Land and \$95,895 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, 2015, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is approximately \$121,353,000, of which the Department's share is \$3,989,000. 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, 2015, BWPEC's total future debt service requirement on outstanding bonds issued for the project is \$80,988,000, of which the Department's share is \$5,619,000. The debt service and interest has been, and will continue to be paid with revenues received from the sales of electricity.

In May of 2004, town meeting authorized the building the new substation, to supplement the existing Chaffins Station. Construction was completed in 2007. In February 2005, the Department received \$2,620,000 in connection with the Town's issuance of General Obligation Bonds for the substation project with rates ranging from 3.00% to 3.50%. In February 2015, the debt was fully paid off.

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 December 2013 and December 2015 additional payments totaling \$600,000 were made and balance as of December 31, 2015 and 2014 was \$2,579,629 and \$2,359,586, 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 2015 and 2014 to be used for capital improvements and additions. Balances as of December 31, 2015 and 2014 were \$1,104,095 and \$997,004, 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 balances as of the end of 2015 and 2014 were \$1,098,859 and \$1,093,913, 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 balances in the trust as of December 31, 2015 and 2014 were \$952,206 and \$839,321, respectively.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

OPERATING FUND

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2015	2014 (As Revised)
	<hr/>	<hr/>
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 1,308,886	\$ 1,263,615
Accounts Receivable, Net	557,264	584,980
Other Receivables, Net	137,977	156,646
Materials and Supplies	321,782	279,731
Unbilled Revenue	993,599	1,046,063
Prepaid Expenses	261,021	169,305
Purchased Power Working Capital	1,098,859	1,093,913
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	4,679,388	4,594,253
	<hr/>	<hr/>
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	1,104,095	997,004
Customer Deposits	227,476	196,136
Other Special Funds	0	32,066
Rate Stabilization Fund	2,579,629	2,359,586
Utility Plant Assets, Net	9,683,477	9,827,550
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	13,594,677	13,412,342
	<hr/>	<hr/>
TOTAL ASSETS	18,274,065	18,006,595
	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflows of Resources Related to Pensions	296,217	266,600
	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 18,570,282	\$ 18,273,195
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See Accompanying Notes to Financial Statements

HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

OPERATING FUND

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2015	2014 (As Revised)
	<u>2015</u>	<u>2014 (As Revised)</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,263,332	\$ 1,355,089
Bond Payable	0	260,000
Accrued Expenses	<u>150,123</u>	<u>119,199</u>
TOTAL CURRENT LIABILITIES	<u>1,413,455</u>	<u>1,734,288</u>
NONCURRENT LIABILITIES:		
Customer Deposits	227,476	211,697
Accrued Expenses	47,673	53,536
Net Pension Liability	4,014,395	3,919,430
Other Postemployment Benefit Obligation	<u>18,931</u>	<u>14,479</u>
TOTAL NONCURRENT LIABILITIES	<u>4,308,475</u>	<u>4,199,142</u>
TOTAL LIABILITIES	<u>5,721,930</u>	<u>5,933,430</u>
DEFERRED INFLOWS OF RESOURCES:		
Contribtuion in Aid of Construction	121,716	0
Rate Stabilization Reserve	<u>2,694,221</u>	<u>2,674,178</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,815,937</u>	<u>2,674,178</u>
NET POSITION:		
Net Investment in Capital Assets	9,683,477	9,567,550
Net Position Restricted for Depreciation	1,104,095	997,004
Unrestricted Net Position	<u>(755,157)</u>	<u>(898,967)</u>
TOTAL NET POSITION	<u>10,032,415</u>	<u>9,665,587</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 18,570,282</u>	<u>\$ 18,273,195</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, 2015 AND 2014

	OPERATING FUND	
	2015	2014 (As Revised)
OPERATING REVENUES:		
Sales of Electricity	\$ 14,725,724	\$ 14,209,795
Other Operating Revenues	169,782	241,211
TOTAL OPERATING REVENUES	14,895,506	14,451,006
OPERATING EXPENSES:		
Operation and Maintenance	13,544,173	13,289,696
Depreciation	774,895	752,656
TOTAL OPERATING EXPENSES	14,319,068	14,042,352
OPERATING INCOME	576,438	408,654
NONOPERATING REVENUES (EXPENSES):		
Investment Income	23,678	25,508
Interest Expense	(82,087)	(10,414)
TOTAL NONOPERATING INCOME (EXPENSES)	(58,409)	15,094
Income Before Contributions and Transfers	518,029	423,748
NET POSITION - JANUARY 1	9,665,587	9,393,180
Transfers Out - Payment in Lieu of Taxes	(151,201)	(151,341)
NET POSITION - DECEMBER 31	\$ 10,032,415	\$ 9,665,587

See Accompanying Notes to Financial Statements

HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

OPERATING FUND

	2015	2014 (As Revised)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 15,010,134	\$ 14,237,833
Cash Paid to Suppliers	(11,583,709)	(11,362,108)
Cash Paid to Employees	(1,341,783)	(1,243,011)
Cash Paid for Benefits	(746,053)	(603,454)
Payment in Lieu of Taxes	(151,201)	(151,341)
	<u>1,187,388</u>	<u>877,919</u>
Net Cash Provided by Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Interest Expense	(80,990)	(599)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Customer Advances for Construction	121,716	0
Interest Expense	(4,388)	(12,936)
Principal Payment on Bond	(260,000)	(260,000)
Additions to Plant Assets	(630,822)	(828,194)
	<u>(773,494)</u>	<u>(1,101,130)</u>
Net Cash Used by Capital and Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Income	306	237
Net Transfers To/(From) Operations	(288,665)	369,380
	<u>(288,359)</u>	<u>369,617</u>
Net Cash Provided (Used) by Investing Activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	44,545	145,807
CASH AND CASH EQUIVALENTS - Beginning	<u>1,491,817</u>	<u>1,346,010</u>
CASH AND CASH EQUIVALENTS - Ending	<u>\$ 1,536,362</u>	<u>\$ 1,491,817</u>

See Accompanying Notes to Financial Statements

HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

OPERATING FUND

	2015	2014 (As Revised)
	<u>2015</u>	<u>2014 (As Revised)</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	\$ 576,438	\$ 408,654
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	774,895	752,656
Abandonment of Preliminary Surveys	0	138,405
Payment in Lieu of Taxes	(151,201)	(151,341)
(Increase) Decrease Assets:		
Accounts Receivable	27,716	11,669
Other Receivables	18,669	(40,634)
Materials and Supplies	(42,051)	(12,810)
Unbilled Revenue	52,464	(29,945)
Prepaid Expenses	(91,716)	(121,924)
Other Postemployment Benefit Asset	0	929
Deferred Outflows Related to Pensions	(29,617)	0
Increase (Decrease) Liabilities:		
Accounts Payable	(91,757)	55,388
Accrued Expenses	28,352	6,656
Purchase Power Adjustment	0	(199,094)
Net Pension Liability	94,965	0
Other Postemployment Benefit Obligations	4,452	14,479
Customer Deposits	15,779	44,831
	<u>1,187,388</u>	<u>877,919</u>
Net Cash Provided by Operating Activities	<u>\$ 1,187,388</u>	<u>\$ 877,919</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

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

	2015	2014 (As Revised)
	<u>2015</u>	<u>2014 (As Revised)</u>
Operating Cash	\$ 1,308,886	\$ 1,263,615
Customer Deposits	227,476	196,136
Other Special Funds	0	32,066
	<u>1,536,362</u>	<u>1,491,817</u>

Cash paid for interest during 2015 and 2014 was \$85,378 and \$13,535, respectively.

See Accompanying Notes to Financial Statements

HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

OPEB TRUST FUND

ASSETS

	<u>2015</u>	<u>2014</u>
Funds on Deposit with Town Treasurer		
Cash and Investments	<u>\$ 952,206</u>	<u>\$ 839,321</u>

NET POSITION

NET POSITION - Restricted	<u>\$ 952,206</u>	<u>\$ 839,321</u>
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HOLDEN MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

OPEB TRUST FUND

	<u>2015</u>	<u>2014</u>
ADDITIONS:		
Contributions:		
Employer	\$ 121,373	\$ 105,965
Net Appreciation (Depreciation) in Fair Value of Investments	(26,967)	(23,870)
Interest and Dividends	<u>18,479</u>	<u>56,681</u>
Total Additions	<u>112,885</u>	<u>138,776</u>
CHANGES IN NET POSITION	112,885	138,776
NET POSITION - JANUARY 1	<u>839,321</u>	<u>700,545</u>
NET POSITION - DECEMBER 31	<u>\$ 952,206</u>	<u>\$ 839,321</u>

See Accompanying Notes to Financial Statements

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 2015 and 2014.

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.

Reclassification

Certain prior year amounts, with no effect on previously stated net income, have been reclassified to conform to the 2015 presentation.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

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 2015 and 2014. The Department can place a lien against a property if payment is not made. For non-owners, that 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
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

Financial Statement Revision

The Department revised its beginning net position through the implementation of GASB Statements #68 and #71 related to accounting for pensions. The cumulative effect of this revision was to reduce the prior year total net position by \$3,786,130.

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>2015</u>	<u>2014</u>
Merchandise and Jobbing	\$ 46,116	\$ 47,483
Berkshire Wind RECs	88,589	102,838
Liens	<u>3,272</u>	<u>6,325</u>
Total Other Receivables	<u>\$ 137,977</u>	<u>\$ 156,646</u>

NOTE 4 - PREPAID EXPENSES:

Prepayments consist of the following:

	<u>2015</u>	<u>2014</u>
Power Contracts, Net	\$ 231,987	\$ 140,228
Insurance Expense	<u>29,034</u>	<u>29,077</u>
Total Prepaid Expenses	<u>\$ 261,021</u>	<u>\$ 169,305</u>

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NOTE 5 - PURCHASED POWER WORKING CAPITAL:

As described more fully in Note 13, 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, 2015 and 2014 is \$1,098,859 and \$1,093,913, 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. The fund is managed by the Town Treasurer and is used to pay for large capital investments such as new trucks and other long-term assets.

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, 2015 and 2014 was \$2,579,629 and \$2,359,586, 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 investment pools. Accordingly it is not practical to disclose the credit risk of such funds.

NOTE 8 - RELATED PARTY:

The Department bills the Town of Holden for electric light usage. The amount included in revenue was approximately \$457,175 and \$432,108 for December 31, 2015 and 2014, respectively. Accounts receivable from the Town was \$30,321 and \$35,554 at December 31, 2015 and 2014, respectively.

The Department reimburses the Town for various services and makes a payment in lieu of taxes. During the years ended December 31, 2015 and 2014, the total amount paid for these services and payment in lieu of taxes was \$879,722 and \$764,852, respectively. At year end 2015 and 2014, amounts payable to the Town was zero.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9 - UTILITY PLANT ASSETS:

	Balance January 1, 2015	Increases	Decreases	Balance December 31, 2015
Capital Assets Not Being Depreciated:				
Land	\$ 72,500	\$ 0	\$ 0	\$ 72,500
Construction in Progress	150,657	0	(55,762)	94,895
Total Capital Assets Not Being Depreciated	223,157	0	(55,762)	167,395
Capital Assets Being Depreciated:				
Distribution Plant	19,963,286	546,758	(29,162)	20,480,882
General Plant	5,866,751	139,826	0	6,006,577
Total Capital Assets Being Depreciated	25,830,037	686,584	(29,162)	26,487,459
Less Accumulated Depreciation For:				
Distribution Plant	(13,100,113)	(569,221)	29,162	(13,640,172)
General Plant	(3,125,531)	(205,674)	0	(3,331,205)
Total Accumulated Depreciation	(16,225,644)	(774,895)	29,162	(16,971,377)
Capital Assets Being Depreciated, Net	9,604,393	(88,311)	0	9,516,082
Utility Plant Assets, Net	<u>\$ 9,827,550</u>	<u>\$ (88,311)</u>	<u>\$ (55,762)</u>	<u>\$ 9,683,477</u>

NOTE 10 - NET INVESTMENT IN CAPITAL ASSETS:

	2015	2014
Cost of Capital Assets Acquired	\$ 26,654,854	\$ 26,053,194
Less: Accumulated Depreciation	(16,971,377)	(16,225,644)
Less: Outstanding Debt Related to Capital Assets	<u>0</u>	<u>(260,000)</u>
Net Investment in Capital Assets	<u>\$ 9,683,477</u>	<u>\$ 9,567,550</u>

HOLDEN MUNICIPAL LIGHT DEPARTMENT
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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 - 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. Of the Department's investments in U.S. Treasury/Agency Securities, Certificate of Deposits, and Money Market Mutual Funds, the Department does not have custodial risk exposure at December 31, 2015. 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. 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.

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, 2015 and 2014 was \$952,206 and \$839,321, respectively.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 13 - 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 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 14 - PRELIMINARY SURVEY ABANDONMENT:

During 2014, purchase power costs include an impairment loss of \$138,405 due to the determination that construction and operation of MMWEC Project 2006A is not feasible.

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

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

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.

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 year ended December 31, 2015 was \$266,600, which was paid during calendar year 2014.

Pension Liabilities- At December 31, 2015, the Light Department reported a liability of \$4,014,395 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of January 1, 2014. 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

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

contributions of all participating member units. At December 31, 2014, the Town's proportion was 4.046708%. 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, 2014. At December 31, 2014, the Department's portion was 16.67062% of the Town's total contributions.

Pension Expense- For the year ended December 31, 2015 the Department recognized a pension expense of \$359,151. For the year ended December 31, 2015, the Department reported deferred outflows of resources related to pensions of \$296,217, consisting of the differences between projected and actual investment earnings which amounted to \$2,414 and the amount paid for contributions made subsequent to the measurement date which amounted to \$293,803. Additionally, the changes in proportion of differences between employer contributions and proportionate share of contributions are not presented in the initial year of reporting in accordance with GASB Statements #68 and #71.

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

For the Year Ended December 31,	2016	\$	604
	2017		604
	2018		604
	2019		<u>602</u>
	Total	\$	<u>2,414</u>

Actuarial Assumptions-The total pension liability as of December 31, 2015 was determined by an actuarial valuation as of January 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date January 1, 2014

Actuarial Cost Method Entry Age Normal

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.

Early Retirement Incentive Programs (ERI) for 2002 and 2003:
Increasing dollar amount at 4.5% to reduce the unfunded Actuarial Accrued Liability attributable to ERI 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.

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NOTE 15 - PENSION PLAN (Continued):

Actuarial Assumptions (continued)

Remaining Amortization Period	21 years, except for ERI for 2002 and 2003 (14 years) and 2010 (8 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: <ul style="list-style-type: none"> 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	Not explicitly assumed
Projected Salary Increases	The assumed rates for salary increases including longevity is 3%
Cost of Living Allowance	Cost-of Living Allowances (COLA) are assumed to be 3% of the pension amount, capped at \$480 per year. Previously, capped at \$420.
Rates of Retirement	Varies based upon age for general employees, police and fire employees.
Mortality Rates:	
Healthy Retirees	RP-2000 Mortality Table Projected to 2014 with Scale AA.
Disabled Retirees	RP-2000 Mortality Table set forward two years for disabled members.
Investment Rate of Return	8.00%, net of pension plan investment expense, including inflation
Annuity Savings Fund Interest Rate	2.00% 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

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NOTE 15 - PENSION PLAN (Continued):

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 pensions plan's target asset allocation as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Global Equity	43%	8.23%
Fixed Income	23%	5.05%
Private Equity	10%	9.75%
Real Estate	10%	6.50%
Timber/Natural Resources	4%	6.88%
Hedge Funds	10%	7.00%

Discount Rate-The discount rate used to measure the total pension liability was 8%. 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 at rates equal to the actuarially determined contribution rates. 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate- The following presents the net pension liability calculated using the discount rate of 8%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Proportionate share of the Net Pension Liability	\$ 4,887,694	\$ 4,014,395	\$ 3,272,826

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 - 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.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
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NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (Continued):

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 July 1, 2014 the Department's membership consisted of the following:

Current retirees, beneficiaries	8
Current active members	<u>23</u>
Total	<u><u>31</u></u>

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 \$227,009 and \$217,157 for the years ended December 31, 2015 and December 31, 2014, 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 July 1, 2014, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return and an annual healthcare cost trend rate of 6%, initially, reduced by decrements to an ultimate 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
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NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (Continued):

The following shows the components of the Department's annual OPEB cost for the years ending December 31, 2015 and 2014, the amount actually contributed to the plan, and changes in the Department's net OPEB obligation based on an actuarial valuation as of July 1, 2014:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 181,217	\$ 173,834
Expected benefit payments	<u>(55,392)</u>	<u>(52,461)</u>
Increase in net OPEB obligation	125,825	121,373
Net OPEB obligation (asset), beginning of year	14,479	(929)
Transfers to OPEB Trust Fund	<u>(121,373)</u>	<u>(105,965)</u>
Net OPEB obligation, end of year	<u>\$ 18,931</u>	<u>\$ 14,479</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>
2013	\$ 184,300	80%	\$ (929)
2014	\$ 173,834	91%	\$ 14,479
2015	\$ 181,217	97%	\$ 18,931

The funded status is as follows:

Actuarial accrued liability (AAL)	\$ 1,672,910
Actuarial value of plan assets	<u>952,206</u>
Unfunded actuarial accrued liability	\$ 720,704
Funded ratio (actuarial value of plan members)	56%
Covered payroll (active plan members)	\$ 1,341,783
UAAL as a percentage of covered payroll	54%

HOLDEN MUNICIPAL LIGHT DEPARTMENT
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NOTE 17 - BOND:

In February 2005, the Department received \$2,620,000 in connection with the Town's issuance of a General Obligation Bond with interest rates ranging from 3.375% to 3.50%. During 2015, the Department made the final payment on this bond.

NOTE 18 - CONTINGENT LIABILITIES:

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.

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.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 18 - CONTINGENT LIABILITIES (Continued):

Berkshire Wind Cooperative Corporation (continued)

As of December 31, 2015, total capital expenditures for the Berkshire Wind Facility amounted to \$59,081,577, of which \$4,099,000 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 \$55,420,000, of which \$3,845,000 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, 2015, the Cooperative's total future debt service requirement on outstanding bonds issued for the Projects is \$80,988,000, of which \$5,619,000 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, 2015 and estimated for future years is shown below.

For Years Ending December 31,	2016	\$	375,000
	2017		375,000
	2018		375,000
	2019		374,000
	2020		375,000
	2021 to 2025		1,873,000
	2026 to 2030		<u>1,872,000</u>
	Total	\$	<u>5,619,000</u>

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.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 18 - CONTINGENT LIABILITIES (Continued):

MMWEC Contingencies and Liabilities (continued)

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook), the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

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

As of December 31, 2015, total capital expenditures for MMWEC's Projects amounted to \$1,626,959,000, of which \$50,651,000 represents the amount associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$112,510,000, of which \$3,681,000 is associated with the Department's share of Project Capability. As of December 31, 2015, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$121,353,000, of which \$3,989,000 is anticipated to be billed to the Department in the future.

The estimated 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, 2015 and estimated for future years is shown below.

	<u>ANNUAL COSTS</u>	
For Years Ending December 31,	2016	\$ 1,863,000
	2017	1,737,000
	2018	54,000
	2019	<u>335,000</u>
	Total	<u>\$ 3,989,000</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 \$4,721,000 and \$4,829,000 for the years ended December 31, 2015 and 2014, respectively.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 18 - CONTINGENT LIABILITIES (Continued):

MMWEC Contingencies and 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 \$1,740,450 in 2016, \$1,485,394 in 2017, \$1,606,170 in 2018 and \$1,314,468 in 2019.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(\$000)

	PERCENTAGE SHARE	TOTAL PROJECT EXPENDITURES TO DATE	PARTICIPANTS SHARE	DEBT ISSUED & OUTSTANDING 12/31/2015	PARTICIPANTS SHARE	TOTAL DEBT SERVICE ON BONDS OUTSTANDING	PARTICIPANTS SHARE
Stony Brook Peaking Project	3.1984	\$ 59,332	\$ 1,898	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	2.4979	174,118	4,349	-	-	-	-
Nuclear Mix No. 1-SBK	2.7392	11,150	305	-	-	-	-
Nuclear Mix No. 1-MLS	2.7392	123,182	3,374	-	-	-	-
Nuclear Project No. 3-MLS	0.8978	151,141	1,357	20,310	182	21,710	195
Nuclear Project No. 4-SBK	2.6400	348,576	9,202	20,950	553	22,257	588
Nuclear Project No. 5-SBK	1.0403	94,542	984	6,535	68	6,976	73
Wyman Project	-	8,805	-	-	-	-	-
Project No. 6-SBK	4.4477	656,113	29,182	64,715	2,878	70,410	3,133
TOTAL		<u>\$ 1,626,959</u>	<u>\$ 50,651</u>	<u>\$ 112,510</u>	<u>\$ 3,681</u>	<u>\$ 121,353</u>	<u>\$ 3,989</u>

	PERCENTAGE SHARE	OPERATION & MAINTENANCE 12/31/2014	PARTICIPANTS SHARE	OPERATION & MAINTENANCE 12/31/2015	PARTICIPANTS SHARE
Stony Brook Peaking Project	3.1984	\$ 4,648	\$ 149	\$ 3,730	\$ 119
Stony Brook Intermediate Project	2.4979	32,241	805	40,083	1,001
Nuclear Mix No. 1-SBK	2.7392	971	27	576	16
Nuclear Mix No. 1-MLS	2.7392	8,743	239	6,369	174
Nuclear Project No. 3-MLS	0.8978	26,549	238	27,329	245
Nuclear Project No. 4-SBK	2.6400	30,617	808	28,086	741
Nuclear Project No. 5-SBK	1.0403	8,122	84	7,530	78
Wyman Project	-	3,094	-	2,591	-
Project No. 6-SBK	4.4477	55,736	2,479	52,773	2,347
TOTAL		<u>\$ 170,721</u>	<u>\$ 4,829</u>	<u>\$ 169,067</u>	<u>\$ 4,721</u>

HOLDEN MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(\$000)

		2016		2017		2018	
	PERCENTAGE	ANNUAL COST	PARTICIPANTS	ANNUAL COST	PARTICIPANTS	ANNUAL COST	PARTICIPANTS
	<u>SHARE</u>		<u>SHARE</u>		<u>SHARE</u>		<u>SHARE</u>
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	14,725	132	3,639	33	3,346	30
Nuclear Project No. 4-SBK	2.6400	13,455	355	8,802	232	-	-
Nuclear Project No. 5-SBK	1.0403	3,857	40	2,884	30	235	2
Wyman Project	-	-	-	-	-	-	-
Project No. 6-SBK	4.4477	30,034	1,336	32,417	1,442	503	22
TOTAL		<u>\$ 62,071</u>	<u>\$ 1,863</u>	<u>\$ 47,742</u>	<u>\$ 1,737</u>	<u>\$ 4,084</u>	<u>\$ 54</u>

		2019	
	PERCENTAGE	ANNUAL COST	PARTICIPANTS
	<u>SHARE</u>		<u>SHARE</u>
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	-	-
Nuclear Project No. 4-SBK	2.6400	-	-
Nuclear Project No. 5-SBK	1.0403	-	-
Wyman Project	-	-	-
Project No. 6-SBK	4.4477	7,456	335
TOTAL		<u>\$ 7,456</u>	<u>\$ 335</u>

HOLDEN MUNICIPAL LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT EMPLOYEE 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%

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	7/1/2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	30 year level dollar basis
Remaining Amortization Period	23 years

Actuarial Assumptions

Assumed Retirement Age	65
Discount Rate:	4.00%
Projected Salary Increases	3.00%
Health Care Cost Trend Rate	Initially 6%, reduced by decrements of 1% per year; ultimate rate of 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

	<u>December 31, 2014</u>
Department's Proportion of the Net Position Liability	.6746%
Department's Proportionate Share of the Net Pension Liability	\$ 4,014,395
Department's Total Employee Payroll	\$ 1,341,783
Net Pension Liability as a Percentage of Total Employee Payroll	299.18%
Department's Proportionate Share of the Plan's Fiduciary Net Position as a Percentage of the Department's Total Pension Liability	47.94%

Note: This schedule is 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.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
NET PENSION LIABILITY

OPERATING FUND

Schedule of Contributions

	<u>December 31, 2014</u>
Actuarially Determined Contribution	\$ 266,600
Contributions in Relation to the Actuarially Determined Contribution	<u>266,600</u>
Contribution deficiency (excess)	<u>\$ -</u>
Total Employee Payroll	\$ 1,341,738
Contribution as a Percentage of Total Employee Payroll	19.87%

Note: This schedule is 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.

HOLDEN MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF SALES OF ELECTRICITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

OPERATING FUND

	2015	2014 (As Revised)
	<u>2015</u>	<u>2014 (As Revised)</u>
SALES OF ELECTRICITY:		
Residential	\$ 9,053,562	\$ 9,002,855
Commercial	1,932,758	1,876,748
Industrial	3,249,367	2,782,574
Municipal	320,512	319,065
Private Lighting	56,812	38,694
Street Lights	<u>112,713</u>	<u>108,425</u>
TOTAL SALES OF ELECTRICITY	<u>\$ 14,725,724</u>	<u>\$ 14,128,361</u>

See Independent Auditors' Report

HOLDEN MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

OPERATING FUND		2014
		(As Revised)
	2015	
Power Production Expenses:		
Purchased Power	\$ 10,861,591	\$ 10,913,460
Other Power Expenses	41,486	14,408
Total Power Production Expenses	10,903,077	10,927,868
Distribution Expenses:		
Station Expenses	159,001	151,975
Customer Installation Expenses	12,288	14,469
Transportation Expenses	66,140	73,021
Miscellaneous Distribution Expenses	206,168	184,142
Maintenance of Overhead Lines	277,718	267,351
Maintenance of Street Lights and Signal Systems	27,821	34,173
Total Distribution Expenses	749,136	725,131
Customer Account Expenses:		
Meter Reading Expenses	26,483	23,944
Customer Records and Collection	260,245	255,279
Uncollectible Accounts	15,738	0
Total Customer Account Expenses	302,466	279,223
Administrative and General Expenses:		
Administrative and General Salaries	423,618	413,437
Office Supplies and Expenses	111,340	124,991
Outside Services Employed	137,713	96,617
Injuries and Damages	26,022	27,665
Employees' Pensions and Benefits	746,053	603,454
Miscellaneous General Expenses	111,724	85,950
Maintenance of General Plant	33,024	5,360
Total Administrative and General Expenses	1,589,494	1,357,474
TOTAL OPERATION AND MAINTENANCE EXPENSES	\$ 13,544,173	\$ 13,289,696

See Independent Auditors' Report