

HINGHAM MUNICIPAL LIGHTING PLANT
Financial Statements
December 31, 2002 and 2001

HINGHAM MUNICIPAL LIGHTING PLANT
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DECEMBER 31, 2002 AND 2001

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Hingham Municipal Lighting Plant

We have audited the accompanying financial statements of Hingham Municipal Lighting Plant of Hingham, Massachusetts, as of and for the years ended December 31, 2002 and 2001 as listed in the table of contents. These financial statements are the responsibility of the Lighting Plant's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hingham Municipal Lighting Plant as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Lighting Plant adopted the provisions of Governmental Accounting Standards Board Statement of Accounting Standards No. 34 in 2001.

The Management's Discussion and Analysis on pages 2-4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
February 26, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Hingham Municipal Lighting Plant's annual financial report, management provides narrative discussion and analysis of the financial activities of the Hingham Municipal Lighting Plant for the years ended December 31, 2002 and 2001. The Plant'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 assets (2) the statements of revenues, expenses and changes in net assets (3) the cash flow statements and (4) notes to the financial statements.

The Statements of Net Assets are designed to indicate our financial position as of a specific point in time. At December 31, 2002, it shows our net worth has increased 8.7% over the year ended December 31, 2001.

The Statements of Revenues, Expenses and Changes in Net Assets, summarizes our operating results and reveals how much, if any, of a profit was earned for the year. As discussed in more detail below, our net profit for December 31, 2002 was \$1,785,189, which is an increase of 3% over the year ended December 31, 2001.

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

Summary of Net Assets - Operating Fund

| | <u>2002</u> | <u>2001</u> |
|---|----------------------|----------------------|
| Current Assets | \$ 7,027,099 | \$ 6,153,944 |
| Non-current Assets | <u>20,159,132</u> | <u>18,628,056</u> |
| Total Assets | <u>\$ 27,186,231</u> | <u>\$ 24,782,000</u> |
| Current Liabilities | \$ 1,956,119 | \$ 1,265,785 |
| Non-current Liabilities | <u>3,139,757</u> | <u>3,245,423</u> |
| Total Liabilities | <u>5,095,876</u> | <u>4,511,208</u> |
| Net Assets: | | |
| Restricted for Debt Service | 2,937,745 | 2,662,745 |
| Invested in Capital Assets, Net of Related Debt | 12,690,807 | 12,855,444 |
| Unrestricted | <u>6,461,803</u> | <u>4,752,603</u> |
| Total Net Assets | <u>22,090,355</u> | <u>20,270,792</u> |
| Total Liabilities and Net Assets | <u>\$ 27,186,231</u> | <u>\$ 24,782,000</u> |

Summary of Changes in Net Assets – Operating Fund

| | 2002 | 2001 |
|---|---------------|---------------|
| Operating Revenues | \$ 17,010,798 | \$ 16,700,120 |
| Operating Expenses | 15,163,613 | 14,964,389 |
| Operating Income (Loss) | 1,847,185 | 1,735,731 |
| Non-operating Revenues (Expenses) | (61,996) | 5,599 |
| Income Before Contributions and Transfers | 1,785,189 | 1,741,330 |
| Transfers Out – Payments in Lieu of Taxes | (490,000) | (315,000) |
| Cash received for Claims and Judgments | 552,633 | 0 |
| Prior Period Adjustment | (28,259) | 158,295 |
| Beginning Net Assets | 20,270,792 | 18,686,167 |
| Ending Net Assets | \$ 22,090,355 | \$ 20,270,792 |

Financial Highlights:

Operating revenues increased approximately \$311,000 in 2002, or 1.8%. This increase in revenue can be attributed to additional miscellaneous billings.

Operating expenses increased approximately \$200,000 in 2002, or 11%. This decrease in expenses can be attributed to increase in depreciation expense and a decrease in purchase power expenses.

Utility Plant and Debt Administration:

Debt Administration

Bonds outstanding at year-end 2002 was \$1,565,000, a reduction of \$275,000 from prior year. The current portion of long-term debt at year-end 2002 in the amount of \$290,000 will be paid in 2003.

The Hingham Municipal Lighting Plant remains a vertically integrated utility, as do all Municipal Light Departments in Massachusetts. This means that we are allowed under the Massachusetts Utility Restructuring Laws to retain our ownership and control over our electrical generation assets. Investor owned utilities, such as Massachusetts Electric Company, have been required to sell their generation assets as a result of the same restructuring laws.

The generation assets, which we have a vested ownership in, along with the other municipal electrical systems in New England, are financed through municipal bonds. The collective debt owed under these bonds stand today at approximately \$1 billion, of which Hingham Municipal Lighting Plant's share is just over \$36.7 million. The interest has been, and will continue to be paid with revenues received from the sales of electricity.

In an effort to ensure stable costs for electricity in future years the Hingham Municipal Lighting Plant, acting in conjunction with the Massachusetts Municipal Wholesale Electric Company, conducted a bond refinancing in 2001. This refinancing is expected to save \$4.4 million in interest over the life of the bonds.

Though we will not gain any immediate benefit from the refinancing, it is part of a longer-term, strategic effort to maintain the competitive rates and reliable electric service into the future. The bulk of the savings from the refinancing program will be used to stabilize our power costs beginning in 2010. During this timeframe, competition in the power markets is expected to intensify, and reduced debt service will place us in a better position to control costs.

Utility Plant and Debt Administration (continued):

Utility Plant

Net utility plant decreased by \$439,638 from 2001. This decrease is the difference between the current year additions of \$842,398 and the annual depreciation (5%) write off of \$1,282,036. During 2002, the Lighting Plant purchased poles and fixtures, which accounted for 28% of current year additions and overhead and underground conductors placed in service accounted for approximately 42%.

In February 2001, the Lighting Plant purchased a truck, the truck was placed in service during 2002 due to a chassis being built for it. The total cost is \$126,816.

In an effort to keep power outages to a minimum, Hingham Municipal Lighting Plant completed a mapping of the town's electrical distribution system. This will greatly assist the linemen in locating and switching circuits. The Lighting Plant will have the capability to locate where the poles, transformers, meters, and other types of services that are on the mapping system.

Significant Balances and Transactions:

Retirement Trust Fund

The Retirement Trust Fund's purpose is to directly reimburse the Town of Hingham for retirement costs attributable to Hingham Municipal Lighting Plant's retirees for whom the Town of Hingham is assessed annually by Massachusetts Contributory Retirement System, and to satisfy the Plant's anticipated future pension liabilities for its current employees.

Rate Stabilization Fund

The board voted to establish a rate stabilization fund as an aftermath of deregulation. We will use this fund to help us maintain our competitive position when the investor-owned utilities are no longer collecting their "stranded costs*" several years down the line. When that happens, we will use the rate stabilization fund to mitigate our higher costs until our own stranded costs are paid off. Our rate stabilization balance at December 31, 2002 and 2001 was \$1,331,134 and \$1,000,000, respectively.

- * Stranded costs refer to long-term debt or contractual obligations previously incurred that are higher than the new market costs. The investor-owned utilities were required to sell their generation assets as a condition to recover their stranded costs. The proceeds from the sales were used to pay off some of their costs. In place of owning generation, we have long-term power contracts.

Depreciation Fund

Hingham Municipal Lighting Plant maintains a depreciation fund, which is managed by the Town of Hingham Treasurer. This fund is used to pay for large capital investments such as new trucks 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. We set aside, 5% in 2002 and 3% in 2001 of our cost of plant annually to be used for capital improvements and additions.

Purchased Power Working Capital

The purchased power working capital is an amount held by Massachusetts Municipal Wholesale Electric Company (MMWEC), our power supply agent. MMWEC requires that they hold a set amount of capital from which it may pay our power obligations when they are due. They replenish the fund as needed from our monthly invoice payments.

Insurance Escrow Reserve Fund

The insurance escrow reserve fund was set up to help reduce future costs of our general liability policy. Years ago management considered having a self-insurance fund for our excess liability needs because the insurance market was hard (high premiums and difficulty in finding coverage). Our current plan is to hold the amount in excess of the self-retention for nuisance claims or where damages exceed the covered limit.

HINGHAM MUNICIPAL LIGHTING PLANT
 STATEMENTS OF NET ASSETS
 DECEMBER 31, 2002 AND 2001

OPERATING FUND

ASSETS

| | 2002 | 2001 |
|--------------------------------------|--------------------------|--------------------------|
| CURRENT ASSETS: | | |
| Funds on Deposit with Town Treasurer | | |
| Operating Cash | \$ 4,348,386 | \$ 2,865,732 |
| Accounts Receivable | 2,082,238 | 1,901,048 |
| Materials and Supplies | 301,009 | 211,128 |
| Prepaid Power Contracts | 40,391 | 920,961 |
| Purchased Power Working Capital | 255,075 | 255,075 |
| | 7,027,099 | 6,153,944 |
| TOTAL CURRENT ASSETS | | |
| NONCURRENT ASSETS: | | |
| Funds on Deposit with Town Treasurer | | |
| Depreciation Fund | 3,717,273 | 2,899,749 |
| Customer Deposits | 508,459 | 671,473 |
| Insurance Reserve Fund | 253,687 | 253,687 |
| Rate Stabilization Fund | 1,331,134 | 0 |
| Investments | 65,927 | 75,490 |
| Unamortized Debt Discount | 26,845 | 32,213 |
| Utility Plant Assets, Net | 14,255,807 | 14,695,444 |
| | 20,159,132 | 18,628,056 |
| TOTAL NONCURRENT ASSETS | | |
| TOTAL ASSETS | \$ 27,186,231 | \$ 24,782,000 |

See Accompanying Notes To Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2002 AND 2001

OPERATING FUND

LIABILITIES

| | <u>2002</u> | <u>2001</u> |
|---|----------------------|----------------------|
| CURRENT LIABILITIES: | | |
| Accounts Payable | \$ 1,031,110 | \$ 720,650 |
| Accrued Expenses | 278,488 | 137,797 |
| Bonds Payable | 290,000 | 275,000 |
| Customer Advances for Construction | 201,799 | 0 |
| Sales Tax Payable | 17,990 | 17,366 |
| Other Deferred Credits | 136,732 | 114,972 |
| | <u>1,956,119</u> | <u>1,265,785</u> |
| NONCURRENT LIABILITIES: | | |
| Bonds Payable, Net of Current Portion | 1,275,000 | 1,565,000 |
| Customer Deposits | 533,623 | 680,423 |
| Rate Stabilization Reserve | 1,331,134 | 1,000,000 |
| | <u>3,139,757</u> | <u>3,245,423</u> |
| TOTAL LIABILITIES | <u>5,095,876</u> | <u>4,511,208</u> |
| NET ASSETS | | |
| Restricted for Debt Service | 2,937,745 | 2,662,745 |
| Invested in Capital Assets, Net of Related Debt | 12,690,807 | 12,855,444 |
| Unrestricted | 6,461,803 | 4,752,603 |
| | <u>22,090,355</u> | <u>20,270,792</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 27,186,231</u> | <u>\$ 24,782,000</u> |

See Accompanying Notes To Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

OPERATING FUND

STATEMENTS OF REVENUES AND EXPENSES

| | <u>2002</u> | <u>2001</u> |
|---|------------------|------------------|
| OPERATING REVENUES: | | |
| Sales of Electricity | \$ 16,710,898 | \$ 16,418,165 |
| Other Operating Revenues | 299,900 | 281,955 |
| TOTAL OPERATING REVENUES | 17,010,798 | 16,700,120 |
| OPERATING EXPENSES: | | |
| Operations and Maintenance | 13,881,578 | 14,209,628 |
| Depreciation | 1,282,035 | 754,761 |
| TOTAL OPERATING EXPENSES | 15,163,613 | 14,964,389 |
| OPERATING INCOME | 1,847,185 | 1,735,731 |
| NONOPERATING REVENUES (EXPENSES): | | |
| Investment Income | 66,258 | 143,736 |
| Interest Expense | (128,254) | (138,137) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | (61,996) | 5,599 |
| INCOME BEFORE CONTRIBUTIONS AND TRANSFERS | \$ 1,785,189 | \$ 1,741,330 |

STATEMENTS OF CHANGES IN NET ASSETS

| | <u>2002</u> | <u>2001</u> |
|--|-------------------|-------------------|
| NET ASSETS - January 1, as previously reported | \$ 20,270,792 | \$ 18,686,167 |
| Prior Period Adjustment - Note 14 | (28,259) | 158,295 |
| Net Assets, January 1, as adjusted | 20,242,533 | 18,844,462 |
| Income Before Contributions and Transfers | 1,785,189 | 1,741,330 |
| Cash received for Claims and Judgments | 552,633 | 0 |
| Transfers Out - Payments in Lieu of Taxes | (490,000) | (315,000) |
| NET ASSETS - December 31 | \$ 22,090,355 | \$ 20,270,792 |

See Accompanying Notes To Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

OPERATING FUND

| | 2002 | 2001 |
|---|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash Received from Customers | \$ 16,981,526 | \$ 16,628,223 |
| Cash Paid to Suppliers and Employees | (12,713,946) | (14,226,323) |
| Cash Paid for Benefits | (175,327) | (179,523) |
| Payment in Lieu of Taxes | (315,000) | (300,000) |
| Cash received for Claims and Judgments | 552,633 | 0 |
| Prior Period Adjustment | (28,259) | 158,295 |
| | 4,301,627 | 2,080,672 |
| CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Interest Expense | (37,243) | (34,577) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Principal Repayment on Bonds Payable | (275,000) | (265,000) |
| Additions to Plant Assets | (842,398) | (545,503) |
| Interest Expense | (85,642) | (98,191) |
| | (1,203,040) | (908,694) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment Income | 66,258 | 143,736 |
| Rate Stabilization Reserve | 331,134 | 0 |
| Proceeds from Sale of Investments | 9,562 | 6,836 |
| | 406,954 | 150,572 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 3,468,298 | 1,287,973 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 6,690,641 | 5,402,668 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 10,158,939 | \$ 6,690,641 |

See Accompanying Notes To Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

OPERATING FUND

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

| | 2002 | 2001 |
|--|--------------|--------------|
| Operating Income | \$ 1,847,185 | \$ 1,735,731 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | 1,282,035 | 754,761 |
| Payment in Lieu of Taxes | (315,000) | (300,000) |
| Prior Period Adjustment | (28,259) | 158,295 |
| Claims and Judgments | 552,633 | 0 |
| Rate Stabilization Reserve | 0 | 1,000,000 |
| (Increase) Decrease in Assets: | | |
| Accounts Receivable | (181,190) | (164,628) |
| Materials and Supplies | (89,881) | 5,067 |
| Prepaid Expenses | 880,570 | (719,418) |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | 135,460 | (541,274) |
| Accrued Expenses | 140,691 | 94,814 |
| Customer Advances for Construction | 201,799 | 0 |
| Sales Tax Payable | 624 | (35,407) |
| Other Deferred Credits | 21,760 | 22,799 |
| Customer Deposits | (146,800) | 69,932 |
| Net Cash Provided by Operating Activities | \$ 4,301,627 | \$ 2,080,672 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

The following accounts are considered to be cash or cash equivalents for the statements of cash flows:

| | 2002 | 2001 |
|-------------------------|---------------|--------------|
| Depreciation Fund | \$ 3,717,273 | \$ 2,899,749 |
| Operating Cash | 4,348,386 | 2,865,732 |
| Customer Deposits | 508,459 | 671,473 |
| Insurance Reserve Fund | 253,687 | 253,687 |
| Rate Stabilization Fund | 1,331,134 | 0 |
| | \$ 10,158,939 | \$ 6,690,641 |

See Accompanying Notes To Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
 STATEMENTS OF NET ASSETS
 DECEMBER 31, 2002 AND 2001

RETIREMENT TRUST FUND

ASSETS

| | 2002 | 2001 |
|--------------------------------------|---------------------|---------------------|
| NONCURRENT ASSETS: | | |
| Funds on Deposit with Town Treasurer | | |
| Cash and Cash Equivalents | \$ 15,032 | \$ 12,399 |
| Investments | 3,344,650 | 3,392,533 |
| TOTAL ASSETS | \$ 3,359,682 | \$ 3,404,932 |

NET ASSETS

| | | |
|-------------------------|--------------|--------------|
| NET ASSETS - Restricted | \$ 3,359,682 | \$ 3,404,932 |
|-------------------------|--------------|--------------|

See Accompanying Notes to the Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

RETIREMENT TRUST FUND

| | 2002 | 2001 |
|--------------------------------------|--------------|--------------|
| NONOPERATING REVENUES (EXPENSES): | | |
| Income Earned on Invested Funds | \$ 192,578 | \$ 279,338 |
| Gain (Loss) from Security Redemption | 33,485 | 802 |
| Investment Fees | 0 | 12 |
| Annual Pension Expense | (271,313) | (259,529) |
| NET INCOME (LOSS) | (45,250) | 20,623 |
| NET ASSETS - JANUARY 1 | 3,404,932 | 3,384,309 |
| NET ASSETS - DECEMBER 31 | \$ 3,359,682 | \$ 3,404,932 |

See Accompanying Notes to the Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

RETIREMENT TRUST FUND

| | 2002 | 2001 |
|--|------------|------------|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment Income | \$ 112,215 | \$ 160,678 |
| Purchase of Investments | (261,276) | (144,051) |
| Proceeds from Sales of Investments | 389,522 | 203,932 |
| Gain (Loss) on Security Redemption | 33,485 | 802 |
| Annual Pension Expense | (271,313) | (259,529) |
| Investment Fee | 0 | 12 |
| | 2,633 | (38,156) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | |
| CASH AND CASH EQUIVALENTS - JANUARY 1 | 12,399 | 50,555 |
| CASH AND CASH EQUIVALENTS - DECEMBER 31 | \$ 15,032 | \$ 12,399 |

See Accompanying Notes to the Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Hingham Municipal Lighting Plant is a component unit of the Town of Hingham, Massachusetts. The Lighting Plant purchases power from various sources and sells it to the ultimate consumers at rates submitted to the Massachusetts Department of Telecommunications and Energy (DTE). The Municipal Lighting Board appoints a manager of municipal lighting who shall, under direction and control of the Municipal Lighting Board, have full charge of the operations and management of the Plant.

Regulation and Basis of Accounting

The Municipal Lighting Plant complies with Generally Accepted Accounting Principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The Lighting Plant uses the 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.

The Lighting Plant has adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, in 2001

Under Massachusetts Law, electric rates of the Lighting Plant 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 Telecommunications and Energy. While the DTE exercises general supervisory authority over the Lighting Plant, the rates are not subject to DTE approval. Rates must be set such that net earnings from operations do not exceed 8% of the cost of the utility plant.

Utility Plant

The statutory provision for depreciation of utility plant is computed on the straight-line method at three percent 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 Lighting Plant may change from the statutory depreciation rate only with the approval of the DTE. The Plant has used a rate of 5% for 2002 and 3% for 2001. The Lighting Plant charges maintenance to expense when incurred. Replacements and betterments are charged to the utility plant.

Revenues

Revenues from the sale 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 Lighting Plant, which are applied to customers' consumption of electricity.

The Lighting Plant's rates contain an adjustable component pursuant to which increased power costs (power costs in excess of amounts recovered through base rates) are billable to customers.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Taxes

The Lighting Plant is exempt from federal income taxes. Although also exempt from property taxes, the Lighting Plant pays amounts in lieu of taxes to the Town of Hingham.

Reclassification

Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation with no effect on previously reported net income.

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.

Cash and Cash Equivalents

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

During 2001 noncash investing and financing activities consist of an appropriation of earnings towards the rate stabilization reserve in the amount of \$1,000,000.

Materials and Supplies

Materials and supplies are valued using the average cost method.

Compensated Absences

In accordance with Plant policies, employees are allowed to accumulate sick days, up to a maximum of 200 days. Upon termination of employment with the Lighting Plant, the employee will be paid at a rate of \$10 per day for the first 100 days and \$20 per day for the next 100 days.

Employees are not permitted to carry over vacation time from one year to the next. Upon termination of employment with the Lighting Plant, the employee will be paid for unused vacation time based on the employee's base rate of pay at the time of termination.

Accounts Receivable

The Lighting Plant carries its accounts receivable at cost. A receivable is considered past due if payments have not been received by the company within 60 days. At that time, the Plant will send a past due letter. Second notification is sent out 3 weeks later with a notice of termination of service if payment is not received within the next 72 hours. The Plant 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

Accounts are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of accounts. At December 31, 2002 and 2001, no allowance for uncollectible accounts was considered necessary.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 2 – INSURANCE RESERVE FUND:

The Lighting Plant has set up an insurance fund, which is to be used to reduce the future costs of insurance expense. The monies are invested with the Deutsche Bank Alex Brown, predominantly in government Securities. Interest earned remains in the fund.

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, nuclear decommissioning costs, the costs of contractual commitments, and deferred costs related to such commitments which the municipal lighting board determines are above market value.

NOTE 4 – RATE STABILIZATION FUND:

The Lighting Plant designs its electric service rates to recover costs of providing power supply services. In order to minimize possible future rate increases, the Plant each year will determine a rate stabilization amount to be charged or credited to revenues. The Board voted to establish a reserve fund in 2002, to appropriate from earnings the amount of \$1,000,000 for 2001, which is reflected as an increase in the reserve for rate stabilization fund in the accompanying balance sheet. The current year increase in the Reserve Fund is \$331,134. The rate stabilization amounts are approved by the Board of Commissioners and will be held by the town in a reserve trust.

NOTE 5 - PURCHASED POWER WORKING CAPITAL:

The purchased power working capital is an amount held by Massachusetts Municipal Wholesale Electric Company (MMWEC), our power supply agent. 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 our power obligations when they are due. They replenish the fund as needed from our monthly invoice payments. The income earned allocated to the Lighting Plant will be applied as a credit to MMWEC Power Sales Billing. The balance in the fund was \$255,075 as of December 31, 2002 and 2001.

NOTE 6 – INVESTMENTS:

The Department owns shares of Hydro Quebec Phase II stock. The securities are stated at cost. Fair market value approximates stated value.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 7- UTILITY PLANT ASSETS:

| | Balance January 1, 2002 | Increases | Decreases | Balance December 31, 2002 |
|---|-------------------------------|------------------|-----------------|---------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 17,856 | \$ 0 | \$ 0 | \$ 17,856 |
| Construction in Progress | 49,461 | 0 | (49,461) | 0 |
| Total capital assets not being depreciated | 67,317 | 0 | (49,461) | 17,856 |
| Other capital assets: | | | | |
| Transmission Plant | 1,435,097 | 0 | 0 | 1,435,097 |
| Distribution Plant | 21,474,743 | 698,384 | 0 | 22,173,127 |
| General Plant | 2,730,871 | 193,475 | 0 | 2,924,346 |
| Total other capital assets at historical cost | 25,640,711 | 891,859 | 0 | 26,532,570 |
| Less accumulated depreciation for: | | | | |
| Transmission Plant | (699,621) | (71,754) | 0 | (771,375) |
| Distribution Plant | (8,505,893) | (1,073,737) | 0 | (9,579,630) |
| General Plant | (1,807,070) | (136,544) | 0 | (1,943,614) |
| Total accumulated depreciation | (11,012,584) | (1,282,035) | 0 | (12,294,619) |
| Other capital assets, net | 14,628,127 | (390,176) | 0 | 14,237,951 |
| Utility Plant Assets, Net | \$ 14,695,444 | \$ (390,176) | \$ (49,461) | \$ 14,255,807 |

NOTE 8 – PROPERTY HELD FOR FUTURE USE:

The Hingham Municipal Lighting Plant purchased a bucket truck in 2001. This equipment was placed in service during 2002 when the chase was complete. The completed cost of the truck and chase is \$126,816.

NOTE 9 - LONG-TERM DEBT:

On May 15, 1993, Hingham Municipal Lighting Plant issued \$2,830,000 in General Obligation Bonds with interest at a weighted average rate of 4.3%. Principal payments are due annually on July 15 and interest is due biannually on January 15 and July 15. The bonds mature on July 15, 2007.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 9 - LONG-TERM DEBT (continued):

These bonds were used to advance refund \$3.8 million of outstanding 1998 General Obligation bonds with an interest rate of 6.9%. The net proceeds of \$2,743,000 after underwriting fees and issuance costs were used to purchase U.S. Government and Agency Securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for the future debt service payments of the refunded portion of the 1988 bonds. As a result, approximately 71% of the 1988 bonds are considered to be defeased and the liability for the bonds has been removed from the Lighting Plant's long-term debt.

Although the advance refunding resulted in the recognition of an accounting loss of \$358,000 for the year ended December 31, 1993, the Lighting Plant will reduce its aggregate debt service payments by approximately \$101,225 over the next 15 years, and achieve an economic gain (the difference between the present values of the old and new debt service payments) of \$86,292.

The accounting loss arising from the advance refunding is being amortized over the life of the old bond (6 years), and is reported as a component of interest expense. The amortized loss for the current year is \$5,369.

The debt service requirements on the bonds are as follows:

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|---------------------|-------------------|--------------------|
| 2003 | \$ 290,000 | \$ 71,350 | \$ 361,350 |
| 2004 | 305,000 | 56,917 | 361,917 |
| 2005 | 325,000 | 41,319 | 366,319 |
| 2006 | 345,000 | 24,397 | 369,397 |
| 2007 | <u>300,000</u> | <u>7,800</u> | <u>307,800</u> |
| | <u>\$ 1,565,000</u> | <u>\$ 201,783</u> | <u>\$1,766,783</u> |

NOTE 10 – INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT:

| | <u>2002</u> | <u>2001</u> |
|--|----------------------|----------------------|
| Cost of Capital Assets Acquired | \$ 26,550,426 | \$ 25,708,028 |
| Less: Accumulated Depreciation | 12,294,619 | 11,012,584 |
| Less: Outstanding Debt Related to Capital Assets | <u>1,565,000</u> | <u>1,840,000</u> |
| Invested in Capital Assets, Net of Related Debt | <u>\$ 12,690,807</u> | <u>\$ 12,855,444</u> |

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 11 - CONCENTRATION OF CREDIT RISK:

The Hingham Municipal Lighting Plant's deposits with the Town Treasurer 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 Lighting Plant. 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 Lighting Plant deposits is not determinable because the limits of insurance are computed on a town-wide basis.

NOTE 12 - UNBILLED REVENUE:

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

NOTE 13 - OTHER DEFERRED CREDITS:

The Plant allows a discount on customer bills paid within 15 days of the billing date. Since the Plant bills in defined batches throughout the month, some receivables outstanding at year-end will be subject to a discount when paid. The Plant posts receivables at gross, and the revenue at net accounting for this discount as a reserve. The balance in the reserve at December 31, 2002 and 2001 is \$136,732 and \$114,972, respectively. Also included in deferred credits at December 31, 2002 was deferred revenue from new construction projects in the amount of \$19,500.

NOTE 14 - PRIOR PERIOD ADJUSTMENT:

Certain errors resulting in an overstatement of previously reported prepaid balances were discovered during the 2002 audit. Accordingly, an adjustment of \$28,259 was made during 2002 to adjust previously reported net assets.

Certain errors resulting in an understatement of previously reported cash and prepaid balances were discovered during the 2001 audit. Accordingly, an adjustment of \$158,295 was made during 2001 to increase these balances as of the beginning of the year. A corresponding entry was made to increase previously reported net assets by the same amount.

NOTE 15 - RELATED PARTY:

The Lighting Plant provides electrical service to the Town for all schools, municipal buildings and street lighting at average rates per kilowatt-hour, which approximate those billed to other customers. Revenues from billings to the Town were approximately \$970,750 in 2002 and \$1,001,486 in 2001. Included in the accompanying balance sheets as of December 31, 2002 and 2001 is zero and \$58,005, respectively, of amounts due from the Town.

The Town provides to the Lighting Plant, police detail, various insurance and other expenses which amounted to approximately \$212,723 in 2002 and \$203,644 in 2001. Included in the accompanying balance sheet as of December 31, 2002 and 2001 is \$402,131 and \$361,434, respectively of amounts due to the Town.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 15 – RELATED PARTY (continued):

In 2002 and 2001, the Light Board approved a payment in lieu of property taxes to the Town in the amount of \$390,000 and \$315,000, respectively.

NOTE 16 - PENSION PLAN:

The Lighting Plant is a member of the contributory retirement system administered by the Town of Hingham Retirement Board, which, in turn is a member of the Massachusetts Contributory Retirement System, which is governed by M.G.L. c.32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The plan is a contributory defined benefit plan for all county employees and employees of participating towns and districts except those employees who are covered by the teachers retirement board.

Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

A \$30,000 salary cap, upon which members' benefits were calculated, was removed by the Retirement Board effective January 1, 1991. Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total contributions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired after 1978 contribute an additional 2% of annual pay above \$30,000. These contributions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employees' Retirement Administration's Commission (PERAC's) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund.

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 credible service, level of compensation, veterans' status, and group classification. Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total contributions.

In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those contributions.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 16 - PENSION PLAN (continued):

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

The Lighting Plant is still obligated to pay for retired employees medical and other costs. These payments amounted to \$20,194 and \$42,536 in 2002 and 2001, respectively.

The Town of Hingham is assessed annually for its share for the current year pension payments which includes the retired employees of the Town of Hingham Municipal Lighting Plant. The Plant then reimburses the Town for the Plant's share of this assessment. The Trust paid to the Town \$271,313 in 2002. The operating fund's liability to the town was \$271,313 and \$259,529 in 2002 and 2001, respectively.

The plan's separately issued financial statements can be obtained by contacting the Town of Hingham Retirement Board at 222 Central Street, Hingham, MA 02043.

The Plant is making provisions for their share of the Town of Hingham's unfunded actuarial liability by setting up the Town of Hingham Municipal Lighting Plant Employees' Retirement Trust to which they make contributions as deemed necessary by an actuary hired every two years to analyze the trust's estimated actuarial liability and assets. In addition to its annual town assessment, the Plant has set aside amounts totaling \$3,359,682 and \$3,404,932 as of December 31, 2002 and 2001, for the Plant's anticipated future liabilities for its current employees (see Footnote 19).

NOTE 17 - MMWEC PARTICIPATION:

Town of Hingham acting through its Lighting Plant is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

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

Hingham Municipal Lighting Plant has entered into PSAs and PPAs with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Municipal Light Department revenues. Under the PSAs, each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 18 – RISK MANAGEMENT:

Self Insurance Trust

Hingham Municipal Lighting Plant participates in Mass Municipal Self Insurance Trust (the Trust) with 17 other municipal light departments for the purpose of sharing liability and officers' liability risks. Through the trust, Hingham Municipal Lighting Plant is insured for \$500,000 per occurrence, with a \$50,000 deductible. Each participating light department contributes to the Trust based on its share of the group's total kilowatt-hour sales. In 2002 and 2001, the Trust required no contributions from its members as the Trust was overfunded and experienced favorable claims experience. Payments for claims under the deductible limit are funded by trust assets or, if required, additional contributions from the participants.

The Lighting Plant participates in and shares in the cost of the Town's risk management programs. The Town's risk management programs are as follows:

Buildings are fully insured against fire, theft and natural disaster to the extent that losses exceed \$5,000 per incident. Vehicle damage and loss is self-insured. The Town provides workers compensation coverage through a premium-based plan.

The Town is also self-insured for those employees electing indemnity plans. The Town also provides preferred provider health plans, which are premium-based health plans, for the employees not electing indemnity plans.

The Town is self-insured for other general liability; however Chapter 258 of the Massachusetts General Laws limits the liability to a maximum of \$100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain and breach of contract.

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, 2002 and 2001, the Lighting Plant considers it's pro rata share of these losses to be immaterial to its financial statements.

NOTE 19 – RETIREMENT TRUST FUND:

The Trust Funds cash equivalents and investments are held by United States Trust Company Boston. The Funds' investments are stated at unamortized cost, which approximates cost plus accrued interest paid at purchase.

| | 2002 | | 2001 | |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Cash Equivalents | \$ 15,032 | \$ 15,032 | \$ 12,399 | \$ 12,399 |
| U.S. Treasury Notes | 155,261 | 171,511 | 153,224 | 154,375 |
| UST Retirement Fund | 3,189,389 | 3,406,237 | 3,239,309 | 3,683,537 |
| | <u>\$ 3,359,682</u> | <u>\$ 3,592,780</u> | <u>\$ 3,404,932</u> | <u>\$ 3,850,311</u> |

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 19 - RETIREMENT TRUST FUND (continued)

At December 31, 2002, the gross unrealized holding gains on the U.S. Treasury Notes were \$16,250. The gross unrealized holding gains on UST Retirement Funds were \$216,848.

At December 31, 2001, the gross unrealized holding gains on the U.S. Treasury Notes were \$1,151. The gross unrealized holding gains on UST Retirement Funds were \$444,228.

NOTE 20 - LEASES:

The Lighting Plant has an operating lease agreement to lease antenna space. This lease expires in 2005 and has two sixty month renewal options. The approximate minimum future payments as of December 31, 2002 is as follows:

| | | |
|--------------------------|-------|------------------|
| Year Ending December 31, | 2003 | \$ 4,140 |
| | 2004 | 4,140 |
| | 2005 | <u>4,140</u> |
| | Total | <u>\$ 12,420</u> |

Rent expense related to this lease was approximately \$2,174 and \$6,096 for the years ended December 31, 2002 and 2001, respectively.

NOTE 21 – CLAIMS AND JUDGMENTS:

The MMWEC Board of Directors voted in 2002 to refund \$502,302 of decommissioning reserves that were deemed unnecessary for the Millstone 3 and Seabrook Projects. The Lighting Plant also received \$50,331 in 2002 from the Vermont Legal Settlement.

NOTE 22 – COMMITMENTS AND CONTINGENCIES:

Environmental Matters

During 2002, the Lighting Plant requested an investigation and feasibility study in connection with the environmental cleanup at three Plant owned sites at Tower Brooks Road, Crow Point Lane and Kilby Street in Hingham, Massachusetts. The Plant has engaged environmental cleanup alternatives and cost associated there with. It is not anticipated that the cost of the cleanup or any other contingent matters will have material adverse impact on the Plant's financial condition.

MMWEC Contingencies

Through membership in MMWEC, the Plant is contingently liable on various projects in which they participated as detailed on the following page.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 22 - COMMITMENTS AND CONTINGENCIES (continued):

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project fossil-fueled power plants. MMWEC has a 22.7 MW interest in the W.F. Wyman Unit No. 4 plant, owned and operated by subsidiaries of Florida Power & Light and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. (DNCI) a subsidiary of Dominion Resources, Inc. DNCI has stated its intention to file an application with the Nuclear Regulatory Commission (NRC) for an extension of the Millstone Unit 3 operating license, which currently will expire in 2025. DNCI has not yet filed its application with the NRC.

MMWEC's 11.6% ownership interest in the Seabrook Station nuclear generating unit represents a substantial portion of its plant investment and financing program. On November 1, 2002, an indirect subsidiary of FPL Group Inc., FPL Energy Seabrook, LLC purchased an approximate 88% share in the Seabrook Nuclear Plant from seven other owners. MMWEC is now one of three, minority non-operating owners of Seabrook Station.

MMWEC has eight Projects. MMWEC originally financed all eight Projects through the issuance of multiple series of revenue bonds under the General Bond Resolution adopted by MMWEC in 1976 (GBR). Security for these bonds included a pledge of the revenues derived by MMWEC from all its Project PSAs, without regard to Project or series of bonds. In late 2001, through a refinancing of all of its outstanding bonds, MMWEC amended and restated its GBR to eliminate this "cross-pledge" of revenues. In refinancing its debt, MMWEC issued a separate issue of bonds for each of the eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which such issue relates plus available funds pledged under the Amended and Restated GBR with respect to the bonds of such issue. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

Pursuant to the PSAs the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident as outlined in the Price-Anderson Act. The Project Participants are also liable for the decommissioning expenses, which are being funded through monthly Project billings. By its terms, the Price-Anderson Act expired in August 2002. Congress is currently considering extending the Act.

In November 1997, the Commonwealth of Massachusetts enacted legislation effective March 1, 1998 to restructure the electric utility industry. MMWEC and the municipal light departments, including the Massachusetts Project Participants, are not specifically subject to this legislation. However, it is management's belief that industry restructuring and customer choice promulgated by the legislation will have an effect on MMWEC and the Participant's operations.

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

As of December 31, 2002, total capital expenditures amounted to \$1,499,827,000, of which \$59,262,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects and PPA included Power Supply System Revenue Bonds and commercial paper notes totals \$1,005,535,000, of which \$36,657,000 is associated with the Department's share of Project Capability and PPAs. As of December 31, 2002, MMWEC's total future debt service requirement on outstanding bonds issued for Projects and commercial paper notes for the PPA is \$1,333,835,000, of which \$48,791,000 is anticipated to be billed to the Department.

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2002 AND 2001

NOTE 22 - COMMITMENTS AND CONTINGENCIES (continued):

Hingham Municipal Lighting Plant has entered into PSAs and PPAs with MMWEC. Under these agreements, the Department is required to make certain payments to MMWEC. The aggregate amount of Hingham Municipal Lighting Plant's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2002 and estimated for future years is shown below.

| | | <u>ANNUAL COSTS</u> | |
|------------------------------|-----------|---------------------|-------------------|
| For years ended December 31, | 2003 | \$ | 4,325,000 |
| | 2004 | | 4,328,000 |
| | 2005 | | 4,087,000 |
| | 2006 | | 4,069,000 |
| | 2007 | | 3,931,000 |
| | 2008-2012 | | 15,829,000 |
| | 2013-2017 | | 11,711,000 |
| | 2018-2019 | | <u>511,000</u> |
| | TOTAL | \$ | <u>48,791,000</u> |

In addition, the Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Department's total O&M costs including debt service under the PSAs were \$6,460,000 and \$8,068,000 for the years ended December 31, 2002 and 2001, respectively.

BINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(\$'000)

| | PERCENTAGE SHARE | TOTAL PROJECT EXPENDITURES TO DATE | | PARTICIPANTS SHARE | | DEBT ISSUED & OUTSTANDING 12/31/02 | | PARTICIPANTS SHARE | | TOTAL DEBT SERVICE ON BONDS OUTSTANDING | |
|----------------------------------|------------------|------------------------------------|------------------|--------------------|------------------|------------------------------------|------------------|--------------------|--|---|--|
| | | \$ | | \$ | | \$ | | \$ | | \$ | |
| Stony Brook Peaking Project | 5.3307 | \$ 56,840 | \$ 3,030 | \$ 13,345 | \$ 711 | \$ 11,569 | \$ 617 | | | | |
| Stony Brook Intermediate Project | 4.3870 | 161,988 | 7,106 | 59,645 | 2,617 | 63,580 | 2,789 | | | | |
| Nuclear Mix No. 1-SBK | 3.4281 | 15,056 | 516 | 11,502 | 394 | 14,521 | 498 | | | | |
| Nuclear Mix No. 1-MLS | 3.4281 | 111,341 | 3,817 | 85,058 | 2,916 | 107,391 | 3,681 | | | | |
| Nuclear Project No. 3-MLS | 1.4311 | 137,876 | 1,973 | 171,065 | 2,448 | 231,357 | 3,311 | | | | |
| Nuclear Project No. 4-SBK | 3.4180 | 314,433 | 10,747 | 189,195 | 6,467 | 256,494 | 8,767 | | | | |
| Nuclear Project No. 5-SBK | 1.6644 | 85,900 | 1,430 | 56,705 | 944 | 76,581 | 1,275 | | | | |
| Wynman Project | - | 7,563 | - | 2,940 | - | 3,058 | - | | | | |
| Project No. 6-SBK | 5.0331 | 608,830 | 30,643 | 400,545 | 20,160 | 553,392 | 27,853 | | | | |
| TOTAL | | \$ 1,499,827 | \$ 59,262 | \$ 990,000 | \$ 36,657 | \$ 1,317,943 | \$ 48,791 | | | | |
| Commercial Paper Program | | \$ - | \$ - | \$ 15,535 | \$ - | \$ 15,892 | \$ - | | | | |

| | PERCENTAGE SHARE | OPERATION & MAINTENANCE 12/31/01 | | PARTICIPANTS SHARE | | OPERATION & MAINTENANCE 12/31/02 | | PARTICIPANTS SHARE | |
|----------------------------------|------------------|----------------------------------|-----------------|--------------------|-----------------|----------------------------------|--|--------------------|--|
| | | \$ | | \$ | | \$ | | \$ | |
| Stony Brook Peaking Project | 5.3307 | \$ 11,762 | \$ 627 | \$ 8,967 | \$ 478 | | | | |
| Stony Brook Intermediate Project | 4.3870 | 46,235 | 2,028 | 38,404 | 1,685 | | | | |
| Nuclear Mix No. 1-SBK | 3.4281 | 1,881 | 64 | 1,515 | 52 | | | | |
| Nuclear Mix No. 1-MLS | 3.4281 | 15,620 | 535 | 12,528 | 429 | | | | |
| Nuclear Project No. 3-MLS | 1.4311 | 29,084 | 416 | 20,388 | 292 | | | | |
| Nuclear Project No. 4-SBK | 3.4180 | 32,372 | 1,106 | 25,812 | 882 | | | | |
| Nuclear Project No. 5-SBK | 1.6644 | 9,390 | 156 | 7,582 | 126 | | | | |
| Wynman Project | - | 2,434 | - | 1,498 | - | | | | |
| Project No. 6-SBK | 5.0331 | 62,310 | 3,136 | 49,993 | 2,516 | | | | |
| TOTAL | | \$ 211,088 | \$ 8,068 | \$ 166,687 | \$ 6,460 | | | | |
| Commercial Paper Program | | \$ - | \$ - | \$ - | \$ - | | | | |

Goulet, Salvidio & Associates, P.C.
Certified Public Accountants

James F. Goulet, CPA, MST
Catherine A. Kuzmeskus, CPA

Michael A. Salvidio, CPA
James R. Dube, CPA

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

The Board of Commissioners
Hingham Municipal Lighting Plant

Our audits were made for the purpose of forming an opinion on the financial statements of Hingham Municipal Lighting Plant for the years ended December 31, 2002 and 2001, which was presented in the preceding section of this report. The supplemental information presented on pages 28 and 29 is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
February 26, 2003

HINGHAM MUNICIPAL LIGHTING PLANT
SCHEDULES OF SALES OF ELECTRICITY
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

| | 2002 | 2001 |
|----------------------------|---------------|---------------|
| SALE OF ELECTRICITY: | | |
| Residential | \$ 7,830,213 | \$ 7,699,949 |
| Commercial and Industrial | 7,340,443 | 7,342,293 |
| Municipal | 970,750 | 1,001,486 |
| Security Lighting | 60,959 | 64,944 |
| Sales for Resale | 198,916 | 70,172 |
| Forfeited Discounts | 309,617 | 239,321 |
| TOTAL SALES OF ELECTRICITY | \$ 16,710,898 | \$ 16,418,165 |

See Independent Auditors' Report on Supplemental Information

HINGHAM MUNICIPAL LIGHTING PLANT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

| | 2002 | 2001 |
|--|----------------------|----------------------|
| POWER PRODUCTION EXPENSES: | | |
| Purchased Power | \$ 10,535,330 | \$ 11,273,278 |
| Transmission and Other Purchased Power Charges | 1,103,738 | 1,063,225 |
| | 11,639,068 | 12,336,503 |
| DISTRIBUTION EXPENSES: | | |
| Miscellaneous Distribution Expenses | 278,224 | 236,636 |
| MAINTENANCE EXPENSES: | | |
| Maintenance of Lines | 573,520 | 491,750 |
| Maintenance - Other | 29,467 | 41,898 |
| | 602,987 | 533,648 |
| CUSTOMER ACCOUNTS: | | |
| Customer Accounting and Collection Expense | 261,190 | 279,072 |
| Meter Reading Expense | 121,652 | 95,330 |
| Uncollectible Accounts | 354 | 109,095 |
| | 383,196 | 483,497 |
| GENERAL AND ADMINISTRATIVE EXPENSES: | | |
| Administrative and General Salaries | 113,159 | 79,032 |
| Office Supplies and Expenses | 4,514 | 7,038 |
| Outside Services Employed | 494,789 | 211,104 |
| Property Insurance | 104,671 | 35,400 |
| Injuries and Damages | 7,014 | 18,269 |
| Employees' Pension and Benefits | 175,327 | 179,523 |
| Dues, Meetings, and Other General Expenses | 49,472 | 41,450 |
| Rent | 14,305 | 18,410 |
| Maintenance of General Plant | 14,852 | 29,118 |
| | 978,103 | 619,344 |
| TOTAL OPERATIONS AND MAINTENANCE EXPENSES | \$ 13,881,578 | \$ 14,209,628 |

See Independent Auditors' Report on Supplemental Information