

PRINCETON MUNICIPAL LIGHT DEPARTMENT
Financial Statements
December 31, 2017 and 2016

PRINCETON MUNICIPAL LIGHT DEPARTMENT
TABLE OF CONTENTS
DECEMBER 31, 2017 AND 2016

	Page
Independent Auditors' Report	1,2
Management's Discussion and Analysis	3-6
Financial Statements:	
Statements of Net Position	7,8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10,11
Notes to the Financial Statements	12-26
Supplementary Information:	
Required Supplementary Information – Other Postemployment Benefits	27
Required Supplementary Information – Net Pension Liability	28
Schedules of Electric Operating and Maintenance Expenses	29
Schedules of Sales of Electricity	30

**GOULET, SALVIDIO
& ASSOCIATES, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Princeton Municipal Light Department as of and for the years ended December 31, 2017 and 2016, 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.

Auditors' 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 auditors' 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.

Basis for Qualified Opinion

Management has reported its December 31, 2016 portion of the net pension liability (NPL) based on reports provided by the Worcester Regional Retirement System (WRRS) that are not in compliance with GASB standards. Government accounting standards require that the NPL be reported using actuarial data that is no more than 30 months and one day old. The WRRS provided NPL information using data from an actuarial valuation dated January 1, 2014. The amount by which this departure would affect the assets, liabilities, net position, and revenues of the Department has not been determined.

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Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof 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 do not purport to, and do not present fairly the financial position of the Town of Princeton, Massachusetts, as of December 31, 2017 and 2016, the changes in financial position, or its cash flows for the years then ended in accordance 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, Other Postemployment Benefits information, and Net Pension Liability information on pages three through six and 27 through 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 sufficient evidence 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 and 30 are presented for purposes of additional analysis and are 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
April 2, 2018

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 for the years ended December 31, 2017 and 2016. 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, 2017, it shows our net position was \$4,742,768, an increase of \$507,074 over 2016.

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 before contributions and transfers for the year ending December 31, 2017 and 2016 was \$521,677 and \$576,591, 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

	2017	2016
Current Assets	\$ 2,538,378	\$ 2,349,993
Noncurrent Assets	<u>10,273,797</u>	<u>10,464,512</u>
Total Assets	<u>12,812,175</u>	<u>12,814,505</u>
Deferred Outflows of Resources	<u>407,970</u>	<u>148,787</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 13,220,145</u>	<u>\$ 12,963,292</u>
Current Liabilities	\$ 965,992	\$ 962,691
Noncurrent Liabilities	<u>6,950,537</u>	<u>7,149,213</u>
Total Liabilities	<u>7,916,529</u>	<u>8,111,904</u>
Deferred Inflows of Resources	<u>560,848</u>	<u>615,694</u>
Net Position:		
Net Investment in Capital Assets	3,850,760	3,535,952
Net Position Restricted for Depreciation	833,783	814,486
Unrestricted	<u>58,225</u>	<u>(114,744)</u>
Total Net Position	<u>4,742,768</u>	<u>4,235,694</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 13,220,145</u>	<u>\$ 12,963,292</u>

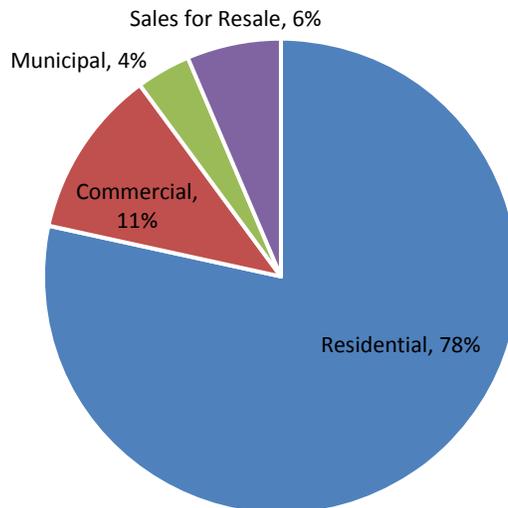
Summary of Changes in Net Position

	2017	2016
Operating Revenues	\$ 3,883,758	\$ 3,806,797
Operating Expenses	3,198,345	3,110,883
Operating Income	685,413	695,914
Nonoperating (Expenses) Revenues	(163,736)	(119,323)
Increase in Net Position before Transfers	521,677	576,591
Net Position, January 1	4,235,694	3,666,187
Transfer Out – Services Rendered in Lieu of Taxes (See “Services to Town” on p.6)	(14,603)	(7,084)
Net Position, December 31	\$ 4,742,768	\$ 4,235,694

Financial Highlights

The Princeton Municipal Light Department (PMLD) is a non-profit public service corporation, whose primary goal is to provide reliable and cost effective electric service to the residents and businesses of the Town of Princeton MA. PMLD has operated in Princeton since 1912. PMLD is a Town asset, working as a separate governmental unit under the regulations and oversight of the Department of Public Utilities, with its own Board of Light Commissioners, policies, and budget serving the needs and providing value to our ratepayers.

Source of Operating Revenues



Debt Administration

Long-term debt is made up of the outstanding balance on PMLD's Pooled Financing Loan Agreement with the Massachusetts Municipal Wholesale Electric Company ("MMWEC"). PMLD entered into this agreement on March 16, 2015 to provide term financing for the purchase of the wind generation facilities from the Massachusetts Municipal Light Department Wind Energy Cooperative Corporation. This loan was termed out during March 2017. The outstanding principal balance as of December 31, 2017 and 2016 was \$5,553,567 and \$6,079,491, respectively.

Reliability

Delivering and maintaining reliable energy to every customer in Princeton is one of PMLD's main goals. PMLD completed many 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. The total number of town wide outages on the PMLD distribution side of the Town Meter was zero in 2017. PMLD will continue to rebuild and strengthen the distribution system with new equipment and a comprehensive tree trimming program that has proven successful. PMLD is committed to keeping the lights on and those rare occasions that the lights go out, we are committed to as quick a response and restoration of the electric service as possible.

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 (5) 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. PMLD also hired an outside contractor, All Reliable Services ("ARS") to perform vegetation management services in cycles 2 & 3 in 2017, as well as areas of Bigelow Rd that needed trimming. PMLD was very pleased with the level of work and professionalism provided by ARS.

Electric Customers and Rates

PMLD provided service to 1,366 residential, 12 solar residential, 7 Farm, 70 commercial, 2 commercial solar, and 21 municipal customers as of December 2017. Residential customers consume approximately 85% of the town's total energy use. All of PMLD's customers consumed approximately 13,838,750 kWh of energy in 2017, and the average home consumes approximately 800 kWh per month.

The average home in Princeton spends approximately \$190.00 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's rates are based on a formal rate study performed by an outside organization. PMLD's rates are currently lower than what has been recommended by the rate study group. In 2008 before the wind turbines were in place our rate was \$0.1923 per kilowatt hour. Today Princeton ratepayers pay a base rate of \$0.1975 per kilowatt hour. The additional \$0.05 per kilowatt hour that makes up the \$0.2475 current rate, is allocated to pay for the windfarm debt and operation. PMLD's Board of Commissioners and management continue to work diligently to keep the rate as low as possible.

Wind Farm

The Princeton Wind Farm operated at a 29% capacity factor in 2017 producing just under five thousand (5,000) MWh's of energy. PMLD continues to work hard to maintain the turbines and keep them operational. PMLD's Linemen (also certified Wind Technicians) do all of the maintenance and repairs. There were no major repairs performed on the turbines in 2017. PMLD sells wind energy to the Sterling Municipal Light Department and the West Boylston Municipal Lighting Plant, and is actively pursuing additional wind energy sales contracts with other non-profit entities.

Cable Franchise Agreement Utility Pole Work

PMLD began working with Charter Communications and their contractor, Phoenix, in October 2017 on additional pole replacements and reattachments to meet code requirements for a third entity to attach to the utility distribution system in Town. PMLD will need to replace approximately 50 poles and perform approximately 250 reattachments before the end of 2018.

Other Service Benefits to the Town

- In addition to providing the lowest cost possible and reliable energy, PMLD performed other services for the Town in 2017 for the benefit of our customers, such as:
- Purchased and installed holiday decorations, holiday lights, United States Flags and other banners and signs on the Town Common and Mechanics Hall in observance of Christmas, Memorial Day, Flag Day, and the 4th of July
- Hosted a Luncheon and Ice Cream Social for Princeton Seniors with keynote speakers who spoke about In-Home Energy Audits, the HELPS program and What to Do in the Event of an Electrical Emergency
- Sponsored Fall and Spring electrical safety classes for all students at the Thomas Prince School
- Donated time and equipment to assist with the installation of the playground equipment at Krashes Field
- Presented an interactive workshop about electrical production, distribution and consumption for Thomas Prince School 5th grade science class students
- Set up booths at the Farmer's Market and 1st Annual Princetonfest Event to share information about the Department and the Equipment, HELPS program, hand out information, and answer questions
- Purchased promotional reusable items, which included tote bags, night lights, water bottles, flash lights and magnets with PMLD logo's to hand out to residents at various community events
- PMLD assisted various Town departments as needed for use of a bucket truck and/or our assistance with tree removals and building repairs

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
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2017	2016
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Fund	\$ 1,097,322	\$ 941,784
Funds on Deposit with MMWEC		
Pooled Financing Reserve	771,586	701,728
Petty Cash	800	800
Customer Accounts Receivable, Net	395,873	383,580
Other Accounts Receivable	59,303	115,515
Materials and Supplies	163,101	158,463
Purchase Power Working Capital	30,431	30,231
Prepaid Expenses	19,962	17,892
	2,538,378	2,349,993
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	833,783	814,486
Customer Meter Deposits	35,687	34,583
Utility Plant Assets, Net	9,404,327	9,615,443
	10,273,797	10,464,512
TOTAL ASSETS	12,812,175	12,814,505
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflows of Resources Related to Pensions	407,970	148,787
	407,970	148,787
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 13,220,145	\$ 12,963,292

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2017	2016
CURRENT LIABILITIES:		
Accounts Payable	\$ 279,492	\$ 284,783
Capital Lease	24,182	28,188
Pooled Financing Loan	605,844	608,793
Accrued Expenses	56,474	40,927
TOTAL CURRENT LIABILITIES	965,992	962,691
NONCURRENT LIABILITIES:		
Pooled Financing Loan, Less Current Portion	4,947,723	5,470,698
Capital Lease, Less Current Portion	98,781	118,108
Customer Meter Deposits	32,960	32,360
Net Pension Liability	1,573,906	1,282,578
Net Other Postemployment Benefit Obligation	297,167	245,469
TOTAL NONCURRENT LIABILITIES	6,950,537	7,149,213
TOTAL LIABILITIES	7,916,529	8,111,904
DEFERRED INFLOWS OF RESOURCES:		
Contribution in Aid of Construction, Net	341,383	343,972
Deferred Inflows of Resources Related to Pensions	219,465	271,722
TOTAL DEFERRED INFLOWS OF RESOURCES	560,848	615,694
NET POSITION:		
Net Investment in Capital Assets	3,850,760	3,535,952
Net Position Restricted for Depreciation	833,783	814,486
Unrestricted Net Position	58,225	(114,744)
TOTAL NET POSITION	4,742,768	4,235,694
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 13,220,145	\$ 12,963,292

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Sales of Electricity	\$ 3,758,503	\$ 3,710,505
Other Operating Revenues	<u>125,255</u>	<u>96,292</u>
TOTAL OPERATING REVENUES	<u>3,883,758</u>	<u>3,806,797</u>
OPERATING EXPENSES:		
Operating and Maintenance	2,841,416	2,758,323
Depreciation, Net of Amortization	<u>356,929</u>	<u>352,560</u>
TOTAL OPERATING EXPENSES	<u>3,198,345</u>	<u>3,110,883</u>
OPERATING INCOME	<u>685,413</u>	<u>695,914</u>
NONOPERATING REVENUES (EXPENSES):		
Bond Issuance Costs	(27,817)	0
Interest Income	25,143	13,946
Interest Expense	(165,208)	(133,269)
Grant Income	<u>4,146</u>	<u>0</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(163,736)</u>	<u>(119,323)</u>
Income Before Contributions and Transfers	521,677	576,591
NET POSITION - JANUARY 1	4,235,694	3,666,187
Transfers Out - Services Rendered in Lieu of Taxes	<u>(14,603)</u>	<u>(7,084)</u>
NET POSITION - DECEMBER 31	<u><u>\$ 4,742,768</u></u>	<u><u>\$ 4,235,694</u></u>

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 3,928,277	\$ 3,799,171
Cash Paid to Suppliers	(2,190,203)	(2,126,244)
Cash Paid to Employees	(616,279)	(548,260)
Services Rendered In Lieu of Taxes	(14,603)	(7,084)
	1,107,192	1,117,583
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to Utility Plant Assets	(156,132)	(359,134)
Contribution in Aid of Construction	7,730	343,972
Disbursements to Pooled Financing	(66,767)	(7,977)
Grant Income	4,146	0
Payments on Capital Lease	(23,333)	(5,704)
Interest Expense	(4,855)	(11,116)
Repayment on Long-Term Debt	(556,831)	(675,499)
Interest Payments on Long-Term Debt	(160,353)	(122,153)
	(956,395)	(837,611)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	15,607	10,531
Net Transfer to Depreciation Fund	(9,762)	(397,560)
	5,845	(387,029)
 NET INCREASE (DECREASE) IN CASH	156,642	(107,057)
 CASH, BEGINNING OF YEAR	977,167	1,084,224
 CASH, END OF YEAR	\$ 1,133,809	\$ 977,167

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 685,413	\$ 695,914
Depreciation of Utility Property, Net of Amortization	356,929	352,560
Services Rendered In Lieu of Taxes	(14,603)	(7,084)
Changes in Assets and Liabilities:		
(Increase)Decrease in Assets:		
Customer Accounts Receivable	(12,293)	(19,427)
Other Accounts Receivable	56,212	6,076
Materials and Supplies	(4,638)	14,899
Prepaid Expenses	(2,070)	2,638
Deferred Outflows of Resources	(259,183)	(106,518)
Purchase Power Working Capital	(200)	3,359
Increase(Decrease) in Liabilities:		
Accounts Payable	(5,291)	(25,284)
Accrued Expenses	15,547	(7,986)
Deferred Inflows of Resources	(52,257)	271,722
Net Pension Liability	291,328	(119,374)
Net Other Postemployment Benefit Obligation	51,698	50,363
Customer Meter Deposit Liability	600	5,725
Net Cash Provided by Operating Activities	\$ 1,107,192	\$ 1,117,583

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:

	2017	2016
Operating Fund	\$ 1,097,322	\$ 941,784
Customer Meter Deposits	35,687	34,583
Petty Cash	800	800
	\$ 1,133,809	\$ 977,167

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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.

Depreciation

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.

The Department charges maintenance and repairs to operations when incurred. Replacements are betterments are charged to utility plant.

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, 2017 and 2016 is \$45,241 and \$41,019, respectively.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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.

Operating revenue includes revenues and expenses related to the continuing operations of the Department. Principal operating revenues are charges to the customers for sales of electricity or services. Operating expenses are the costs of providing electricity and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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 2017 presentation.

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, 2017 and 2016 the allowance for doubtful accounts balance was \$5,065 and \$5,000, respectively.

Contribution in Aid of Construction

Contribution in Aid of Construction represents non-refundable payments received from consumers and developers for extension of electric services for assets owned and maintained by Princeton Municipal Light Department. These amounts are recorded as a deferred inflow of resources net of amortization.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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

Pensions

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

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report a separate section for deferred outflows and deferred inflows of resources. These separate financial statement elements, deferred outflows and inflows of resources, represent a consumption of net position that applies to a future period and so will not be recognized as an outflow/inflow of resources (expense/expenditure) until then.

NOTE 2 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS:

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, is required to be implemented for periods beginning after June 15, 2017. 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>2017</u>	<u>2016</u>
Jobbing	\$ 15,328	\$ 6,937
Other Energy Sales	12,099	14,632
Wind Renewable Energy Credits	<u>31,876</u>	<u>93,946</u>
Total	<u>\$ 59,303</u>	<u>\$ 115,515</u>

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

NOTE 5 – RELATED PARTIES:

The Light Department bills the Town of Princeton for electric light usage. The amount included in revenue was \$139,241 and \$146,461 for December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016 accounts receivable from these departments was \$1,611 and \$0, 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, 2017 and 2016, the total amounts paid for these services were \$207,306 and \$189,887, respectively. At December 31, 2017 and 2016, amounts payable to the town were \$9,513 and \$16,264, respectively.

NOTE 6 – PREPAID EXPENSES:

Prepayments consist of the following:

	2017	2016
Prepaid Insurance Premium	\$ 11,858	\$ 9,788
Prepaid Purchased Power	8,104	8,104
Total	\$ 19,962	\$ 17,892

NOTE 7 – 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 8 – 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, 2017 and 2016 is \$30,431 and \$30,231, respectively.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 9 – NET INVESTMENT IN CAPITAL ASSETS:

	<u>2017</u>	<u>2016</u>
Cost of Capital Assets Acquired	\$ 13,658,247	\$ 13,640,951
Less: Accumulated Depreciation	4,253,920	4,025,508
Less: Outstanding Debt Related to Capital Assets	<u>5,553,567</u>	<u>6,079,491</u>
Net Investment in Capital Assets	<u>\$ 3,850,760</u>	<u>\$ 3,535,952</u>

NOTE 10 – UTILITY PLANT ASSETS:

	Balance January 1, 2017	Increases	Decreases	Balance December 31, 2017
Capital Assets not being Depreciated:				
Land	<u>\$ 74,835</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,835</u>
Capital Assets being Depreciated:				
Generation Plant	8,439,859	-	-	8,439,859
Distribution Plant	3,440,847	115,489	(96,726)	3,459,610
General Plant	<u>1,685,410</u>	<u>40,643</u>	<u>(42,110)</u>	<u>1,683,943</u>
Total Capital Assets being Depreciated	<u>13,566,116</u>	<u>156,132</u>	<u>(138,836)</u>	<u>13,583,412</u>
Less Accumulated Depreciation for:				
Generation Plant	(1,727,955)	(213,456)	-	(1,941,411)
Distribution Plant	(1,143,102)	(53,052)	96,726	(1,099,428)
General Plant	<u>(1,154,451)</u>	<u>(100,740)</u>	<u>42,110</u>	<u>(1,213,081)</u>
Total Accumulated Depreciation	<u>(4,025,508)</u>	<u>(367,248)</u>	<u>138,836</u>	<u>(4,253,920)</u>
Capital Assets being Depreciated, Net	<u>9,540,608</u>	<u>(211,116)</u>	<u>-</u>	<u>9,329,492</u>
Utility Plant Assets, Net	<u>\$ 9,615,443</u>	<u>\$ (211,116)</u>	<u>\$ -</u>	<u>\$ 9,404,327</u>

Depreciation for the years ended December 31, 2017 and 2016 was \$367,248 and \$352,560, respectively. Depreciation expense reported on the Statements of Revenues, Expenses and Changes in Net Position is net of amortization of \$10,319 and \$0 related to contribution in aid of construction for the years ended December, 31, 2017 and 2016, respectively.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 11 – PENSION PLAN:

Plan Description-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 cost-sharing multiple-employer 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. 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.

Benefits Provided-The System provides retirement, disability and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of member's highest three-year average annual rate of regular compensation. For members who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are three classes of membership in the retirement system: Group 1, Group 2, and Group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, Group 4 consists of police officers, firefighters, and other hazardous positions.

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 if hired after 1978 and if classified in group 1 or 2. A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with 10 years of service if in group 1, 55 years of age with 10 years of service if in group 2, and 55 years of age if classified in group 4 or hired prior to 1978. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions normal retirement is at age 55).

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. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

NOTE 11 – PENSION PLAN (Continued):

Contributions- Active members are required to contribute at rates from 5-9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee’s membership commences. Members hired after 1978 contribute an additional 2% of annual pay above \$30,000. The Department is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the member units based on the actuarial study. The actuarially determined Department contribution is an amount, when combined with employee contributions, is expected to finance the cost of benefits earned by the employees during the year, with an additional amount to finance the unfunded liability. The Department’s required contributions to the System for the years ended December 31, 2017 and 2016 were \$91,276 and \$81,287, respectively, which were paid during calendar years 2016 and 2015, respectively.

Pension Liabilities- At December 31, 2017 and 2016, the Light Department reported a liability of \$1,573,906 and \$1,282,578, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and 2015, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of January 1, 2016 and 2014, respectively. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating member units. At the measured dates of December 31, 2016 and 2015, the Town’s proportion was 0.68% and 0.67%, respectively.

The Department’s portion of the net pension liability was based on the percentage of the Department’s payroll to the total Town’s payroll as of the measured dates of December 31, 2016 and 2015. At the measured dates of December 31, 2016 and 2015, the Department’s portion was 27.44% and 27.12%, respectively, of the Town’s total payroll.

Pension Expense- For the years ended December 31, 2017 and 2016, the Department recognized a pension expense of \$140,317 and \$123,723, respectively. For the years ended December 31, 2017 and 2016, the Department reported deferred outflows of resources related to pensions of \$407,970 and \$148,787, respectively, consisting of the differences between expected and actual experience of \$12,834 and \$0, respectively, the differences between projected and actual investment earnings which amounted to \$54,615 and \$63,334, respectively, changes in assumptions of \$186,166 and \$47,421, respectively, the changes in proportion and differences between employer contributions and proportionate share of contributions at the Plan and Department level which amounted to \$41,426 and \$0, respectively, and the amount paid for contributions made subsequent to the measurement date which amounted to \$112,929 and \$38,032, respectively. For the years ended December 31, 2017 and 2016, the Department reported deferred inflows of resources related to pensions of \$219,465 and \$271,722, respectively, consisting of the changes in proportion and differences between employer contributions and proportionate share of contributions at the Plan and Department level.

The Department’s amortization of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:		<u>Deferred Outflows</u>	<u>Deferred inflows</u>
2018	\$	68,975	\$ 55,262
2019		68,976	55,261
2020		68,808	55,262
2021		52,070	53,045
2022		<u>36,212</u>	<u>635</u>
Total	\$	<u>295,041</u>	<u>\$ 219,465</u>

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

NOTE 11 – PENSION PLAN (Continued):

As discussed on the previous page, deferred outflows of resources related to pensions as of December 31, 2017 was \$407,970, which includes \$112,929 of contributions made subsequent to the measurement date that does not get amortized.

Actuarial Assumptions-The total pension liability as of December 31, 2017 and 2016 was determined by an actuarial valuation as of January 1, 2016 and 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	<p><i>Unfunded Actuarial Accrued Liability (UAAL):</i> Increasing dollar amount at 4% to reduce the Unfunded Actuarial Accrued Liability to zero on or before June 30, 2035. The annual increase in appropriation is further limited to 9.95%.</p> <p><i>Early Retirement Incentive Programs (ERI) for 2002 and 2003:</i> Increasing dollar amount at 4.5% to reduce the Unfunded Actuarial Accrued Liability attributable to ERI to zero on or before June 30, 2028.</p> <p><i>Early Retirement Incentive Program (ERI) for 2010:</i> Level dollar amount to reduce the Unfunded Actuarial Accrued Liability attributable to ERI to zero on or before June 30, 2022.</p>
Remaining Amortization Period	19 years, except for ERI for 2002 an 2003 (12 years) and 2010 (6 years)
Asset Valuation Method	<p>The Actuarial Value of Assets is the market value of assets as of the valuation date reduced by the sum of:</p> <ul style="list-style-type: none"> a. 80% of gains and losses of the prior year, b. 60% of gains and losses of the second prior year, c. 40% of gains and losses of the third prior year and d. 20% of gains and losses of the fourth prior year
Inflation Rate	3% per year
Projected Salary Increases	<p>Group 1: 4.20%-6.00%, based on service. Group 4: 4.75%-7.00%, based on service.</p>
Cost of Living Allowance	Cost-of Living Allowances (COLA) are assumed to be 3% of the pension amount, capped at \$480 per year.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

NOTE 11 – PENSION PLAN (Continued):

Actuarial Assumptions (continued):

Rates of Retirement	Varies based upon age for general employees, police and fire employees.
Mortality Rates:	
Healthy Retirees	RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB.
Disabled Retirees	RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB.
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation.
Annuity Savings Fund Interest Rate	2.00% per year
Administrative Expenses	\$1,100,000 in 2016, increasing 4% per year

Investment Policy- The Plan’s asset allocation policies are established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major category asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pensions plan’s target asset allocation as of the measured date of December 31, 2016 are summarized in the table below.

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	40%	4.97%
Fixed Income	22%	2.29%
Private Equity	11%	6.50%
Real Estate	10%	3.50%
Timber/Natural Resources	4%	3.00%
Hedge Funds	13%	3.48%

*Discount Rate-*The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from participating employers will be made in accordance with Sections 22D and 22F of Chapter 32 of Massachusetts General Laws.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

NOTE 11 – PENSION PLAN (Continued):

Discount Rate (continued):

Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate- The following presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
	<u>(6.75%)</u>	<u>(7.75%)</u>	<u>(8.75%)</u>
Proportionate share of the Net Pension Liability	\$ 1,895,788	\$ 1,573,906	\$ 1,302,184

Pension Plan Fiduciary Net Position- Detailed information about the pension plan’s fiduciary net position is available in the separately issued Worcester Regional Retirement System financial report.

NOTE 12 – RISK MANAGEMENT:

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 both the Department and the Trust. 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, 2017 and 2016, the Light Department considers it’s pro rata share of these losses to be immaterial to its financial statements.

NOTE 13 – OTHER POSTEMPLOYMENT 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.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (Continued):

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, 2015, PMLD’s membership consisted of the following:

Current retirees, beneficiaries	3	
Current active members	6	
Total	9	

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 \$96,174 and \$89,830 for the years ended December 31, 2017 and 2016, 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.

Funded Status and Funding Progress. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Legislature was passed allowing Municipal Light Departments to create a trust, in order to fund their OPEB obligation. As of December 31, 2017, Princeton Municipal Light Department has not created a trust.

Annual OPEB Costs. The Department’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The table on the following page shows the components of the Light Department’s annual OPEB costs for the years ending December 31, 2017 and 2016, the amount actually contributed to the plan, and changes in the Department’s net OPEB obligation as of July 1, 2015.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (Continued):

	2017	2016
Normal cost	\$ 26,203	\$ 26,203
Amortization of unfunded actuarial accrued liability	26,367	24,530
Annual require contribution	52,570	50,733
Interest on net OPEB obligation	9,819	7,804
Adjustments to annual required contribution	(13,649)	(10,849)
Amortization of Actuarial (Gains) / Losses	17,068	14,268
Annual OPEB expense	65,808	61,956
Expected benefit payments	(14,110)	(11,593)
 Increase in net OPEB obligation	 51,698	 50,363
 Net OPEB obligation, Beginning of year	 245,469	 195,106
 Net OPEB obligation, End of year	 \$ 297,167	 \$ 245,469

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:

Year ended	Annual OPEB Costs	Percentage of OPEB cost contributed	Net OPEB obligation
2015	\$ 58,096	17%	\$ 195,106
2016	\$ 61,956	19%	\$ 245,469
2017	\$ 65,808	21%	\$ 297,167

The funded status is as follows:

Actuarial accrued liability (AAL)	\$ 648,001
Actuarial value of plan assets	0
Unfunded actuarial accrued liability	\$ 648,001
 Funded ratio (actuarial value of plan assets/AAL)	 0%
 Covered payroll (active plan members)	 \$ 616,279
 UAAL as a percentage of covered payroll	 105.15%

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (Continued):

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 the July 1, 2015 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return and an annual healthcare cost trend rate of 5%. The actuarial value of assets was determined using the market value of investments. The Light Department’s unfunded actuarial accrued liability is being amortized each year as an open 30 year level dollar basis.

NOTE 14 – LEASE OBLIGATIONS:

In October 2016, PMLD entered into a lease agreement of six years to lease a material handler/bucket truck. The lease runs through October 2022.

The approximate minimum future lease payments are as follows:

For the years ended December 31,	2018	\$	28,188
	2019		28,188
	2020		28,188
	2021		28,188
	2022		21,141
	Total Minimum Lease Payments		133,893
	Less: Amount Representing Interest		(10,930)
	Present Value of Net Minimum Payments	\$	122,963

The interest expense related to leases was \$4,855 in 2017 and \$1,343 in 2016.

NOTE 15 – POOLED FINANCING LOAN:

As of March 20, 2015, PMLD entered into a Pooled Loan Program Agreement with the Massachusetts Municipal Wholesale Electric Company (“MMWEC”) for the purpose of financing the purchase of wind generation facilities from the Massachusetts Municipal Light Department Wind Energy Cooperative Corporation. Interest only was due monthly at a fixed interest rate of 1.75% per annum.

On March 21, 2017, the Department termed out its Pooled Loan Program Agreement with MMWEC. Principal and interest are payable monthly. The interest rate is fixed at 3.05% per annum and the loan matures March 2027. The outstanding principal balance as of December 31, 2017 and 2016 was \$5,553,567 and \$6,079,491, respectively. Interest expense related to this loan was \$160,353 and \$131,926 at December 31, 2017 and 2016, respectively.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 15 – POOLED FINANCING LOAN (Continued):

	2017	2016
Note Payable with Pooled Loan with MMWEC payable in monthly installments, including a fixed interest rate of 3.05%. Due March 2027.	\$ 5,553,567	\$ 6,079,491
Less: Current Maturities	(605,844)	(608,793)
Long-Term Notes Payable, Less Current Portion	\$ 4,947,723	\$ 5,470,698

Maturities of the note payable are shown as follows:

2018	\$	605,844
2019		605,844
2020		605,844
2021		605,844
2022		605,844
Thereafter		2,524,347
Total	\$	5,553,567

At the inception of the loan, MMWEC was required to collect 10% of the initial borrowing amount to be deposited into a Reserve Requirement Account to serve as collateral for the bank. MMWEC is also required to collect 10% of the amount of interest due monthly from each Pooled Loan Participant to further fund the Reserve Requirement Account. These funds will either be returned to PMLD, or used as the final loan payments at the end of the amortization period. The balance in the Reserve Requirement Account as of December 31, 2017 and 2016 was \$771,586 and \$701,728, respectively.

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 has entered into contractual agreements with NextEra Energy to secure energy at fixed prices. The totals shown on the following page reflects the sum of the contractual obligations for the contract.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued):

Purchase Power Commitment (continued):

The estimated contractual entitlements are as follows:

For the years ended December 31,	2018	\$	1,185,595
	2019		870,015
	2020		921,940
	2021		951,855
	2022		983,475
	Thereafter		<u>1,014,785</u>
	Total	\$	<u><u>5,927,665</u></u>

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.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 OTHER POSTEMPLOYMENT BENEFITS

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%
7/1/2012	12/31/2014	\$ -	\$ 554,951	\$ 554,951	0.00%	\$ 524,509	105.80%
7/1/2015	12/31/2015	\$ -	\$ 566,619	\$ 566,619	0.00%	\$ 551,872	102.67%
7/1/2015	12/31/2016	\$ -	\$ 606,550	\$ 606,550	0.00%	\$ 548,260	110.63%
7/1/2015	12/31/2017	\$ -	\$ 648,001	\$ 648,001	0.00%	\$ 616,279	105.15%

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	7/1/2015
Actuarial cost method	Entry Age Normal
Amortization method	30-year level dollar basis
Remaining Amortization Period	21 years

Actuarial Assumptions:

Assumed Retirement Age	55
Discount Rate	4.00%
Inflation Rate	2.50%
Projected salary increases	3.00%
Medical/drug cost trend rate	5.00%

See Independent Auditors' Report

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 NET PENSION LIABILITY

Schedule of the Department's Proportionate Share of the Net Pension Liability (NPL)

Actuarial Valuation Date	Measurement Date	For the Year Ending	Department's Portion of the NPL	Department's Proportionate Share of the NPL	Department's Total Employee Payroll	NPL as a Percentage of Total Employee Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability
1/1/2014	12/31/2014	12/31/2015	0.2356%	\$ 1,401,952	\$ 551,872	254.04%	47.94%
1/1/2014	12/31/2015	12/31/2016	0.1807%	\$ 1,282,578	\$ 548,260	233.94%	44.52%
1/1/2016	12/31/2016	12/31/2017	0.1879%	\$ 1,573,906	\$ 616,279	255.39%	42.00%

Schedule of Contributions

Actuarial Valuation Date	Measurement Date	For the Year Ending	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Department's Total Employee Payroll	Contribution as a Percentage of Department's Total Employee Payroll
1/1/2014	12/31/2014	12/31/2015	\$ 93,105	\$ 93,105	\$ -	\$ 551,872	16.87%
1/1/2014	12/31/2015	12/31/2016	\$ 81,287	\$ 81,287	\$ -	\$ 548,260	14.83%
1/1/2016	12/31/2016	12/31/2017	\$ 91,276	\$ 91,276	\$ -	\$ 616,279	14.81%

Note: These schedules are intended to present information for 10 years. Until a 10 year trend is compiled, information is presented for those years for which information is available.

See Independent Auditors' Report

PRINCETON MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF ELECTRIC OPERATING AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
POWER SUPPLY EXPENSE:		
Purchased Power	\$ 1,418,660	\$ 1,456,300
Transmission by Others	123,972	111,666
TOTAL POWER SUPPLY EXPENSE	1,542,632	1,567,966
DISTRIBUTION EXPENSES:		
Operation Labor	49,933	56,480
Operation Supplies and Expenses	41,327	43,015
Maintenance of Overhead Lines	261,923	212,092
Maintenance of Structures/Equipment	1,503	737
Maintenance of Line Transformers	2,663	760
Maintenance of Meters	10,229	1,489
Maintenance of Street Lights	11,846	3,387
TOTAL DISTRIBUTION EXPENSES	379,424	317,960
CUSTOMER ACCOUNT EXPENSES:		
Meter Reading	18,547	12,257
Accounting and Collection Expense	83,627	78,802
Bad Debt Expense	1,227	301
Energy Audits	15,314	2,897
TOTAL CUSTOMER ACCOUNT EXPENSES	118,715	94,257
ADMINISTRATIVE AND GENERAL EXPENSES:		
Advertising	1,480	1,470
Administration and General Salaries	239,127	230,192
Office Supplies and Expenses	30,304	34,005
Outside Services Employed	28,243	58,802
Property Insurance	36,850	35,568
Injuries and Damages	38,259	30,947
Employee Benefits	328,167	292,307
Miscellaneous General Expense	1,657	1,893
Maintenance of General Plant	96,558	92,956
TOTAL ADMINISTRATIVE AND GENERAL EXPENSES	800,645	778,140
TOTAL OPERATING AND MAINTENANCE EXPENSES	\$ 2,841,416	\$ 2,758,323

See Independent Auditors' Report

PRINCETON MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF SALES OF ELECTRICITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Net Revenues			Kilowatt Hours Sold			Net Revenue Per Kilowatt Hours Sold	
	2017	2016	Increases (Decreases)	2017	2016	Increases (Decreases)	2017	2016
Sales of Electricity								
Residential Sales, Net of Discounts of \$113,869 and \$112,835 in 2017 and 2016, Respectively	\$ 2,934,386	\$ 2,944,196	\$ (9,810)	11,592,161	11,614,974	(22,813)	\$ 0.25314	\$ 0.25348
Commercial and Industrial Sales	430,804	435,796	(4,992)	1,681,784	1,691,216	(9,432)	0.25616	0.25768
Special Street Lighting	13,296	13,233	63	51,138	50,896	242	0.26000	0.26000
Total Private Customers	<u>3,378,486</u>	<u>3,393,225</u>	<u>(14,739)</u>	<u>13,325,083</u>	<u>13,357,086</u>	<u>(32,003)</u>	<u>0.25354</u>	<u>0.25404</u>
Municipal Sales								
Street Lighting	7,745	9,644	(1,899)	39,650	46,647	(6,997)	0.19533	0.20674
Municipal Buildings	131,496	136,817	(5,321)	513,667	535,285	(21,618)	0.25599	0.25560
Total Municipal Sales	<u>139,241</u>	<u>146,461</u>	<u>(7,220)</u>	<u>553,317</u>	<u>581,932</u>	<u>(28,615)</u>	<u>0.25165</u>	<u>0.25168</u>
Sales for Resale	<u>240,776</u>	<u>170,819</u>	<u>69,957</u>	<u>5,088,720</u>	<u>3,900,134</u>	<u>1,188,586</u>	<u>0.04732</u>	<u>0.04380</u>
Total Sales of Electricity	<u>\$ 3,758,503</u>	<u>\$ 3,710,505</u>	<u>\$ 47,998</u>	<u>18,967,120</u>	<u>17,839,152</u>	<u>1,127,968</u>	<u>\$ 0.19816</u>	<u>\$ 0.20800</u>

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