

**STERLING MUNICIPAL LIGHT DEPARTMENT**  
Financial Statements  
December 31, 2011 and 2010

STERLING MUNICIPAL LIGHT DEPARTMENT  
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DECEMBER 31, 2011 and 2010

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# Goulet, Salvidio & Associates, P.C.

Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT

The Board of Commissioners  
Sterling Municipal Light Department  
Sterling, Massachusetts 01564

We have audited the accompanying financial statements of Sterling Municipal Light Department of Sterling, Massachusetts, as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

The management's discussion and analysis on pages two through six is not a required part of the basic financial statements but is supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Goulet, Salvidio & Associates, P.C.

*Goulet, Salvidio & Associates, P.C.*

Worcester, Massachusetts  
March 27, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Sterling Municipal Light Department's (SMLD) annual financial report, management provides narrative discussion and analysis of the financial activities of the Sterling Municipal Light Department for the years ended December 31, 2011 and 2010. 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 assets and liabilities (2) the statements of revenues, expenses and changes in net assets (3) the cash flow statements and (4) notes to the financial statements.

The Statement of Net Assets is designed to indicate our financial position as of a specific point in time. As of December 31, 2011, our net assets totaled \$12,028,982 which was an increase of \$1,663 over 2010.

The Statement of Revenues, Expenses and Changes in Net Assets, summarizes our operating results and reveals how much income was earned for the year. As discussed on the following page our net income before transfers and contributions for the years ending December 31, 2011 and 2010 was \$46,747 and \$573,165, respectively.

The Statement 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 Assets

	<u>2011</u>	<u>2010</u>
Current Assets	\$ 2,635,618	\$ 3,237,412
Noncurrent Assets	<u>11,236,126</u>	<u>10,706,820</u>
Total Assets	<u>\$ 13,871,744</u>	<u>\$ 13,944,232</u>
Current Liabilities	\$ 492,409	\$ 626,646
Noncurrent Liabilities	<u>1,350,353</u>	<u>1,290,267</u>
Total Liabilities	<u>1,842,762</u>	<u>1,916,913</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	9,163,805	9,014,092
Unrestricted	<u>2,865,177</u>	<u>3,013,227</u>
Total Net Assets	<u>12,028,982</u>	<u>12,027,319</u>
Total Liabilities and Net Assets	<u>\$ 13,871,744</u>	<u>\$ 13,944,232</u>

### Summary of Changes in Net Assets

	2011	2010
Operating Revenues	\$ 8,285,810	\$ 9,061,345
Operating Expenses	8,321,463	8,726,984
Operating Income	(35,653)	334,361
Nonoperating Revenues (Expenses)	82,400	238,804
Income Before Transfers and Contributions	46,747	573,165
Net Assets, January 1	12,027,319	11,422,042
Transfers In/Out – Capital Projects	(1,084)	74,112
Transfers Out – Payment in Lieu of Taxes	(44,000)	(42,000)
Net Assets, December 31	\$ 12,028,982	\$ 12,027,319

#### Financial Highlights

##### Operating Revenues (Expenses)

Operating revenues decreased by \$775,535 (8.5%) from 2010 to 2011 as the result of a decrease in the purchase power adjustment rate. Operating expenses decreased by \$405,521, principally due to lower purchased power expense, resulting in a decrease in operating income of \$370,014 from 2010 to 2011.

The SMLD's Customer base has increased to 3,726 as of December 31, 2011. We have 3,326 Residential, 150 Industrial, 217 Commercial and 33 Municipal Services customers.

A total of 58,486,764 kilowatt hours (kWhrs) of electricity were sold during calendar year 2011. This represents an increase of 463,552 kWhrs (.8%) over calendar year 2010. Sterling's hourly peak demand of 13,247 KW was set in July 2011.

##### Power:

The New England Power Pool expenses continued to increase, primarily by the return on equity allowance the transmission owners received of 11%-14%. We will continue to contest these out of market returns and look to a more equitable solution to the aging transmission problem. This will include the 1.5 mega-watt (MW) solar energy source at Pandolf Perkins that went online on December 19, 2011. This project is supplying 1.5 million kWhrs of below market priced energy to the residents of Sterling and does not require transmission for distribution purposes. We are in discussions with another solar company that we anticipate will provide us with an additional renewable power source that will also be below market rates. This project will take place in the spring of 2012. We continue to pursue alternative sources of power with competitive pricing to provide us with sustainable energy without producing further damage to our environment.

## **Financial Highlights (Continued)**

### **Power (continued):**

In an effort to diversify power resources and stabilize our purchased power costs we purchase electricity for our customer's through fixed contracts and open market power purchases. Purchased power costs reflect the generation and delivery of electricity to the Town of Sterling. There are many circumstances beyond our control that make the cost of electric energy fluctuate. These include periods of peak power demands during extreme temperatures, unexpected plant shutdowns and spikes in fuel prices. Changing costs are triggered by a number of unpredictable events from fluctuating fuel commodity markets to global unrest. During 2011 our power costs remained stable as natural gas prices declined.

Although fuel prices declined in 2011 our transmission costs continued to rise. During the last five years our transmission costs have increased mainly due in part to transmission owners that received large returns between 12-14% on their investments in regional transmission line upgrades. Other increased costs are due to the regional transmission upgrades.

Sterling's power supply consists of a mixed portfolio of power agreements. The power agreements consist of Hydro Power, specifically from Baltic Mills Hydro, Contoocook Hydro, Mechanicsville Hydro, Methuen Falls Hydro, Public Authority State of New York Hydro (PASNY) and Centennial Falls Hydro Electric Facility. We continue to explore cost efficient renewable energy supply options for our power portfolio. In 2011 over 20% of our power received was from renewable energy sources. This exceeds the Massachusetts requirements (Municipal Light Plants are exempt) for renewable energy supply in power portfolios. In addition, we receive nuclear power from the Millstone III Plant and the Seabrook Power Plant in New Hampshire. Other sources of our power supply come from the MMWEC Stony Brook Plant combined cycle units I & II and the Carbolon generating facility.

### **Rates:**

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 changes in the variable (fuel – related) component of power costs. The PCA is adjusted monthly and reflects both historical and projected power costs.

SMLD performed a cost of service study. The review involves rates, revenues and expenses. The rate review is to assure that we are providing equitable returns from each rate classification. The cost of service study is currently under review by the Board and any changes will be in early 2012.

### **Customer Portfolio:**

The Department's industrial customers represent a large portion of annual revenues. While industrial and commercial customers represent 10% of the total number of customers, these customers provided 43% of sales revenue.

## **Utility and Debt Administration:**

### Utility Plant In Service

Total Utility Plant In Service at net book value for the end of 2011 is \$9,163,805. Of this amount \$6,138,507 represents Distribution Plant, \$2,102,839 represents General Plant, and \$922,459 represents Construction in Progress. The Operations Crew continued to complete the repair work from the December 2008 Ice Storm, in addition to performing upgrades and maintenance throughout Town. This will help minimize outages and the number of customers affected by these outages.

In May of 2011 the SMLD signed a contract with Mueller Systems to complete the purchase and installation agreement for the \$618,000 Advanced Meter Infrastructure (AMI) project that was purchased in 2008. To date we have 1,200 of the 3,760 AMI meters installed. This project was put on hold in October 2010 until the billing and computer system upgrades were completed. This project is expected to be completed in the second quarter of 2012. In order to accomplish this we needed to replace the existing billing system. After multiple vendor presentations, solicitation for bidders began in early February and in May of 2011. A contract was signed and the conversion for the new billing system began with the Southeastern Data Cooperative (SEDC) out of Atlanta, Georgia. SEDC provides billing systems for over 220 utilities across the U.S. In order to accommodate the billing system we needed to replace our existing Infrastructure Technology (IT). In June of 2011 we utilized the state bid to replace the computers and server. The billing system will be fully operational by the first quarter of 2012.

### 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, NSTAR and Northeast Utilities, were required to sell their generation assets as a result of the same restructuring laws.

The Town of Sterling, 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 for its members and other utilities. As of December 31, 2011, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is approximately \$380 million, of which Sterling Municipal Light Department's share is \$5.1 million. The 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 the Town of Sterling Treasurer. 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. The Rate Stabilization Fund balance as of December 31, 2011 and 2010 is \$180,358 and \$50,654, respectively.

## **Significant Balances and Transactions (Continued):**

### Depreciation Fund

The Department maintains a depreciation fund, which is managed by the Town of Sterling 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 2011 to be used for capital improvements and additions.

### Purchased Power Working Capital

Purchased Power Working Capital is an amount held by MMWEC, which requires that it holds 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 in the account as of the end of 2011 and 2010 was \$637,481 and \$395,803, respectively.

### Other

The SMLD employees made a commitment to reduce operating costs. We performed energy conservation measures at our own facilities. These upgrades included blown in insulation in our exterior walls at 50 Main Street, the installation of programmable thermostats throughout our 3 buildings and the replacement of 2 of the 30 year old heat storage units. We will continue by replacing 2 heat storage units per year.



STERLING MUNICIPAL LIGHT DEPARTMENT  
STATEMENTS OF NET ASSETS  
DECEMBER 31, 2011 AND 2010

ASSETS		
	2011	2010
<b>CURRENT ASSETS:</b>		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 487,276	\$ 602,774
Accounts Receivable - Customers	454,759	448,217
Other Receivables	172,391	312,284
Materials and Supplies	346,907	438,882
Prepaid Expenses	536,804	1,039,452
Purchase Power Working Capital	637,481	395,803
<b>TOTAL CURRENT ASSETS</b>	<b>2,635,618</b>	<b>3,237,412</b>
<b>NONCURRENT ASSETS:</b>		
Funds on Deposit with Town Treasurer		
Depreciation Fund	1,047,610	794,572
Customer Deposits	258,010	247,502
Rate Stabilization Fund	180,358	50,654
OPEB Fund	106,343	0
Deferred Power Contract	480,000	600,000
Utility Plant Assets, Net	9,163,805	9,014,092
<b>TOTAL NONCURRENT ASSETS</b>	<b>11,236,126</b>	<b>10,706,820</b>
<b>TOTAL ASSETS</b>	<b>\$ 13,871,744</b>	<b>\$ 13,944,232</b>

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT  
STATEMENTS OF NET ASSETS  
DECEMBER 31, 2011 AND 2010

LIABILITIES		
	2011	2010
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 426,554	\$ 512,425
Accrued Expenses	65,855	81,721
Capital Lease	0	32,500
<b>TOTAL CURRENT LIABILITIES</b>	<b>492,409</b>	<b>626,646</b>
<b>NONCURRENT LIABILITIES:</b>		
Customer Deposits	253,210	244,483
Net Other Postemployment Benefits Obligation	916,785	595,131
Rate Stabilization Reserve	180,358	450,653
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,350,353</b>	<b>1,290,267</b>
<b>TOTAL LIABILITIES</b>	<b>1,842,762</b>	<b>1,916,913</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	9,163,805	9,014,092
Unrestricted	2,865,177	3,013,227
<b>TOTAL NET ASSETS</b>	<b>12,028,982</b>	<b>12,027,319</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 13,871,744</b>	<b>\$ 13,944,232</b>

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT  
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING REVENUES:		
Sales of Electricity	\$ 8,126,711	\$ 8,813,675
Other Operating Revenues	159,099	247,670
TOTAL OPERATING REVENUES	8,285,810	9,061,345
OPERATING EXPENSES:		
Operations and Maintenance Expenses	7,881,476	8,303,457
Depreciation	439,987	423,527
TOTAL OPERATING EXPENSES	8,321,463	8,726,984
OPERATING INCOME (LOSS)	(35,653)	334,361
NONOPERATING REVENUES (EXPENSES):		
Interest Income	23,025	15,599
Interest Expense	(3,825)	(4,760)
Net Gain (Loss) on Investment	3,458	(3,321)
Management Advisory Fees	(3,837)	(2,698)
Disaster Recovery Revenue	63,579	233,984
TOTAL NONOPERATING REVENUES (EXPENSES)	82,400	238,804
Income Before Transfers and Contributions	46,747	573,165
NET ASSETS - JANUARY 1	12,027,319	11,422,042
Transfers In/Out- Capital Projects	(1,084)	74,112
Transfers Out - Payment in Lieu of Taxes	(44,000)	(42,000)
NET ASSETS - DECEMBER 31	\$ 12,028,982	\$ 12,027,319

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Customers	\$ 8,314,982	\$ 8,796,526
Cash Paid to Suppliers	(4,944,392)	(7,085,909)
Cash Paid for Benefits	(976,016)	(991,316)
Cash Paid to Employees	(1,026,527)	(1,145,287)
Payment to Town of Sterling in Lieu of Taxes	(44,000)	(42,000)
	1,324,047	(467,986)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Disaster Recovery Revenue	176,485	233,984
Interest Expense	(3,825)	(4,760)
Capital Leases	(32,500)	32,500
	140,160	261,724
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Additions to Plant Assets	(589,701)	(1,076,212)
Capital Projects	(1,084)	74,112
	(590,785)	(1,002,100)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest Income	23,025	15,599
Net Investment Transactions in the Depreciation Fund	(414,667)	(497,121)
Rate Stabilization Reserve	(270,295)	450,653
Purchase Power Working Capital	(241,678)	556,684
	(903,615)	525,815
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(30,193)	(682,547)
<b>CASH AND CASH EQUIVALENTS - JANUARY 1</b>	1,204,400	1,886,947
<b>CASH AND CASH EQUIVALENTS - DECEMBER 31</b>	\$ 1,174,207	\$ 1,204,400

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (35,653)	\$ 334,361
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	439,987	423,527
Payment in Lieu of Taxes	(44,000)	(42,000)
Allowance for Doubtful Accounts	0	5,000
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Accounts Receivable - Customers	(6,542)	26,647
Other Receivables	26,987	(248,996)
Materials and Supplies	91,975	114,745
Prepaid Expenses	502,649	(514,372)
Deferred Power Contract	120,000	(600,000)
Increase (Decrease) in Liabilities:		
Accounts Payable	(85,870)	(215,858)
Accrued Expenses	(15,867)	(9,072)
Customer Advances for Construction	0	(44,317)
Customer Deposits	8,727	(3,153)
Net Other Postemployment Benefits Obligation	321,654	305,502
Net Cash Provided (used) by Operating Activities	\$ 1,324,047	\$ (467,986)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

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

Operating Cash	\$ 487,276	\$ 602,774
Depreciation Fund	142,220	303,470
Customer Deposits	258,010	247,502
Rate Stabilization Fund	180,358	50,654
OPEB Fund	106,343	0
	\$ 1,174,207	\$ 1,204,400

See Accompanying Notes To Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Sterling Municipal Light Department (SMLD) is a component unit of the Town of Sterling, 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 municipal light board appoints the manager of the Department who shall, under the direction and control of the municipal light board, have full charge of the operation and management of the Department.

Regulation and Basis of Accounting

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

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

Under Massachusetts law, electric rates of the Light Department are set by the Municipal Light Board and may be changed not more than 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 eight percent 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 three percent for 2011 and 2010.

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. Revenues are stated net of discounts, no recognition is given to unbilled revenues at the end of the accounting periods.

Taxes

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

STERLING MUNICIPAL LIGHT DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

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.

Compensated Absences

To reduce unfunded liabilities in the future, during 2011 the Department changed the sick pay policy for non bargained employees to a paid time off (PTO) policy. Employees no longer accumulate sick time, the Department has purchased a short term disability policy that will cover the employees for up to the first ten weeks of sick time. PTO is earned monthly based on the number of years of service with the department.

In accordance with the union contract, employees are allowed to accumulate one sick day per month with one bonus day for every four consecutive months without using a sick day, to a maximum of three days per year. Upon termination of employment with the Department, the employee will not be paid and upon retirement will be entitled to a portion of the accumulated sick time.

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

Accounts Receivable Policy

The Department carries its accounts receivable at cost less an allowance for doubtful accounts of \$10,000 for 2011 and 2010. 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.

STERLING MUNICIPAL LIGHT DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

NOTE 2 - OTHER RECEIVABLES:

Other receivables consist of the following:	<u>2011</u>	<u>2010</u>
Merchandise and Jobbing	\$ 69,577	\$ 96,565
Disaster Recovery Revenue	<u>102,814</u>	<u>215,719</u>
Total Other Receivables	<u>\$ 172,391</u>	<u>\$ 312,284</u>

NOTE 3 - PREPAID EXPENSES:

Prepayments consist of the following:	<u>2011</u>	<u>2010</u>
Prepaid Insurance	\$ 12,934	\$ 54,122
Pension Assessment	74,771	62,365
Purchased Power	214,011	250,019
Other Expenses	1,427	10,038
Deferred Power Prepayment	120,000	120,000
Preliminary Survey	<u>113,661</u>	<u>542,908</u>
Total Prepaid Expenses	<u>\$ 536,804</u>	<u>\$ 1,039,452</u>

NOTE 4 - PURCHASED POWER WORKING CAPITAL:

As described more fully in Note 11, 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, 2011 and 2010 is \$637,481 and \$395,803.

NOTE 5 - DEPRECIATION FUND:

Pursuant to provisions of the Commonwealth's General Laws, cash in an amount equivalent to the annual depreciation expense is transferred from unrestricted funds to the depreciation fund. Interest earned on the balance of the fund must also remain in the fund. The fund is managed by the Town Treasurer and is used to pay for large capital investments such as new trucks and other long-term assets.



STERLING MUNICIPAL LIGHT DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

NOTE 6 - RATE STABILIZATION:

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, 2011 and 2010 was \$180,358 and \$50,654.

NOTE 7 - UTILITY PLANT ASSETS:

	Balance January 1, 2011	Increases	Decreases	Balance December 31, 2011
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 763,248	\$ 262,182	102,971	\$ 922,459
Land	197,008	0	0	197,008
Total Capital Assets Not Being Depreciated	<u>960,256</u>	<u>262,182</u>	<u>102,971</u>	<u>1,119,467</u>
Capital Assets Being Depreciated:				
Distribution Plant	11,287,907	335,634	(85,758)	11,537,783
General Plant	3,378,333	94,855	(256,233)	3,216,955
Total Capital Assets Being Depreciated	<u>14,666,240</u>	<u>430,489</u>	<u>(341,991)</u>	<u>14,754,738</u>
Less Accumulated Depreciation For:				
Distribution Plant	(5,343,405)	(338,637)	85,758	(5,596,284)
General Plant	(1,268,999)	(101,350)	256,233	(1,114,116)
Total Accumulated Depreciation	<u>(6,612,404)</u>	<u>(439,987)</u>	<u>341,991</u>	<u>(6,710,400)</u>
Capital Assets Being Depreciated, Net	<u>8,053,836</u>	<u>(9,498)</u>	<u>0</u>	<u>8,044,338</u>
Utility Plant Assets, Net	<u>\$ 9,014,092</u>	<u>\$ 252,684</u>	<u>\$ (102,971)</u>	<u>\$ 9,163,805</u>

NOTE 8 - INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT:

	<u>2011</u>	<u>2010</u>
Cost of Capital Assets Acquired	\$ 15,874,205	\$ 15,626,496
Less: Accumulated Depreciation	<u>6,710,400</u>	<u>6,612,404</u>
Invested in Capital Assets, Net of Related Debt	<u>\$ 9,163,805</u>	<u>9,014,092</u>

STERLING MUNICIPAL LIGHT DEPARTMENT  
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NOTE 9 - RELATED PARTY:

The Department bills the Town of Sterling for electric light usage. The amount included in revenue was approximately \$342,188 and \$377,729 for December 31, 2011 and 2010, respectively. Accounts receivable from the Town was \$24,404 and \$8,700 at December 31, 2011 and 2010, respectively.

The Department reimburses the Town for various services and makes a payment in lieu of taxes. During the year ended December 31, 2011 and 2010, the total amount paid for these services and payment in lieu of taxes was \$513,548 and \$545,228, respectively. As of December 31, 2011 and 2010, amounts payable to the Town were \$25,805 and \$92,459, respectively.

NOTE 10 - CASH AND INVESTMENTS:

A cash and investment pool is maintained and available for use by the depreciation and operation 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 SMLD'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, 2011. The exposure amounted to \$294,571 in 2010. However, 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.

Interest Rate Risk

The Department invests in term securities out to a maximum of five years to help limit the amount of exposure to fair value losses that would arise if interest rates were to rise.

STERLING MUNICIPAL LIGHT DEPARTMENT  
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NOTE 10 - CASH AND INVESTMENTS (Continued):

	Ratings as of <u>Year End</u>	2011 Fair <u>Value</u>	2011 Under 1 <u>Year</u>	2011 1-5 Years <u></u>	2010 Fair Value <u></u>
<u>Term Securities</u>					
U.S. Treasury/Agency Securities	AA+	\$ 521,466	\$ 0	\$ 521,466	\$ 189,539
Corporate Bonds	AA+	56,602	40,899	15,703	58,796
Corporate Bonds	AA	41,680	41,680	0	43,248
Certificate of Deposit	Unrated	<u>190,536</u>	<u>50,046</u>	<u>140,490</u>	<u>180,443</u>
Total Term Securities		810,284	<u>\$ 132,625</u>	<u>\$ 677,659</u>	472,026
<u>Other Securities</u>					
Equity Securities		788			557
Fixed Income Mutual Funds		52,408			16,921
Money Market Mutual Funds		181,949			303,470
Accrued Interest		<u>2,181</u>			<u>1,598</u>
Total Investments		<u>\$ 1,047,610</u>			<u>\$ 794,572</u>

Gain (Loss) on Investments

	<u>2011</u>	<u>2010</u>
Realized Gain (Loss) on Investments	\$ (3,551)	\$ (5,929)
Unrealized Gain (Loss) on Investments	<u>7,009</u>	<u>2,608</u>
Gain (Loss) on Investments	<u>\$ 3,458</u>	<u>\$ (3,321)</u>

NOTE 11 - MMWEC PARTICIPATION:

Town of Sterling, acting through the Department, is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

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NOTE 11 - MMWEC PARTICIPATION (Continued):

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 utilities 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.

The 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 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 12 - PENSION PLAN:

The Department, through the Town of Sterling, 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 contributory defined benefit plan for all county employees and employees of participating towns and districts except those employees who are covered by teacher's retirement board.

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

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

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NOTE 12 - PENSION PLAN (Continued):

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

Active members contribute 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. These contributions are deposited in the Annuity Savings Fund and earn interest at a rate determined by The Public Employees' Retirement Administration's (\*PERA's) Actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted since 1981 and any increase in other benefits imposed by state law after that year is borne by the state.

Members who become permanently and totally disabled from 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.

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

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

The Department's contribution to the Retirement Plan is determined by an allocation of the total Town contribution which is based upon projected benefits to be paid during the applicable year. The Town is assessed annually for their share of system costs. The Department then reimburses the Town for the Department's share of the assessment.

The amount of pension expense charged to operations for the years ended December 31, 2011, 2010, and 2009 was approximately \$137,136, \$124,730 and \$108,659, respectively.

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.

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.

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NOTE 13 - 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, 2009 the Department's membership consisted of the following:

Current retirees, beneficiaries	5
Current active members	19
Total	24

*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 \$293,951 and \$319,122 for the years ended December 31, 2011 and 2010, respectively. Currently, the Department pays 80% of the premium for the health insurance for active employees and for retirees who retired after July 1, 2009. For those who retired prior to July 1, 2009 the department pays 90%. The Department pays 75% for dental and life insurance.

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

*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. The following shows the components of the Department's annual OPEB cost for the years ending December 31, 2011 and 2010, 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, 2009:

	2011	2010
Normal cost with interest	\$ 275,549	\$ 264,315
Amortization of unfunded actuarial accrued liability with interest	123,449	106,620
Annual required contribution	398,998	370,935
Contributions made	77,344	65,433
Increase in net OPEB obligation	321,654	305,502
Net OPEB obligation - Beginning of year	595,131	289,629
Net OPEB obligation - End of year	\$ 916,785	\$ 595,131

STERLING MUNICIPAL LIGHT DEPARTMENT  
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NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (Continued):

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</u>
2011	\$ 398,998	18%	\$ 916,785
2010	\$ 370,935	18%	\$ 595,131
2009	\$ 344,165	16%	\$ 289,629

Legislation was passed allowing municipal light departments to create a trust, in order to fund their OPEB obligation. The Department has not yet created a trust.

The funded status is as follows:

Actuarial accrued liability (AAL)	\$ 2,766,187
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability	\$ 2,766,187
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,129,000
UAAL as a percentage of covered payroll	245.0%

*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, 2009, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.25% investment rate of return and an annual healthcare cost trend rate trends from 10% to 6%. 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 over thirty years using an increasing amortization payment at the rate of assumed payroll increase due to inflation (3.50%). The remaining amortization period at July 1, 2009 was thirty years.

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NOTE 14 - ICE STORM:

On December 11 and 12, 2008, a severe ice storm hit the area and left the Department without power for several days. The storm did significant damage to the infrastructure of the Distribution Plant and the area was declared a State of Emergency. In addition to the harm of the property owned by the Department, many citizens also had extensive damages to their homes and business property. The Department incurred many costs to re-energize the Town, including significant amounts paid to subcontractors to assist with the emergency work that was required. Much of these costs were reimbursed by the Federal Emergency Management Administration (FEMA) and the Massachusetts Emergency Management Administration (MEMA). Total reimbursements received amounted to \$176,495 and \$233,984 for the year ended December 31, 2011 and 2010, respectively. Infrastructure damaged during this storm was completed during 2011.

On October 31, 2011 there was a severe snow storm that hit the area and left the Department without power. The storm did significant damage to the infrastructure of the Department and the area was declared a State of Emergency. The Department incurred many costs to re-energize the Town, including significant amounts paid to contractors to assist with the emergency work that was required. Much of these costs will be reimbursed by the Federal Emergency Management Administration (FEMA). As of December 31, 2011, the total receivable from FEMA amounted to \$63,579.

NOTE 15 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through March 27, 2012 the date on which the financial statements were available to be issued. Management believes there are no subsequent events that are required to be disclosed.

NOTE 16 - CONTINGENT LIABILITIES:

Berkshire Wind Cooperative Corporation

The 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).

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.



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NOTE 16 - CONTINGENT LIABILITIES (Continued):

Berkshire Wind Cooperative Corporation (continued)

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 SMLD has entered into a PPA with the Berkshire Wind Cooperative Corporation. Under the PPA, the Department is required to make certain payments to the Cooperative. 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.

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

As of December 31, 2011, total capital expenditures for the Berkshire Wind Facility amounted to \$59,031,574, of which \$3,089,000, presents the amount associated with the Department 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 \$64,705,000, of which \$3,385,000 is associated with the Department's share of Capability of the Berkshire Wind Facility, although such amount is not allocated to the Department. As of December 31, 2011, the Cooperative's total future debt service requirement on outstanding bonds issued for the Projects is \$102,592,000, of which \$5,368,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of the Department required payments under the PSA, exclusive of the Reserve and Contingency Fund billings, to the Cooperative at December 31, 2011 and estimated for future years is shown on the next page.

For Years Ending December 31,	2012	\$ 283,000
	2013	283,000
	2014	283,000
	2015	282,000
	2016	283,000
	2017-2021	1,412,000
	2022-2026	1,413,000
	2027-2030	<u>1,129,000</u>
	Total	<u>\$ 5,368,000</u>

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NOTE 16 - CONTINGENT LIABILITIES (Continued):

Massachusetts Municipal Wholesale Electric Company

Through its membership in MMWEC, the Department is contingently liable on various projects in which they participated 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 an indirect subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC), and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 was extended to November 25, 2045.

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

Pursuant to the PSAs the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). 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 (MMWEC).

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

STERLING MUNICIPAL LIGHT DEPARTMENT  
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NOTE 16 - CONTINGENT LIABILITIES (Continued):

Massachusetts Municipal Wholesale Electric Company (continued)

As of December 31, 2011, total capital expenditures for MMWEC's Projects amounted to \$1,581,599,000, of which \$20,943,000 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 \$358,420,000, of which \$4,801,000 is 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. As of December 31, 2011, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$380,165,000, of which \$5,120,000 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, 2011 and estimated for future years is shown below.

		<u>ANNUAL COSTS</u>
For Years Ending December 31,	2012	\$ 1,016,000
	2013	1,006,000
	2014	968,000
	2015	921,000
	2016	777,000
	2017-2020	<u>432,000</u>
	Total	<u>\$ 5,120,000</u>

In addition, under the PSAs, the Department is required to pay 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 \$2,444,000 and \$2,508,000 for the years ended December 31, 2011 and 2010, respectively.

In addition, to the power purchased through MMWEC contracts, which supply approximately 80% of the Department's needs, the Department has a contract with Macquarie Energy LLC to purchase power through December 2016. The contract prices for both on-peak and off-peak power for energy delivered through December 31, 2016 is \$65.41/MWH. The contract quantity is 1.75 MWH for on-peak and .5 MWH for off-peak power.

STERLING MUNICIPAL LIGHT DEPARTMENT  
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	PERCENTAGE SHARE	TOTAL PROJECT EXPENDITURES TO DATE	PARTICIPANT'S SHARE	DEBT ISSUED & OUTSTANDING 12/31/2011	PARTICIPANT'S SHARE	TOTAL DEBT SERVICE ON BONDS OUTSTANDING	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ 59,218	\$ 652	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	0.8083	167,588	1,355	-	-	-	-
Nuclear Mix No. 1-SBK	0.0000	10,956	-	1,728	-	1,470	-
Nuclear Mix No. 1-MLS	0.0000	121,046	-	19,097	-	16,240	-
Nuclear Project No. 3-MLS	0.9196	147,417	1,356	68,710	632	72,021	662
Nuclear Project No. 4-SBK	3.2760	336,269	11,016	72,850	2,387	76,631	2,510
Nuclear Project No. 5-SBK	0.3400	91,427	311	21,370	73	22,559	77
Wyman Project	0.0000	8,609	-	-	-	-	-
Project No. 6-SBK	0.9785	639,069	6,253	174,665	1,709	191,244	1,871
<b>TOTAL</b>		<b>\$ 1,581,599</b>	<b>\$ 20,943</b>	<b>\$ 358,420</b>	<b>\$ 4,801</b>	<b>\$ 380,165</b>	<b>\$ 5,120</b>

	PERCENTAGE SHARE	OPERATION & MAINTENANCE 12/31/2010	PARTICIPANT'S SHARE	OPERATION & MAINTENANCE 12/31/2011	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ 4,951	\$ 55	\$ 4,306	\$ 47
Stony Brook Intermediate Project	0.8083	26,601	215	25,624	207
Nuclear Mix No. 1-SBK	0.0000	1,965	-	1,239	-
Nuclear Mix No. 1-MLS	0.0000	16,571	-	17,540	-
Nuclear Project No. 3-MLS	0.9196	28,451	262	29,304	269
Nuclear Project No. 4-SBK	3.2760	39,545	1,295	38,376	1,257
Nuclear Project No. 5-SBK	0.3400	10,783	37	10,428	35
Wyman Project	0.0000	1,556	-	1,751	-
Project No. 6-SBK	0.9785	65,838	644	64,280	629
<b>TOTAL</b>		<b>\$ 196,261</b>	<b>\$ 2,508</b>	<b>\$ 192,848</b>	<b>\$ 2,444</b>

STERLING MUNICIPAL LIGHT DEPARTMENT  
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	PERCENTAGE SHARE	2012 ANNUAL COST	PARTICIPANT'S SHARE	2013 ANNUAL COST	PARTICIPANT'S SHARE	2014 ANNUAL COST	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	0.8083	-	-	-	-	-	-
Nuclear Mix No. 1-SBK	0.0000	869	-	616	-	215	-
Nuclear Mix No. 1-MLS	0.0000	8,183	-	5,804	-	2,023	-
Nuclear Project No. 3-MLS	0.9196	14,993	138	14,307	132	14,063	129
Nuclear Project No. 4-SBK	3.2760	16,216	531	16,200	531	15,014	492
Nuclear Project No. 5-SBK	0.3400	4,673	16	4,546	15	4,293	15
Wyman Project	0.0000	-	-	-	-	-	-
Project No. 6-SBK	0.9785	33,834	331	33,529	328	33,910	332
<b>TOTAL</b>		<b>\$ 78,768</b>	<b>\$ 1,016</b>	<b>\$ 75,002</b>	<b>\$ 1,006</b>	<b>\$ 69,518</b>	<b>\$ 968</b>

	PERCENTAGE SHARE	2015 ANNUAL COST	PARTICIPANT'S SHARE	2016 ANNUAL COST	PARTICIPANT'S SHARE	2017 to 2020 ANNUAL COST	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	0.8083	-	-	-	-	-	-
Nuclear Mix No. 1-SBK	0.0000	-	-	-	-	-	-
Nuclear Mix No. 1-MLS	0.0000	-	-	-	-	-	-
Nuclear Project No. 3-MLS	0.9196	14,311	132	9,182	84	5,165	47
Nuclear Project No. 4-SBK	3.2760	13,672	448	11,128	365	4,401	143
Nuclear Project No. 5-SBK	0.3400	4,000	14	3,370	11	1,677	6
Wyman Project	0.0000	-	-	-	-	-	-
Project No. 6-SBK	0.9785	33,412	327	32,411	317	24,148	236
<b>TOTAL</b>		<b>\$ 65,395</b>	<b>\$ 921</b>	<b>\$ 56,091</b>	<b>\$ 777</b>	<b>\$ 35,391</b>	<b>\$ 432</b>

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

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

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

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

The Board of Commissioners  
Sterling Municipal Light Department  
Sterling, Massachusetts 01564

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

Goulet, Salvidio & Associates, P.C.

*Goulet, Salvidio & Associates, P.C.*

Worcester, Massachusetts  
March 27, 2012

STERLING MUNICIPAL LIGHT DEPARTMENT  
 SCHEDULES OF SALES OF ELECTRICITY  
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
SALES OF ELECTRICITY:		
Residential	\$ 4,259,086	\$ 4,639,836
Small Commercial	349,686	377,525
Large Industrial	3,137,763	3,381,067
Municipal	342,188	374,049
Security Lighting	37,988	41,198
TOTAL SALES OF ELECTRICITY	\$ 8,126,711	\$ 8,813,675

See Independent Auditors' Report on Supplemental Information

STERLING MUNICIPAL LIGHT DEPARTMENT  
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Power Production Expenses:		
Purchased Power	\$ 5,701,409	\$ 6,107,523
Other Power Costs	56,712	53,128
Total Power Production Expenses	5,758,121	6,160,651
Distribution Expenses:		
Operation Labor	121,531	115,728
Operation Supplies and Expenses	76,663	101,497
Miscellaneous Distribution Expenses	65,612	59,639
Maintenance of Underground Lines	19,061	3,502
Maintenance of Line Transformers	5,542	3,489
Maintenance of Structure	45,863	35,500
Maintenance of Overhead Lines	208,347	126,114
Maintenance of Street Lights and Signal Systems	7,024	4,559
Total Distribution Expenses	549,643	450,028
Customer Account Expenses:		
Meter Reading Expense	66,507	53,980
Customer Records and Collection	90,182	131,644
Advertising	620	4,534
Uncollectible Accounts	47,752	63,748
Total Customer Account Expenses	205,061	253,906
Administrative and General Expenses:		
Miscellaneous Sales Expenses	7,198	19,023
Administrative and General Salaries	92,856	113,235
Office Supplies and Expenses	22,599	30,514
Outside Services Employed	103,050	113,291
Property Insurance	57,792	55,804
Injuries and Damages	38,522	38,242
Employees Pensions and Benefits	976,016	991,316
Miscellaneous General Expenses	70,618	77,447
Total Administrative and General Expenses	1,368,651	1,438,872
<b>TOTAL OPERATIONS AND MAINTENANCE EXPENSES</b>	<b>\$ 7,881,476</b>	<b>\$ 8,303,457</b>

See Independent Auditors' Report on Supplemental Information