

STERLING MUNICIPAL LIGHT DEPARTMENT
Financial Statements
December 31, 2012 and 2011

STERLING MUNICIPAL LIGHT DEPARTMENT
TABLE OF CONTENTS
DECEMBER 31, 2012 and 2011

	Page
Independent Auditors' Report	1,2
Management's Discussion & Analysis	3-7
Financial Statements:	
Operating Fund:	
Statements of Net Position	8,9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11,12
OPEB Trust Fund:	
Statement of Net Position	13
Statement of Changes in Net Position	13
Notes to Financial Statements	14-29
Supplemental Information:	
Operating Fund:	
Independent Auditors' Report on Supplemental Information	30
Schedules of Sales of Electricity	31
Schedules of Operation and Maintenance Expenses	32

Goulet, Salvidio & Associates, P.C.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Sterling Municipal Light Department of Sterling, Massachusetts, as of and for the years ended December 31, 2012 and 2011, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

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

The management's discussion and analysis on pages three through seven is not a required part of the basic financial statements but is supplementary information. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
August 1, 2013

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, 2012 and 2011. 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 cash flow statements and (4) notes to the financial statements.

The Statement of Net Position is designed to indicate our financial position as of a specific point in time. As of December 31, 2012, our net position totaled \$12,272,866 which was an increase of \$243,884 over 2011.

The Statement of Revenues, Expenses and Changes in Net Position, summarizes our operating results and reveals how much income was earned for the year. As discussed on the following page our income before transfers and contributions for the years ending December 31, 2012 and 2011 was \$239,290 and \$46,747, 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 Position

	2012	2011
Current Assets	\$ 3,055,821	\$ 2,635,618
Noncurrent Assets	11,427,939	11,236,126
Total Assets	14,483,760	13,871,744
Current Liabilities	546,445	492,409
Noncurrent Liabilities	1,664,449	1,350,353
Total Liabilities	2,210,894	1,842,762
Net Assets:		
Net Investment in Capital Assets	9,612,187	9,163,805
Unrestricted	2,660,679	2,865,177
Total Net Position	12,272,866	12,028,982
Total Liabilities and Net Position	\$ 14,483,760	\$ 13,871,744

Summary of Changes in Net Position

	2012	2011
Operating Revenues	\$ 8,013,446	\$ 8,285,810
Operating Expenses	7,788,299	8,321,463
Operating Income (Loss)	225,147	(35,653)
Nonoperating Revenues (Expenses)	14,143	82,400
Income Before Transfers and Contributions	239,290	46,747
Net Position, January 1	12,028,982	12,027,319
Transfers In (Out) – Capital Projects	4,594	(1,084)
Transfers Out – Payment in Lieu of Taxes	0	(44,000)
Net Position, December 31	\$ 12,272,866	\$ 12,028,982

Financial Highlights

Operating Revenues (Expenses)

Operating revenues decreased by \$272,364 (3.3%) from 2011 to 2012 as the result of a decrease in the purchase power adjustment rate. Operating expenses decreased by \$533,164, due to lower purchased power expense and a decrease in OPEB and health care costs, resulting in an increase in operating income of \$260,800 from 2011 to 2012.

The SMLD’s Customer base has decreased to 3,717 (9 accounts) as of December 31, 2012. We have 3,334 Residential, 138 Industrial, 204 Commercial and 31 Municipal and 10 Governmental Services customers.

A total of 58,958,846 kilowatt hours (kWhrs) of electricity were sold during calendar year 2012. This represents an increase of 472,082 kWhrs (.8%) over calendar year 2011. Sterling’s hourly peak demand of 12,468 KW was set in July 2012 a 780 KW reduction from the peak 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% for the reliability transmission projects. We will continue to contest these out of market returns and look to a more equitable solution to the aging transmission problem.

Although we cannot control the transmission cost, we are able to lower our demand and locally produce our own energy by using alternatives that do not require transmission. The Pandolf Perkins solar array on Jewett Road is a 1 megawatt (MW) solar energy source that went online on December 19, 2011. In 2012 this project provided 1,138,000 kWhrs of clean renewable energy at below market prices to the residents of Sterling and does not require transmission for distribution purposes.

Financial Highlights (Continued)

Power (Continued):

During 2012 we also signed a contract with Community Energy Services (CES) Sterling LLC on a project to build two 1 megawatt solar arrays on Wiles Road. The construction on these projects began in October of 2012 and is expected to be online in early 2013. We anticipate that these projects will provide us with an additional renewable power source capable of producing over 2,500,000 kWhrs. These two projects combined are expected to produce enough energy to power approximately 450 average residential customers for one year. We continue to pursue alternative sources of power with competitive pricing to provide us with sustainable energy without producing damage to our environment.

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 cold spells gas constraints on the gas transmission lines are common. This leads to curtailments at the generating plants requiring them to switch to oil, a costlier alternative. Energy produced from natural gas has risen from 5% in 2000 to 55% in 2012 and is expected to continue to rise until new gas transmission pipelines can be put in place. Despite these concerns in 2012 our power costs have remained stable.

The SMLD had been an active participant in the development of a new 280-megawatt natural gas power plant by The Massachusetts Municipal Wholesale Electric Company (MMWEC). The reduction in natural gas prices had a negative effect on the economics of this project. This project has been temporarily suspended until economics can prove ownership in this plant to be the better alternative to current market purchases.

Our power supply consists of a mixed portfolio of power agreements. These 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 are continuously exploring other cost efficient renewable energy supply options for our power portfolio. In 2012 over 22% of our power was received from renewable energy sources that includes 2,491,368 kWhrs from the Berkshire Wind Project which has maintained a capacity factor of over 35% in 2012. This 22% exceeds the Massachusetts requirement (Municipal Light Plants are exempt) for renewable energy supply in power portfolios of 20% by 2020. 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. Starting in 2011 and throughout 2012 a cost service study was performed. This study reviewed our rates, revenues and expenses. In October of 2012 the Board of Commissioners accepted the recommendations from the study which was implemented in the Spring of 2013.

Rates (Continued):

As a result of this study, the number of rates we offer was reduced from 32 to 8. We will also be making rate changes to assure that we are providing fairness to each rate classification. With the exception of the Heat Storage and Controlled Service rates, the Residential rates will not be affected. Our Commercial and Industrial customers will see an increase of about 6-7% with the new rates. A good portion of this increase will be offset by the two year reduction in the PPAC (.0340/kwhr to .0140/kwhr), averaging a 15% decrease in the rates.

Utility and Debt Administration:

Utility Plant In Service

Total Utility Plant In Service at net book value for the end of 2012 is \$9,612,187. Of this amount \$7,200,327 represents Distribution Plant, \$2,067,575 represents General Plant, and \$344,285 represents Construction in Progress.

With the completion of the billing system we were able to install the remaining 2,500 meters for the AMI system. The AMI system enables us to read meters remotely, construct an outage management plan and to work with our customers to lower demand.

In 2012 we finalized the purchase of our new Digger Derrick from James A. Kiley Company, replacing the 1996 International Digger Derrick. In October 2012 we purchased a new cab/chassis for a bucket truck to be built in 2013.

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, 2012, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is approximately \$284 million, of which Sterling Municipal Light Department's share is \$3.8 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 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. The Rate Stabilization Fund balance as of December 31, 2012 and 2011 is \$422,460 and \$180,358, respectively.

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.

Significant Balances and Transactions (Continued):

Depreciation Fund continued

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 2012 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 2012 and 2011 was \$704,396 and \$637,481, respectively.

STERLING MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011

OPERATING FUND

ASSETS

	2012	2011
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 705,295	\$ 487,276
Accounts Receivable - Customers	523,230	454,759
Other Receivables	211,449	172,391
Materials and Supplies	352,057	346,907
Prepaid Expenses	559,394	536,804
Purchase Power Working Capital	704,396	637,481
TOTAL CURRENT ASSETS	3,055,821	2,635,618
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	771,668	1,047,610
Customer Deposits	261,624	258,010
OPEB Fund	0	106,343
Rate Stabilization Fund	422,460	180,358
Deferred Power Contract	360,000	480,000
Utility Plant Assets, Net	9,612,187	9,163,805
TOTAL NONCURRENT ASSETS	11,427,939	11,236,126
TOTAL ASSETS	\$ 14,483,760	\$ 13,871,744

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011

OPERATING FUND

LIABILITIES

	2012	2011
CURRENT LIABILITIES:		
Accounts Payable	\$ 488,985	\$ 426,554
Accrued Expenses	50,201	65,855
Customer Advance for Construction	7,259	0
TOTAL CURRENT LIABILITIES	546,445	492,409
NONCURRENT LIABILITIES:		
Customer Deposits	252,650	253,210
Net Other Postemployment Benefits Obligation	789,339	916,785
Rate Stabilization Reserve	622,460	180,358
TOTAL NONCURRENT LIABILITIES	1,664,449	1,350,353
TOTAL LIABILITIES	2,210,894	1,842,762

NET POSITION

Net Investment in Capital Assets	9,612,187	9,163,805
Unrestricted	2,660,679	2,865,177
TOTAL NET POSITION	12,272,866	12,028,982
TOTAL LIABILITIES AND NET POSITION	\$ 14,483,760	\$ 13,871,744

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	2012	2011
OPERATING REVENUES:		
Sales of Electricity	\$ 7,910,331	\$ 8,126,711
Other Operating Revenues	103,115	159,099
TOTAL OPERATING REVENUES	8,013,446	8,285,810
OPERATING EXPENSES:		
Operations and Maintenance Expenses	7,345,657	7,881,476
Depreciation	442,642	439,987
TOTAL OPERATING EXPENSES	7,788,299	8,321,463
OPERATING INCOME (LOSS)	225,147	(35,653)
NONOPERATING REVENUES (EXPENSES):		
Interest Income	25,505	23,025
Interest Expense	(4,431)	(3,825)
Net Gain (Loss) on Investment	(3,230)	3,458
Management Advisory Fees	(3,701)	(3,837)
Disaster Recovery Revenue	0	63,579
TOTAL NONOPERATING REVENUES (EXPENSES)	14,143	82,400
Income Before Transfers and Contributions	239,290	46,747
NET POSITION - JANUARY 1	12,028,982	12,027,319
Transfers In (Out)- Capital Projects	4,594	(1,084)
Transfers Out - Payment in Lieu of Taxes	0	(44,000)
NET POSITION - DECEMBER 31	\$ 12,272,866	\$ 12,028,982

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 7,912,616	\$ 8,314,982
Cash Paid to Suppliers	(5,851,151)	(4,944,392)
Cash Paid for Benefits	(576,609)	(976,016)
Cash Paid to Employees	(906,306)	(1,026,527)
Payment to Town of Sterling in Lieu of Taxes	0	(44,000)
	<u>578,550</u>	<u>1,324,047</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Disaster Recovery Revenue	0	176,485
Interest Expense	(4,431)	(3,825)
Capital Leases	0	(32,500)
	<u>(4,431)</u>	<u>140,160</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to Plant Assets	(891,024)	(589,701)
Capital Projects	4,594	(1,084)
	<u>(886,430)</u>	<u>(590,785)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	25,505	23,025
Net Investment Transactions in the Depreciation Fund	171,005	(414,667)
Rate Stabilization Reserve	442,102	(270,295)
Purchase Power Working Capital	(66,915)	(241,678)
	<u>571,697</u>	<u>(903,615)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	259,386	(30,193)
CASH AND CASH EQUIVALENTS - JANUARY 1	1,174,207	1,204,400
CASH AND CASH EQUIVALENTS - DECEMBER 31	\$ 1,433,593	\$ 1,174,207

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 225,147	\$ (35,653)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	442,642	439,987
Payment in Lieu of Taxes	0	(44,000)
Allowance for Doubtful Accounts	(24,500)	0
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Accounts Receivable - Customers	(43,971)	(6,542)
Other Receivables	(39,058)	26,987
Materials and Supplies	(5,150)	91,975
Prepaid Expenses	(22,590)	502,649
Deferred Power Contract	120,000	120,000
Increase (Decrease) in Liabilities:		
Accounts Payable	62,431	(85,870)
Accrued Expenses	(15,654)	(15,867)
Customer Advances for Construction	7,259	0
Customer Deposits	(560)	8,727
Net Other Postemployment Benefits Obligation	(127,446)	321,654
Net Cash Provided (Used) by Operating Activities	\$ 578,550	\$ 1,324,047

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	\$ 705,295	\$ 487,276
Depreciation Fund	44,214	142,220
Customer Deposits	261,624	258,010
Rate Stabilization Fund	422,460	180,358
OPEB Fund	0	106,343
	\$ 1,433,593	\$ 1,174,207

See Accompanying Notes To Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2012 AND 2011

OPEB TRUST FUND

ASSETS

	2012	2011
Funds on Deposit with MMWEC		
Cash and Cash Equivalents	\$ 158,801	\$ 0

NET POSITION

Restricted for OPEB	\$ 158,801	\$ 0
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STERLING MUNICIPAL LIGHT DEPARTMENT
 STATEMENTS OF CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPEB TRUST FUND

	2012	2011
ADDITIONS:		
Contributions	\$ 156,365	\$ 0
Interest Earned on Invested Funds	2,436	0
Total Additions	158,801	0
CHANGES IN NET POSITION	158,801	0
NET POSITION - January 1,	0	0
NET POSITION - December 31,	\$ 158,801	\$ 0

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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

SMLD'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.

Rate Matters

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 2012 and 2011.

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.

Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation with no effect on previously reported net income.

Allowance for Doubtful Accounts

Accounts Receivable is net of allowance for doubtful accounts in the amount of \$34,500 and \$10,000 for the years ended December 31, 2012 and 2011, respectively.

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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. 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, 2012 AND 2011

NOTE 2 - OTHER RECEIVABLES:

Other receivables consist of the following:	2012	2011
Merchandise and Jobbing	\$ 172,214	\$ 69,577
Disaster Recovery Revenue	39,235	102,814
Total Other Receivables	\$ 211,449	\$ 172,391

NOTE 3 - PREPAID EXPENSES:

Prepayments consist of the following:	2012	2011
Prepaid Insurance	\$ 46,923	\$ 12,934
Pension Assessment	60,184	74,771
Purchased Power	214,542	214,011
Other Expenses	4,084	1,427
Deferred Power Prepayment	120,000	120,000
Preliminary Survey	113,661	113,661
Total Prepaid Expenses	\$ 559,394	\$ 536,804

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, 2012 and 2011 is \$704,396 and \$637,481, respectively.

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, 2012 AND 2011

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, 2012 and 2011 was \$422,460 and \$180,358, respectively.

NOTE 7 - UTILITY PLANT ASSETS:

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 922,459	\$ 595,175	1,173,349	\$ 344,285
Land	197,008	0	0	197,008
Total Capital Assets Not Being Depreciated	<u>1,119,467</u>	<u>595,175</u>	<u>1,173,349</u>	<u>541,293</u>
Capital Assets Being Depreciated:				
Distribution Plant	11,537,783	1,125,381	(445,232)	12,217,932
General Plant	3,216,955	343,817	(390,887)	3,169,885
Total Capital Assets Being Depreciated	<u>14,754,738</u>	<u>1,469,198</u>	<u>(836,119)</u>	<u>15,387,817</u>
Less Accumulated Depreciation For:				
Distribution Plant	(5,596,284)	(346,133)	445,232	(5,497,185)
General Plant	(1,114,116)	(96,509)	390,887	(819,738)
Total Accumulated Depreciation	<u>(6,710,400)</u>	<u>(442,642)</u>	<u>836,119</u>	<u>(6,316,923)</u>
Capital Assets Being Depreciated, Net	<u>8,044,338</u>	<u>1,026,556</u>	<u>0</u>	<u>9,070,894</u>
Utility Plant Assets, Net	<u>\$ 9,163,805</u>	<u>\$ 1,621,731</u>	<u>\$ (1,173,349)</u>	<u>\$ 9,612,187</u>

NOTE 8 - NET INVESTMENT IN CAPITAL ASSETS:

	<u>2012</u>	<u>2011</u>
Cost of Capital Assets Acquired	\$ 15,925,061	\$ 15,874,205
Less: Accumulated Depreciation	<u>6,312,874</u>	<u>6,710,400</u>
Net Investment in Capital Assets	<u>\$ 9,612,187</u>	<u>9,163,805</u>

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 9 - RELATED PARTY:

The Department bills the Town of Sterling for electric light usage. The amount included in revenue was approximately \$317,432 and \$338,785 for December 31, 2012 and 2011, respectively. Accounts receivable from the Town was \$11,296 and \$24,404 at December 31, 2012 and 2011, respectively.

The Department reimburses the Town for various services and makes a payment in lieu of taxes. During the year ended December 31, 2012 and 2011, the total amount paid for these services and payment in lieu of taxes was \$402,025 and \$513,548, respectively. As of December 31, 2012 and 2011, amounts payable to the Town were \$2,767 and \$25,805, 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. As of December 31, 2012 and 2011 the Department does not have custodial risk exposure in their investments in U.S. Treasury/Agency Securities, Certificate of Deposits, and Money Market Mutual Funds. 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
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 10 - CASH AND INVESTMENTS (Continued):

	<u>Ratings as of Year End</u>	<u>2012 Fair Value</u>	<u>2012 Under 1 Year</u>	<u>2012 1-5 Years</u>	<u>2011 Fair Value</u>
<u>Term Securities</u>					
U.S. Treasury/Agency Securities	AA+	\$ 90,089	\$ 0	\$ 90,089	\$ 521,466
Corporate Bonds	AA+	15,218	15,218	0	56,602
Corporate Bonds	AA	0	0	0	41,680
Certificate of Deposit	Unrated	<u>516,203</u>	<u>50,435</u>	<u>465,768</u>	<u>190,536</u>
 Total Term Securities		 621,510	 <u>\$ 65,653</u>	 <u>\$ 555,857</u>	 810,284
<u>Other Securities</u>					
Equity Securities		672			788
Fixed Income Mutual Funds		104,013			52,408
Money Market Mutual Funds		44,214			181,949
Accrued Interest		<u>1,259</u>			<u>2,181</u>
 Total Investments		 <u>\$ 771,668</u>			 <u>\$ 1,047,610</u>

Gain (Loss) on Investments

	<u>2012</u>	<u>2011</u>
Realized Gain (Loss) on Investments	\$ (3,315)	\$ (3,551)
Unrealized Gain (Loss) on Investments	<u>85</u>	<u>7,009</u>
 Gain (Loss) on Investments	 <u>\$ (3,230)</u>	 <u>\$ 3,458</u>

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

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investment</u>
BMW BK North America Utah	\$50,435	7%
CIT BK Salt Lake City CO	\$50,318	7%
Compass BK Birmingham ALA	\$50,131	7%
State BK India New York NY	\$50,153	7%
GE Cap BK Inc. Retail CD	\$50,149	7%
Goldman Sachs BK USA NY	\$40,391	5%
Firstbank PR Santurce	\$79,860	10%
BMW BK North America Utah 0.85%	\$44,881	6%
American Express Century	\$99,886	13%
Federated GNMA Trust IS	\$49,743	6%

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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).

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.

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 - RETIREMENT 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).

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 12 - RETIREMENT 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, 2012, 2011, and 2010 was approximately \$134,955, \$137,136 and \$124,730, 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 BENEFIT LIABILITY TRUST FUND:

The Other Postemployment Benefit Liability Trust was established by vote of the Board of Light Commissioners on September 30, 2011. The Board voted to accept the provisions of MGL Chapter 32B, Section 20 which establishes a separate Fund and a funding schedule for the Fund. The schedule and any future updates shall be designed, consistent with standards issued by the Governmental Accounting Standards Board, to reduce the unfunded actuarial liability of health care and other postemployment

STERLING MUNICIPAL LIGHT DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011

NOTE 13 - OTHER POSTEMPLOYMENT BENEFIT LIABILITY TRUST FUND (Continued):

benefits to zero as of an actuarially acceptable period of years and to meet the normal costs of all future benefits for which the government unit is obligated. The fund is held under the custodianship of MMWEC. The Balance in the trust as of December 1, 2012 was \$158,081.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS:

The Department implemented GASB Statement 45, *Accounting for Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)* for the year ending December 31, 2008. As allowed by GASB 45, the Department has established the net OPEB obligation at zero at the beginning of the transition year and has applied the measurement recognition requirements of GASB 45 on a prospective basis.

Plan Description. The Department participates in the Town sponsored single employer defined benefit health plan. The Department provides certain health care and life insurance benefits for eligible retirees and their spouses. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan.

As of July 1, 2012 the Department's membership consisted of the following:

Current retirees, beneficiaries	8
Current active members	<u>13</u>
Total	<u><u>21</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 \$242,629 and \$293,951 for the years ended December 31, 2012 and 2011, respectively. Currently, the Department pays 75% of the premium for the health, dental and life insurance for active and retired employees.

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 page shows the components of the Department's annual OPEB cost for the years ending December 31, 2012 and 2011, 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, 2012.

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (Continued):

	2012	2011
Annual required contribution	\$ 334,916	\$ 398,998
Contributions made	(90,980)	(77,344)
Increase in net OPEB obligation	243,936	321,654
Transfers to OPEB Trust	(156,365)	0
Change in net OPEB obligation	87,571	321,654
Change in actuarial assumption	(215,017)	0
Net OPEB obligation - Beginning of year	916,785	595,131
Net OPEB obligation - End of year	\$ 789,339	\$ 916,785

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Year ended	Annual OPEB costs	Percentage of OPEB cost contributed	Net OPEB obligation
2012	\$ 334,916	74%	\$ 789,339
2011	\$ 398,998	19%	\$ 916,785
2010	\$ 370,935	18%	\$ 595,131

Funded Status and Funding Progress. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The funded status is as follows:

Actuarial accrued liability (AAL)	\$ 1,917,108
Actuarial value of plan assets	(121,673)
Unfunded actuarial accrued liability	\$ 1,795,435
Funded ratio (actuarial value of plan assets/AAL)	6.77%
Covered payroll (active plan members)	\$ 906,306
UAAL as a percentage of covered payroll	198%

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (Continued):

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, 2012, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return and an annual healthcare cost trend rate from 7% reduced to 5% after 4 years. The health care cost trend rate differs between the master medical and other healthcare plans. The actuarial value of plan assets was determined using the market value of investments. 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 (3.0%).

NOTE 15 - ICE STORM:

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). Total reimbursements recognized amounted to \$63,579 for the year ended 2011. As of December 31, 2012, the total receivable from FEMA amounted to \$39,234.

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).

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.

STERLING MUNICIPAL LIGHT DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011

NOTE 16 - CONTINGENT LIABILITIES (Continued):

MMWEC sells all of the capability of the Berkshire Wind Facility (Capability) to the Members of the Cooperative (Members) under Power Purchase Agreements (PPAs). Among other things, the PPAs require each Cooperative Member to pay its *pro rata* share of the costs related to the Berkshire Wind

Facility, which costs include debt service on the bonds issued by the Cooperative to finance the Berkshire Wind Facility, plus 10% of the debt service to be paid into a Reserve and Contingency Fund. In addition, should a Cooperative Member fail to make any payment when due, other Cooperative Members may be required to increase (step-up) their payments and correspondingly their share of the Capability to an additional amount.

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

The Sterling Municipal Light Department has entered into a PPA with the Berkshire Wind Cooperative Corporation. Under both 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.

As of December 31, 2012, total capital expenditures for the Berkshire Wind Facility amounted to \$58,990,077, of which \$3,086,000, 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 \$62,490,000, of which \$3,269,000 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, 2012, the Cooperative's total future debt service requirement on outstanding bonds issued for the Projects is \$97,190,000 of which \$5,085,000 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, 2012 and estimated for future years is shown on the next page.

For Years Ending December 31,	2013	\$ 283,000
	2014	283,000
	2015	282,000
	2016	283,000
	2017	282,000
	2018-2022	1,412,000
	2023-2027	1,413,000
	2028-2030	<u>847,000</u>
	Total	<u>\$ 5,085,000</u>

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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 a subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC), and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates 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.

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

As of December 31, 2012, total capital expenditures for MMWEC's Projects amounted to \$1,593,344,000, of which \$21,140,000 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 \$284,005,000, of which \$3,848,000 is associated with the Department's share of Project

STERLING MUNICIPAL LIGHT DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011

NOTE 16 - CONTINGENT LIABILITIES (Continued):

Capability of the Projects in which it participates, although such amount is not allocated to the Department. As of December 31, 2012, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$289,247,000, of which \$3,934,000 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, 2012 and estimated for future years is shown below.

		<u>ANNUAL COSTS</u>		
For Years Ending December 31,	2013	\$	945,000	
	2014		909,000	
	2015		880,000	
	2016		766,000	
	2017		342,000	
	2018-2021		92,000	
	Total	\$	3,934,000	

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 \$2,157,000 and \$2,444,000 for the years ended December 31, 2012 and 2011, respectively.

Other Power Supply

In addition, to the power purchased through MMWEC, which supplies 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.

The Department has renewed hydro power contracts with Baltic through 2022, Centennial through 2027 and Methuen (effective 09/2013) through 2027. The contract prices are for Baltic .06/kwhr, Centennial and Methuen .0575/ kwhr + the consumer price Index (CPI).

The Department has two contracts for solar power generated in town, one is to purchase an expected 1.3 million kwhr output through 2021, and the other is to purchase the expected 2.7 million kwhr output through 2035. Both projects are providing clean renewable energy at below current market prices.

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
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	PERCENTAGE SHARE	TOTAL PROJECT EXPENDITURES TO DATE	PARTICIPANT'S SHARE	DEBT ISSUED & OUTSTANDING 12/31/2012	PARTICIPANT'S SHARE	TOTAL DEBT SERVICE ON BONDS OUTSTANDING	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ 59,223	\$ 652	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	0.8083	167,604	1,355	-	-	-	-
Nuclear Mix No. 1-SBK	-	9,528	-	836	-	603	-
Nuclear Mix No. 1-MLS	-	122,811	-	10,774	-	7,773	-
Nuclear Project No. 3-MLS	0.9196	147,782	1,359	55,865	514	56,707	521
Nuclear Project No. 4-SBK	3.2760	340,380	11,151	57,600	1,887	57,773	1,893
Nuclear Project No. 5-SBK	0.3400	92,467	314	16,875	57	16,988	58
Wyman Project	-	8,787	-	-	-	-	-
Project No. 6-SBK	0.9785	644,762	6,309	142,055	1,390	149,403	1,462
TOTAL		\$ 1,593,344	\$ 21,140	\$ 284,005	\$ 3,848	\$ 289,247	\$ 3,934

	PERCENTAGE SHARE	OPERATION & MAINTENANCE 12/31/2011	PARTICIPANT'S SHARE	OPERATION & MAINTENANCE 12/31/2012	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ 4,306	\$ 47	\$ 3,693	\$ 41
Stony Brook Intermediate Project	0.8083	25,624	207	18,800	152
Nuclear Mix No. 1-SBK	-	1,559	-	1,129	-
Nuclear Mix No. 1-MLS	-	17,220	-	14,547	242
Nuclear Project No. 3-MLS	0.9196	29,304	269	26,267	1,110
Nuclear Project No. 4-SBK	3.2760	38,376	1,257	33,870	31
Nuclear Project No. 5-SBK	0.3400	10,428	35	9,082	-
Wyman Project	-	1,751	-	1,169	-
Project No. 6-SBK	0.9785	64,280	629	59,400	581
TOTAL		\$ 192,848	\$ 2,444	\$ 167,957	\$ 2,157

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
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	PERCENTAGE SHARE	2013 ANNUAL COST	PARTICIPANT'S SHARE	2014 ANNUAL COST	PARTICIPANT'S SHARE	2015 ANNUAL COST	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	0.8083	-	-	-	-	-	-
Nuclear Mix No. 1-SBK	-	589	-	215	-	-	-
Nuclear Mix No. 1-MLS	-	5,549	-	2,023	-	-	-
Nuclear Project No. 3-MLS	0.9196	13,987	129	14,063	129	14,311	132
Nuclear Project No. 4-SBK	3.2760	15,145	496	13,957	457	13,142	431
Nuclear Project No. 5-SBK	0.3400	4,187	14	3,934	13	3,821	13
Wyman Project	-	-	-	-	-	-	-
Project No. 6-SBK	0.9785	31,272	306	31,651	310	31,087	304
TOTAL		\$ 70,729	\$ 945	\$ 65,843	\$ 909	\$ 62,361	\$ 880

	PERCENTAGE SHARE	2016 ANNUAL COST	PARTICIPANT'S SHARE	2017 ANNUAL COST	PARTICIPANT'S SHARE	2018 to 2021 ANNUAL COST	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	0.8083	-	-	-	-	-	-
Nuclear Mix No. 1-SBK	-	-	-	-	-	-	-
Nuclear Mix No. 1-MLS	-	-	-	-	-	-	-
Nuclear Project No. 3-MLS	0.9196	9,182	84	3,492	32	1,672	15
Nuclear Project No. 4-SBK	3.2760	11,128	365	4,401	144	-	-
Nuclear Project No. 5-SBK	0.3400	3,370	11	1,559	5	117	2
Wyman Project	-	-	-	-	-	-	-
Project No. 6-SBK	0.9785	31,225	306	16,460	161	7,708	75
TOTAL		\$ 54,905	\$ 766	\$ 25,912	\$ 342	\$ 9,497	\$ 92

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

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

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

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information presented on pages 31 and 32 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts 01609
August 1, 2013

STERLING MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF SALES OF ELECTRICITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	<u>2012</u>	<u>2011</u>
SALES OF ELECTRICITY:		
Residential	\$ 4,073,593	\$ 4,259,086
Small Commercial	341,174	349,686
Large Industrial	3,138,198	3,137,763
Municipal	317,432	338,785
Security Lighting	<u>39,934</u>	<u>41,391</u>
TOTAL SALES OF ELECTRICITY	<u>\$ 7,910,331</u>	<u>\$ 8,126,711</u>

See Independent Auditors' Report on Supplemental Information

STERLING MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	2012	2011
Power Production Expenses:		
Purchased Power	\$ 5,674,948	\$ 5,701,409
Other Power Costs	70,395	56,712
Total Power Production Expenses	5,745,343	5,758,121
Distribution Expenses:		
Operation Labor	95,503	121,531
Operation Supplies and Expenses	59,386	76,663
Miscellaneous Distribution Expenses	27,473	65,612
Maintenance of Underground Lines	2,779	19,061
Maintenance of Line Transformers	2,213	5,542
Maintenance of Structure	18,790	45,863
Maintenance of Overhead Lines	199,145	208,347
Maintenance of Street Lights and Signal Systems	3,567	7,024
Total Distribution Expenses	408,856	549,643
Customer Account Expenses:		
Meter Reading Expense	27,828	66,507
Customer Records and Collection	86,746	90,182
Advertising	1,014	620
Uncollectible Accounts	74,678	47,752
Total Customer Account Expenses	190,266	205,061
Administrative and General Expenses:		
Miscellaneous Sales Expenses	6,945	7,198
Administrative and General Salaries	72,614	92,856
Office Supplies and Expenses	25,742	22,599
Outside Services Employed	132,066	103,050
Property Insurance	30,257	57,792
Injuries and Damages	50,685	38,522
Employees Pensions and Benefits	576,609	976,016
Miscellaneous General Expenses	106,274	70,618
Total Administrative and General Expenses	1,001,192	1,368,651
TOTAL OPERATIONS AND MAINTENANCE EXPENSES	\$ 7,345,657	\$ 7,881,476

See Independent Auditors' Report on Supplemental Information