

STERLING MUNICIPAL LIGHT DEPARTMENT
Financial Statements
December 31, 2014 and 2013

STERLING MUNICIPAL LIGHT DEPARTMENT
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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 as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Sterling Municipal Light Department as of December 31, 2014 and 2013, and the respective changes in financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the 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, 2014 and 2013, and the changes in financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Other Post-Employment 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Sales of Electricity and Schedules of Operations and Maintenance Expenses on pages 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
April 9, 2015

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, 2014 and 2013. 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, 2014, our net position totaled \$12,632,922 which was an increase of \$338,229 over 2013.

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, 2014 and 2013 was \$338,229 and \$21,827, 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>2014</u>	<u>2013</u>
Current Assets	\$ 2,847,731	\$ 2,809,953
Noncurrent Assets	<u>12,543,614</u>	<u>11,946,908</u>
Total Assets	<u>\$ 15,391,345</u>	<u>\$ 14,756,861</u>
Current Liabilities	\$ 653,802	\$ 578,724
Noncurrent Liabilities	<u>980,886</u>	<u>1,006,129</u>
Total Liabilities	<u>1,634,688</u>	<u>1,584,853</u>
Deferred Inflows of Resources	<u>1,123,735</u>	<u>877,315</u>
Net Position:		
Net Investment in Capital Assets	9,832,200	9,617,781
Net Position Restricted for Depreciation	1,233,758	966,435
Unrestricted Net Position	<u>1,566,964</u>	<u>1,710,477</u>
Total Net Position	<u>12,632,922</u>	<u>12,294,693</u>
Total Liabilities and Net Position	<u>\$ 15,391,345</u>	<u>\$ 14,756,861</u>

Summary of Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating Revenues	\$ 8,370,602	\$ 7,972,855
Operating Expenses	<u>8,022,446</u>	<u>7,957,926</u>
Operating Income	348,156	14,929
Nonoperating Revenues (Expenses)	<u>(9,927)</u>	<u>6,898</u>
Income Before Transfers and Contributions	338,229	21,827
Net Position, January 1	12,294,693	12,272,866
Net Position, December 31	<u>\$ 12,632,922</u>	<u>\$ 12,294,693</u>

Financial Highlights

Operating Revenues (Expenses)

Operating revenues increased by \$397,747 (4.98%) from 2014 to 2013 as the result of full year of new rates applied to SMLD's customers. Operating expenses increased by \$64,520 (.80%), due in part to increased purchased power expenses, resulting in an increase in operating income of \$333,227 from 2014 to 2013.

The SMLD's maintained a customer base of 3,777 and 3,737 for December 31, 2014 and 2013, respectively. We have 3,389 Residential, 138 Industrial, 205 Commercial, 35 Municipal, and 10 Governmental Services customers.

A total of 60,048,986 kilowatt hours (kWhrs) of electricity were sold during calendar year 2014 as compared to 60,304,191 Kilowatt hours for 2013. This represents a decrease of 255,205 kWhrs (.43%) over calendar year 2013. Sterling's hourly peak demand of 11,732 KW was set in September 2014 that is a reduction from the peak set in 2013.

Power:

The Department uses reliable indices to monitor how our distribution system is performing and to measure our response time to system interruptions. The 2014 Average Service Availability Index (ASAI) of electricity for Sterling residents was 99.9984 %. The 2014 Customer Average Interruption Duration Index (CAIDI) numbers represent the average time required to restore service to a customer per sustained outage. These numbers came in at 60.3 minutes and were 12% lower than 2013. Overall, our system interruptions have been decreasing. This is a reflection of the continued system and substation upgrades being performed by our Operations Department.

Our transmission costs continue to rise but not at the same double digit percentages we have seen in the last few years. We are fortunate to avoid some of these costs by using locally produced solar energy from the E.H Perkins and Wiles Road facilities that have provided enough energy for over 540 homes. These two solar projects helped make the Town of Sterling number one in the country for solar watts per customer and also a top three finalist for public power utility of the year by the Solar Electric Power Association (SEPA).

Financial Highlights (continued):

Power (continued):

In January and February of 2014 energy market prices reach record highs due to natural gas constraints. This was primarily caused by our increased dependence on natural gas for energy production. In 2000 we produced 5% of power from natural gas and in 2014 that number was closer to 47%. The reliance on natural gas has caused many fossil fueled generators and local nuclear plants to shut down. This has left fewer options during the cold periods when natural gas is reserved for heating purposes first and then electric generators.

In an effort to diversify our power resources and stabilize purchased power costs, we buy electricity through fixed contracts and the open market. These 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 the fluctuating fuel commodity markets to global unrest. Natural gas prices have declined in the last few years, but we remain challenged with the uncertainty of the delivery during cold spells due to the constraints on the gas transmission lines. 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 47% in 2014 and is expected to continue to rise until new gas transmission pipelines can be put in place. Despite these concerns in 2014 our power costs have remained stable.

Although fuel remained steady our transmission costs continued to rise. These costs have increased mainly since transmission owners receive large returns between 11-14% on their 6.6 billion dollar investments in transmission line upgrades in New England. This cumulative number is expected to rise to 11 billion in 2017 putting additional upward pressure on transmission prices. The Regional Network Service (RNS) rate rose by 22% from \$605,664 in June 2011 to May 2012 to an expected cost of \$940,264 from June 2014 to May 2015 a 55% increase. This cost is expected to continue to rise to an estimated cost of \$1,166,155 in June 2017, an additional 25% increase. Along with other Municipal Light Plants and Associations we continue to contest these charges in Washington with our Legislators and the Federal Energy Regulatory Commission (FERC). The outcome of these meetings resulted in the filing of various bills that brought some relief. The returns were lowered from 11.4% to 10.54 however we will continue to contest that the returns be closer to the industry average of 9.2%.

Our power supply consists of a mixed portfolio of power agreements that include E.H Perkins and Wiles Road solar projects and hydro power, specifically from Baltic Mills, Contoocook Hydro, Mechanicsville Hydro, Energy Stream Hydro, Methuen Falls Hydro, Public Authority State of New York Hydro (PASNY) and Centennial Falls Hydro Electric Facility. In 2014 over 25-35% of our power was received from renewable energy sources from the Berkshire and Princeton Wind projects. This exceeds the Massachusetts requirement (Municipal Light Plants are exempt) for renewable energy supply in power portfolios of 20% by 2020. In addition to the nuclear power we receive power from the Millstone III Plant and the Seabrook Power Plant in New Hampshire. Our power portfolio is 75% carbon free. Other sources of our power supply come from the MMWEC Stony Brook Plant, combined cycle units I & II and the Carbolon generating facility.

Utility and Debt Administration:

Utility Plant In Service

Total Utility Plant In Service at net book value for the end of 2014 is \$9,832,200. Of this amount \$7,242,652 represents Distribution Plant, \$2,314,573 represents General Plant, and \$274,975 represents Construction in Progress.

Utility and Debt Administration (continued):

Utility Plant In Service:

In December 2014 we received our new bucket truck. The installation of the new body and bucket were performed on the cab chassis that we purchased in the fall of 2013. By purchasing a cab/chassis one year and budgeting for the bucket the next we were able to systematically replace our main fleet of bucket and digger trucks. By using an annual replacement schedule it enhances our reliability, reduces maintenance costs and minimizes the impact to our capital budget.

In March of 2014 the Sterling Energy Committee was formed. With a commitment of \$50,000 from the Departments Board of Commissioners and \$110,000 from an awarded Municipal Energy Efficiency grant we will provide assistance for the LED streetlight change-out-program. In addition, energy efficient improvements will be made to five out of seven town buildings that were noted in the energy audits performed by GDS Associate's in September 2012. These audits used a level II, the American Society of Heating, Refrigeration and Air Conditioners Engineers (ASHRAE) standards. The improvements will include review of HVAC controls in both Police and Fire Stations, new LED lighting in the Butterick, Library and Department buildings. We will also do a review of all heating systems from an independent engineering firm to provide ideas for improvements or replacements take place over a two year period.

In December 2014, the Department was awarded a Community Clean Energy Resiliency grant that will allow us to install a solar battery storage system to provide emergency back-up power to the police and dispatch center for many hours during a catastrophic event. This project will also be used to provide system benefits to Department on a daily basis.

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, 2014, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is approximately \$167 million, of which Sterling Municipal Light Department's share is \$2.2 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 2014 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, 2014 AND 2013

OPERATING FUND

ASSETS

	2014	2013
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 653,670	\$ 545,874
Accounts Receivable - Customers, Net	385,432	394,498
Accounts Receivable - Related Party	5,978	14,716
Other Receivables	140,798	149,977
Materials and Supplies	339,013	336,335
Prepaid Expenses	488,309	598,385
Purchase Power Working Capital	834,531	770,168
TOTAL CURRENT ASSETS	2,847,731	2,809,953
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	1,233,758	966,435
Customer Deposits	245,521	257,335
Rate Stabilization Fund	1,112,135	865,357
Unearned Power Contract	120,000	240,000
Utility Plant Assets, Net	9,832,200	9,617,781
TOTAL NONCURRENT ASSETS	12,543,614	11,946,908
TOTAL ASSETS	\$ 15,391,345	\$ 14,756,861

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

OPERATING FUND

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2014	2013
CURRENT LIABILITIES:		
Accounts Payable	\$ 629,021	\$ 531,938
Accounts Payable-Related Party	3,531	1,238
Accrued Expenses	21,250	45,548
TOTAL CURRENT LIABILITIES	653,802	578,724
NONCURRENT LIABILITIES:		
Customer Deposits	241,400	247,375
Net Other Postemployment Benefits Obligation	739,486	758,754
TOTAL NONCURRENT LIABILITIES	980,886	1,006,129
TOTAL LIABILITIES	1,634,688	1,584,853
DEFERRED INFLOWS OF RESOURCES:		
Contribution In Aid of Construction	11,600	11,958
Rate Stabilization Reserve	1,112,135	865,357
TOTAL DEFERRED INFLOWS OF RESOURCES	1,123,735	877,315
NET POSITION:		
Net Investment in Capital Assets	9,832,200	9,617,781
Net Position Restricted for Depreciation	1,233,758	966,435
Unrestricted Net Position	1,566,964	1,710,477
TOTAL NET POSITION	12,632,922	12,294,693
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 15,391,345	\$ 14,756,861

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, 2014 AND 2013

OPERATING FUND

	2014	2013
OPERATING REVENUES:		
Sales of Electricity	\$ 8,298,180	\$ 7,937,310
Other Operating Revenues	72,422	35,545
TOTAL OPERATING REVENUES	8,370,602	7,972,855
OPERATING EXPENSES:		
Operations and Maintenance Expenses	7,550,701	7,496,413
Depreciation	471,745	461,513
TOTAL OPERATING EXPENSES	8,022,446	7,957,926
OPERATING INCOME	348,156	14,929
NONOPERATING REVENUES (EXPENSES):		
Interest Income	32,587	18,475
Interest Expense	(378)	(624)
Net Gain (Loss) on Investment	650	(7,843)
Disaster Recovery	(39,235)	0
Management Advisory Fees	(3,551)	(3,110)
TOTAL NONOPERATING REVENUES (EXPENSES)	(9,927)	6,898
Income Before Transfers and Contributions	338,229	21,827
NET POSITION - JANUARY 1	12,294,693	12,272,866
NET POSITION - DECEMBER 31	\$ 12,632,922	\$ 12,294,693

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

OPERATING FUND

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 8,391,610	\$ 8,135,809
Cash Paid to Suppliers	(5,487,909)	(5,621,983)
Cash Paid for Benefits	(588,239)	(578,413)
Cash Paid to Employees	(888,930)	(893,208)
Net Cash Provided by Operating Activities	1,426,532	1,042,205
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Disaster Recovery Revenue	(39,235)	0
Interest Expense	(378)	(624)
Net Cash Used by Noncapital Financing Activities	(39,613)	(624)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net Investment Transactions in the Depreciation Fund	(252,565)	(201,010)
Additions to Plant Assets	(686,522)	(467,107)
Contributions in Aid of Construction	0	11,958
Net Cash Used by Capital and Related Financing Activities	(939,087)	(656,159)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	8,150	10,868
Transfer to Working Capital	(60,000)	(60,000)
Transfer to OPEB Trust Fund	(60,000)	(60,000)
Net Transfers to Rate Stabilization Fund	(240,000)	(440,000)
Net Cash Provided (Used in) by Investing Activities	(351,850)	(549,132)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	95,982	(163,710)
CASH AND CASH EQUIVALENTS - JANUARY 1	803,209	966,919
CASH AND CASH EQUIVALENTS - DECEMBER 31	\$ 899,191	\$ 803,209

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

OPERATING FUND

	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	\$ 348,156	\$ 14,929
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	472,103	461,513
Amortization of Contribution in Aid	(358)	0
Allowance for Doubtful Accounts	(16,679)	10
Rate Stabilization Reserve	246,778	242,897
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Accounts Receivable	34,483	114,006
Other Receivables	9,179	61,472
Materials and Supplies	(2,678)	15,722
Prepaid Expenses	110,076	(38,991)
Unearned Power Contract	120,000	120,000
Purchase Power Working Capital	(4,363)	(5,772)
Increase (Decrease) in Liabilities:		
Accounts Payable	99,376	44,191
Accrued Expenses	(24,298)	(4,653)
Customer Advances for Construction	0	(7,259)
Customer Deposits	(5,975)	(5,275)
Other Postemployment Benefits	40,732	29,415
Net Cash Provided by Operating Activities	\$ 1,426,532	\$ 1,042,205

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

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

	2014	2013
Operating Cash	\$ 653,670	\$ 545,874
Customer Deposits	245,521	257,335
	\$ 899,191	\$ 803,209

See Accompanying Notes To Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2014 AND 2013

OPEB TRUST FUND

ASSETS

	2014	2013
Funds on Deposit with MMWEC		
Cash and Cash Equivalents	\$ 312,199	\$ 236,331

NET POSITION

NET POSITION - Restricted	\$ 312,199	\$ 236,331
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STERLING MUNICIPAL LIGHT DEPARTMENT
 STATEMENTS OF CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

OPEB TRUST FUND

	2014	2013
ADDITIONS:		
Contributions	\$ 60,000	\$ 60,000
Interest Earned on Invested Funds	15,868	17,530
Total Additions	75,868	77,530
CHANGES IN NET POSITION	75,868	77,530
NET POSITION - January 1,	236,331	158,801
NET POSITION - December 31,	\$ 312,199	\$ 236,331

See Accompanying Notes to Financial Statements

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 2014 and 2013. 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 2014 presentation.

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, 2014 AND 2013

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 \$17,831 and \$34,510 for the years ended December 31, 2014 and 2013, 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, 2014 AND 2013

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, 2014 and 2013 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
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NOTE 3 - CASH AND INVESTMENTS (Continued):

	<u>Ratings as of Year End</u>	<u>2014 Fair Value</u>	<u>2014 Under 1 Year</u>	<u>2014 1-5 Years</u>	<u>2013 Fair Value</u>
<u>Term Securities</u>					
U.S. Treasury/Agency Securities	AA+	\$ 433,221	\$ 0	\$ 433,221	\$ 243,092
Corporate Bonds	AA+	30,184	0	30,184	29,803
Corporate Bonds	AA	49,452	0	49,452	0
Corporate Bonds	A+	44,754	0	44,754	0
Corporate Bonds	A-	40,310	0	40,310	40,034
Certificate of Deposit	Unrated	<u>380,000</u>	<u>225,000</u>	<u>155,000</u>	<u>565,000</u>
Total Term Securities		977,921	<u>\$ 225,000</u>	<u>\$ 752,921</u>	877,929
<u>Other Securities</u>					
Equity Securities		145			1,952
Mutual Funds		102,653			75,218
Money Market Mutual Funds		112,573			9,597
Accrued Interest		<u>2,007</u>			<u>1,739</u>
Total Investments		<u>\$ 1,195,299</u>			<u>\$ 966,435</u>

Gain (Loss) on Investments

	<u>2014</u>	<u>2013</u>
Realized Gain (Loss) on Investments	\$ (3,436)	\$ (2,468)
Unrealized Gain (Loss) on Investments	<u>4,086</u>	<u>(5,375)</u>
Gain (Loss) on Investments	<u>\$ 650</u>	<u>\$ (7,843)</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>
Firstbank PR Santurce	\$ 80,000	7%
American Express Century	\$ 100,000	8%

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 - OTHER RECEIVABLES:

Other receivables consist of the following:	<u>2014</u>	<u>2013</u>
Merchandise and Jobbing	\$ 140,798	\$ 110,742
Disaster Recovery Revenue	<u>0</u>	<u>39,235</u>
Total Other Receivables	<u>\$ 140,798</u>	<u>\$ 149,977</u>

NOTE 5 - PREPAID EXPENSES:

Prepayments consist of the following:

	<u>2014</u>	<u>2013</u>
Prepaid Insurance	\$ 39,303	\$ 43,711
Pension Assessment	66,991	58,995
Purchased Power Contracts	233,844	258,351
Other Expenses	28,171	3,667
Unearned Power Contracts	120,000	120,000
Preliminary Survey Expenses	<u>0</u>	<u>113,661</u>
Total Prepaid Expenses	<u>\$ 488,309</u>	<u>\$ 598,385</u>

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, 2014 and 2013 is \$834,531 and \$770,168, respectively.

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
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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, 2014 and 2013 was \$1,112,135 and \$865,357, 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:

	<u>2014</u>	<u>2013</u>
Cost of Capital Assets Acquired	\$ 16,597,615	\$ 15,986,021
Less: Accumulated Depreciation	<u>6,765,415</u>	<u>6,368,240</u>
Net Investment in Capital Assets	<u>\$ 9,832,200</u>	<u>\$ 9,617,781</u>

NOTE 10 - UTILITY PLANT ASSETS:

	Balance January 1, 2014	Increases	Decreases	Balance December 31, 2014
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 52,233	\$ 222,742	\$ 0	\$ 274,975
Land	<u>197,008</u>	<u>0</u>	<u>0</u>	<u>197,008</u>
Total Capital Assets Not Being Depreciated	<u>249,241</u>	<u>222,742</u>	<u>0</u>	<u>471,983</u>
Capital Assets Being Depreciated:				
Distribution Plant	12,647,657	236,498	(64,378)	12,819,777
General Plant	<u>3,089,123</u>	<u>235,357</u>	<u>(18,625)</u>	<u>3,305,855</u>
Total Capital Assets Being Depreciated	<u>15,736,780</u>	<u>471,855</u>	<u>(83,003)</u>	<u>16,125,632</u>
Less Accumulated Depreciation For:				
Distribution Plant	(5,459,082)	(379,429)	64,378	(5,774,133)
General Plant	<u>(909,158)</u>	<u>(92,674)</u>	<u>10,550</u>	<u>(991,282)</u>
Total Accumulated Depreciation	<u>(6,368,240)</u>	<u>(472,103)</u>	<u>74,928</u>	<u>(6,765,415)</u>
Capital Assets Being Depreciated, Net	<u>9,368,540</u>	<u>(248)</u>	<u>(8,075)</u>	<u>9,360,217</u>
Utility Plant Assets, Net	<u>\$ 9,617,781</u>	<u>\$ 222,494</u>	<u>\$ (8,075)</u>	<u>\$ 9,832,200</u>

STERLING MUNICIPAL LIGHT DEPARTMENT
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NOTE 11 - RELATED PARTY:

The Department bills the Town of Sterling for electric light usage. The amount included in revenue was approximately \$338,268 and \$320,445 for December 31, 2014 and 2013, respectively. Accounts receivable from the Town was \$5,978 and \$14,716 at December 31, 2014 and 2013, respectively.

The Department reimburses the Town for police details, Department of Public Works services, insurance and retirement costs. During the year ended December 31, 2014 and 2013, the total reimbursement paid for these services was \$382,531 and \$384,194, respectively. As of December 31, 2014 and 2013, amounts payable to the Town were \$3,531 and \$1,238, 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, 2014 AND 2013

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, 2014, 2013, and 2012 was approximately \$133,983, \$117,991 and \$134,955, respectively.

STERLING MUNICIPAL LIGHT DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2014 AND 2013

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, 2014 and 2013 was \$312,199 and \$236,331, 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	<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 \$203,673 and \$227,934 for the years ended December 31, 2014 and 2013, respectively. Currently, the Department pays 80% 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
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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, 2014 and 2013, 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.

	2014	2013
Annual required contribution	\$ 123,680	\$ 112,477
Contributions made	(82,948)	(83,062)
Increase in net OPEB obligation	40,732	29,415
Transfers to OPEB Trust	(60,000)	(60,000)
Change in net OPEB obligation	(19,268)	(30,585)
Net OPEB obligation - Beginning of year	758,754	789,339
Net OPEB obligation - End of year	\$ 739,486	\$ 758,754

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
2014	\$ 123,680	115%	\$ 739,486
2013	\$ 112,477	127%	\$ 758,754
2012	\$ 105,595	73%	\$ 789,339

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, 2014 AND 2013

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>(312,199)</u>
Unfunded actuarial accrued liability	\$ 1,604,909
Funded ratio (actuarial value of plan assets/AAL)	16.28%
Covered payroll (active plan members)	\$ 805,180
UAAL as a percentage of covered payroll	199.32%

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
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NOTE 16 - CONTINGENT LIABILITIES (Continued):

Berkshire Wind Cooperative Corporation (continued)

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

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

The 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, 2014, 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 \$57,860,000, of which \$3,027,000 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, 2014, the Cooperative's total future debt service requirement on outstanding bonds issued for the Projects is \$86,387,000 of which \$4,520,000 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, 2014 and estimated for future years is shown on the next page.

For Years Ending December 31,	2015	\$ 282,000
	2016	283,000
	2017	282,000
	2018	282,000
	2019	282,000
	2020-2024	1,414,000
	2025-2029	1,413,000
	2030	<u>282,000</u>
	Total	<u>\$ 4,520,000</u>

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

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

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

As of December 31, 2014, total capital expenditures for MMWEC's Projects amounted to \$1,616,889,000, of which \$21,446,000 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 \$167,110,000, of which \$2,294,000 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, 2014, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$152,675,000, of which \$2,080,000 is anticipated to be billed to the Department in the future.

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 NOTES TO FINANCIAL STATEMENTS
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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, 2014 and estimated for future years is shown below.

		<u>ANNUAL COSTS</u>		
For Years Ending December 31,	2015	\$	880,000	
	2016		766,000	
	2017		342,000	
	2018		54,000	
	2019		<u>36,000</u>	
	Total	\$	<u>2,078,000</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 \$2,132,000 and \$2,199,000 for the years ended December 31, 2014 and 2013, 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 \$765,361 in 2015, \$639,086 in 2016, \$104,695 in 2017, 52,221 in 2018, and \$41,829 in 2019.

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, 2014 AND 2013
(\$000)

	PERCENTAGE SHARE	TOTAL PROJECT EXPENDITURES		DEBT ISSUED & OUTSTANDING		TOTAL DEBT SERVICE	
		TO DATE	PARTICIPANT'S SHARE	12/31/2014	PARTICIPANT'S SHARE	ON BONDS OUTSTANDING	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ 59,275	\$ 653	\$ -	\$ -	\$ -	\$ -
Stony Brook Intermediate Project	0.8083	174,109	1,407	-	-	-	-
Nuclear Mix No. 1-SBK	-	13,389	-	-	-	-	-
Nuclear Mix No. 1-MLS	-	120,498	-	-	-	-	-
Nuclear Project No. 3-MLS	0.9196	150,507	1,384	32,660	300	28,657	264
Nuclear Project No. 4-SBK	3.2760	345,196	11,309	32,260	1,057	28,671	939
Nuclear Project No. 5-SBK	0.3400	93,686	319	9,865	34	8,867	30
Wyman Project	-	8,797	-	-	-	-	-
Project No. 6-SBK	0.9785	651,432	6,374	92,325	903	86,480	847
TOTAL		\$ 1,616,889	\$ 21,446	\$ 167,110	\$ 2,294	\$ 152,675	\$ 2,080

	PERCENTAGE SHARE	OPERATION & MAINTENANCE		OPERATION & MAINTENANCE	
		12/31/2013	PARTICIPANT'S SHARE	12/31/2014	PARTICIPANT'S SHARE
Stony Brook Peaking Project	1.1014	\$ 3,591	\$ 40	\$ 4,648	\$ 51
Stony Brook Intermediate Project	0.8083	21,672	175	32,241	261
Nuclear Mix No. 1-SBK	-	1,378	-	971	-
Nuclear Mix No. 1-MLS	-	11,868	-	8,743	-
Nuclear Project No. 3-MLS	0.9196	25,453	234	26,549	244
Nuclear Project No. 4-SBK	3.2760	34,522	1,131	30,617	1,003
Nuclear Project No. 5-SBK	0.3400	9,018	31	8,122	28
Wyman Project	-	1,693	-	3,094	-
Project No. 6-SBK	0.9785	60,105	588	55,736	545
TOTAL		\$ 169,300	\$ 2,199	\$ 170,721	\$ 2,132

STERLING MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(\$000)

	PERCENTAGE SHARE	2015 ANNUAL COST	PARTICIPANT'S SHARE	2016 ANNUAL COST	PARTICIPANT'S SHARE	2017 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	14,311	132	9,182	84	3,492	32
Nuclear Project No. 4-SBK	3.2760	13,142	431	11,128	365	4,401	144
Nuclear Project No. 5-SBK	0.3400	3,821	13	3,370	11	1,559	5
Wyman Project	-	-	-	-	-	-	-
Project No. 6-SBK	0.9785	31,087	304	31,225	306	16,460	161
TOTAL		\$ 62,361	\$ 880	\$ 54,905	\$ 766	\$ 25,912	\$ 342

	PERCENTAGE 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	1,672	15	-	-
Nuclear Project No. 4-SBK	3.2760	-	-	-	-
Nuclear Project No. 5-SBK	0.3400	117	-	-	-
Wyman Project	-	-	-	-	-
Project No. 6-SBK	0.9785	3,980	39	3,728	36
TOTAL		\$ 5,769	\$ 54	\$ 3,728	\$ 36

STERLING MUNICIPAL LIGHT DEPARTMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2014 AND 2013

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%
7/1/2012	12/31/2014	\$ 312,199	\$ 1,917,108	\$1,604,909	16.28%	\$ 805,180	199.32%

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, 2014 AND 2013

OPERATING FUND

	2014	2013
SALES OF ELECTRICITY:		
Residential	\$ 4,115,985	\$ 4,089,992
Small Commercial	367,684	331,688
Large Industrial	3,430,858	3,150,861
Municipal	338,268	320,445
Security Lighting	45,385	44,324
TOTAL SALES OF ELECTRICITY	\$ 8,298,180	\$ 7,937,310

See Independent Auditors' Report

STERLING MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

OPERATING FUND

	2014	2013
Power Production Expenses:		
Purchased Power	\$ 5,926,299	\$ 5,821,295
Other Power Costs	81,758	68,918
Total Power Production Expenses	6,008,057	5,890,213
Distribution Expenses:		
Operation Labor	102,104	87,324
Operation Supplies and Expenses	78,436	88,093
Miscellaneous Distribution Expenses	20,047	25,859
Maintenance of Underground Lines	9,220	18,379
Maintenance of Line Transformers	4,970	2,228
Maintenance of Structure	648	2,668
Maintenance of Overhead Lines	188,113	203,687
Maintenance of Street Lights and Signal Systems	3,926	7,046
Total Distribution Expenses	407,464	435,284
Customer Account Expenses:		
Meter Reading Expense	36,217	48,425
Customer Records and Collection	133,343	148,778
Advertising	2,717	5,854
Uncollectible Accounts	22,361	48,780
Total Customer Account Expenses	194,638	251,837
Administrative and General Expenses:		
Miscellaneous Sales Expenses	0	8,728
Administrative and General Salaries	82,791	89,382
Office Supplies and Expenses	16,457	19,191
Outside Services Employed	73,485	46,668
Property Insurance	31,643	30,463
Injuries and Damages	37,140	43,423
Employees Pensions and Benefits	588,239	578,413
Miscellaneous General Expenses	110,787	102,811
Total Administrative and General Expenses	940,542	919,079
TOTAL OPERATIONS AND MAINTENANCE EXPENSES	\$ 7,550,701	\$ 7,496,413

See Independent Auditors' Report