

**PRINCETON MUNICIPAL LIGHT DEPARTMENT
AND SUBSIDIARY**
Financial Statements
December 31, 2013 and 2012

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
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INDEPENDENT AUDITORS' REPORT

To the Municipal Light Board
Princeton Municipal Light Department
Princeton, Massachusetts 01541

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Princeton Municipal Light Department of Princeton, Massachusetts and subsidiary as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Princeton Municipal Light Department and subsidiary as of December 31, 2013 and 2012, and the changes in financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Princeton Municipal Light Department and subsidiary and do not purport to, and do not, present fairly the financial position of the Town of Princeton, Massachusetts, as of December 31, 2013 and 2012, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Other Postemployment Benefits information, on pages three through seven and 28, 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 supplementary information presented on pages 29-36 is presented for purposes of additional analysis and is not a required part of the basic 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation the financial statements as a whole.

Goulet, Salvadio & Associates, P.C.

Goulet, Salvadio & Associates, P.C.

Worcester, Massachusetts
May 6, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Princeton Municipal Light Department's annual financial report, management provides narrative discussion and analysis of the financial activities of the Princeton Municipal Light Department and subsidiary for the years ended December 31, 2013 and 2012. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements:

The basic financial statements include (1) the statements of net position (2) the statements of revenues, expenses and changes in net position (3) the cash flow statements and (4) notes to the financial statements.

The Statements of Net Position are designed to indicate our financial position as of a specific point in time. As of December 31, 2013, it shows our net position was \$4,586,780, an increase of \$267,786 over 2012.

The Statements of Revenues, Expenses and Changes in Net Position, summarize our operating results and reveals how much of a profit (loss) was earned for the year. As discussed on the following page our net income (loss) before contributions and transfers for the year ending December 31, 2013 and 2012 was \$270,273 and (\$84,173), respectively.

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

Summary of Net Position

| | 2013 | 2012 |
|--|---------------|---------------|
| Current Assets | \$ 1,131,701 | \$ 1,164,169 |
| Noncurrent Assets | 10,184,122 | 10,549,495 |
| Total Assets | 11,315,823 | 11,713,664 |
| Deferred Outflows of Resources | 1,340 | 3,589 |
| Total Assets and Deferred Outflow of Resources | \$ 11,317,163 | \$ 11,717,253 |
| Current Liabilities | \$ 1,718,114 | \$ 1,890,962 |
| Noncurrent Liabilities | 5,002,529 | 5,498,662 |
| Total Liabilities | 6,720,643 | 7,389,624 |
| Deferred Inflows of Resources | 9,740 | 8,635 |
| Net Position: | | |
| Net Investment in Capital Assets | 4,659,996 | 4,486,977 |
| Net Position Restricted for Depreciation | 108,231 | 88,394 |
| Unrestricted | (181,447) | (256,377) |
| Total Net Position | 4,586,780 | 4,318,994 |
| Total Liabilities and Net Position | \$ 11,317,163 | \$ 11,717,253 |

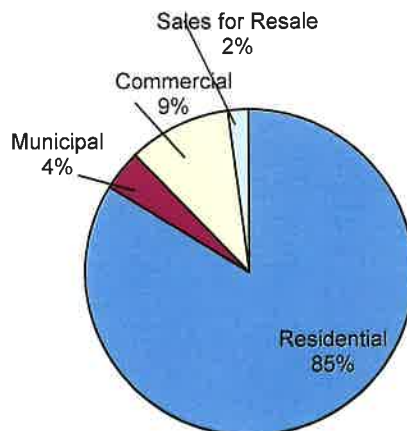
Summary of Changes in Net Position

| | 2013 | 2012 |
|---|---------------------|---------------------|
| Operating Revenues | \$ 3,124,425 | \$ 3,003,230 |
| Operating Expenses | <u>2,702,581</u> | <u>2,568,785</u> |
| Operating Income | 421,844 | 434,445 |
| Nonoperating (Expenses) Revenues | (284,819) | (347,216) |
| Extraordinary (Expenses) Reimbursements | <u>133,248</u> | <u>(171,402)</u> |
| Increase in Net Position before Transfers | 270,273 | (84,173) |
| Net Position, January 1 | 4,318,994 | 4,405,702 |
| Transfer Out – Services Rendered in Lieu of Taxes | <u>(2,487)</u> | <u>(2,535)</u> |
| Net Position, December 31 | <u>\$ 4,586,780</u> | <u>\$ 4,318,994</u> |

Financial Highlights:

PMLD is a non-profit public service corporation, whose primary goal is to provide reliable electric service at the lowest possible cost to the residents and businesses of the Town of Princeton. PMLD is a Town asset, working as a separate governmental unit, with its own Board of Light Commissioners, policies, and budget serving the needs and providing value to our ratepayers.

Source of Operating Revenues



Massachusetts Municipal Light Department Wind Energy Cooperative Corporation (Cooperative):

The Cooperative is organized under Chapter 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 the Princeton Municipal Light Department (PMLD) for the purpose of financing, owning, constructing and operating wind generation facilities located in the town of Princeton, Massachusetts (Princeton Facilities). The Cooperative has constructed and is operating two 1.5-megawatt wind turbines at the PMLD's wind farm in Princeton, Massachusetts. The Cooperative is a self-sustaining operation, providing both operational and financial value to the PMLD.

Debt Administration

In January 2009, the Cooperative converted a Line of Credit and Letter of Credit to a commercial term loan (Term Loan) which the bank granted the Cooperative in the amount of up to \$7,300,000 to be used as permanent financing to support the preparation and site work on the property located in Princeton, Massachusetts, for two 273-foot wind towers and turbines, to pay the remaining costs of the project and to pay off the existing Line of Credit with the bank. The Term Loan had a fixed interest rate of 5.5% per annum which was modified on November 15, 2012 to a new rate of 4.25%. Principal is payable over 15 years in annual payments of \$486,667 commencing on April 15th of each year along with two interest payments on April 15th and October 15th of each year. As of December 31, 2013 and 2012, the Cooperative had \$5,353,332 and \$5,839,999 respectively, outstanding on the Term Loan.

The Cooperative adopted GASB Statement 65 for the year ending December 31, 2012. The adoption of this statement eliminated the remaining deferred costs related to the loans of \$19,709 with no effect on the Cooperative's previously stated net position.

Electric Customer and Rates

PMLD provided service to 1,430 residential, 5 Farm, 84 commercial, and 17 municipal customers as of December 2013. Residential customers consume approximately 85% of the town's total energy use. All of PMLD's customers consumed approximately 15 million kWh of energy in 2013, and the average home consumes approximately 800 kWh per month.

The average home in Princeton spends approximately \$160.00 per month on electricity. PMLD's number one priority is to maintain the lowest possible rates, while providing the most reliable electric service possible. PMLD is committed to finding ways to stabilize and/or reduce rates. PMLD did not have a rate increase in 2013 and has not had a rate increase since August of 2011.

Non-metered Electricity Accounts

PMLD provides electricity to town-owned and private property street lights that are unmetered. The annual energy consumption from these accounts is 108,861 and 107,235 kwh's respectively. PMLD billed the Town of Princeton \$9,595 in FY2013 for the annual cost of town-owned street lights.

Reliability

Delivering and maintaining reliable energy to every customer in Princeton is one of PMLD's main goals. PMLD completed some upgrade projects to the electric distribution system, such as new utility poles, wires, and hardware; and the continued conversion of our main distribution lines from 4800 volts to 13800 volts. PMLD had no town wide outages in 2013. PMLD will continue to rebuild and strengthen the distribution system with new equipment and a comprehensive tree trimming program that has proven successful.

Vegetation Management Plan

PMLD, in conjunction with the Town Tree Warden, has in place a Vegetation Management Plan for the Town. The plan clearly divides the Town into five tree trimming cycles. An individual cycle will be identified on any given year as the area of focused tree trimming and tree removal for that given year. It is our desire that this will allow the residents of Princeton to know where PMLD is trimming and give PMLD an organized method for tree removal and maintenance tree trimming. Cycle five has been approved by the Tree Warden and will be the focus for 2014. A copy of the cycle map is located in the PMLD office and on the PMLD website.

Service to Town

In addition to providing low cost and reliable energy, PMLD performed other services for the Town in 2013 for the benefit of our customers, such as:

- Installed holiday decorations, holiday lights, United States Flags and other banners and signs on the Town Common
- Sponsored electrical safety classes for the students at the Thomas Prince School
- Offered appliance rebates for energy efficient refrigerators, clothes washers and heat pumps
- Assisted various Town Departments as needed for use of bucket trucks and/or assistance with tree removals and building repairs

Long Term Energy Contract

In October 2013, the Board of Commissioner's achieved their goal to stabilize rates and signed a long term energy contract with NextEra Energy. The energy contract establishes set energy rates for PMLD for the next five years with an additional five years to be negotiated one year at a time. In 2013, PMLD purchased energy through the Massachusetts Municipal Wholesale Electric Corporation (MMWEC) at fluctuating rates on the open energy market and also purchased hedging for the forecasted energy needs at open market prices. This was a challenge that often left PMLD exposed to a volatile energy market with no relief in sight based on industry projections. This exposure to high market prices caused PMLD to apply a Purchased Power Adjustment Cost (PPCA) on monthly bills to customers for March, April and May of 2013 at \$0.035, \$0.02, and \$0.01 per kwh, respectively. The energy contract with NextEra Energy provides PMLD the stability in energy rates, which is much needed in order for our department to work towards achieving our long term goals of rebuilding reserves and investing in infrastructure. PMLD is confident that this was a necessary and prudent business decision that will benefit the ratepayers for many years to come.

Wind Farm

The Wind Farm continues to be a challenge both operationally and financially for PMLD. The wind farm is essentially a subsidiary of PMLD, operating as a Massachusetts Municipal Wind Energy Light Department Cooperative Corporation (MMLDWECC). In 2013, PMLD entered into a contract with the design firm of the turbines, American Superconductor/Windtech to support PMLD staff in areas of maintenance, monitoring, service and training. PMLD's trained crew continues to do the maintenance and repairs to the machines, but now receives the benefit of a 24/7 monitored Supervisory Control & Data Acquisition (SCADA) system, 24/7 technical assistance, and ongoing training. This unique and previously unavailable assistance has proven to be beneficial to the continued operation of the turbines.

Renewable Energy

PMLD's commitment to protecting the environment and purchasing renewable energy continued in 2013. Generating and purchasing renewable energy makes a difference and in 2013 PMLD purchased approximately 12% of its energy from various hydroelectric power plants throughout the region. This renewable energy is purchased at very favorable costs compared to market and contract power costs.

Significant Balances and Transactions

Depreciation Fund

The Department maintains a depreciation fund, which is managed by the Town of Princeton 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.

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | <u>2013</u> | <u>2012</u> |
|--|--------------------------|--------------------------|
| CURRENT ASSETS: | | |
| Funds on Deposit with Town Treasurer | | |
| Operating Fund | \$ 488,919 | \$ 300,496 |
| Petty Cash | 800 | 800 |
| Customer Accounts Receivable, Net | 347,279 | 318,038 |
| Other Accounts Receivable | 84,042 | 314,048 |
| Materials and Supplies | 152,831 | 175,760 |
| Working Capital Balance on Deposit | 13,760 | 13,740 |
| Prepaid Expenses | 44,070 | 41,287 |
| | <u>1,131,701</u> | <u>1,164,169</u> |
| TOTAL CURRENT ASSETS | | |
| NONCURRENT ASSETS: | | |
| Funds on Deposit with Town Treasurer | | |
| Depreciation Fund | 108,231 | 88,394 |
| Customer Meter Deposits | 23,070 | 36,146 |
| Preliminary Survey and Investigation Charges | 0 | 33,542 |
| Utility Plant Assets, Net | 10,052,821 | 10,391,413 |
| | <u>10,184,122</u> | <u>10,549,495</u> |
| TOTAL NONCURRENT ASSETS | | |
| TOTAL ASSETS | <u>11,315,823</u> | <u>11,713,664</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | |
| Deferred Interest Expense | 1,340 | 3,589 |
| | <u>1,340</u> | <u>3,589</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | | |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ | <u><u>11,317,163</u></u> | <u><u>11,717,253</u></u> |

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

| | <u>2013</u> | <u>2012</u> |
|--|-----------------------------|-----------------------------|
| CURRENT LIABILITIES: | | |
| Accounts Payable | \$ 256,601 | \$ 398,735 |
| Accounts Payable - MMWEC | 852,460 | 892,074 |
| Current Obligations under Capital Lease | 39,493 | 24,943 |
| Current Portion of Long-Term Debt | 486,667 | 486,667 |
| Accrued Expenses | <u>82,893</u> | <u>88,543</u> |
| TOTAL CURRENT LIABILITIES | <u>1,718,114</u> | <u>1,890,962</u> |
| NONCURRENT LIABILITIES: | | |
| Obligations under Capital Lease | 0 | 39,494 |
| Long-Term Debt, Less Current Portion | 4,866,665 | 5,353,332 |
| Customer Meter Deposits | 20,895 | 21,020 |
| Net Other Postemployment Benefit Obligation | <u>114,969</u> | <u>84,816</u> |
| TOTAL NONCURRENT LIABILITIES | <u>5,002,529</u> | <u>5,498,662</u> |
| TOTAL LIABILITIES | <u>6,720,643</u> | <u>7,389,624</u> |
| DEFERRED INFLOWS OF RESOURCES: | | |
| Deferred Rent | <u>9,740</u> | <u>8,635</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>9,740</u> | <u>8,635</u> |
| NET POSITION: | | |
| Net Investment in Capital Assets | 4,659,996 | 4,486,977 |
| Net Position Restricted for Depreciation | 108,231 | 88,394 |
| Unrestricted Net Position | <u>(181,447)</u> | <u>(256,377)</u> |
| TOTAL NET POSITION | <u>4,586,780</u> | <u>4,318,994</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u><u>\$ 11,317,163</u></u> | <u><u>\$ 11,717,253</u></u> |

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 |
|--|---------------------|---------------------|
| OPERATING REVENUES: | | |
| Sales of Electricity | \$ 3,084,569 | \$ 2,945,821 |
| Other Operating Revenues | 39,856 | 57,409 |
| TOTAL OPERATING REVENUES | 3,124,425 | 3,003,230 |
| OPERATING EXPENSES: | | |
| Operating and Maintenance | 2,315,794 | 2,159,244 |
| Depreciation | 386,787 | 386,910 |
| TOTAL OPERATING EXPENSES | 2,702,581 | 2,546,154 |
| OPERATING INCOME | 421,844 | 457,076 |
| NONOPERATING REVENUES (EXPENSES): | | |
| Interest Income | 237 | 1,055 |
| Interest Expense | (251,514) | (337,178) |
| Abandonment of Preliminary Surveys | (33,542) | 0 |
| Disaster Recovery Revenue (Expense) | 0 | (11,093) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | (284,819) | (347,216) |
| Income Before Extraordinary Items | 137,025 | 109,860 |
| Reimbursement for Extraordinary Wind Turbine Repairs | 251,085 | 210,464 |
| Extraordinary Wind Turbine Repairs | (117,837) | (381,866) |
| TOTAL EXTRAORDINARY ITEMS | 133,248 | (171,402) |
| Income (Loss) Before Contributions and Transfers | 270,273 | (61,542) |
| NET POSITION - JANUARY 1 | 4,318,994 | 4,383,071 |
| Transfers Out - Services Rendered in Lieu of Taxes | (2,487) | (2,535) |
| NET POSITION - DECEMBER 31 | \$ 4,586,780 | \$ 4,318,994 |

See Accompanying Notes to Financial Statements

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

| | 2013 | 2012 |
|---|-------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash Received from Customers | \$ 3,114,602 | \$ 2,961,022 |
| Cash Paid to Suppliers | (1,681,907) | (1,679,448) |
| Cash Paid to Employees | (552,354) | (560,618) |
| Services Rendered In Lieu of Taxes | (2,487) | (2,535) |
| | <u>877,854</u> | <u>718,421</u> |
| Net Cash Provided by Operating Activities | | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Additions to Utility Plant Assets | (48,195) | (47,126) |
| Net Extraordinary Repairs Revenues (Costs) | 133,248 | (171,402) |
| Disaster Recovery Income | 0 | 1,933 |
| Payments on Capital Lease | (24,944) | (45,090) |
| Interest Expense | (8,929) | (12,437) |
| Repayment on Long-Term Debt | (486,667) | (486,667) |
| Interest Payments on Long-Term Debt | (247,421) | (340,232) |
| | <u>(682,908)</u> | <u>(1,101,021)</u> |
| Net Cash Used in Capital and Related Financing Activities | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest Income | 126 | 477 |
| Net Transfer from Operations | (19,725) | 215,188 |
| | <u>(19,599)</u> | <u>215,665</u> |
| Net Cash Provided (Used) by Investing Activities | | |
| NET INCREASE (DECREASE) IN CASH | 175,347 | (166,935) |
| CASH, BEGINNING OF YEAR | <u>337,442</u> | <u>504,377</u> |
| CASH, END OF YEAR | <u>\$ 512,789</u> | <u>\$ 337,442</u> |

See Accompanying Notes to Financial Statements

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

| | 2013 | 2012 |
|---|-------------------|-------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating Income | \$ 421,844 | \$ 457,076 |
| Depreciation of Utility Property | 386,787 | 386,910 |
| Services Rendered In Lieu of Taxes | (2,487) | (2,535) |
| Changes in Assets and Liabilities: | | |
| (Increase)Decrease in Assets: | | |
| Customer Accounts Receivable | (29,241) | (26,924) |
| Other Accounts Receivable | 424,813 | (150,712) |
| Materials and Supplies | 22,929 | 12,371 |
| Prepaid Expenses | (2,803) | (5,483) |
| Costs in Excess of Billings to Participants | 0 | (293) |
| Increase(Decrease) in Liabilities: | | |
| Accounts Payable | (336,941) | (19,772) |
| Accounts Payable - MMWEC | (39,614) | 29,945 |
| Accrued Expenses | 1,434 | 6,446 |
| Net Other Postemployment Benefit Obligation | 30,153 | 30,153 |
| Deferred Rent | 1,105 | 1,274 |
| Meter Deposit Liability | (125) | (35) |
| Net Cash Provided by Operating Activities | <u>\$ 877,854</u> | <u>\$ 718,421</u> |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

The following amounts are considered to be cash or cash equivalents for the purpose of the statements of cash flow:

| | 2013 | 2012 |
|-------------------------|-------------------|-------------------|
| Operating Fund | \$ 488,919 | \$ 300,496 |
| Customer Meter Deposits | 23,070 | 36,146 |
| Petty Cash | 800 | 800 |
| | <u>\$ 512,789</u> | <u>\$ 337,442</u> |

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of Princeton Municipal Light Department are as follows:

Reporting Entity

The Princeton Municipal Light Department (PMLD) is a component unit of the Town of Princeton, Massachusetts. The Light Department purchases electricity from various sources and sells it to the Town's residents and businesses at rates submitted to the Massachusetts Department of Public Utilities (DPU).. The Municipal Light Board appoints a manager of municipal lighting 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

PMLD'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.

Under Massachusetts law, electric rates of the Light Department are set by the Municipal Light Board and may be changed not more than once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities. While the DPU exercises general supervisory authority over the Light Department, the Light Department's rates are not subject to DPU approval. Rates must be set such that net earnings from operations do not exceed 8% 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 3% of cost of plant in service at the beginning of the year, exclusive of land and land rights. Therefore, no depreciation is taken in the year of plant additions. Massachusetts law stipulates that the Light Department may change from the statutory depreciation rate only with the approval of the DPU.

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.

Compensated Absences

In accordance with Light Department policies, employees are allowed to accumulate sick days, up to a maximum of 60 days. Upon retirement from employment with the Light Department, the employee will be paid 50% for accumulated sick time. Upon termination the employee will not be paid for accumulated sick time. Employees are permitted to carry over up to 10 days of vacation time from one year to the next. Upon termination of employment with the Light Department, the employee will be paid for unused vacation time based on the employee's base rate of pay at the time of termination. The amount of vacation and sick time accrued as of December 31, 2013 and 2012 is \$30,800 and \$29,385, respectively.

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Taxes

The Light Department is exempt from federal income taxes. Although also exempt from property taxes, the Light Department provides services in lieu of taxes to the Town of Princeton.

Revenues

Revenues from sales 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.

Materials and Supplies

Materials and supplies are valued using the average cost method.

Cash and Cash Equivalents

For purposes of the statements of cash flows, PMLD considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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.

Reclassification

Certain prior year amounts have been reclassified to conform to the 2013 presentation. All financial statements have been reclassified in accordance with GASB Statements 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement 65, *Item Previously Reported as Assets and Liabilities*. Effects on previously reported net income are described in Note 19.

Net Position

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

Accounts Receivable

The Department carries its accounts receivable at cost. Annually, the Department evaluates its accounts receivable and establishes a list of write-offs, which are submitted to the Light Board for approval. A receivable is considered past due if payments have not been received by the Department for 45 days. At that time, the Department will send a past due letter. Second notification is sent out 15 days later with a notice of termination of service if payment is not received within the next 72 hours. The Department has the right to shut off service to customers during the months of April through October if the customer is not making payments.

Allowance for Doubtful Accounts

In order to state accounts receivable at their realizable value, the Department provides a reserve for doubtful accounts. Accounts are identified as doubtful after two years and are written off when all legal efforts to collect have been exhausted. For the years ended December 31, 2013 and 2012 the allowance for doubtful accounts balance was \$5,000.

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 – UNBILLED REVENUE:

No recognition is given to the amount of sales to customers which are unbilled at the end of the accounting period.

NOTE 4 – OTHER ACCOUNTS RECEIVABLE:

Other accounts receivable consist of the following:

| | <u>2013</u> | <u>2012</u> |
|--|------------------|-------------------|
| Jobbing | \$ 35,799 | \$ 12,480 |
| Insurance Reimbursement – Wind Turbine Repairs | 0 | 210,464 |
| Wind Renewable Energy Credits | <u>48,243</u> | <u>91,104</u> |
| Total | <u>\$ 84,042</u> | <u>\$ 314,048</u> |

NOTE 5 – RELATED PARTIES:

The Light Department bills the Town of Princeton for electric light usage. The amount included in revenue was approximately \$113,831 and \$108,504 for December 31, 2013 and 2012, respectively. Accounts receivable from these departments was \$11,205 and \$9,922 for December 31, 2013 and 2012, respectively.

The Light Department reimburses the town for various employee benefits and services, including health insurance and Worcester Regional Retirement. During the years ended December 31, 2013 and 2012, the total amounts paid for these services were \$193,441 and \$178,171, respectively. At December 31, 2013 and 2012, amounts payable to the town were \$17,143 and \$115,817, respectively.

NOTE 6 – ADVANCES TO MMLD WIND ENERGY COOPERATIVE CORPORATION
(COOPERATIVE):

Princeton Municipal Light Department has advanced amounts to the Cooperative in order to pay for development costs associated with the Princeton Facilities, as well as some construction costs that were in excess of the bond proceeds. There are no specific repayment terms. As of December 31, 2013 and 2012, the total advanced to the Cooperative was \$691,211.

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 7 – PREPAID EXPENSES:

Prepayments consist of the following:

| | <u>2013</u> | <u>2012</u> |
|---------------------------|------------------|------------------|
| Prepaid Insurance Premium | \$ 39,393 | \$ 36,610 |
| Prepaid Purchased Power | <u>4,677</u> | <u>4,677</u> |
| Total | <u>\$ 44,070</u> | <u>\$ 41,287</u> |

NOTE 8 – DEPRECIATION FUND:

Pursuant to provisions of the Commonwealth's General Laws, cash in an amount equivalent to the annual depreciation expense is transferred from unrestricted funds to the depreciation fund. Interest earned on the balance of the fund must also remain in the fund. Such cash may be used for the cost of plant, the costs of contractual commitments, and future costs related to such commitments which the Municipal Light Board determines are above market value.

NOTE 9 – PURCHASED POWER WORKING CAPITAL:

The Department is a member and participant of the Massachusetts Municipal Wholesale Electric Company (MMWEC). The purchased power working capital is an amount held by MMWEC. The implementation of the Working Capital Program began August 1, 1985. MMWEC participants approved certain working capital amendments to the various power purchase agreements. MMWEC requires that they hold a set amount of capital from which it may pay power obligations when they are due. They replenish the fund as needed from the monthly invoice payments. The income earned allocated to the Light Department will be applied as a credit to MMWEC Power Sales Billing. The balance in the Fund as of December 31, 2013 and 2012 is \$13,760 and \$13,740, respectively.

NOTE 10 – NET INVESTMENT IN CAPITAL ASSETS:

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| Cost of Capital Assets Acquired | \$ 13,015,779 | \$ 12,967,584 |
| Less: Accumulated Depreciation | 2,962,958 | 2,576,171 |
| Less: Outstanding Debt Related to Capital Assets | <u>5,392,825</u> | <u>5,904,436</u> |
| Net Investment in Capital Assets | <u>\$ 4,659,996</u> | <u>\$ 4,486,977</u> |

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 11 – UTILITY PLANT ASSETS:

| | Balance January 1, 2013 | Increases | Decreases | Balance December 31, 2013 |
|--|-------------------------------|--------------|-----------|---------------------------------|
| Capital Assets not being Depreciated: | | | | |
| Land | 56,870 | - | - | 56,870 |
| Capital Assets Being Depreciated: | | | | |
| Generation Plant | 8,457,824 | - | - | 8,457,824 |
| Distribution Plant | 3,057,744 | 29,157 | (17,273) | 3,069,628 |
| General Plant | 1,395,146 | 19,038 | - | 1,414,184 |
| Total Capital Assets being Depreciated | 12,910,714 | 48,195 | (17,273) | 12,941,636 |
| Less Accumulated Depreciation for: | | | | |
| Generation Plant | (754,905) | (253,200) | - | (1,008,105) |
| Distribution Plant | (846,936) | (54,864) | 17,273 | (884,527) |
| General Plant | (974,330) | (78,723) | - | (1,053,053) |
| Total Accumulated Depreciation | (2,576,171) | (386,787) | 17,273 | (2,945,685) |
| Capital Assets being depreciated, net | 10,334,543 | (338,592) | - | 9,995,951 |
| Utility Plant Assets, Net | \$ 10,391,413 | \$ (338,592) | \$ - | \$ 10,052,821 |

NOTE 12 – PENSION PLAN:

The Light Department, through the Town of Princeton, 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 teachers' retirement board.

Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of 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.

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).

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 – PENSION PLAN (Continued):

Active members contribute 5, 7, 8 or 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 Commission (PERAC'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.

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.

Members who become permanently and totally disabled for 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 Department then reimburses the Town for the Department's share of the assessment.

The amount of pension expense charged to operations for the years ended December 31, 2013, 2012 and 2011 was \$78,946, \$73,964, and \$68,228, respectively.

The Plan's separately issued financial statements can be obtained by contacting Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

NOTE 13 – RISK MANAGEMENT:

The Department is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error 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 there have been no material settlements in excess of coverage in any of the past four fiscal years.

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 13 – RISK MANAGEMENT (Continued):

Self-Insurance Trust

Princeton Municipal Light Department participates in Massachusetts Municipal Self-Insurance Trust (the Trust) with 17 other municipalities for the purpose of sharing excess liability and officers' liability risks. General liability coverage provides for \$500,000 per occurrence, with a \$50,000 deductible that would be paid by the Department. Environmental insurance coverage provides for \$1,500,000 per occurrence, with a \$100,000 deductible that would be paid by the Department. Each participating municipality contributes to the Trust based on its share of the group's total kilowatt-hour sales. Payments for claims over the deductible limit are funded by trust assets or, if required, additional contributions from the participants.

Generally accepted accounting principles requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At December 31, 2013 and 2012, the Light Department considers its pro rata share of these losses to be immaterial to its financial statements.

NOTE 14 – OTHER POST EMPLOYMENT BENEFITS:

The Department implemented GASB Statement 45, *Accounting for Financial Reporting by Employers for Postemployment Benefits Other than Pensions* for the year ended December 31, 2009. 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. For the study dated July 1, 2012 the Department utilized the ACOPEB, software developed to meet the requirements of GASB Statement 45 for the alternative calculation of OPEB for state and local government plans with fewer than 100 employees.

Plan Description. PMLD participates in the town sponsored single employer defined benefit health plan. PMLD 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, PMLD's membership consisted of the following:

| | |
|---------------------------------|------------------|
| Current retirees, beneficiaries | 5 |
| Current active members | <u>7</u> |
| Total | <u><u>12</u></u> |

Funding Policy. PMLD 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 PMLD by the Town, which aggregated approximately \$98,956 and \$81,909 for the years ended December 31, 2013 and 2012, respectively. The cost of providing these benefits for retirees is 50% of the premium. Retired plan members and beneficiaries currently receiving benefits are required to contribute 50% for health insurance. A surviving spouse may continue coverage for lifetime by paying under the same arrangement. Retirees are required to pay 50% annually for the cost of a \$5,000 life insurance benefit, if elected.

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (Continued):

Funded Status and Funding Progress. Alternative measurements 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.

Legislature was passed allowing Municipal Light Departments to create a trust, in order to fund their OPEB obligation. As of December 31, 2013, Princeton Municipal Light Department did not create a trust.

Annual OPEB Costs. The Department's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount to be determined using the alternative measurement method in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following shows the components of the Light Department's annual OPEB cost for the years ending December 31, 2013 and 2012 the amount actually contributed to the plan, and changes in the Department's net OPEB obligation based on an alternative measurement method as of July 1, 2012:

| | <u>2013</u> | <u>2012</u> |
|---|-----------------------|----------------------|
| Normal cost | \$ 20,455 | \$ 20,455 |
| Amortization of unfunded actuarial accrued liability | <u>21,170</u> | <u>21,170</u> |
| Annual required contribution | 41,625 | 41,625 |
| Interest on net OPEB obligation | 1,640 | 1,640 |
| Adjustments to annual required contribution | <u>(1,877)</u> | <u>(1,877)</u> |
| Annual OPEB expense | 41,388 | 41,388 |
| Expected benefit payments | <u>(11,235)</u> | <u>(11,235)</u> |
| Increase in net OPEB obligation | 30,153 | 30,153 |
| Net OPEB obligation, Beginning of year | <u>84,816</u> | <u>54,663</u> |
| Net OPEB obligation, End of year | <u>\$ 114,969</u> | <u>\$ 84,816</u> |

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

| <u>Year ended</u> | <u>Annual OPEB Costs</u> | <u>Percentage of OPEB cost contributed</u> | <u>Net OPEB obligation</u> |
|-------------------|------------------------------|--|--------------------------------|
| 2011 | \$ 23,459 | 22% | \$ 54,663 |
| 2012 | \$ 41,388 | 27% | \$ 84,816 |
| 2013 | \$ 41,388 | 27% | \$ 114,969 |

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 14 – OTHER POST EMPLOYMENT BENEFITS (Continued):

The funded status is as follows:

| | |
|---|-------------------|
| Actuarial accrued liability (AAL) | \$ 554,951 |
| Actuarial value of plan assets | <u>0</u> |
| Unfunded actuarial accrued liability | <u>\$ 554,951</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0% |
| Covered payroll (active plan members) | \$ 552,354 |
| UAAL as a percentage of covered payroll | 100.47% |

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Light 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.

As of July 1, 2012, the valuation using the alternative measurement method and projected unit credit cost method was used. The assumptions included a 3% investment rate of return and an annual healthcare cost trend rate of 6%. The Light Department's unfunded actuarial accrued liability is being amortized each year as an open 30 year level dollar basis.

NOTE 15 – LEASE OBLIGATIONS:

In August 2008, PMLD entered into a lease agreement of seven years to lease a material handler/bucket truck. The lease runs through August 2015.

The approximate minimum future payments of the lease obligations are as follows:

| | | |
|--------------------------|-------|------------------|
| Year ending December 31, | 2014 | \$ 24,943 |
| | 2015 | <u>14,550</u> |
| | Total | <u>\$ 39,493</u> |

NOTE 16 – COMMITMENTS AND CONTINGENCIES:

Purchase Power Commitment

The Department has agreements with the Massachusetts Municipal Wholesale Electric Company ("MMWEC") for participation in the interconnection between New England utilities and the Hydro-Quebec electric system near Sherbrooke, Quebec, (Phase 1). The Department is also a direct participant in Phase II of the Hydro-Quebec interconnection. Participation in the arrangement provides for preferential exchanges and purchases of energy over the lines.

MMWEC was created as a political subdivision of the Commonwealth of Massachusetts to develop and coordinate power supply planning and assistance for its member municipal light departments.

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued):

Princeton Municipal Light Department has entered into contractual agreements with NextEra Energy to secure energy at fixed prices. The totals shown below reflect the sum of the contractual obligations for the contract.

The estimated contractual entitlements are as follows:

| | | | |
|----------------------------------|-------|----|------------------|
| For the years ended December 31, | 2014 | \$ | 1,100,761 |
| | 2015 | | 1,115,137 |
| | 2016 | | 1,179,708 |
| | 2017 | | 1,186,978 |
| | 2018 | | <u>1,198,875</u> |
| | Total | \$ | <u>5,781,459</u> |

The Department has the option to continue their agreement with NextEra for fiscal years 2019-2023. Commitments will be determined at a future date based on the Departments contract price target. If an agreement cannot be reached the Department will be relieved of its respective obligation at the end of that calendar year.

Other Power Supply

The Department has entered into a Service Agreement with MMWEC, under which MMWEC performs bulk power supply services to the Department, including services related to owned generation, purchased power contracts or other power supply arrangements.

Under the terms of the Service Agreement, the Department is committed to purchase additional power through MMWEC in the amount of \$89,264 in 2014 and \$92,506 in 2015.

NOTE 17 – CONCENTRATIONS OF CREDIT RISK:

Light Department's funds are deposited with the Town and 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 Light 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 Light Department deposits is not determinable because the limits of insurance are computed on a Town-wide basis.

NOTE 18 – MASSACHUSETTS MUNICIPAL LIGHT DEPARTMENT WIND ENERGY
COOPERATIVE CORPORATION (COOPERATIVE):

The significant accounting principles and policies utilized by the Massachusetts Municipal Light Department Wind Energy Cooperative Corporation (Cooperative) are as follows:

Reporting Entity

The Cooperative is organized under Chapter 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 the Princeton Municipal Light Department (PMLD) for the purpose of financing, owning, constructing and operating wind generation facilities located in the town of Princeton, Massachusetts (Princeton Facilities).

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 18 – MASSACHUSETTS MUNICIPAL LIGHT DEPARTMENT WIND ENERGY
COOPERATIVE CORPORATION (COOPERATIVE) (Continued):

Reporting Entity (continued)

In October 2009, the Templeton Municipal Light & Water Plant (Templeton) joined the Cooperative in order to finance, purchase or otherwise acquire, construct, install, operate and maintain, or cause to be operated and maintained a wind turbine and ancillary equipment for the production of wind energy to be installed in Baldwinville, Massachusetts (Templeton Facilities).

The powers of the Cooperative are exercised by the Board of Directors who has the right to conduct business and carry on operations. The Board of Directors is comprised of one director who represents MMWEC and two or more Directors who represent PMLD and Templeton.

Nature of Operations

The Cooperative has constructed and is operating two 1.5-megawatt wind turbines at the PMLD's wind farm in Princeton, Massachusetts and one 1.65-megawatt wind turbine at the Templeton's wind farm in Baldwinville, Massachusetts. The Cooperative provides wind energy to PMLD and Templeton. This business is a self-sustaining operation, providing both operational and financial value to the PMLD and Templeton.

Regulation and Basis of Accounting

The 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 recognized when earned and expenses are recorded when the liability is incurred. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Fair Value of Financial Instruments

The Cooperative's financial instruments consist of cash and cash equivalents, accounts payable and accrued expenses and debt instruments. The estimated fair values of these financial instruments approximate their carrying values at December 31, 2013 and 2012. The estimated fair values have been determined through information obtained from market sources and management estimates.

Depreciation

Property and equipment is stated at cost. Minor additions and renewals are expensed in the year incurred. Major additions and renewals are capitalized and depreciated over their estimated useful lives using straight line method. Depreciation expense for 2013 and 2012 was \$253,200 and \$253,182, respectively.

Taxes

The Cooperative is exempt from federal income taxes.

Advances from Princeton Municipal Light Department

PMLD has advanced amounts to the Cooperative in order to pay for development costs associated with the Princeton Facilities that are in excess of the bond proceeds. The advances are classified as long term as repayment is not anticipated within the current year. There are no specific repayment terms. The total advances to the Cooperative were \$691,211 as of December 31, 2013 and 2012.

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 18 – MASSACHUSETTS MUNICIPAL LIGHT DEPARTMENT WIND ENERGY
COOPERATIVE CORPORATION (COOPERATIVE) (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.

Prepaid Insurance

Prepaid insurance represents insurance premiums paid in the current fiscal year benefiting future periods.

Amounts Recoverable /Payable in the Future

The difference between revenues received and expenses paid are charged to the amounts recoverable/payable in the future account which is reflected as either a deferred inflow or outflow of resources in the accompanying statements of net position. Such amounts will be recovered or settled through future billings.

Revenues and Expenses

The Cooperative distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utility's principal ongoing operations. The principal operating revenues of the Cooperative will be the contract charges to PMLD. Operating expenses for the Cooperative currently include insurance, services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

During 2012, one of the turbines that comprise the Princeton Facilities underwent major maintenance. Costs related to the maintenance of this turbine, including crane work, legal expenses and travel costs are presented as Extraordinary Wind Turbine Repairs on the accompanying Statements of Revenues, Expenses and Changes in Net Position. The Cooperative received insurance reimbursements for a portion of these costs, which is presented as Reimbursement for Extraordinary Wind Turbine Repairs on the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Cooperative considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Cash:

| | 2013 | | 2012 | |
|------------------|-------------------|---------------|-------------------|---------------|
| | Carrying Value | Bank Value | Carrying Value | Bank Value |
| Checking Account | \$ 447,765 | \$ 449,336 | \$ 269,283 | \$ 269,788 |

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 18 – MASSACHUSETTS MUNICIPAL LIGHT DEPARTMENT WIND ENERGY
COOPERATIVE CORPORATION (COOPERATIVE) (Continued):

Custodial Credit Risk

In the event of a bank failure, the Cooperative's deposits may not be returned. The Cooperative's funds on deposit with financial institutions are subject to the insurance coverage limits by the Federal Deposit Insurance Corporation (FDIC) and the Deposit Insurance Fund of Massachusetts (DIF).

No formal investment policy has been adopted by the Cooperative to address custodial credit risk.

Reclassification

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

Related Parties:

The accounting records for the Princeton facility are maintained by the staff at the Princeton Municipal Light Department.

The Cooperative entered into an agency contract with MMWEC on October 30, 2007, under which MMWEC is to serve as the Cooperative's agent in all matters with respect to financing the construction, purchase, ownership, lease or other acquisition by the Cooperative of the Princeton Facilities or energy generated from other facilities and other property or interest therein.

Under both the agency and service contract, MMWEC is to serve as the Cooperative's representative in the New England Power Pool (NEPOOL) and in matters relating to ISO New England, Inc. (ISO-NE) in connection with the Princeton Facilities, the purchase and sale of energy therefrom or from other facilities and other property or interests therein.

The Cooperative entered into a maintenance service agreement with PMLD on April 10, 2013, under which Princeton Municipal Light Department is to provide maintenance service on behalf of the Cooperative to the Princeton facilities. During the years ended December 31, 2013 and 2012, the Cooperative incurred charges of \$52,967 and \$31,553 which were paid by PMLD, respectively, for costs related to the Princeton Facilities. The Cooperative has an outstanding balance due to PMLD of \$691,211 at December 31, 2013 and 2012.

As disclosed in *Commitment and Contingencies*, the Cooperative entered into a lease agreement with the PMLD and is required to make annual rental payments under this agreement.

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 18 – MASSACHUSETTS MUNICIPAL LIGHT DEPARTMENT WIND ENERGY
COOPERATIVE CORPORATION (COOPERATIVE) (Continued):

Debt:

In January 2009, the Cooperative converted a Line of Credit and Letter of Credit to a commercial term loan (Term Loan) which the bank granted the Cooperative in the amount of up to \$7,300,000 to be used as permanent financing to support the preparation and site work on the property located in Princeton, Massachusetts, for two 273-foot wind towers and turbines, to pay the remaining costs of the project and to pay off the existing Line of Credit with the bank. The Term Loan had a fixed interest rate of 5.5% per annum which was modified on November 15, 2012 to a new rate of 4.25%.

Principal is payable over 15 years in annual payments of \$486,667 commencing on April 15, 2010, and then on April 15 of each year thereafter. Interest is payable in semi-annual installments commencing on April 15, 2009 and October 15, 2009, and on April 15 and October 15 of each year thereafter. All principal and accrued interest thereon shall be due and payable on demand on April 15, 2024.

The Term Loan is subject to a prepayment penalty of 1.0% of the principal prepaid if paid on or before November 15, 2017. The Term Loan is collateralized by the equipment and the purchase power agreement (PPA) with the Princeton Municipal Light Department. As of December 31, 2013 and 2012, the Cooperative had \$5,353,332 and \$5,839,999, respectively, outstanding on the Term Loan.

The Cooperative adopted GASB Statement 65 for the year ending December 31, 2012. The adoption of this statement eliminated the remaining deferred costs related to the loans of \$19,709 with no effect on previously stated net position.

The following is a summary of total debt service requirements for the bond and loans outstanding at December 31, 2013:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|---------------------|---------------------|
| 2014 | \$ 486,667 | \$ 220,163 | \$ 706,830 |
| 2015 | 486,667 | 199,767 | 686,434 |
| 2016 | 486,667 | 178,737 | 665,404 |
| 2017 | 486,667 | 157,710 | 644,377 |
| 2018 | 486,667 | 136,682 | 623,349 |
| 2019-2023 | 2,433,330 | 367,991 | 2,801,321 |
| 2024 | <u>486,667</u> | <u>10,514</u> | <u>497,181</u> |
| Totals | <u>\$ 5,353,332</u> | <u>\$ 1,271,564</u> | <u>\$ 6,624,896</u> |

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 18 – MASSACHUSETTS MUNICIPAL LIGHT DEPARTMENT WIND ENERGY
COOPERATIVE CORPORATION (COOPERATIVE) (Continued):

Commitments and Contingencies:

Lease Agreement

The Cooperative entered into a 20 year lease agreement on October 29, 2007 with the PMLD. Under the lease agreement, the Cooperative may finance, purchase, acquire, own, hold, install and maintain, or cause to be installed and maintained, wind turbines and ancillary equipment for the generation of wind power on a portion of the site of the existing Princeton Facilities. This lease agreement requires monthly lease payments initially of \$500, escalating at a rate of 3% per year. The total amount of rent expense is being recognized using the straight line method over the term of the lease agreement. The Cooperative has recorded a deferred lease obligation to reflect the excess of lease expense over cash payments since the inception of the lease.

At December 31, 2013, future minimum commitments due under this operating lease are as follows:

| | | |
|-----------|----|----------------|
| 2014 | \$ | 6,990 |
| 2015 | | 7,200 |
| 2016 | | 7,416 |
| 2017 | | 7,639 |
| 2018 | | 7,868 |
| 2019-2023 | | 43,024 |
| 2024-2027 | | <u>39,303</u> |
| Total | \$ | <u>119,440</u> |

Annual lease payments for the years ended December 31, 2013 and 2012 were \$6,787 and \$6,589, respectively. Lease expense for the years ended December 31, 2013 and 2012 was \$8,061.

Legal

The Cooperative is involved in various legal actions. In the opinion of Management, the outcome of such actions will not have material adverse effect on the financial position of the Cooperative.

NOTE 19 – RESTATEMENT OF 2012 FINANCIAL STATEMENTS:

In conjunction with the early implementation of GASB 65, the Department has restated previously stated net position in the amount of \$19,707. The restatement eliminated the remaining deferred costs related to the Cooperative loans for the year ending December 31, 2011 and reversed the related amortization expense for the year ending December 31, 2012. The following table summarizes the prior period adjustments:

| | |
|---|-------------|
| Net Position at December 31, 2011, as previously reported | \$4,405,702 |
| Write off of balance of deferred costs | (22,631) |
| Net Position at December 31, 2011, as restated | \$4,383,071 |
| Loss for 2012, as previously reported | (67,001) |
| Prior Period Adjustment | 2,924 |
| Net Position at December 31, 2012, as restated | \$4,318,994 |

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013 AND 2012

Schedule of Funding Progress - Other Postemployment Benefits

| Actuarial Valuation Date | For the Year Ending | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Payroll |
|--------------------------------|------------------------|---------------------------------|--|---------------------------|-----------------|--------------------|---------------------------------------|
| 4/29/2010 | 12/31/2009 | \$ - | \$ 207,257 | \$ 207,257 | 0.00% | \$ 459,400 | 45.11% |
| 4/29/2010 | 12/31/2010 | \$ - | \$ 207,257 | \$ 207,257 | 0.00% | \$ 459,400 | 45.11% |
| 4/29/2010 | 12/31/2011 | \$ - | \$ 207,257 | \$ 207,257 | 0.00% | \$ 533,918 | 38.82% |
| 7/1/2012 | 12/31/2012 | \$ - | \$ 554,951 | \$ 554,951 | 0.00% | \$ 539,482 | 102.87% |
| 7/1/2012 | 12/31/2013 | \$ - | \$ 554,951 | \$ 554,951 | 0.00% | \$ 552,354 | 100.47% |

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 | 30-year level dollar basis |
| Remaining Amortization Period | 25 years |

Actuarial Assumptions:

| | |
|------------------------------|-------|
| Assumed Retirement Age | 65 |
| Discount Rate | 3.00% |
| Projected salary increases | 3.00% |
| Medical/drug cost trend rate | 6.00% |

See Independent Auditors' Report

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | 2013 | | | | 2012 | | | |
|--|--|---|-----------------------|------------------------|--|---|-----------------------|------------------------|
| | Princeton Municipal Light Department | Wind Energy Cooperative Corporation | Eliminations | Consolidated Amount | Princeton Municipal Light Department | Wind Energy Cooperative Corporation | Eliminations | Consolidated Amount |
| CURRENT ASSETS: | | | | | | | | |
| Funds on Deposit with Town Treasurer | | | | | | | | |
| Operating Fund | | | | | | | | |
| Petty Cash | \$ 41,154 | \$ 447,765 | \$ 0 | \$ 488,919 | \$ 31,213 | \$ 269,283 | \$ 0 | \$ 300,496 |
| Customer Accounts Receivable, Net | 800 | 0 | 0 | 800 | 800 | 0 | 0 | 800 |
| Other Accounts Receivable | 347,279 | 0 | 0 | 347,279 | 318,038 | 0 | 0 | 318,038 |
| Materials and Supplies | 84,042 | 64,547 | (64,547) | 84,042 | 103,585 | 405,270 | (194,807) | 314,048 |
| Working Capital Balance on Deposit | 152,831 | 0 | 0 | 152,831 | 175,760 | 0 | 0 | 175,760 |
| Prepaid Expenses | 249,390 | 0 | (235,630) | 13,760 | 249,370 | 0 | (235,630) | 13,740 |
| | 24,480 | 19,590 | 0 | 44,070 | 26,583 | 14,704 | 0 | 41,287 |
| TOTAL CURRENT ASSETS | 899,976 | 531,902 | (300,177) | 1,131,701 | 905,349 | 689,257 | (430,437) | 1,164,169 |
| NONCURRENT ASSETS: | | | | | | | | |
| Funds on Deposit with Town Treasurer | | | | | | | | |
| Depreciation Fund | | | | | | | | |
| Customer Meter Deposits | 108,231 | 0 | 0 | 108,231 | 88,394 | 0 | 0 | 88,394 |
| Preliminary Survey and Investigation Charges | 23,070 | 0 | 0 | 23,070 | 36,146 | 0 | 0 | 36,146 |
| Advances to MMLD Wind Energy Cooperative Corporation | 0 | 0 | 0 | 0 | 33,542 | 0 | 0 | 33,542 |
| Utility Plant Assets, Net | 691,211 | 0 | (691,211) | 0 | 691,211 | 0 | (691,211) | 0 |
| | 2,603,099 | 7,449,722 | 0 | 10,052,821 | 2,688,491 | 7,702,922 | 0 | 10,391,413 |
| TOTAL NONCURRENT ASSETS | 3,425,611 | 7,449,722 | (691,211) | 10,184,122 | 3,537,784 | 7,702,922 | (691,211) | 10,549,495 |
| TOTAL ASSETS | 4,325,587 | 7,981,624 | (991,388) | 11,315,823 | 4,443,133 | 8,392,179 | (1,121,648) | 11,713,664 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | | |
| Costs in Excess of Billings to Participants | 0 | 458,613 | (458,613) | 0 | 0 | 479,158 | (479,158) | 0 |
| Deferred Interest Expense | 1,340 | 0 | 0 | 1,340 | 3,589 | 0 | 0 | 3,589 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 1,340 | 458,613 | (458,613) | 1,340 | 3,589 | 479,158 | (479,158) | 3,589 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 4,326,927 | \$ 8,440,237 | \$ (1,450,001) | \$ 11,317,163 | \$ 4,446,722 | \$ 8,871,337 | \$ (1,600,806) | \$ 11,717,253 |

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2013 AND 2012

LIABILITIES, DEFERRED INFLOWS OR RESOURCES AND NET POSITION

| | 2013 | | | | 2012 | | | |
|--|--|---|----------------|------------------------|--|---|----------------|------------------------|
| | Princeton Municipal Light Department | Wind Energy Cooperative Corporation | Eliminations | Consolidated Amount | Princeton Municipal Light Department | Wind Energy Cooperative Corporation | Eliminations | Consolidated Amount |
| CURRENT LIABILITIES: | | | | | | | | |
| Accounts Payable | \$ 771,697 | \$ 8,064 | \$ (523,160) | \$ 256,601 | \$ 932,330 | \$ 140,370 | \$ (673,965) | \$ 398,735 |
| Accounts Payable - MMWEC | 0 | 1,088,090 | (235,630) | 852,460 | 0 | 1,127,704 | (235,630) | 892,074 |
| Current Obligations under Capital Lease | 39,493 | 0 | 0 | 39,493 | 24,943 | 0 | 0 | 24,943 |
| Current Portion of Long-Term Debt | 0 | 486,667 | 0 | 486,667 | 0 | 486,667 | 0 | 486,667 |
| Accrued Expenses | 34,230 | 48,663 | 0 | 82,893 | 32,796 | 55,747 | 0 | 88,543 |
| TOTAL CURRENT LIABILITIES | 845,420 | 1,631,484 | (738,790) | 1,718,114 | 990,069 | 1,810,488 | (909,595) | 1,890,962 |
| NONCURRENT LIABILITIES: | | | | | | | | |
| Obligations under Capital Lease | 0 | 0 | 0 | 0 | 39,494 | 0 | 0 | 39,494 |
| Long-Term Debt, Less Current Portion | 0 | 4,866,665 | 0 | 4,866,665 | 0 | 5,353,332 | 0 | 5,353,332 |
| Advances from Participants | 0 | 691,211 | (691,211) | 0 | 0 | 691,211 | (691,211) | 0 |
| Customer Meter Deposits | 20,895 | 0 | 0 | 20,895 | 21,020 | 0 | 0 | 21,020 |
| Net Other Postemployment Benefit Obligation | 114,969 | 0 | 0 | 114,969 | 84,816 | 0 | 0 | 84,816 |
| TOTAL NONCURRENT LIABILITIES | 135,864 | 5,557,876 | (691,211) | 5,002,529 | 145,330 | 6,044,543 | (691,211) | 5,498,662 |
| TOTAL LIABILITIES | 981,284 | 7,189,360 | (1,430,001) | 6,720,643 | 1,135,399 | 7,855,031 | (1,600,806) | 7,389,624 |
| DEFERRED INFLOWS OF RESOURCES: | | | | | | | | |
| Amounts Recoverable/Payable in the Future | (1,241,137) | 1,241,137 | 0 | 0 | (1,007,671) | 1,007,671 | 0 | 0 |
| Deferred Rent | 0 | 9,740 | 0 | 9,740 | 0 | 8,635 | 0 | 8,635 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | (1,241,137) | 1,250,877 | 0 | 9,740 | (1,007,671) | 1,016,306 | 0 | 8,635 |
| NET POSITION: | | | | | | | | |
| Net Investment in Capital Assets | 2,563,606 | 2,096,390 | 0 | 4,659,996 | 2,624,054 | 1,862,923 | 0 | 4,486,977 |
| Net Position Restricted for Depreciation | 108,231 | 0 | 0 | 108,231 | 88,394 | 0 | 0 | 88,394 |
| Unrestricted Net Position | 1,914,943 | (2,096,390) | 0 | (181,447) | 1,606,546 | (1,862,923) | 0 | (256,377) |
| TOTAL NET POSITION | 4,586,780 | 0 | 0 | 4,586,780 | 4,318,994 | 0 | 0 | 4,318,994 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | \$ 4,326,927 | \$ 8,440,237 | \$ (1,450,001) | \$ 11,317,163 | \$ 4,446,722 | \$ 8,871,337 | \$ (1,600,806) | \$ 11,717,253 |

See Independent Auditors' Report

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | 2013 | | | | 2012 | | | |
|--|--|---|--------------|------------------------|--|---|----------------|------------------------|
| | Princeton Municipal Light Department | Wind Energy Cooperative Corporation | Eliminations | Consolidated Amount | Princeton Municipal Light Department | Wind Energy Cooperative Corporation | Eliminations | Consolidated Amount |
| OPERATING REVENUES: | | | | | | | | |
| Sales of Electricity | \$ 3,084,569 | \$ 837,222 | \$ (837,222) | \$ 3,084,569 | \$ 2,945,821 | \$ 1,180,792 | \$ (1,180,792) | \$ 2,945,821 |
| Other Operating Revenues | 39,856 | 0 | 0 | 39,856 | 57,409 | 0 | 0 | 57,409 |
| TOTAL OPERATING REVENUES | 3,124,425 | 837,222 | (837,222) | 3,124,425 | 3,003,230 | 1,180,792 | (1,180,792) | 3,003,230 |
| OPERATING EXPENSES: | | | | | | | | |
| Operating and Maintenance | 2,909,549 | 243,467 | (837,222) | 2,315,794 | 3,142,841 | 197,195 | (1,180,792) | 2,159,244 |
| Depreciation | 133,587 | 253,200 | 0 | 386,787 | 133,728 | 253,182 | 0 | 386,910 |
| TOTAL OPERATING EXPENSES | 3,043,136 | 496,667 | (837,222) | 2,702,581 | 3,276,569 | 450,377 | (1,180,792) | 2,546,154 |
| OPERATING INCOME | 81,289 | 340,555 | 0 | 421,844 | (273,339) | 730,415 | 0 | 457,076 |
| NONOPERATING REVENUES (EXPENSES): | | | | | | | | |
| Interest Income | 237 | 0 | 0 | 237 | 1,055 | 0 | 0 | 1,055 |
| Interest Expense | (11,178) | (240,336) | 0 | (251,514) | (16,032) | (321,146) | 0 | (337,178) |
| Disaster Recovery Revenue | 0 | 0 | 0 | 0 | (11,093) | 0 | 0 | (11,093) |
| Abandonment of Preliminary Surveys | (33,542) | 0 | 0 | (33,542) | 0 | 0 | 0 | 0 |
| Change in Amounts Payable in the Future | 233,467 | (233,467) | 0 | 0 | 237,867 | (237,867) | 0 | 0 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 188,984 | (473,803) | 0 | (284,819) | 211,797 | (559,013) | 0 | (347,216) |
| Income Before Extraordinary Items | 270,273 | (133,248) | 0 | 137,025 | (61,542) | 171,402 | 0 | 109,860 |
| Reimbursement for Extraordinary Wind Turbine Repairs | 0 | 251,085 | 0 | 251,085 | 0 | 210,464 | 0 | 210,464 |
| Extraordinary Wind Turbine Repairs | 0 | (117,837) | 0 | (117,837) | 0 | (381,866) | 0 | (381,866) |
| TOTAL EXTRAORDINARY ITEMS | 0 | 133,248 | 0 | 133,248 | 0 | (171,402) | 0 | (171,402) |
| Income (Loss) Before Contributions and Transfers | 270,273 | 0 | 0 | 270,273 | (61,542) | 0 | 0 | (61,542) |
| NET POSITION - JANUARY 1 | 4,318,994 | 0 | 0 | 4,318,994 | 4,383,071 | 0 | 0 | 4,383,071 |
| Transfers Out - Services Rendered in Lieu of Taxes | (2,487) | 0 | 0 | (2,487) | (2,535) | 0 | 0 | (2,535) |
| NET POSITION - DECEMBER 31 | \$ 4,586,780 | \$ 0 | \$ 0 | \$ 4,586,780 | \$ 4,318,994 | \$ 0 | \$ 0 | \$ 4,318,994 |

See Independent Auditors' Report

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

| | 2013 | | | | 2012 | | | |
|--|--|---|----------------|------------------------|--|---|----------------|------------------------|
| | Princeton Municipal Light Department | Wind Energy Cooperative Corporation | Eliminations | Consolidated Amount | Princeton Municipal Light Department | Wind Energy Cooperative Corporation | Eliminations | Consolidated Amount |
| CASH FLOW FROM OPERATING ACTIVITIES: | | | | | | | | |
| Cash Received from Customers | \$ 3,114,602 | \$ 1,198,490 | \$ (1,198,490) | \$ 3,114,602 | \$ 2,961,022 | \$ 1,008,632 | \$ (1,008,632) | \$ 2,961,022 |
| Cash Paid to Suppliers | (2,461,229) | (419,168) | 1,198,490 | (1,681,907) | (2,547,824) | (140,256) | 1,008,632 | (1,679,448) |
| Cash Paid to Employees | (552,354) | 0 | 0 | (552,354) | (560,618) | 0 | 0 | (560,618) |
| Services Rendered in Lieu of Taxes | (2,487) | 0 | 0 | (2,487) | (2,535) | 0 | 0 | (2,535) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 98,532 | 779,322 | 0 | 877,854 | (149,955) | 868,376 | 0 | 718,421 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | | | | | |
| Additions to Utility Plant Assets | (48,195) | 0 | 0 | (48,195) | (47,116) | (10) | 0 | (47,126) |
| Net Extraordinary Repairs Revenues (Costs) | 0 | 133,248 | 0 | 133,248 | 0 | (171,402) | 0 | (171,402) |
| Disaster Recovery Income | 0 | 0 | 0 | 0 | 1,933 | 0 | 0 | 1,933 |
| Payments on Capital Lease | (24,944) | 0 | 0 | (24,944) | (45,090) | 0 | 0 | (45,090) |
| Interest Expense | (8,929) | 0 | 0 | (8,929) | (12,437) | 0 | 0 | (12,437) |
| Repayment on Long Term Debt | 0 | (486,667) | 0 | (486,667) | 0 | (486,667) | 0 | (486,667) |
| Interest Payments on Long Term Debt | 0 | (247,421) | 0 | (247,421) | 0 | (340,234) | 2 | (340,232) |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | (82,068) | (600,840) | 0 | (682,908) | (102,710) | (998,313) | 2 | (1,101,021) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | | | | |
| Interest Income | 126 | 0 | 0 | 126 | 477 | 0 | 0 | 477 |
| Net Transfer from Operations | (19,725) | 0 | 0 | (19,725) | 215,188 | 0 | 0 | 215,188 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | (19,599) | 0 | 0 | (19,599) | 215,665 | 0 | 0 | 215,665 |
| NET INCREASE (DECREASE) IN CASH | (3,135) | 178,482 | 0 | 175,347 | (37,000) | (129,937) | 2 | (166,935) |
| CASH, BEGINNING OF YEAR | 68,159 | 269,283 | 0 | 337,442 | 105,159 | 399,220 | (2) | 504,377 |
| CASH, END OF YEAR | \$ 65,024 | \$ 447,765 | \$ 0 | \$ 512,789 | \$ 68,159 | \$ 269,283 | \$ 0 | \$ 337,442 |

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RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED (USED) BY OPERATING
ACTIVITIES:

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
CONSOLIDATED SCHEDULES OF ELECTRIC UTILITY PLANT IN SERVICE
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | Balance January 1, 2013 | Increases | Decreases | Balance December 31, 2013 | Balance January 1, 2012 | Increases | Decreases | Balance December 31, 2012 |
|--|-------------------------------|--------------|-----------|---------------------------------|-------------------------------|--------------|-----------|---------------------------------|
| Capital assets not being depreciated: | | | | | | | | |
| Land | \$ 56,870 | \$ 0 | \$ 0 | \$ 56,870 | \$ 56,870 | \$ 0 | \$ 0 | \$ 56,870 |
| Total capital assets not being depreciated | 56,870 | 0 | 0 | 56,870 | 56,870 | 0 | 0 | 56,870 |
| Capital assets being depreciated: | | | | | | | | |
| Generation plant | 8,457,824 | 0 | 0 | 8,457,824 | 8,457,817 | 7 | 0 | 8,457,824 |
| Distribution plant | 3,057,744 | 29,157 | (17,273) | 3,069,628 | 3,066,382 | 43,063 | (51,701) | 3,057,744 |
| General plant | 1,395,146 | 19,038 | 0 | 1,414,184 | 1,391,090 | 4,056 | 0 | 1,395,146 |
| Total capital assets being depreciated | 12,910,714 | 48,195 | (17,273) | 12,941,636 | 12,915,289 | 47,126 | (51,701) | 12,910,714 |
| Less accumulated depreciation for: | | | | | | | | |
| Generation plant | (754,905) | (253,200) | 0 | (1,008,105) | (501,723) | (253,182) | 0 | (754,905) |
| Distribution plant | (846,936) | (54,864) | 17,273 | (884,527) | (842,981) | (55,656) | 51,701 | (846,936) |
| General plant | (974,330) | (78,723) | 0 | (1,053,053) | (896,258) | (78,072) | 0 | (974,330) |
| Total accumulated depreciation | (2,576,171) | (386,787) | 17,273 | (2,945,685) | (2,240,962) | (386,910) | 51,701 | (2,576,171) |
| Capital assets being depreciated, net | 10,334,543 | (338,592) | 0 | 9,995,951 | 10,674,327 | (339,784) | 0 | 10,334,543 |
| Utility plant assets, net | \$ 10,391,413 | \$ (338,592) | \$ 0 | \$ 10,052,821 | \$ 10,731,197 | \$ (339,784) | \$ 0 | \$ 10,391,413 |

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PRINCETON MUNICIPAL LIGHT DEPARTMENT AND SUBSIDIARY
CONSOLIDATED SCHEDULES OF ELECTRIC OPERATING AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 |
|---|---------------------|---------------------|
| POWER SUPPLY EXPENSE: | | |
| Purchased Power | \$ 959,854 | \$ 887,095 |
| Transmission by Others | 119,577 | 77,666 |
| | <u>1,079,431</u> | <u>964,761</u> |
| TOTAL POWER SUPPLY EXPENSE | <u>1,079,431</u> | <u>964,761</u> |
| DISTRIBUTION EXPENSES: | | |
| Operation Labor | 60,181 | 64,296 |
| Operation Supplies and Expenses | 36,824 | 68,358 |
| Maintenance of Overhead Lines | 116,230 | 129,077 |
| Maintenance of Structures/Equipment | 1,358 | 3,703 |
| Maintenance of Line Transformers | 1,349 | 2,616 |
| Maintenance of Meters | 1,441 | 3,402 |
| Maintenance of Street Lights | 4,418 | 3,579 |
| | <u>221,801</u> | <u>275,031</u> |
| TOTAL DISTRIBUTION EXPENSES | <u>221,801</u> | <u>275,031</u> |
| CUSTOMER ACCOUNT EXPENSES: | | |
| Meter Reading | 17,710 | 13,521 |
| Accounting and Collection Expense | 78,549 | 81,750 |
| Energy Audits | 4,543 | 6,471 |
| | <u>100,802</u> | <u>101,742</u> |
| TOTAL CUSTOMER ACCOUNT EXPENSES | <u>100,802</u> | <u>101,742</u> |
| ADMINISTRATIVE AND GENERAL EXPENSES: | | |
| Advertising | 775 | 775 |
| Administration and General Salaries | 214,501 | 172,530 |
| Financial Services | 4,244 | 5,000 |
| Land Lease | 8,061 | 8,061 |
| Office Supplies and Expenses | 25,843 | 27,509 |
| Outside Services Employed | 57,709 | 120,126 |
| Property Insurance | 84,305 | 74,957 |
| Injuries and Damages | 29,183 | 26,408 |
| Employee Benefits | 239,216 | 212,387 |
| Miscellaneous General Expense | 2,216 | 4,575 |
| Maintenance of General Plant | 247,707 | 165,382 |
| | <u>913,760</u> | <u>817,710</u> |
| TOTAL ADMINISTRATIVE AND GENERAL EXPENSES | <u>913,760</u> | <u>817,710</u> |
| TOTAL OPERATING AND MAINTENANCE EXPENSES | <u>\$ 2,315,794</u> | <u>\$ 2,159,244</u> |

See Independent Auditors' Report

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

| | Net Revenues | | Kilowatt Hours Sold | | Net Revenue Per Kilowatt Hours Sold | |
|---|---------------------|---------------------|---------------------|----------------|--|-------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Sales of Electricity | | | | | | |
| Residential Sales, Net of Discounts of \$85,388 and \$86,269 in 2013 and 2012, Respectively | \$ 2,538,471 | \$ 2,440,483 | \$ 97,988 | | \$ 0.20404 | \$ 0.19843 |
| Commercial and Industrial Sales | 339,478 | 327,632 | 11,846 | 141,674 | 0.21235 | 0.20688 |
| Special Street Lighting | 13,843 | 14,300 | (457) | 15,028 | 0.23068 | 0.23068 |
| | | | | (1,980) | | |
| Total Private Customers | 2,891,792 | 2,782,415 | 109,377 | 154,722 | 0.20510 | 0.19953 |
| Municipal Sales | | | | | | |
| Street Lighting | 9,594 | 9,660 | (66) | | 0.20567 | 0.20610 |
| Municipal Buildings | 104,236 | 98,844 | 5,392 | (224) | 0.20602 | 0.19961 |
| | | | | 10,779 | | |
| Total Municipal Sales | 113,830 | 108,504 | 5,326 | 10,555 | 0.20599 | 0.20017 |
| Sales for Resale | | | | | | |
| | 78,946 | 54,902 | 24,044 | | 0.10953 | 0.07617 |
| | | | | 1 | | |
| Total Sales of Electricity | \$ 3,084,568 | \$ 2,945,821 | \$ 138,747 | 165,278 | \$ 0.20065 | \$ 0.19371 |

See Independent Auditors' Report