

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
Annual Financial Statements
For the Year Ended December 31, 2015

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

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INDEPENDENT AUDITORS' REPORT

To the Municipal Light Board
South Hadley Electric Light Department

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the South Hadley Electric Light Department ("the Department") (an enterprise fund of the Town of South Hadley, Massachusetts), as of and for the year ended December 31, 2015, 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

The Department's 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the South Hadley Electric Light Department, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the financial statements, there is an uncertainty related to the amount of accrued sick and vacation time payable to a former employee. The actual amount to be paid may be substantially less than the liability reported in the accompanying financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Reporting Entity

As discussed in Note 1, the financial statements of the South Hadley Electric Light Department are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the Town of South Hadley, Massachusetts that is attributable to the transactions of the South Hadley Electric Light Department. They do not purport to, and do not, present fairly the financial position of the Town of South Hadley, Massachusetts as of December 31, 2015, and the changes in its financial position and, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Proportionate Share of the Net Pension Liability, and the Schedule of Contributions 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Hadley Electric Light Department's basic financial statements. The supplementary schedule appearing on page 44 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2016 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Melanson Heath

July 21, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the South Hadley Electric Light Department ("the Department"), we offer readers this narrative overview and analysis of the Department's financial activities for the year ended December 31, 2015.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include (1) the Proprietary Fund Statement of Net Position, (2) the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position, (3) the Proprietary Fund Statement of Cash Flows, (4) the Fiduciary Fund Statement of Fiduciary Net Position, (5) the Fiduciary Fund Statement of Changes in Fiduciary Net Position, and (6) the Notes to Financial Statements.

The Proprietary Fund Statement of Net Position presents information on our assets and liabilities at a specific point in time. The difference between the two is reported as net position. At December 31, 2015, the Department's total net position was \$23,622,778, of which \$5,791,009 represents our investment in capital assets, \$6,136,719 represents resources that are subject to restrictions on how they may be used, and \$11,695,050 is unrestricted.

The Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position presents information on our operating results for a specific period of time. As discussed in more detail, for the year ended December 31, 2015, our operating results were positive and we increased our net position by \$55,000.

The Proprietary Fund Statement of Cash Flows presents information on our sources and uses of cash for a specific time period. For the year ended December 31, 2015, cash generated from operations was sufficient to cover our operating expenses.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

The following is a summary of the Department's Proprietary Fund financial data for the current and prior years.

PROPRIETARY FUND SUMMARY OF NET POSITION

	<u>2015</u>	<u>2014</u>
Current assets	\$ 22,367,655	\$ 22,777,436
Noncurrent assets	5,791,010	5,964,097
Deferred outflows of resources	<u>531,537</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 28,690,202</u>	<u>\$ 28,741,533</u>
Current liabilities	\$ 999,918	\$ 1,133,857
Noncurrent liabilities	<u>4,067,506</u>	<u>1,347,428</u>
Total liabilities	5,067,424	2,481,285
Net position:		
Net investment in capital assets	5,791,009	5,964,097
Restricted	6,136,719	6,000,790
Unrestricted	<u>11,695,050</u>	<u>14,295,361</u>
Total net position	<u>23,622,778</u>	<u>26,260,248</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 28,690,202</u>	<u>\$ 28,741,533</u>

PROPRIETARY FUND SUMMARY OF CHANGES IN NET POSITION

	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 15,364,724	\$ 16,348,395
Operating expenses	<u>(15,249,642)</u>	<u>(15,707,781)</u>
Operating income	115,082	640,614
Non-operating revenues (expenses)	<u>52,296</u>	<u>123,730</u>
Change in net position before other financing sources (uses)	167,378	764,344
Other financing sources (uses):	<u>(112,378)</u>	<u>(62,176)</u>
Change in net position	55,000	702,168
Net position - beginning of year, as restated ¹	<u>23,567,778</u>	<u>25,558,080</u>
Ending net position	<u>\$ 23,622,778</u>	<u>\$ 26,260,248</u>

¹ Restated from the prior year as described in Note 13. Comparative balances for fiscal year 2014 as reported in the MD&A have not been restated.

B. FINANCIAL HIGHLIGHTS

Operating revenues were \$15,364,724 in 2015, a 6.0% decrease from the prior year.

Operating expenses were \$15,249,642 in 2015, an overall decrease of 2.9% from 2014. The largest portion of this total, \$11,522,547 was for purchased power, which decreased 5.5% in 2015.

In 2015, the Department made transfers totaling \$227,752 to the Town of South Hadley.

C. CAPITAL ASSETS

Capital assets. At December 31, 2015, the Department's total investment in land and land rights was \$344,448, a change of \$11,090 from the prior year. Total investment in construction in progress as of December 31, 2015 was \$630,573 a change of \$497,996 from the prior year. Total investment in depreciable capital assets at December 31, 2015 amounted to \$4,815,989 (net of accumulated depreciation), a change of \$(682,173) from the prior year. This investment in depreciable capital assets includes structures and improvements, vehicles, equipment and furnishings, and infrastructure assets.

Long-term liabilities. At the end of the current year, the Department had no outstanding bonded debt.

Additional information on capital assets and long-term liabilities can be found in the Notes to Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the South Hadley Electric Light Department's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Financial Manager
South Hadley Electric Light Department
85 Main Street
South Hadley, Massachusetts 01075

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
BUSINESS-TYPE PROPRIETARY FUND
STATEMENT OF NET POSITION
DECEMBER 31, 2015

ASSETS

Current:

Unrestricted cash and investments:	
Operation fund	\$ 3,331,598
MLDM Reserve Trust	11,783,050
Restricted cash and investments	
Customer deposits	256,110
Depreciation fund	5,048,467
Deferred charges	1,088,252
Receivables, net of allowance for uncollectable accounts of \$350,000	350,888
Inventory	461,978
Prepaid expenses	22,796
Other assets	<u>24,516</u>
Total current assets	22,367,655

Noncurrent:

Capital assets:	
Land and land rights	344,448
Construction in progress	630,573
Distribution plant, net of accumulated depreciation	3,649,171
General plant, net of accumulated depreciation	<u>1,166,818</u>
Total noncurrent assets	5,791,010

DEFERRED OUTFLOWS OF RESOURCES	<u>531,537</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 28,690,202</u>

(continued)

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

**BUSINESS-TYPE PROPRIETARY FUND
STATEMENT OF NET POSITION**

DECEMBER 31, 2015

(continued)

LIABILITIES

Current:

Accounts payable	\$	534,222
Accrued liabilities		39,193
Customer deposits		256,110
Current portion of noncurrent liabilities:		
Accrued employee compensated absences		<u>170,393</u>
Total current liabilities		999,918

Noncurrent:

Accrued employee compensated absences		511,179
Other postemployment benefits		579,640
Net pension liability		<u>2,976,687</u>
Total noncurrent liabilities		<u>4,067,506</u>

TOTAL LIABILITIES

5,067,424

NET POSITION

Net investment in capital assets		5,791,009
Restricted		6,136,719
Unrestricted		<u>11,695,050</u>

TOTAL NET POSITION

23,622,778

TOTAL LIABILITIES AND NET POSITION

\$ 28,690,202

The accompanying notes are an integral part of these financial statements.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
BUSINESS-TYPE PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating Revenues:

Residential, net of discounts of \$333,021	\$ 8,295,992
Commercial, net of discounts of \$2,485	2,680,849
Industrial	3,334,748
Municipal	846,316
Other	<u>206,819</u>
Total Operating Revenues	15,364,724

Operating Expenses:

Cost of power sold	11,522,547
Distribution	946,461
Customer accounts	362,326
General and administrative	1,346,500
Depreciation	<u>1,071,808</u>
Total Operating Expenses	<u>15,249,642</u>
Operating Income	115,082

Nonoperating Revenues (Expenses):

Interest and investment income	125,721
Loss on disposition of capital assets	<u>(73,425)</u>
Total Nonoperating Revenues (Expenses), Net	<u>52,296</u>
Change in net position before other financing sources (uses)	167,378

Other Financing Sources (Uses):

Capital contributions	115,374
Transfers out - Town of South Hadley	<u>(227,752)</u>
Total Other Financing Sources (Uses), Net	<u>(112,378)</u>
Change in Net Position	55,000

Net Position at Beginning of Year, as restated	<u>23,567,778</u>
Net Position at End of Year	<u><u>\$ 23,622,778</u></u>

The accompanying notes are an integral part of these financial statements.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
BUSINESS-TYPE PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

Cash Flows From Operating Activities:	
Receipts from customers and users	\$ 15,846,315
Payments to power suppliers	(11,553,640)
Payments to employees	(1,365,610)
Payments for other operations	<u>(1,300,918)</u>
Net Cash Provided By Operating Activities	1,626,147
Cash Flows From Noncapital Financing Activities:	
Transfers out - Town of South Hadley	<u>(227,752)</u>
Net Cash Used For Noncapital Financing Activities	(227,752)
Cash Flows From Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(1,032,175)
Capital contributions	115,374
Proceeds from disposition of capital assets	<u>60,030</u>
Net Cash Used For Capital and Related Financing Activities	(856,771)
Cash Flows From Investing Activities:	
Interest and investment income	125,721
Increase in investments	<u>(95,875)</u>
Net Cash Provided By Investing Activities	<u>29,846</u>
Net Change in Cash	571,470
Cash, Beginning of Year	<u>8,064,705</u>
Cash, End of Year	<u><u>\$ 8,636,175</u></u>

(continued)

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
BUSINESS-TYPE PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

(continued)

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities:**

Operating income	\$ 115,082
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,071,808
Other postemployment benefits	16,634
Changes in assets and liabilities:	
Accounts receivable	481,591
Prepaid expenses	3,279
Deferred charges	(7,637)
Inventory	(23,002)
Pension related deferral	(120,920)
Accounts payable and accrued liabilities	(137,952)
Accrued liabilities	14,455
Customer deposits	76,260
Accrued employee compensated absences	24,095
Net pension liability	<u>112,454</u>
Net Cash Provided By Operating Activities	<u>\$ 1,626,147</u>

The accompanying notes are an integral part of these financial statements.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

**FIDUCIARY FUND
STATEMENT OF NET POSITION**

DECEMBER 31, 2015

	Other Postemployment <u>Benefits Trust</u>
ASSETS	
Restricted cash and investments:	
OPEB Liability Trust	\$ <u>615,808</u>
Total Assets	<u>615,808</u>
NET POSITION	
Total net position restricted for other postemployment benefits	\$ <u><u>615,808</u></u>

The accompanying notes are an integral part of these financial statements.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Other Postemployment Benefits Trust</u>
Additions:	
Interest and investment income	\$ <u>(7,087)</u>
Total additions	(7,087)
 Net position restricted for other postemployment benefits:	
Beginning of Year	<u>622,895</u>
End of Year	\$ <u><u>615,808</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

- A. Reporting Entity - The South Hadley Electric Light Department (the "Department") is an enterprise fund of the Town of South Hadley, Massachusetts (the "Town"). The Department provides electric service to residential, commercial, industrial, and municipal customers, substantially all of whom are located within the Town.
- B. Measurement Focus and Basis of Accounting - The Department's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The Department's accounting records are maintained in accordance with accounting principles generally accepted in the United States of America ("GAAP") for enterprise funds as promulgated by the Governmental Accounting Standards Board ("GASB") and generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the United States Federal Energy Regulatory Commission ("FERC").
- C. Public Utility Regulation – Arrangements among the Department, outside agencies, and other utilities covering interconnections, interchange of electric power, and sales of utility property are subject to regulation by the FERC. The Department is subject to further regulation by the Massachusetts Department of Public Utilities ("DPU"). Under Massachusetts law, electric rates are set by the Municipal Light Board. While the DPU exercises general supervisory authority over the Department, rates are not subject to DPU approval.
- D. Cash and Investments – Cash includes cash on hand, on deposit with the Town, which is in the custody of and managed by the Town Treasurer, and held by Massachusetts Municipal Wholesale Electric Company ("MMWEC"). The Department considers all short-term investments with an original maturity date of 90 days or less to be cash equivalents. Cash and investments which are subject to legislation, regulation, or agreements that limit the use of such funds are included as restricted assets.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. Dividend and interest income is recorded when declared.

The Department's cash and investments are exposed to various risks, such as custodial, interest rate, and credit. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position. Massachusetts General Laws place limitations on the nature of deposits and investments available to the Department.

Cash, for purposes of the cash flow statement, consists of cash on hand and on deposit with the Town.

- E. Capital Assets - Additions to and replacements of capital assets are recorded at cost. The estimated cost, less accumulated depreciation of capital assets retired is charged against revenue in the year of disposition. Repairs and minor renewals are charged to expense as incurred.
- F. Other Postemployment Benefits Liability Trust – The Other Postemployment Benefit Liability Trust (“OPEB Liability Trust”) was established by the Department pursuant to Chapter 32B, Section 20 of the General Laws of the Commonwealth of Massachusetts. The Trust was established to maintain and accumulate funds for the payment of benefits related to the Department’s other postemployment benefit plans.
- G. Deferred Charges - Under the terms of the Department’s member agreement with MMWEC, the Department is required to prepay various operating expenses and provide for certain working capital requirements for various projects that are operational. The Department charges items to expense when MMWEC indicates that an expense has been incurred.
- H. Municipal Light Departments Massachusetts Reserve Trust - The Municipal Light Department of Massachusetts Reserve Trust (“MLDM Reserve Trust”) was established by MMWEC in anticipation of deregulation of the electric industry in Massachusetts. The Trust was established to help maintain the competitive position of its member utilities, in the face of increasing competition from investor owned utilities, by providing a source of funds to be accessed as needed for extraordinary or unanticipated expenses such as unit outages, loss of load, and retail wheeling.
- I. Accounts Receivable - Accounts receivable are stated at the amount management expects to collect. Management provides for uncollectable amounts through a charge against income based on its assessment of the current status of individual accounts. Management is required to comply with the billing and termination procedures mandated by the DPU. No interest is charged on residential accounts. The Department obtains security interests as it deems appropriate.
- J. Inventory –Inventory, which consists of poles and fixtures, conductors and devices, underground conduits, transformers, meters and street lights,

is valued at the lower of cost or market using the first-in, first-out flow assumption.

- K. Other Postemployment Benefits - The financial statements include an expense for the actuarially determined recommended contribution and the related liability, for other postemployment benefits, in an amount equal to the difference between the actuarially determined recommended contribution and the actual amount contributed.
- L. Customer Deposits – The Department requires security deposits from certain residential and commercial customers. These deposits, including accrued interest, are held in escrow and reflected as a liability in the financial statements.
- M. Accrued Compensated Absences – The Department recognizes sick and vacation leave costs as they are earned. Employees earn from 10 to 15 sick days per year depending on date of hire and 10 to 30 vacation days per year depending on date of hire and length of service. Earned days not taken accumulate, subject to certain limitations.
- N. Net Position – Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through legislation, regulation, or agreements. The remaining net position is reported as unrestricted.
- O. Revenues – Operating revenues are based on authorized rates applied to each customer's use of electricity. They are recognized on the basis of cycle billings rendered monthly. Revenues are not accrued for services delivered beyond such cycle billing dates.
- P. Depreciation – Depreciation of capital assets is computed using the straight-line method at composite rates as prescribed by the DPU. Depreciation was calculated using a composite rate of 3% in 2015.
- Q. Retirement Plan – The Department participates in the Hampshire County Contributory Retirement System, which covers all employees.
- R. Reclassification – Certain amounts in the prior year financial statements have been reclassified to conform to the presentation on the current year financial statements. These reclassifications had no effect on the reported net position and change in net position.
- S. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that

affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Actual results could vary from those estimates.

2. Cash and Investments

The Department's total cash and investments are segregated by purpose, recorded at fair value, and consist of both restricted and unrestricted assets. The balances at December 31, 2015 consisted of the following:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Unrestricted			
Operation fund	\$ 3,331,598	\$ -	\$ 3,331,598
MLDM Reserve Trust	2,129,622	9,653,428	11,783,050
Restricted			
Depreciation fund	5,048,467	-	5,048,467
Customer deposits	256,110	-	256,110
OPEB Liability Trust	37,326	578,482	615,808
Deferred charges	370,637	717,615	1,088,252
Total	<u>\$ 11,173,760</u>	<u>\$ 10,949,525</u>	<u>\$ 22,123,285</u>

Investments at December 31, 2015 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Investments			
U.S. Treasury Securities	\$ 5,520,372	\$ 5,519,476	\$ (896)
U.S. Agency Securities	4,016,593	4,015,603	(990)
Municipal Bonds	835,262	835,963	701
Mutual Funds - Bond Types	203,392	197,733	(5,659)
Mutual Funds - Equity Types	375,614	380,750	5,136
Total	<u>\$ 10,951,233</u>	<u>\$ 10,949,525</u>	<u>\$ (1,708)</u>

The Department's return on its invested assets consisted of the components reported in the statements of revenues, expenses, and changes in net position:

Interest and Investment Income	
Interest	\$ 155,020
Unrealized Gain (Loss)	<u>(36,386)</u>
Total	<u>\$ 118,634</u>

At December 31, 2015, maturities of the Department's U.S. Securities and Municipal Bonds were as follows:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>More Than 10 Years</u>
U.S. Treasury Securities	\$ 5,519,476	\$ 5,279,799	\$ 239,677	\$ -	\$ -
U.S. Agency Securities	4,015,603	-	2,515,671	334,690	1,165,242
Municipal Bonds	<u>835,964</u>	<u>761,694</u>	<u>74,270</u>	<u>-</u>	<u>-</u>
Total	\$ <u>10,371,043</u>	\$ <u>6,041,493</u>	\$ <u>2,829,618</u>	\$ <u>334,690</u>	\$ <u>1,165,242</u>

At December 31, 2015, the Department's U.S. Securities and Municipal Bonds were rated as follows:

	<u>Fair Value</u>	<u>Moody's Rating</u>
U.S. Treasury Securities	\$ 5,519,476	Aaa
U.S. Agency Securities	4,015,603	Aaa
Municipal Bonds	<u>835,964</u>	Aa3
Total	\$ <u>10,371,043</u>	

At December 31, 2015, cash accounts totaling \$8,636,175 were held by the Town Treasurer and cash and investment accounts totaling \$13,487,110 were held by MMWEC.

Custodial Credit Risk - Cash

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the Department's deposits may not be returned. The Department does not have a deposit policy for custodial risk. The Department, through the Town, maintains cash balances at various financial institutions located in Massachusetts. These balances are insured, subject to certain limitations, by the Federal Deposit Insurance Corporation. At certain times during the year, these cash balances may exceed the insurance limit. The amount by which the Department's cash balances may exceed the insurance limits at December 31, 2015, has not been determined. The Department has not experienced any loss on such account and monitors the credit worthiness of the financial institutions through the Town Treasurer's Office.

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that, in the event of the failure of a counter party to the transaction, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department does not have a policy for custodial credit risk. Of the Department's \$10,949,525 in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department, but not in the Department's name.

Interest Rate Risk

Interest rate risk is the risk that the fair value of an investment will be adversely affected by changes in market interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. While the Department does not have a formal policy for interest rate risk, it does vary the duration of investments within its portfolio as a means of managing the effects of this risk.

Credit Risk

Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assigning of a rating by a nationally recognized statistical rating organization. The Department's investment policies require the investments within its portfolio to be investment grade.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Department's investment in a single issuer. The Department's investment policies limit the magnitude of investment with any one single issuer (with the exception of the United States Government and its Agencies) to 5% of the portfolio value. The Department diversifies the investments within its portfolio as a means of managing the effects of this risk.

3. Receivables

Receivables consist of the following at December 31, 2015:

Customer Accounts:		
Billed	\$ 631,956	
Less allowances for:		
Uncollectible accounts	<u>(350,000)</u>	
Total customer accounts		281,956
Other Accounts:		
Liens	31,651	
Other	<u>37,281</u>	
Total other accounts		<u>68,932</u>
Total net receivables		<u>\$ 350,888</u>

4. Capital Assets

The following is a summary of 2015 capital asset activity (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Distribution plant	\$ 30,394	\$ 430	\$ (1,493)	\$ 29,331
General plant	<u>5,333</u>	<u>93</u>	<u>-</u>	<u>5,426</u>
Total capital assets, being depreciated	35,727	523	(1,493)	34,757
Less accumulated depreciation for:				
Distribution plant	(26,323)	(719)	1,360	(25,682)
General plant	<u>(3,906)</u>	<u>(353)</u>	<u>-</u>	<u>(4,259)</u>
Total accumulated depreciation	<u>(30,229)</u>	<u>(1,072)</u>	<u>1,360</u>	<u>(29,941)</u>
Total capital assets, being depreciated, net	5,498	(549)	(133)	4,816
Capital assets, not being depreciated:				
Land and land rights	333	11	-	344
Construction in progress	<u>133</u>	<u>498</u>	<u>-</u>	<u>631</u>
Total capital assets, not being depreciated	<u>466</u>	<u>509</u>	<u>-</u>	<u>975</u>
Capital assets, net	<u>\$ 5,964</u>	<u>\$ (40)</u>	<u>\$ (133)</u>	<u>\$ 5,791</u>

5. Deferred Outflows of Resources

Deferred outflows of resources represent consumption of net position by the Department that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. The following is a summary of deferred outflow of resources balances as of December 31, 2015:

	<u>Proprietary Fund</u>
Net difference between projected and actual earnings on pension plan investments	\$ 94,441
Changes in pension proportion and differences between contributions and proportionate share of contributions	266,183
Pension contributions subsequent to the measurement date	<u>170,913</u>
Total	<u>\$ 531,537</u>

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent 2015 expenses paid in 2016. Accrued liabilities consist of the following at December 31, 2015:

Accrued payroll	\$ 27,645
Other accrued liabilities	<u>11,548</u>
Total	<u>\$ 39,193</u>

7. Long-Term Liabilities

During the year ended December 31, 2015, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 1/1/15	Additions	Reductions	Total Balance 12/31/15	Less Current Portion	Equals Long-Term Portion 12/31/15
Compensated absences	\$ 657	\$ 25	\$ -	\$ 682	\$ (171)	\$ 511
Other postemployment benefits	563	198	(181)	580	-	580
Net pension liability	<u>2,888</u>	<u>89</u>	<u>-</u>	<u>2,977</u>	<u>-</u>	<u>2,977</u>
Totals	<u>\$ 4,108</u>	<u>\$ 312</u>	<u>\$ (181)</u>	<u>\$ 4,239</u>	<u>\$ (171)</u>	<u>\$ 4,068</u>

8. Commitments and Contingencies

Outstanding Legal Issues

There are several pending legal issues in which the Department is involved. Other than the issues noted in the following paragraphs, the Department's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

One of the legal issues is a pending case that is in the early stages of discovery, however the charges filed do provide for economic damages. While the damages have not been specified, it is possible that they could result in a material dollar settlement.

General Manager – Accrued Benefits Payable

The former General Manager's contract was not renewed and consequently terminated effective May 31, 2016. Under the terms of the contract, the General Manager is eligible to receive compensation for accrued but unused sick and vacation time; however, the amount of compensation is in question.

On May 31, 2016, the Massachusetts Office of the Inspector General (OIG) issued a letter summarizing their findings and recommendations related to the accrued compensated absence payable to the former General Manager.

Based on their investigation of Department records and their interpretation of the General Manager's contract, the OIG believes the General Manager is entitled to a payout of \$15,149; however, they also acknowledge that a liberal interpretation of the contract would entitle the General Manager to a payout of as much as \$296,373. The Department's records indicate the General Manager is entitled to a payout of \$471,071 and the accompanying financial statements reflect a liability for this amount.

The OIG recommends that the Department's Board of Commissioners exercise due diligence in ensuring that any payment of accrued benefits is in accordance with the General Manager's employment agreement and the Department's personnel policies and is calculated based on accurate figures. The Department is diligently pursuing a resolution of this matter.

9. Other Postemployment Benefits

The Department follows the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 requires governments to account for other postemployment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statements of Revenues, Expenses, and Changes in Net Position when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the Statements of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described in Note 10, the Department provides postemployment health and life insurance benefits for retired employees through the Town of South Hadley's Plan. Benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2015, the most recent actuarial valuation date, approximately 11 retirees and 21 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Department provides postemployment medical benefits through a number of health plans, as well as basic life insurance benefits, to all eligible retirees and their surviving spouses. All active employees who retire from the Department and meet the eligibility criteria will be eligible to receive these benefits.

C. Funding Policy

As of January 1, 2015, the most recent actuarial valuation date, recent and new retirees contribute 26% to 45% of stated premiums for their chosen health plan, as determined by the Town of South Hadley. Retirees also contribute 50% of premiums for a \$5,000 group term life insurance benefit. The Department contributes the remainder of the medical and life insurance plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Department's 2015 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years.

The following table shows the components of the Department's annual OPEB cost for the year ending December 31, 2015, the amount actually contributed to the plan, and the change in the Department's net OPEB obligation based on an actuarial valuation as of January 1, 2015.

Annual Required Contribution (ARC)	\$ 177,515
Interest on net OPEB obligation	20,569
Amortization of net OPEB obligation	(28,593)
Amortization of actuarial (gains)/losses	<u>(72,295)</u>
Annual OPEB cost	97,196
Contributions made	<u>(31,770)</u>
Increase in net OPEB obligation	65,426
Net OPEB obligation - beginning of year	<u>514,214</u>
Net OPEB obligation - end of year	<u>\$ 579,640</u>

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 is as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 97,196	32.69%	\$ 579,640
2013	\$ -	0.00%	\$ -

The Department's net OPEB obligation as of December 31, 2015 is recorded as a component of the "noncurrent liabilities" line item in the Statements of Net Position.

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2015, the date of the most recent actuarial valuation was, as follows:

Actuarial accrued liability (AAL)	\$ 1,460,742
Actuarial value of plan assets	<u>622,895</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 837,847</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>42.6%</u>
Covered payroll (active plan members)	\$ 1,508,681
UAAL as a percentage of covered payroll	55.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability 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 revision as actual results are compared to past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

F. Other Postemployment Benefits Liability Trust Fund

The Department's Municipal Light Board accepted the provisions of Massachusetts General Laws Chapter 32B §20 and voted to establish an Other Postemployment Benefits Liability Trust Fund to provide for future payments of health care and other postemployment benefits to retired employees. The Board appointed the Massachusetts Municipal Wholesale Electric Company (MMWEC) to act as custodian of the Trust.

G. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on 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 Department and 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.

In the January 1, 2015 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return and an initial annual health care cost trend rate of 6.0%. The amortization costs for the initial UAAL is a level dollar amortization, with amortization payments increasing at 3% per year for a period of 30 years.

10. Retirement Plan

The Department follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

All Department employees are members of the Hampshire County Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The retirement plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publically available from the System located at 99 Industrial Drive, Northampton, Massachusetts 01060-2326.

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a 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. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Department payroll on January 1, 1978, (3) voluntarily left Department employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

Employees who resign from 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 deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Department's contribution to the System for the year ended December 31, 2015 was \$276,896, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

E. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the Department reported a liability of \$2,976,687 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The Department's proportion of the net pension liability was based on a projection of the Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2014, the Department's proportion was 1.59594%.

For the year ended December 31, 2015, the Department recognized pension expense of \$296,351. In addition, the Department reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 94,441
Changes in proportion and differences between contributions and proportionate share of contributions	266,183
Contributions subsequent to the measurement date	<u>170,913</u>
Total	<u>\$ 531,537</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 261,069
2017	90,156
2018	90,156
2019	<u>90,156</u>
Total	\$ <u>531,537</u>

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

Valuation date	1/1/2014
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.875%
Projected salary increases	4.5-7.5%
Inflation rate	3.0%
Post-retirement cost-of-living adjustment	3% of first \$13,000

Mortality rates were based on the RP2000 table projected 19 years with scale BB.

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period December 31, 2013.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	1.00%	0.73%
Large Cap Equities	9.00%	4.61%
Small/Mid Cap Equities	6.00%	4.85%
International Equities (Unhedged)	11.00%	5.10%
International Equities (Hedged)	0.00%	5.34%
Emerging International Equities	6.00%	6.31%
Core Bonds	7.00%	1.42%
High-Yield Bonds	3.00%	2.91%
Bank Loans	3.00%	3.16%
Global Bonds (Unhedged)	3.00%	0.00%
EMD (Local Currency)	6.00%	4.13%
Private Equity	8.00%	6.55%
Private Debt	2.00%	5.10%
Real Estate	8.00%	3.40%
Hedge Funds	11.00%	3.88%
Global Asset Allocation	<u>16.00%</u>	4.17%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.875%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the department's proportionate share of the net pension liability calculated using the discount rate of 7.875%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.875%) or 1 percentage-point higher (8.875%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.875%)</u>	<u>Current Discount Rate (7.875%)</u>	<u>1% Increase (8.875%)</u>
December 31, 2015	\$ 3,751,170	\$ 2,976,687	\$ 2,340,073

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

11. Participation in Massachusetts Municipal Wholesale Electric Company

The Town of South Hadley, acting through its Light Department, is a participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its *pro rata* share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

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. (DNCl), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCl also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends 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 Departments, 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.

The South Hadley Electric Light Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

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

As of December 31, 2015, total capital expenditures for MMWEC's Projects amounted to \$1,626,959,000, of which \$54,786,000 represents the amount associated with the Department's share of Project Capability, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$112,510,000, of which \$5,330,000 is associated with the Department's share of Project Capability, although such amount is not allocated to the Department. As of December 31, 2015, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$121,353,000, of which \$5,687,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of South Hadley Electric Light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and

Contingency Fund billings, to MMWEC at December 31, 2015 and estimated for future years is shown below.

		<u>Annual Costs</u>
For years ended December 31,	2016	\$ 3,720,000
	2017	1,360,000
	2018	<u>607,000</u>
	Total	<u>\$ 5,687,000</u>

In addition, under the PSAs, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs were \$7,140,000 and \$7,199,000 for the years ended December 31, 2015 and 2014, respectively.

12. Risk Management

The Department is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters, for which the Department carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three years.

13. Beginning Net Position Restatement

In 2015, the Department implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. As a result of this implementation, the beginning (January 1, 2015) net position of the Department's proprietary fund has been restated as follows:

As previously reported	\$ 26,260,248
GASB 68 Implementation	(2,453,617)
Reclassification of OPEB Trust to a separate fund	(622,895)
Restatement of accrued employee compensated absence liability	<u>384,042</u>
As restated	<u>\$ 23,567,778</u>

**TOWN OF SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

**December 31, 2015
(Unaudited)**

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/15	\$ 622,895	\$ 1,460,742	\$ 837,847	42.6%	\$ 1,508,681	55.5%
01/01/14	\$ 587,558	\$ 1,691,268	\$ 1,103,710	34.7%	\$ 1,064,922	103.6%
01/01/13	\$ -	\$ 1,604,756	\$ 1,604,756	0.0%	\$ 1,033,905	155.2%
01/01/12	\$ -	\$ 2,096,005	\$ 2,096,005	0.0%	\$ 1,003,791	208.8%

See Independent Auditors' Report.

TOWN OF SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

**SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

REQUIRED SUPPLEMENTARY INFORMATION

**DECEMBER 31, 2015
(Unaudited)**

<u>Hampshire County Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	1.59594%
Proportionate share of the net pension liability for the most recent measurement date	\$ 2,976,687
Covered-employee payroll for the most recent measurement date	\$ 1,274,741
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	234%
Plan fiduciary net position as a percentage of the total pension liability	58.07%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

TOWN OF SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2015
(Unaudited)**

<u>Hampshire County Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 276,896
Contributions in relation to the contractually required contribution	<u>276,896</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
Covered-employee payroll for the current fiscal year	\$ 1,274,741
Contributions as a percentage of covered-employee payroll	21.72%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
BUSINESS-TYPE PROPRIETARY FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

OPERATING EXPENSES

Cost of Power Sold

Purchased power	\$ 9,281,559
Transmission expense	2,072,986
Supplies and expense	<u>168,002</u>
Total Cost of Power Sold	11,522,547

Distribution Expense

Salaries and wages	640,912
Supplies and expense	<u>305,549</u>
Total Distribution Expense	946,461

Customer Accounts Expense

Salaries and wages	206,192
Supplies and expense	<u>156,134</u>
Total Customer Accounts Expense	362,326

General and Administrative Expense

Salaries and wages	542,601
Supplies and expense	194,125
Pension and benefits	378,403
Insurance	95,056
Legal and consulting	119,370
General	<u>16,945</u>
Total General and Administrative Expense	1,346,500

Depreciation Expense

Distribution and general plant	<u>1,071,808</u>
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TOTAL OPERATING EXPENSES	\$ <u><u>15,249,642</u></u>
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See Independent Auditors' report.