

STERLING MUNICIPAL LIGHT DEPARTMENT
Financial Statements
December 31, 2013 and 2012

STERLING MUNICIPAL LIGHT DEPARTMENT
TABLE OF CONTENTS
DECEMBER 31, 2013 and 2012

	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	
Statements of Net Position	13
Statements of Changes in Net Position	13
Notes to Financial Statements	14-29
Supplementary Information:	
Required Supplementary Information-Other Postemployment Benefits	30
Operating Fund	
Schedules of Sales of Electricity	31
Schedules of Operation and Maintenance Expenses	32

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

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 as of and for the years ending December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2013 and 2012, and the changes in financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the 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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Other Postemployment Benefits information on pages three through seven and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Sales of Electricity and Schedules of Operations and Maintenance Expenses on pages 31 and 32 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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
April 29, 2014

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, 2013 and 2012. 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 Statements of Net Position is designed to indicate our financial position as of a specific point in time. As of December 31, 2013, our net position totaled \$12,294,693 which was an increase of \$21,827 over 2012.

The Statements 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, 2013 and 2012 was \$21,827 and \$239,290, respectively.

The Statements of Cash Flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the operating activities, investing activities and financing activities for the same period.

Summary of Net Position

	<u>2013</u>	<u>2012</u>
Current Assets	\$ 2,809,953	\$ 3,055,821
Noncurrent Assets	<u>11,946,908</u>	<u>11,427,939</u>
Total Assets	<u>\$ 14,756,861</u>	<u>\$ 14,483,760</u>
Current Liabilities	\$ 578,724	\$ 546,445
Noncurrent Liabilities	<u>1,006,129</u>	<u>1,041,989</u>
Total Liabilities	<u>1,584,853</u>	<u>1,588,434</u>
Deferred Inflows of Resources	<u>877,315</u>	<u>622,460</u>
Net Position:		
Net Investment in Capital Assets	9,617,781	9,612,187
Net Position Restricted for Depreciation	966,435	771,668
Unrestricted Net Position	<u>1,710,477</u>	<u>1,889,011</u>
Total Net Position	<u>12,294,693</u>	<u>12,272,866</u>
Total Liabilities and Net Position	<u>\$ 14,756,861</u>	<u>\$ 14,483,760</u>

Summary of Changes in Net Position

	<u>2013</u>	<u>2012</u>
Operating Revenues	\$ 7,972,855	\$ 8,013,446
Operating Expenses	<u>7,957,926</u>	<u>7,788,299</u>
Operating Income	14,929	225,147
Nonoperating Revenues (Expenses)	<u>6,898</u>	<u>14,143</u>
Income Before Transfers and Contributions	21,827	239,290
Net Position, January 1	12,272,866	12,028,982
Transfers In – Capital Projects	<u>0</u>	<u>4,594</u>
Net Position, December 31	<u>\$ 12,294,693</u>	<u>\$ 12,272,866</u>

Financial Highlights

Operating Revenues (Expenses)

Operating revenues decreased by \$40,591 (.51%) from 2013 to 2012 as the result of new rates applied to SMLD's customers. Operating expenses increased by \$169,627, due in part to increased purchased power expenses, resulting in a decrease in operating income of \$210,218 from 2013 to 2012.

The SMLD's maintains a consistent customer base of 3,737 for December 31, 2013 and 2012. We have 3,349 Residential, 138 Industrial, 204 Commercial and 36 Municipal and 10 Governmental Services customers.

A total of 60,304,191 kilowatt hours (kWhrs) of electricity were sold during calendar year 2013 as compared to 58,969,757 Kilowatt hours for 2012. This represents an increase of 1,334,434 kWhrs (.22%) over calendar year 2012. Sterling's hourly peak demand of 12,291 KW was set in July 2013 that is a reduction from the peak set in 2012.

In 2013 there were no Workmen's Compensation claims or lost time reported. This is the third consecutive year we have had no claims, this not only lowered our workmen's compensation insurance premiums but also qualified the SMLD for the American Public Power Safety Award, recognizing public power utilities across the country who reach this milestone.

Power:

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.

Financial Highlights (continued):

Power (continued):

Natural gas prices have declined in the last few years, but challenged with the uncertainty of the delivery. 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 57% in 2013 and is expected to continue to rise until new gas transmission pipelines can be put in place. Despite these concerns in 2013 our power costs have remained stable.

Although fuel remained steady our transmission costs continued to rise. These costs have increased mainly in part that transmission owners receive large returns between 11-14% on their 6.6 billion dollar investments in transmission line upgrades in New England. Along with other Municipal Light Plants and Associations we continued to contest these charges in Washington with our Legislators and the Federal Energy Regulatory Commission (FERC). The outcome of these meetings has resulted in the filing of various bills to lower these incentives on future projects.

The SMLD continues to monitor the transmission charges that we receive from ISO New England that operates the region's electric power system. The shared goal is making reliability a top priority in the operation of the power grid. Before new rules and procedures are implemented we must carefully take into consideration the cost to the consumers.

During 2013 we re-negotiated four of our existing hydro contracts and added one additional contract. The result was the cost of the purchased power being reduced by an average of 14%. Our power supply consists of a mixed portfolio of power agreements including the previously mentioned solar projects. These agreements consist of Hydro Power, (specifically from Baltic Mills, Contoocook Hydro, Mechanicsville Hydro, Clean Energy 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 including the recent purchase of 8.3% of the output from the Princeton Wind Project. In 2013 over 21% of our power was received from renewable energy sources, including 2,704,943 kWhrs from the Berkshire Wind Project that has maintained a capacity factor of over 37% in 2013. This 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 and beginning in June 2013, the number of rates we offer was reduced from 32 to 8. We also began 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 were not affected. Our Commercial and Industrial customers saw an increase of about 6-7% with the new rates. A good

Financial Highlights (continued):

Rates (continued):

portion of the increase was off-set by a 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 2013 is \$9,617,781. Of this amount \$7,385,583 represents Distribution Plant, \$2,179,965 represents General Plant, and \$52,233 represents Construction in Progress.

In July of 2013 the installation of the new body and bucket was performed on the cab chassis we purchased in the fall of 2012 and the bucket truck was put into use, we will continue with the replacement of the aging vehicles using an annual replacement schedule to reduce overall maintenance cost and minimize impact to our capital budget.

The Fox Run Road and Birch Drive project was completed in 2013. This project involved the installation of 9,800' of conduit and underground primary cable, replacing the existing 30+ year old direct buried cable that has had multiple failures. In 2013 we completed the replacement of the transformers and cable transfers.

In 2013 we began to assess the structural integrity of the 50 Main Street facility, this facility was built in 1885 and has served the Town of Sterling well, the review was brought about by the uneven floors and door jams as well as cracks appearing in 2 year old painted walls. It was determined that the building has begun to sag over the years, primarily caused by rotting support posts in the basement and various construction projects that have been performed over time that included removing some supporting sections. The necessary improvements are expected to take place during 2014.

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, 2013, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is approximately \$219 million, of which Sterling Municipal Light Department's share is \$3 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.

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 2013 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.

STERLING MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

OPERATING FUND

ASSETS

	2013	2012
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 545,874	\$ 705,295
Accounts Receivable - Customers, Net	394,498	511,934
Accounts Receivable - Related Party	14,716	11,296
Other Receivables	149,977	211,449
Materials and Supplies	336,335	352,057
Prepaid Expenses	598,385	559,394
Purchase Power Working Capital	770,168	704,396
TOTAL CURRENT ASSETS	2,809,953	3,055,821
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	966,435	771,668
Customer Deposits	257,335	261,624
Rate Stabilization Fund	865,357	422,460
Unearned Power Contract	240,000	360,000
Utility Plant Assets, Net	9,617,781	9,612,187
TOTAL NONCURRENT ASSETS	11,946,908	11,427,939
TOTAL ASSETS	\$ 14,756,861	\$ 14,483,760

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

OPERATING FUND

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 531,938	\$ 486,218
Accounts Payable-Related Party	1,238	2,767
Accrued Expenses	45,548	50,201
Customer Advance for Construction	<u>0</u>	<u>7,259</u>
TOTAL CURRENT LIABILITIES	<u>578,724</u>	<u>546,445</u>
NONCURRENT LIABILITIES:		
Customer Deposits	247,375	252,650
Net Other Postemployment Benefits Obligation	<u>758,754</u>	<u>789,339</u>
TOTAL NONCURRENT LIABILITIES	<u>1,006,129</u>	<u>1,041,989</u>
TOTAL LIABILITIES	<u>1,584,853</u>	<u>1,588,434</u>
DEFERRED INFLOWS OF RESOURCES:		
Contribution In Aid of Construction	11,958	0
Rate Stabilization Reserve	<u>865,357</u>	<u>622,460</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>877,315</u>	<u>622,460</u>
NET POSITION:		
Net Investment in Capital Assets	9,617,781	9,612,187
Net Position Restricted for Depreciation	966,435	771,668
Unrestricted Net Position	<u>1,710,477</u>	<u>1,889,011</u>
TOTAL NET POSITION	<u>12,294,693</u>	<u>12,272,866</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 14,756,861</u></u>	<u><u>\$ 14,483,760</u></u>

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, 2013 AND 2012

OPERATING FUND

	2013	2012
OPERATING REVENUES:		
Sales of Electricity	\$ 7,937,310	\$ 7,910,331
Other Operating Revenues	35,545	103,115
TOTAL OPERATING REVENUES	7,972,855	8,013,446
OPERATING EXPENSES:		
Operations and Maintenance Expenses	7,496,413	7,345,657
Depreciation	461,513	442,642
TOTAL OPERATING EXPENSES	7,957,926	7,788,299
OPERATING INCOME	14,929	225,147
NONOPERATING REVENUES (EXPENSES):		
Interest Income	18,475	25,505
Interest Expense	(624)	(4,431)
Net Gain (Loss) on Investment	(7,843)	(3,230)
Management Advisory Fees	(3,110)	(3,701)
TOTAL NONOPERATING REVENUES (EXPENSES)	6,898	14,143
Income Before Transfers and Contributions	21,827	239,290
NET POSITION - JANUARY 1	12,272,866	12,028,982
Transfers In- Capital Projects	0	4,594
NET POSITION - DECEMBER 31	\$ 12,294,693	\$ 12,272,866

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

OPERATING FUND

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 8,135,809	\$ 7,912,616
Cash Paid to Suppliers	(5,681,983)	(5,319,599)
Cash Paid for Benefits	(578,413)	(576,609)
Cash Paid to Employees	(893,208)	(906,306)
	982,205	1,110,102
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Interest Expense	(624)	(4,431)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net Investment Transactions in the Depreciation Fund	(201,010)	282,489
Additions to Plant Assets	(467,107)	(891,024)
Contributions in Aid of Construction	11,958	0
Capital Projects	0	4,594
	(656,159)	(603,941)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	10,868	9,925
Transfer to OPEB Trust Fund	(60,000)	(156,365)
Net Transfers to Rate Stabilization Fund	(440,000)	(240,000)
	(489,132)	(386,440)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(163,710)	115,290
CASH AND CASH EQUIVALENTS - JANUARY 1	966,919	851,629
CASH AND CASH EQUIVALENTS - DECEMBER 31	\$ 803,209	\$ 966,919

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

OPERATING FUND

	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	\$ 14,929	\$ 225,147
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	461,513	442,642
Allowance for Doubtful Accounts	10	(24,500)
Rate Stabilization Reserve	242,897	442,102
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Accounts Receivable	114,006	(43,971)
Other Receivables	61,472	(39,058)
Materials and Supplies	15,722	(5,150)
Prepaid Expenses	(38,991)	(22,590)
Unearned Power Contract	120,000	120,000
Purchase Power Working Capital	(65,772)	(66,915)
Increase (Decrease) in Liabilities:		
Accounts Payable	44,191	62,431
Accrued Expenses	(4,653)	(15,654)
Customer Advances for Construction	(7,259)	7,259
Customer Deposits	(5,275)	(560)
Other Postemployment Benefits	29,415	28,919
Net Cash Provided by Operating Activities	\$ 982,205	\$ 1,110,102

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

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

	2013	2012
Operating Cash	\$ 545,874	\$ 705,295
Customer Deposits	257,335	261,624
	\$ 803,209	\$ 966,919

See Accompanying Notes To Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2013 AND 2012

OPEB TRUST FUND

ASSETS

	2013	2012
Funds on Deposit with MMWEC		
Cash and Cash Equivalents	\$ 236,331	\$ 158,801

NET POSITION

Restricted for OPEB	\$ 236,331	\$ 158,801
---------------------	------------	------------

STERLING MUNICIPAL LIGHT DEPARTMENT
 STATEMENTS OF CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

OPEB TRUST FUND

	2013	2012
ADDITIONS:		
Contributions	\$ 60,000	\$ 156,365
Interest Earned on Invested Funds	17,530	2,436
Total Additions	77,530	158,801
CHANGES IN NET POSITION	77,530	158,801
NET POSITION - January 1,	158,801	0
NET POSITION - December 31,	\$ 236,331	\$ 158,801

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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. Rates are filed with the Massachusetts Department of Public Utilities (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 2013 and 2012. The Department charges maintenance and repairs to expense when incurred. Replacements and betterments are charged to the utility plant.

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.

Taxes

The Department is exempt from federal income taxes.

Reclassification

Certain prior year amounts, with no effect on previously stated net income, have been reclassified to conform to the 2013 presentation. All financial statements have been reclassified in accordance with GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement 65, *Items Previously Reported as Assets and Liabilities* with no effect on previously reported net income.

Net Position

The implementation of GASB Statement 63 requires the Department to categorize its net position. The Department's net position is categorized as net investments in capital assets, restricted for depreciation and unrestricted.

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

During 2013, the Manager finalized the restructuring of the vacation and sick time policy for both union and non-union employees. According to the final policy, employees earn paid time off hours based on the number of years that they have been employed by the Department.

Employees are permitted to carry over paid time off hours from one year to the next, but not to exceed 40 hours. Upon termination of employment with the Department, the employee will be paid for unused paid time off hours 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.

Allowance for Doubtful Accounts

Accounts Receivable is net of allowance for doubtful accounts in the amount of \$34,510 and \$34,500 for the years ended December 31, 2013 and 2012, respectively.

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.

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.

Sales Tax

The Department collects sales tax. The amount received is credited to a liability account and as payments are made, this account is charged. At any point in time, this account represents the net amount owed to the taxing authority for amounts collected but not yet remitted.

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 2 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS:

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

NOTE 3 - 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, 2013 and 2012 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, 2013 AND 2012

NOTE 3 - CASH AND INVESTMENTS (Continued):

	Ratings as of <u>Year End</u>	2013 Fair <u>Value</u>	2013 Under 1 <u>Year</u>	2013 1-5 Years <u>1-5 Years</u>	2012 Fair Value <u>Fair Value</u>
<u>Term Securities</u>					
U.S. Treasury/Agency Securities	AA+	\$ 243,092	\$ 0	\$ 243,092	\$ 90,089
Corporate Bonds	AA+	29,803	0	29,803	15,218
Corporate Bonds	A-	40,034	0	40,034	0
Certificate of Deposit	Unrated	<u>565,000</u>	<u>240,000</u>	<u>325,000</u>	<u>516,203</u>

Total Term Securities		877,929	<u>\$ 240,000</u>	<u>\$ 637,929</u>	621,510
-----------------------	--	---------	-------------------	-------------------	---------

Other Securities

Equity Securities		1,952			672
Mutual Funds		75,218			104,013
Money Market Mutual Funds		9,597			44,214
Accrued Interest		<u>1,739</u>			<u>1,259</u>
Total Investments		<u>\$ 966,435</u>			<u>\$ 771,668</u>

Gain (Loss) on Investments

	<u>2013</u>	<u>2012</u>
Realized Gain (Loss) on Investments	\$ (2,468)	\$ (3,315)
Unrealized Gain (Loss) on Investments	<u>(5,375)</u>	<u>85</u>
Gain (Loss) on Investments	<u>\$ (7,843)</u>	<u>\$ (3,230)</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>
CIT BK Salt Lake City CO	\$ 50,000	5%
Compass BK Birmingham ALA	\$ 50,000	5%
State BK India New York NY	\$ 50,000	5%
GE Cap BK Inc. Retail CD	\$ 50,000	5%
Firstbank PR Santurce	\$ 80,000	8%
American Express Century	\$ 100,000	10%
Ally BK Midvalue Utah CD	\$ 50,000	5%
Bank Baroda New York	\$ 50,000	5%

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 4 - OTHER RECEIVABLES:

Other receivables consist of the following:	2013	2012
Merchandise and Jobbing	\$ 110,742	\$ 172,214
Disaster Recovery Revenue	39,235	39,235
Total Other Receivables	\$ 149,977	\$ 211,449

NOTE 5 - PREPAID EXPENSES:

Prepayments consist of the following:	2013	2012
Prepaid Insurance	\$ 43,711	\$ 46,923
Pension Assessment	58,995	60,184
Purchased Power Contracts	258,351	214,542
Other Expenses	3,667	4,084
Unearned Power Contracts	120,000	120,000
Preliminary Survey Expenses	113,661	113,661
Total Prepaid Expenses	\$ 598,385	\$ 559,394

NOTE 6 - DEPRECIATION FUND:

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

NOTE 7 - PURCHASED POWER WORKING CAPITAL:

As described more fully in Note 12, 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. 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, 2013 and 2012 is \$770,168 and \$704,396, respectively.

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 8 - 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, 2013 and 2012 was \$865,357 and \$422,460, respectively. The balance in the fund is offset by a corresponding deferred inflow of resources for the accumulated provision for rate refund. These funds are commingled and deposited in investment pools. Accordingly it is not practical to disclose the credit risk of such funds.

NOTE 9 - NET INVESTMENT IN CAPITAL ASSETS:

	2013	2012
Cost of Capital Assets Acquired	\$ 15,986,021	\$ 15,925,059
Less: Accumulated Depreciation	6,368,240	6,312,872
Net Investment in Capital Assets	\$ 9,617,781	\$ 9,612,187

NOTE 10 - UTILITY PLANT ASSETS:

	Balance January 1, 2013	Increases	Decreases	Balance December 31, 2013
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 344,285	\$ 52,233	\$ 344,285	\$ 52,233
Land	197,008	0	0	197,008
Total Capital Assets Not Being Depreciated	541,293	52,233	344,285	249,241
Capital Assets Being Depreciated:				
Distribution Plant	12,213,881	551,672	(117,896)	12,647,657
General Plant	3,169,885	207,487	(288,249)	3,089,123
Total Capital Assets Being Depreciated	15,383,766	759,159	(406,145)	15,736,780
Less Accumulated Depreciation For:				
Distribution Plant	(5,210,562)	(366,416)	117,896	(5,459,082)
General Plant	(1,102,310)	(95,097)	288,249	(909,158)
Total Accumulated Depreciation	(6,312,872)	(461,513)	406,145	(6,368,240)
Capital Assets Being Depreciated, Net	9,070,894	297,646	0	9,368,540
Utility Plant Assets, Net	\$ 9,612,187	\$ 349,879	\$ (344,285)	\$ 9,617,781

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 11 - RELATED PARTY:

The Department bills the Town of Sterling for electric light usage. The amount included in revenue was approximately \$320,445 and \$317,432 for December 31, 2013 and 2012, respectively. Accounts receivable from the Town was \$14,716 and \$11,296 at December 31, 2013 and 2012, respectively.

The Department reimburses the Town for police details, Department of Public Works services, insurance and retirement costs. During the year ended December 31, 2013 and 2012, the total reimbursement paid for these services was \$384,194 and \$402,025, respectively. As of December 31, 2013 and 2012, amounts payable to the Town were \$1,238 and \$2,767, respectively.

NOTE 12 - 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 13 - 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.

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 13 - RETIREMENT PLAN (Continued):

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).

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, 2013, 2012, and 2011 was approximately \$117,991, \$134,955 and \$137,136, respectively.

STERLING MUNICIPAL LIGHT DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013 AND 2012

NOTE 13 - RETIREMENT PLAN (Continued):

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 14 - 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 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 31, 2013 and 2012 was \$236,331 and \$158,081, respectively.

NOTE 15 - 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	13
Total	21

Funding Policy. The Department recognizes the cost of providing these benefits, in accordance with government accounting standards, on a pay-as-you-go basis, by expensing the annual insurance premiums charged the Department by the Town, which aggregated approximately \$227,934 and \$242,629 for the years ended December 31, 2013 and 2012, 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

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (Continued):

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, 2013 and 2012, 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.

	2013	2012
Annual required contribution	\$ 112,477	\$ 105,595
Contributions made	(83,062)	(76,676)
Increase in net OPEB obligation	29,415	28,919
Transfers to OPEB Trust	(60,000)	(156,365)
Change in net OPEB obligation	(30,585)	(127,446)
Net OPEB obligation - Beginning of year	789,339	916,785
Net OPEB obligation - End of year	\$ 758,754	\$ 789,339

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
2013	\$ 112,477	127%	\$ 758,754
2012	\$ 105,595	73%	\$ 789,339
2011	\$ 398,998	19%	\$ 916,785

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.

STERLING MUNICIPAL LIGHT DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013 AND 2012

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (Continued):

The funded status is as follows:

Actuarial accrued liability (AAL)	\$ 1,917,108
Actuarial value of plan assets	<u>(236,331)</u>
Unfunded actuarial accrued liability	\$ 1,680,777
Funded ratio (actuarial value of plan assets/AAL)	12.33%
Covered payroll (active plan members)	\$ 893,208
UAAL as a percentage of covered payroll	188.17%

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 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, 2013 AND 2012

NOTE 16 - CONTINGENT LIABILITIES (Continued):

Berkshire Wind Cooperative Corporation (continued)

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

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

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

As of December 31, 2013, 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 \$60,120,000, of which \$3,150,000 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, 2013, the Cooperative's total future debt service requirement on outstanding bonds issued for the Projects is \$91,789,000 of which \$4,802,000 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, 2013 and estimated for future years is shown on the next page.

For Years Ending December 31,	2014	\$ 283,000
	2015	282,000
	2016	283,000
	2017	282,000
	2018	282,000
	2019-2023	1,412,000
	2024-2028	1,412,000
	2029-2030	<u>566,000</u>
	Total	<u>\$ 4,802,000</u>

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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, 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), the majority owner and an indirect subsidiary of NextEra Energy Resources 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.

As of December 31, 2013, total capital expenditures for MMWEC's Projects amounted to \$1,607,269,000, of which \$21,305,000 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 \$225,280,000, of which \$3,089,000 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, 2013, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$218,518,000, of which \$2,989,000 is anticipated to be billed to the Department in the future.

STERLING MUNICIPAL LIGHT DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013 AND 2012

NOTE 16 - CONTINGENT LIABILITIES (Continued):

Massachusetts Municipal Wholesale Electric Company (continued)

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, 2013 and estimated for future years is shown below.

		<u>ANNUAL COSTS</u>		
For Years Ending December 31,	2014	\$	912,000	
	2015		880,000	
	2016		766,000	
	2017		342,000	
	2018		54,000	
	2019		<u>35,000</u>	
	Total	\$	<u>2,989,000</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 \$2,199,000 and \$2,157,000 for the years ended December 31, 2013 and 2012, respectively.

Other Power Supply

The Department has entered into an All Requirements Bulk Power Sales Agreement (All Requirements Agreement) with MMWEC, under which MMWEC provides, delivers and sells all electric power and energy to the Department, whether through owned generation, purchased power contracts or other power supply arrangements.

Under the terms of the All Requirements Agreement, the Department is committed to purchase additional power through MMWEC in the amount of \$719,299 in 2014, \$619,400 in 2015, \$618,878 in 2016 and \$42,574 in 2017.

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). In 2013, the Department renewed hydro power contracts with Contoocook for \$.0635/kwhr (adding the CPI in 2015) through 2025 and Mechanicsville for \$.0625/kwhr (+CPI in 2015) through 2028. The Department signed a new contract with Princeton Wind for \$.08/kwhr through October 2023.

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, 2013 AND 2012
(\$000)

	PERCENTAGE SHARE	TOTAL PROJECT EXPENDITURES TO DATE	PARTICIPANT'S SHARE	DEBT ISSUED & OUTSTANDING 12/31/2013	PARTICIPANT'S SHARE	TOTAL DEBT SERVICE ON BONDS OUTSTANDING	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ 59,239	\$ 652	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	0.8083	173,640	1,404	-	-	-	-
Nuclear Mix No. 1-SBK	-	13,840	-	447	-	233	-
Nuclear Mix No. 1-MLS	-	119,239	-	3,848	-	2,005	-
Nuclear Project No. 3-MLS	0.9196	149,093	1,371	44,760	412	42,720	393
Nuclear Project No. 4-SBK	3.2760	342,585	11,223	45,180	1,480	42,628	1,396
Nuclear Project No. 5-SBK	0.3400	93,026	316	13,355	45	12,801	44
Wyman Project	-	8,790	-	-	-	-	-
Project No. 6-SBK	0.9785	647,817	6,339	117,690	1,152	118,131	1,156
TOTAL		\$ 1,607,269	\$ 21,305	\$ 225,280	\$ 3,089	\$ 218,518	\$ 2,989

	PERCENTAGE SHARE	OPERATION & MAINTENANCE 12/31/2012	PARTICIPANT'S SHARE	OPERATION & MAINTENANCE 12/31/2013	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ 3,693	\$ 41	\$ 3,591	\$ 40
Stony Brook Intermediate Project	0.8083	18,800	152	21,672	175
Nuclear Mix No. 1-SBK	-	1,129	-	1,378	-
Nuclear Mix No. 1-MLS	-	14,547	-	11,868	-
Nuclear Project No. 3-MLS	0.9196	26,267	242	25,453	234
Nuclear Project No. 4-SBK	3.2760	33,870	1,110	34,522	1,131
Nuclear Project No. 5-SBK	0.3400	9,082	31	9,018	31
Wyman Project	-	1,169	-	1,693	-
Project No. 6-SBK	0.9785	59,400	581	60,105	588
TOTAL		\$ 167,957	\$ 2,157	\$ 169,300	\$ 2,199

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(\$000)

	PERCENTAGE SHARE	2014 ANNUAL COST	PARTICIPANT'S SHARE	2015 ANNUAL COST	PARTICIPANT'S SHARE	2016 ANNUAL COST	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	0.8083	-	-	-	-	-	-
Nuclear Mix No. 1-SBK	-	215	-	-	-	-	-
Nuclear Mix No. 1-MLS	-	2,023	-	-	-	-	-
Nuclear Project No. 3-MLS	0.9196	14,063	129	14,311	132	9,182	84
Nuclear Project No. 4-SBK	3.2760	13,957	457	13,142	431	11,128	365
Nuclear Project No. 5-SBK	0.3400	3,934	13	3,821	13	3,370	11
Wyman Project	-	-	-	-	-	-	-
Project No. 6-SBK	0.9785	31,951	313	31,087	304	31,225	306
TOTAL		\$ 66,143	\$ 912	\$ 62,361	\$ 880	\$ 54,905	\$ 766

	PERCENTAGE SHARE	2017 ANNUAL COST	PARTICIPANT'S SHARE	2018 ANNUAL COST	PARTICIPANT'S SHARE	2019 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	3,492	32	1,672	15	-	-
Nuclear Project No. 4-SBK	3.2760	4,401	144	-	-	-	-
Nuclear Project No. 5-SBK	0.3400	1,559	5	117	-	-	-
Wyman Project	-	-	-	-	-	-	-
Project No. 6-SBK	0.9785	16,460	161	3,980	39	3,728	35
TOTAL		\$ 25,912	\$ 342	\$ 5,769	\$ 54	\$ 3,728	\$ 35

WEST BOYLSTON MUNICIPAL LIGHTING PLANT AND SUBSIDIARY
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2013 AND 2012

Schedule of Funding Progress - Other Postemployment Benefits

Actuarial Valuation Date	For the Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Payroll
7/1/2009	12/31/2009	\$ -	\$ 2,453,290	\$2,453,290	0%	\$ 1,129,000	217.30%
7/1/2009	12/31/2010	\$ -	\$ 2,766,187	\$2,766,187	0%	\$ 1,129,000	245.01%
7/1/2009	12/31/2011	\$ -	\$ 2,766,187	\$2,766,187	0%	\$ 1,129,000	245.01%
7/1/2012	12/31/2012	\$ 121,673	\$ 1,917,108	\$1,795,435	6.35%	\$ 906,306	198.10%
7/1/2012	12/31/2013	\$ 236,331	\$ 1,917,108	\$1,680,777	12.33%	\$ 893,208	188.17%

Schedule of Actuarial Methods and Assumptions

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

Actuarial Methods:

Valuation Date:	7/1/2012
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Assumed to increase annually by 3.5%
Remaining Amortization Period	30 years as of July 1, 2012

Actuarial Assumptions

Investment Rate of Return	Pay-as-You-Go 4.00%
Inflation Rate	2.50%
Projected Salary Increases	3.00%
Healthcare Cost Trend Rate	Aged-based per capita decreasing from 7% to 5%

STERLING MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF SALES OF ELECTRICITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

OPERATING FUND

	2013	2012
SALES OF ELECTRICITY:		
Residential	\$ 4,089,992	\$ 4,073,593
Small Commercial	331,688	341,174
Large Industrial	3,150,861	3,138,198
Municipal	320,445	317,432
Security Lighting	44,324	39,934
TOTAL SALES OF ELECTRICITY	\$ 7,937,310	\$ 7,910,331

See Independent Auditors' Report

STERLING MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

OPERATING FUND

	2013	2012
Power Production Expenses:		
Purchased Power	\$ 5,821,295	\$ 5,674,948
Other Power Costs	68,918	70,395
	5,890,213	5,745,343
Distribution Expenses:		
Operation Labor	87,324	95,503
Operation Supplies and Expenses	88,093	59,386
Miscellaneous Distribution Expenses	25,859	27,473
Maintenance of Underground Lines	18,379	2,779
Maintenance of Line Transformers	2,228	2,213
Maintenance of Structure	2,668	18,790
Maintenance of Overhead Lines	203,687	199,145
Maintenance of Street Lights and Signal Systems	7,046	3,567
	435,284	408,856
Customer Account Expenses:		
Meter Reading Expense	48,425	27,828
Customer Records and Collection	122,715	112,809
Advertising	5,854	1,014
Uncollectible Accounts	48,780	74,678
	225,774	216,329
Administrative and General Expenses:		
Miscellaneous Sales Expenses	8,728	6,945
Administrative and General Salaries	89,382	72,614
Office Supplies and Expenses	19,191	25,742
Outside Services Employed	72,731	106,003
Property Insurance	30,463	30,257
Injuries and Damages	43,423	50,685
Employees Pensions and Benefits	578,413	576,609
Miscellaneous General Expenses	102,811	106,274
	945,142	975,129
TOTAL OPERATIONS AND MAINTENANCE EXPENSES	\$ 7,496,413	\$ 7,345,657

See Independent Auditors' Report