

PRINCETON MUNICIPAL LIGHT DEPARTMENT
Financial Statements
December 31, 2018 and 2017

PRINCETON MUNICIPAL LIGHT DEPARTMENT
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DECEMBER 31, 2018 AND 2017

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**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, 2018 and 2017, 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, 2018 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, 2016. 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, 2018 and 2017, 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, 2018 and 2017, 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 28 through 31, 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 32 and 33 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
March 26, 2019

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, 2018 and 2017. 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, 2018, it shows our net position was \$4,914,974, an increase of \$550,614 over 2017.

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, 2018 and 2017 was \$563,932 and \$521,677, 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

	2018	(As Revised) 2017
Current Assets	\$ 1,979,234	\$ 1,766,792
Noncurrent Assets	<u>10,934,056</u>	<u>11,045,383</u>
Total Assets	<u>12,913,290</u>	<u>12,812,175</u>
Deferred Outflows of Resources	<u>724,388</u>	<u>407,970</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 13,637,678</u>	<u>\$ 13,220,145</u>
Current Liabilities	\$ 1,032,549	\$ 965,992
Noncurrent Liabilities	<u>6,938,673</u>	<u>7,328,945</u>
Total Liabilities	<u>7,971,222</u>	<u>8,294,937</u>
Deferred Inflows of Resources	<u>751,482</u>	<u>560,848</u>
Net Position:		
Net Investment in Capital Assets	4,180,220	3,850,760
Net Position Restricted for Depreciation	1,002,603	833,783
Unrestricted	<u>(267,849)</u>	<u>(320,183)</u>
Total Net Position	<u>4,914,974</u>	<u>4,364,360</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 13,637,678</u>	<u>\$ 13,220,145</u>

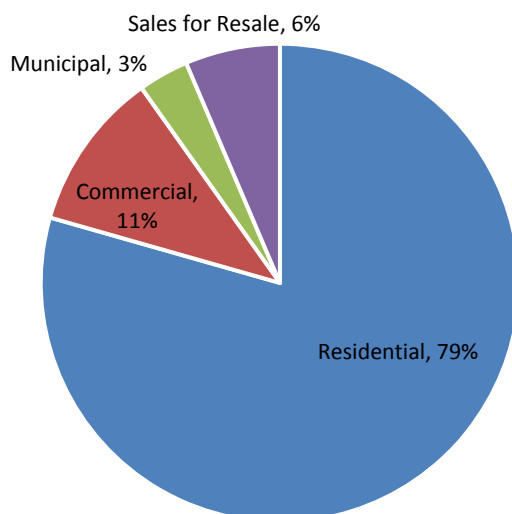
Summary of Changes in Net Position

	2018	(As Revised) 2017
Operating Revenues	\$ 4,014,189	\$ 3,883,758
Operating Expenses	(3,311,095)	(3,198,345)
Operating Income	703,094	685,413
Nonoperating (Expenses) Revenues	(139,162)	(163,736)
Increase in Net Position before Transfers	563,932	521,677
Net Position, January 1	4,364,360	4,235,694
Implementation of GASB 75	0	(378,408)
Transfer Out – Services Rendered in Lieu of Taxes (See “Services to Town” on p.6)	(13,318)	(14,603)
Net Position, December 31	\$ 4,914,974	\$ 4,364,360

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, 2018 and 2017 was \$4,947,724 and \$5,553,567, 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 2018. 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 cycle 4 in 2018. PMLD was very pleased with the level of work and professionalism provided by ARS.

Electric Customers and Rates

PMLD provided service to 1,369 residential, 12 solar residential, 7 Farm, 74 commercial, 2 commercial solar, and 21 municipal customers as of December 2018. Residential customers consume approximately 79% of the town's total energy use. All PMLD's customers consumed approximately 14,128,197 kWh of energy in 2018, and the average home consumes approximately 800 kWh per month.

The average home in Princeton spends approximately \$190 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 23% capacity factor in 2018 producing just under four thousand (4,000) 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. PMLD did replace one (1) convertor and six (6) capacitors in 2018. This kept one (1) of the machines down between the months of July and September of 2018. 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 replaced 51 poles and moved equipment on an additional 235 poles in the final stage of the Charter make-ready project. The work by PMLD was completed by March 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 2018 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 in observance of Christmas, Memorial Day, Flag Day, and the 4th of July
- Hosted a Luncheon for Princeton Seniors where General Manager, Brian Allen, shared a talk and slide presentation of "What PMLD Does Everyday"
- Sponsored Fall and Spring electrical safety classes for all students at the Thomas Prince School
- Presented an interactive workshop about electrical production, distribution and consumption for Thomas Prince School 5th grade science class students
- 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, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2018</u>	<u>(As Revised)</u> <u>2017</u>
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Fund	\$ 1,263,786	\$ 1,097,322
Petty Cash	800	800
Customer Accounts Receivable, Net	387,559	395,873
Other Accounts Receivable	100,015	59,303
Materials and Supplies	176,109	163,101
Purchase Power Working Capital	30,636	30,431
Prepaid Expenses	<u>20,329</u>	<u>19,962</u>
TOTAL CURRENT ASSETS	<u>1,979,234</u>	<u>1,766,792</u>
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	1,002,603	833,783
Customer Meter Deposits	33,700	35,687
Funds on Deposit with MMWEC		
Pooled Financing Reserve	769,809	771,586
Utility Plant Assets, Net	<u>9,127,944</u>	<u>9,404,327</u>
TOTAL NONCURRENT ASSETS	<u>10,934,056</u>	<u>11,045,383</u>
TOTAL ASSETS	<u>12,913,290</u>	<u>12,812,175</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflows of Resources Related to Pensions	<u>724,388</u>	<u>407,970</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 13,637,678</u>	<u>\$ 13,220,145</u>

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2018</u>	<u>(As Revised)</u> <u>2017</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 338,201	\$ 279,492
Capital Lease	25,062	24,182
Pooled Financing Loan	605,844	605,844
Accrued Expenses	<u>63,442</u>	<u>56,474</u>
TOTAL CURRENT LIABILITIES	<u>1,032,549</u>	<u>965,992</u>
NONCURRENT LIABILITIES:		
Pooled Financing Loan, Less Current Portion	4,341,880	4,947,723
Capital Lease, Less Current Portion	73,720	98,781
Customer Meter Deposits	31,220	32,960
Net Pension Liability	1,819,892	1,573,906
Net Other Postemployment Benefit Obligation	<u>671,961</u>	<u>675,575</u>
TOTAL NONCURRENT LIABILITIES	<u>6,938,673</u>	<u>7,328,945</u>
TOTAL LIABILITIES	<u>7,971,222</u>	<u>8,294,937</u>
DEFERRED INFLOWS OF RESOURCES:		
Contribution in Aid of Construction, Net	330,832	341,383
Deferred Inflows of Resources Related to Pensions	389,487	219,465
Deferred Inflows of Resources Related to OPEB	<u>31,163</u>	<u>0</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>751,482</u>	<u>560,848</u>
NET POSITION:		
Net Investment in Capital Assets	4,180,220	3,850,760
Net Position Restricted for Depreciation	1,002,603	833,783
Unrestricted Net Position	<u>(267,849)</u>	<u>(320,183)</u>
TOTAL NET POSITION	<u>4,914,974</u>	<u>4,364,360</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 13,637,678</u>	<u>\$ 13,220,145</u>

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, 2018 AND 2017

	<u>2018</u>	<u>(As Revised) 2017</u>
OPERATING REVENUES:		
Sales of Electricity	\$ 3,837,565	\$ 3,758,503
Other Operating Revenues	<u>176,624</u>	<u>125,255</u>
TOTAL OPERATING REVENUES	<u>4,014,189</u>	<u>3,883,758</u>
OPERATING EXPENSES:		
Operating and Maintenance	2,953,881	2,841,416
Depreciation, Net of Amortization	<u>357,214</u>	<u>356,929</u>
TOTAL OPERATING EXPENSES	<u>3,311,095</u>	<u>3,198,345</u>
OPERATING INCOME	<u>703,094</u>	<u>685,413</u>
NONOPERATING REVENUES (EXPENSES):		
Bond Issuance Costs	0	(27,817)
Interest Income	43,166	25,143
Interest Expense	(182,328)	(165,208)
Grant Income	<u>0</u>	<u>4,146</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(139,162)</u>	<u>(163,736)</u>
Income Before Contributions and Transfers	563,932	521,677
NET POSITION - JANUARY 1	4,364,360	4,235,694
Implementation of GASB 75	0	(378,408)
Transfers Out - Services Rendered in Lieu of Taxes	<u>(13,318)</u>	<u>(14,603)</u>
NET POSITION - DECEMBER 31	<u><u>\$ 4,914,974</u></u>	<u><u>\$ 4,364,360</u></u>

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>(As Revised) 2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 3,980,051	\$ 3,928,277
Cash Paid to Suppliers	(2,118,584)	(2,190,203)
Cash Paid to Employees	(656,061)	(616,279)
Services Rendered In Lieu of Taxes	(13,318)	(14,603)
	<u>1,192,088</u>	<u>1,107,192</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to Utility Plant Assets	(91,382)	(156,132)
Net Transfer to Depreciation Fund	(148,357)	(9,762)
Contribution in Aid of Construction	0	7,730
Disbursements to Pooled Financing	1,777	(66,767)
Grant Income	0	4,146
Payments on Capital Lease	(24,182)	(23,333)
Interest Expense	(4,006)	(4,855)
Repayment on Long-Term Debt	(605,843)	(556,831)
Interest Payments on Long-Term Debt	(178,322)	(160,353)
	<u>(1,050,315)</u>	<u>(966,157)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	22,704	15,607
NET INCREASE IN CASH	164,477	156,642
CASH, BEGINNING OF YEAR	<u>1,133,809</u>	<u>977,167</u>
CASH, END OF YEAR	<u><u>\$ 1,298,286</u></u>	<u><u>\$ 1,133,809</u></u>

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	(As Revised) 2017
	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 703,094	\$ 685,413
Depreciation of Utility Property, Net of Amortization	357,214	356,929
Services Rendered In Lieu of Taxes	(13,318)	(14,603)
Changes in Assets and Liabilities:		
(Increase)Decrease in Assets:		
Customer Accounts Receivable	8,314	(12,293)
Other Accounts Receivable	(40,712)	56,212
Materials and Supplies	(13,008)	(4,638)
Prepaid Expenses	(367)	(2,070)
Deferred Outflows of Resources	(316,418)	(259,183)
Purchase Power Working Capital	(205)	(200)
Increase(Decrease) in Liabilities:		
Accounts Payable	58,709	(5,291)
Accrued Expenses	6,968	15,547
Deferred Inflows of Resources Pensions	170,022	(52,257)
Deferred Inflows of Resources OPEB	31,163	0
Net Pension Liability	245,986	291,328
Net Other Postemployment Benefit Obligation	(3,614)	51,698
Customer Meter Deposit Liability	(1,740)	600
	<u>1,192,088</u>	<u>1,107,192</u>
Net Cash Provided by Operating Activities	<u>\$ 1,192,088</u>	<u>\$ 1,107,192</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:

	2018	2017
	<u>2018</u>	<u>2017</u>
Operating Fund	\$ 1,263,786	\$ 1,097,322
Customer Meter Deposits	33,700	35,687
Petty Cash	800	800
	<u>\$ 1,298,286</u>	<u>\$ 1,133,809</u>

See Accompanying Notes to Financial Statements

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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 and 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, 2018 and 2017 is \$49,023 and \$45,241, respectively.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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 2018 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, 2018 and 2017 the allowance for doubtful accounts balance was \$5,065 in each year.

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, 2018 AND 2017

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.

Other Postemployment Benefits (OPEB)

For purposes of measuring the Department's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Princeton Municipal Light Department's OPEB Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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.

Financial Statement Revision

The Department revised its beginning net position through the implementation of GASB Statement #75 related to accounting for OPEB. The cumulative effect of this revision was to reduce the prior year total net position and increase the OPEB liability by \$378,408.

NOTE 2 – UNBILLED REVENUE:

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

NOTE 3 – 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.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 – 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 5 – OTHER ACCOUNTS RECEIVABLE:

Other accounts receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Jobbing	\$ 18,031	\$ 15,328
Mutual Aid	47,764	0
Other Energy Sales	6,280	12,099
Wind Renewable Energy Credits	<u>27,940</u>	<u>31,876</u>
Total	<u>\$ 100,015</u>	<u>\$ 59,303</u>

NOTE 6 – RELATED PARTIES:

The Light Department bills the Town of Princeton for electric light usage. The amount included in revenue was \$130,887 and \$139,241 for December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017 accounts receivable from these departments was \$1,380 and \$1,611, 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, 2018 and 2017, the total amounts paid for these services were \$234,069 and \$207,306, respectively. At December 31, 2018 and 2017, amounts payable to the town were \$9,812 and \$9,513, respectively.

NOTE 7 – PREPAID EXPENSES:

Prepaid expenses consist of the following:

	<u>2018</u>	<u>2017</u>
Prepaid Insurance Premium	\$ 12,225	\$ 11,858
Prepaid Purchased Power	<u>8,104</u>	<u>8,104</u>
Total	<u>\$ 20,329</u>	<u>\$ 19,962</u>

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017 is \$30,636 and \$30,431, respectively.

NOTE 9 – UTILITY PLANT ASSETS:

	Balance January 1, 2018	Increases	Decreases	Balance December 31, 2018
Capital Assets not being Depreciated:				
Land	\$ 74,835	\$ 0	\$ 0	\$ 74,835
Capital Assets being Depreciated:				
Generation Plant	8,439,859	0	0	8,439,859
Distribution Plant	3,459,610	52,683	(21,348)	3,490,945
General Plant	1,683,943	38,699	(25,991)	1,696,651
Total Capital Assets being Depreciated	13,583,412	91,382	(47,339)	13,627,455
Less Accumulated Depreciation for:				
Generation Plant	(1,941,411)	(214,518)	0	(2,155,929)
Distribution Plant	(1,099,428)	(54,327)	21,348	(1,132,407)
General Plant	(1,213,081)	(98,920)	25,991	(1,286,010)
Total Accumulated Depreciation	(4,253,920)	(367,765)	47,339	(4,574,346)
Capital Assets being Depreciated, Net	9,329,492	(276,383)	0	9,053,109
Utility Plant Assets, Net	<u>\$ 9,404,327</u>	<u>\$ (276,383)</u>	<u>\$ 0</u>	<u>\$ 9,127,944</u>

Depreciation for the years ended December 31, 2018 and 2017 was \$367,765 and \$367,248, respectively. Depreciation expense reported on the Statements of Revenues, Expenses and Changes in Net Position is net of amortization of \$10,551 and \$10,319 related to contribution in aid of construction for the years ended December, 31, 2018 and 2017, respectively.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018 AND 2017

NOTE 10 – NET INVESTMENT IN CAPITAL ASSETS:

	2018	2017
Cost of Capital Assets Acquired	\$ 13,702,290	\$ 13,658,247
Less: Accumulated Depreciation	(4,574,346)	(4,253,920)
Less: Outstanding Debt Related to Capital Assets	(4,947,724)	(5,553,567)
Net Investment in Capital Assets	\$ 4,180,220	\$ 3,850,760

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.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 11 – PENSION PLAN (Continued):

Benefits Provided (continued)

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.

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, 2018 and 2017 were \$112,929 and \$91,276, respectively, which were paid during calendar years 2017 and 2016, respectively.

Pension Liabilities

At December 31, 2018 and 2017, the Light Department reported a liability of \$1,819,892 and \$1,573,906, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. 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, 2017 and 2016, the Town's proportion was 0.63% and 0.68%, respectively.

The Department's portion of the net pension liability was based on the percentage of the Department's contribution to the total Town's contribution as of the measured dates of December 31, 2017 and 2016. At the measured dates of December 31, 2017 and 2016, the Department's portion was 35.59% and 27.44%, respectively, of the Town's total contribution.

Pension Expense

For the years ended December 31, 2018 and 2017, the Department recognized a pension expense of \$69,948 and \$140,317, respectively. For the years ended December 31, 2018 and 2017, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources listed in the chart on the following page.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018 AND 2017

NOTE 11 – PENSION PLAN (Continued):

Pension Expense (continued)

<u>Deferred Outflows of Resources Related to Pensions</u>	<u>2018</u>	<u>2017</u>
Differences between expected and actual experience	\$ 12,107	\$ 12,834
Changes of assumptions	173,430	186,166
Net difference between projected and actual earnings on pension plan investments	0	54,615
Changes in proportion and differences between employer contributions and Department proportionate share	412,201	41,426
Department contributions subsequent to the measurement date	<u>126,650</u>	<u>112,929</u>
Total	<u>\$ 724,388</u>	<u>\$ 407,970</u>
<u>Deferred Inflows of Resources Related to Pensions</u>	<u>2018</u>	<u>2017</u>
Net difference between projected and actual earnings on pension plan investments	\$ (56,745)	\$ 0
Changes in proportion and differences between employer contributions and Department proportionate share	<u>(332,742)</u>	<u>(219,465)</u>
Total	<u>\$ (389,487)</u>	<u>\$ (219,465)</u>

Of the total amount reported as deferred outflows of resources related to pensions, \$126,650 resulting from Department contributions paid subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the Department’s pension expense as follows:

<u>Deferred Outflows of Resources</u>			<u>Deferred Inflows of Resources</u>		
Year Ended December 31:			Year Ended December 31:		
2019	\$	123,582	2019	\$	(80,174)
2020		123,583	2020		(80,174)
2021		123,583	2021		(80,171)
2022		123,179	2022		(80,090)
2023		<u>103,811</u>	2023		<u>(68,878)</u>
Total	\$	<u>597,738</u>			<u>\$ (389,487)</u>

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018 AND 2017

NOTE 11 – PENSION PLAN (Continued):

Actuarial Assumptions

The total pension liability as of December 31, 2018 and 2017 was determined by an actuarial valuation as of January 1, 2016, 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 and 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.
Rates of Retirement	Varies based upon age for general employees, police and fire employees.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018 AND 2017

NOTE 11 – PENSION PLAN (Continued):

Actuarial Assumptions (continued)

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, 2017 are summarized in the table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Global Equity	40%	4.91%
Fixed Income	22%	2.04%
Private Equity	11%	6.50%
Real Estate	10%	3.70%
Timber/Natural Resources	4%	3.25%
Hedge Funds	13%	3.40%

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. 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.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018 AND 2017

NOTE 11 – PENSION PLAN (Continued):

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>Discount Rate</u>	<u>1% Increase</u>
	<u>(6.75%)</u>	<u>(7.75%)</u>	<u>(8.75%)</u>
Proportionate share of the Net Pension Liability	\$ 2,218,057	\$ 1,819,892	\$ 1,483,639

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, 2018 and 2017, 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 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* for the year ended December 31, 2018. As required by GASB 75, the Department has recorded the net OPEB obligation at the beginning of the transition year as determined by an actuarial study, and has applied the measurement recognition requirements of GASB 75 on a prospective basis.

Plan Description

PMLD participates in the town sponsored single employer defined benefit health plan to provide 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.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018 AND 2017

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (Continued):

Plan Membership

At the measurement date of December 31, 2018, OPEB plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	3
Active plan members	<u>6</u>
Total Number of Participants	<u><u>9</u></u>

Contributions

The Department’s Actuarial Determined Contribution (ADC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 74/75 which represents a level of funding that, if paid on an ongoing basis, is projected to cover the service cost each year and amortize any unfunded actuarial liabilities (or funding excess). The contribution requirements of plan members and the Department are established and may be amended through Department ordinances. The required contribution is based on the projected pay-as-you-go financing requirements. For the year ending on, and the measurement date of, December 31, 2018, total premiums plus implicit costs for the retiree medical program were \$15,127.

OPEB Liabilities

At December 31, 2018 and 2017 the Department reported a liability of \$671,961 and \$675,575, respectively, for its net OPEB liability. The 2018 and 2017 net OPEB liability was measured as of December 31, 2018, and was determined by an actuarial valuation as of December 31, 2018.

OPEB Expense

For the year ended December 31, 2018, the Department recognized OPEB Expense of \$42,676. At December 31, 2018 and 2017, the Department reported deferred inflows of resources related to OPEB from the following sources:

<u>Deferred Inflows of Resources Related to OPEB</u>	<u>2018</u>	<u>2017</u>
Differences between expected and actual experience	<u>\$ (31,163)</u>	<u>\$ 0</u>

Amounts reported as deferred inflows of resources related to OPEB will be recognized in the Department’s OPEB expense as follows:

Deferred Inflows of Resources

Year Ended December 31:	
2019	\$ (7,791)
2020	(7,791)
2021	(7,791)
2023	<u>(7,790)</u>
Total	<u>\$ (31,163)</u>

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018 AND 2017

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (Continued):

Actuarial Assumptions

The total OPEB liability as of December 31, 2018 and 2017 was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	December 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Annual Compensation Increases	3.00% per annum
Inflation Rate	2.75% per annum
Investment Rate of Return	6.50%, net of OPEB plan investment expense, including inflation
Municipal Bond Rate	3.64% as of December 31, 2018 (source: S&P Municipal Bond 20-Year High Grade Index – SAPIHG)
Pre-Retirement Mortality	RP-2000 Employee Mortality Table projected generationally with Scale BB and a base year 2009 for males and females.
Post-Retirement Mortality	RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year 2009 for males and females.
Disabled Mortality	RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year 2012 for males and females.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made in accordance with the Plan’s funding policy. Based on those assumptions, the OPEB Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability calculated using the discount rate of 3.25%, as well as what the net OPEB liability would be if it were calculated using a discount rate 1-percentage point lower (2.25%) or 1-percentage point higher (4.25%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	<u>2.75%</u>	<u>3.75%</u>	<u>4.75%</u>
Net OPEB Liability	\$ 793,488	\$ 671,961	\$ 575,859

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (Continued):

Sensitivity of the Net Pension Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability calculated using current healthcare cost trend rates as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (4%) or 1-percentage point higher (6%) than the current healthcare cost trend rates:

	1% Decrease 4%	Current Healthcare Cost Trend Rates 5%	1% Increase 6%
Net OPEB Liability	\$ 462,220	\$ 671,961	\$ 943,035

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.

	2018	2017
Total Lease Obligations	\$ 98,782	\$ 122,963
Less: Current Maturities	(25,062)	(24,182)
Long-Term Lease Obligations	\$ 73,720	\$ 98,781

The approximate minimum future lease payments are as follows:

For the years ended December 31,				
	2019	\$	28,188	
	2020		28,188	
	2021		28,188	
	2022		21,141	
Total Minimum Lease Payments			105,705	
Less: Amount Representing Interest			(6,923)	
Present Value of Net Minimum Payments		\$	98,782	

The interest expense related to leases was \$4,006 in 2018 and \$4,855 in 2017.

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.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 15 – POOLED FINANCING LOAN (Continued):

On March 21, 2017, the Department terminated 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, 2018 and 2017 was \$4,947,724 and \$5,553,567, respectively. Interest expense related to this loan was \$178,322 and \$160,353 at December 31, 2018 and 2017, respectively.

	2018	2017
Note Payable with Pooled Loan with MMWEC payable in monthly installments, including a fixed interest rate of 3.05%. Due March 2027.	\$ 4,947,724	\$ 5,553,567
Less: Current Maturities	(605,844)	(605,844)
Long-Term Notes Payable, Less Current Portion	\$ 4,341,880	\$ 4,947,723

Maturities of the note payable are shown as follows:

For the years ended December 31,	2019	\$	605,844
	2020		605,844
	2021		605,844
	2022		605,844
	2023		605,844
	Thereafter		1,918,504
	Total	\$	4,947,724

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, 2018 and 2017 was \$769,809 and \$771,586, 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.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued):

Purchase Power Commitment (continued):

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.

The estimated contractual entitlements are as follows (Based upon 16,000 MWH’s Purchased):

For the years ended December 31,	2019	\$	1,279,520
	2020		1,279,680
	2021		1,249,120
	2022		950,720
	2023		964,800
	Thereafter		<u>4,005,120</u>
	Total	\$	<u>9,728,960</u>

PRINCETON MUNICIPAL LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
NET PENSION LIABILITY

For the Year Ending December 31,	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial Valuation Date	1/1/2016	1/1/2016	1/1/2014	1/1/2014
Measurement Date	12/31/2017	12/31/2016	12/31/2015	12/31/2014

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

Department's Portion of the NPL	0.2232%	0.1879%	0.1807%	0.2356%
Department's Proportionate Share of the NPL	\$ 1,819,892	\$ 1,573,906	\$ 1,282,578	\$ 1,401,952
Department's Total Employee Payroll	\$ 656,061	\$ 616,279	\$ 548,260	\$ 551,872
NPL as a Percentage of Total Employee Payroll	277.40%	255.39%	233.94%	254.04%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	46.40%	42.00%	44.52%	47.94%

Schedule of Contributions:

Actuarially Determined Contributions	\$ 112,929	\$ 91,276	\$ 81,287	\$ 93,105
Contributions in Relation to the Actuarially Determined Contribution	<u>112,929</u>	<u>91,276</u>	<u>81,287</u>	<u>93,105</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Department's Total Employee Payroll	\$ 656,061	\$ 616,279	\$ 548,260	\$ 551,872
Contributions as a Percentage of the Department's Total Employee Payroll	17.21%	14.81%	14.83%	16.87%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, pension plans should present information for those years for which information is available.

See Independent Auditors' Report

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY

	2018
Total OPEB Liability:	
Service Cost	\$ 24,495
Interest	25,972
Changes of Benefit Terms	-
Differences between Expected and Actual Experience	(38,954)
Changes of Assumptions	-
Benefit Payments	(15,127)
Net Change in Total OPEB Liability	(3,614)
Total OPEB Liability - Beginning	675,575
Total OPEB Liability - Ending	\$ 671,961
Plan Fiduciary Net Position:	
Contributions-Employer	\$ -
Net Investment Income	-
Benefit Payments	-
Administrative Expenses	-
Other	-
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - Beginning	-
Plan Fiduciary Net Position - Ending	\$ -
Net OPEB Liability - Ending	\$ 671,961

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, OPEB plans should present information for those years for which information is available.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF NET OPEB LIABILITY, EMPLOYER CONTRIBUTIONS AND INVESTMENT RETURNS

	2018
Schedules of Net OPEB Liability:	
Total OPEB Liability	\$ 671,961
Plan Fiduciary Net Position	-
Net OPEB Liability	\$ 671,961
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0.00%
Covered Payroll	\$ 473,207
Net OPEB Liability as a Percentage of Covered Payroll	142.00%
 Schedules of Employer Contributions:	
Actuarially Determined Contributions	\$ 60,821
Contributions in relation to the actuarially determined contribution	(15,127)
Contribution Deficiency (Excess)	\$ 45,694
Covered Payroll	\$ 473,207
Contributions as a percentage of covered payroll	3.20%
 Schedules of Investment Returns:	
Annual Money-Weighted rate of Return, net of investment expenses	N/A

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, OPEB plans should present information for those years for which information is available.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018 AND 2017

NOTE A – OTHER POSTEMPLOYMENT BENEFITS

Changes in Assumptions

The discount rate was decreased from 4.00% to 3.75%.

GASB 75 required a change in the actuarial cost method from Projected Unit Cost to Entry Age Normal.

PRINCETON MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF ELECTRIC OPERATING AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>(As Revised) 2017</u>
POWER SUPPLY EXPENSE:		
Purchased Power	\$ 1,591,023	\$ 1,418,660
Transmission by Others	111,906	123,972
TOTAL POWER SUPPLY EXPENSE	<u>1,702,929</u>	<u>1,542,632</u>
DISTRIBUTION EXPENSES:		
Operation Labor	64,487	49,933
Operation Supplies and Expenses	55,095	41,327
Maintenance of Overhead Lines	173,261	261,923
Maintenance of Structures/Equipment	1,507	1,503
Maintenance of Line Transformers	2,655	2,663
Maintenance of Meters	559	10,229
Maintenance of Street Lights	2,719	11,846
TOTAL DISTRIBUTION EXPENSES	<u>300,283</u>	<u>379,424</u>
CUSTOMER ACCOUNT EXPENSES:		
Meter Reading	3,697	18,547
Accounting and Collection Expense	89,444	83,627
Bad Debt Expense	424	1,227
Energy Audits	16,790	15,314
TOTAL CUSTOMER ACCOUNT EXPENSES	<u>110,355</u>	<u>118,715</u>
ADMINISTRATIVE AND GENERAL EXPENSES:		
Advertising	0	1,480
Administration and General Salaries	256,755	239,127
Office Supplies and Expenses	29,457	30,304
Outside Services Employed	25,606	28,243
Property Insurance	40,224	36,850
Injuries and Damages	43,113	38,259
Employee Benefits	394,051	328,167
Miscellaneous General Expense	706	1,657
Maintenance of General Plant	50,402	96,558
TOTAL ADMINISTRATIVE AND GENERAL EXPENSES	<u>840,314</u>	<u>800,645</u>
TOTAL OPERATING AND MAINTENANCE EXPENSES	<u>\$ 2,953,881</u>	<u>\$ 2,841,416</u>

See Independent Auditors' Report

PRINCETON MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF SALES OF ELECTRICITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Net Revenues			Kilowatt Hours Sold			Net Revenue Per Kilowatt Hours Sold	
	2018	2017	Increases (Decreases)	2018	2017	Increases (Decreases)	2018	2017
Sales of Electricity								
Residential Sales, Net of Discounts of \$119,651 and \$113,869 in 2018 and 2017, Respectively	\$ 3,034,777	\$ 2,934,386	\$ 100,391	12,014,610	11,592,161	422,449	\$ 0.25259	\$ 0.25314
Commercial and Industrial Sales	413,001	430,804	(17,803)	1,603,191	1,681,784	(78,593)	0.25761	0.25616
Special Street Lighting	12,675	13,296	(621)	51,138	51,138	0	0.24786	0.26000
Total Private Customers	<u>3,460,453</u>	<u>3,378,486</u>	<u>81,967</u>	<u>13,668,939</u>	<u>13,325,083</u>	<u>343,856</u>	<u>0.25316</u>	<u>0.25354</u>
Municipal Sales								
Street Lighting	5,503	7,745	(2,242)	20,548	39,650	(19,102)	0.26781	0.19533
Municipal Buildings	125,384	131,496	(6,112)	489,258	513,667	(24,409)	0.25627	0.25599
Total Municipal Sales	<u>130,887</u>	<u>139,241</u>	<u>(8,354)</u>	<u>509,806</u>	<u>553,317</u>	<u>(43,511)</u>	<u>0.25674</u>	<u>0.25165</u>
Sales for Resale	<u>246,225</u>	<u>240,776</u>	<u>5,449</u>	<u>3,919,544</u>	<u>5,088,720</u>	<u>(1,169,176)</u>	<u>0.06282</u>	<u>0.04732</u>
Total Sales of Electricity	<u>\$ 3,837,565</u>	<u>\$ 3,758,503</u>	<u>\$ 79,062</u>	<u>18,098,289</u>	<u>18,967,120</u>	<u>(868,831)</u>	<u>\$ 0.21204</u>	<u>\$ 0.19816</u>

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