

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

**FINANCIAL STATEMENTS
(WITH SUPPLEMENTARY INFORMATION)
AND INDEPENDENT ACCOUNTANT'S
COMPILATION REPORT**

DECEMBER 31, 2014 AND 2013

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2014 AND 2013

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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

TO THE MUNICIPAL LIGHT BOARD AND MANAGER SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT SOUTH HADLEY, MASSACHUSETTS

We have compiled the accompanying statements of net position of the South Hadley Electric Light Department, an enterprise fund of the Town of South Hadley, Massachusetts, as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilations in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Department's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Management has omitted the management's discussion and analysis information and the schedules of funding progress and employer contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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.

The supplementary information contained in the schedules of operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the supplementary information and, accordingly, do not express an opinion or provide any assurance on such supplementary information.

CohnReznick LLP

Springfield, Massachusetts

April 28, 2015

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
CAPITAL ASSETS		
Distribution plant	\$ 30,394,420	\$ 29,918,227
General plant	5,332,512	5,673,416
Land	333,358	333,358
Construction-in-progress	132,577	3,435
	36,192,867	35,928,436
Total	36,192,867	35,928,436
Less: accumulated depreciation	30,228,770	29,877,807
	5,964,097	6,050,629
Capital Assets - Net	5,964,097	6,050,629
 RESTRICTED ASSETS		
Cash - depreciation fund	4,860,286	4,623,941
Cash - customer deposits	179,850	154,300
Investment - OPEB Liability Trust	622,895	587,558
Deferred charges	1,080,615	1,052,623
	6,743,646	6,418,422
Total Restricted Assets	6,743,646	6,418,422
 CURRENT ASSETS		
Cash - operation fund	3,024,569	2,227,553
Investment - MLDM Reserve Trust	11,687,175	11,599,201
Accounts receivable - net of allowance for uncollectible accounts of \$311,811 in 2014 and \$350,000 in 2013	832,479	1,141,821
Inventory	438,976	466,616
Prepaid expenses	26,075	16,211
Other assets	24,516	24,516
	16,033,790	15,475,918
Total Current Assets	16,033,790	15,475,918
 TOTAL ASSETS	 \$ 28,741,533	 \$ 27,944,969

See independent accountant's compilation report and accompanying selected information.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

LIABILITIES AND NET POSITION

	2014	2013
LONG-TERM LIABILITIES		
Accrued compensated absences	\$ 833,214	\$ 796,583
Other post-employment benefits	514,214	412,285
Total Long-Term Liabilities	1,347,428	1,208,868
 CURRENT LIABILITIES		
Current portion of accrued compensated absences	208,304	199,146
Current portion of other post-employment benefits	48,792	45,119
Accounts payable	672,174	766,314
Customer deposits	179,850	154,300
Accrued liabilities	24,737	13,142
Total Current Liabilities	1,133,857	1,178,021
TOTAL LIABILITIES	2,481,285	2,386,889
 NET POSITION		
Net investment in capital assets	5,964,097	6,050,629
Restricted	6,000,790	5,806,718
Unrestricted	14,295,361	13,700,733
Total Net Position	26,260,248	25,558,080
 TOTAL LIABILITIES AND NET POSITION	\$ 28,741,533	\$ 27,944,969

See independent accountant's compilation report and accompanying selected information.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Residential	\$ 8,860,393	\$ 7,978,510
Commercial	2,805,485	2,401,117
Industrial	3,542,272	3,278,735
Municipal	884,024	805,583
Other	256,221	167,025
Total Operating Revenues	<u>16,348,395</u>	<u>14,630,970</u>
OPERATING EXPENSES		
Cost of power sold	12,189,605	11,814,531
Distribution expense	875,954	767,556
Customer accounts expense	368,315	303,063
General and administrative expense	1,206,158	1,078,193
Depreciation expense	1,067,749	1,725,654
Total Operating Expenses	<u>15,707,781</u>	<u>15,688,997</u>
OPERATING INCOME (LOSS)	<u>640,614</u>	<u>(1,058,027)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	123,730	89,195
Loss on disposition of capital assets	-	(34,300)
Net nonoperating revenues	<u>123,730</u>	<u>54,895</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS OUT	764,344	(1,003,132)
CAPITAL CONTRIBUTIONS	122,174	197,062
TRANSFERS OUT	(184,350)	(180,911)
CHANGE IN NET POSITION	<u>702,168</u>	<u>(986,981)</u>
TOTAL NET POSITION - BEGINNING	25,558,080	26,545,061
TOTAL NET POSITION - ENDING	<u>\$ 26,260,248</u>	<u>\$ 25,558,080</u>

See independent accountant's compilation report and accompanying selected information.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 16,657,737	\$ 14,526,386
Payments to power suppliers	(12,391,944)	(11,575,666)
Payments to employees	(1,295,888)	(1,026,357)
Payments for other operations	(868,020)	(1,030,630)
Net cash provided by operating activities	2,101,885	893,733
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(184,350)	(180,911)
Net cash used in noncapital financing activities	(184,350)	(180,911)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(981,217)	(886,863)
Capital contributions	122,174	197,062
Payment on capital lease obligation	-	(13,788)
Net cash used in capital and related financing activities	(859,043)	(703,589)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment income	123,730	89,195
Acquisition of investment - OPEB Liability Trust	(35,337)	(587,558)
Acquisition of investment - MLDM Reserve Trust	(87,974)	(69,312)
Proceeds from sale of investment - MLDM Reserve Trust	-	578,200
Net cash provided by investing activities	419	10,525
NET INCREASE IN CASH	1,058,911	19,758
CASH - BEGINNING OF YEAR	7,005,794	6,986,036
CASH - END OF YEAR	\$ 8,064,705	\$ 7,005,794

See independent accountant's compilation report and selected information.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 640,614	\$ (1,058,027)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,067,749	1,725,654
Provision for uncollectible accounts	100,000	75,000
Changes in assets and liabilities:		
Deferred charges	(27,992)	13,926
Accounts receivable	209,342	(179,584)
Inventory	27,640	(18,671)
Prepaid expenses	(9,864)	(1,023)
Other assets	-	(1)
Accounts payable	(94,140)	231,590
Customer deposits	25,550	4,800
Accrued liabilities	11,595	4,253
Accrued compensated absences	45,789	95,884
Other post-employment benefits	105,602	(68)
Net cash provided by operating activities	\$ 2,101,885	\$ 893,733

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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

Cash - depreciation fund	\$ 4,860,286	\$ 4,623,941
Cash - customer deposits	179,850	154,300
Cash - operation fund	3,024,569	2,227,553
CASH - END OF YEAR	\$ 8,064,705	\$ 7,005,794

See independent accountant's compilation report and selected information.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

SELECTED INFORMATION – SUBSTANTIALLY ALL DISCLOSURES REQUIRED BY ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA ARE NOT INCLUDED

DECEMBER 31, 2014 AND 2013

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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”).

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.

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.

Other Post-Employment Benefit Liability Trust

The Other Post-Employment 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 post-employment benefit plans.

Deferred Charges

Under the terms of the Department’s member agreement with Massachusetts Municipal Wholesale Electric Company, 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.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

SELECTED INFORMATION – SUBSTANTIALLY ALL DISCLOSURES REQUIRED BY ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA ARE NOT INCLUDED

DECEMBER 31, 2014 AND 2013

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Municipal Light Departments of Massachusetts Reserve Trust

The Municipal Light Department of Massachusetts Reserve Trust (“MLDM Reserve Trust”) was established by Massachusetts Municipal Wholesale Electric Company (“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.

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.

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.

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.

Other Post-employment Benefits

The financial statements include an expense for the actuarially determined recommended contribution and the related liability, for other post-employment benefits, in an amount equal to the difference between the actuarially determined recommended contribution and the actual amount contributed.

Net Position

The Department classifies net position into three components as follows:

Net Investment in Capital Assets – This component consists of capital assets net of accumulated depreciation, reduced by any related outstanding debt balance.

Restricted – This component consists of assets with external constraints placed on their use, reduced by any liabilities related to those assets.

Unrestricted – This component consists of all assets and liabilities that do not meet the criteria for “Net Investment in Capital Assets” or “Restricted”.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

**SELECTED INFORMATION – SUBSTANTIALLY ALL DISCLOSURES REQUIRED BY
ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF
AMERICA ARE NOT INCLUDED**

DECEMBER 31, 2014 AND 2013

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2014 and 5% in 2013.

Retirement Plan

The Department participates in the Hampshire County Contributory Retirement System, which covers all employees.

Income Taxes

Income of the Department is excluded from taxation under Section 115 of the Internal Revenue Code.

Reclassifications

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.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
OPERATING EXPENSES		
Cost of Power Sold		
Purchased power	\$ 10,089,205	\$ 9,757,474
Transmission expense	1,923,217	1,889,246
Supplies and expense	177,183	167,811
Total Cost of Power Sold	12,189,605	11,814,531
Distribution Expense		
Salaries and wages	592,444	480,349
Supplies and expense	283,510	287,207
Total Distribution Expense	875,954	767,556
Customer Accounts Expense		
Salaries and wages	187,567	181,779
Supplies and expense	180,748	121,284
Total Customer Accounts Expense	368,315	303,063
General and Administrative Expense		
Salaries and wages	364,486	268,413
Supplies and expense	206,407	292,690
Pension and benefits	431,846	386,122
Insurance	84,512	70,963
Legal and consulting	86,748	36,121
General	32,159	23,884
Total General and Administrative Expense	1,206,158	1,078,193
Depreciation Expense		
Distribution and general plant	1,067,749	1,725,654
TOTAL OPERATING EXPENSES	\$ 15,707,781	\$ 15,688,997

See independent accountant's compilation report.