

HINGHAM MUNICIPAL LIGHTING PLANT
Financial Statements
December 31, 2007 and 2006

HINGHAM MUNICIPAL LIGHTING PLANT
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DECEMBER 31, 2007 AND 2006

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Goulet, Salvidio & Associates, P.C.

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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, 2007 and 2006, 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, based on our audits, 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, 2007 and 2006, 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.

The Management's Discussion and Analysis on pages 2-6 is not a required part of the basic financial statements but is supplementary information. 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
October 7, 2008

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, 2007 and 2006. 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 statements of cash flows 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, 2007, it shows our net worth has decreased 2.5% over the year ended December 31, 2006 which includes transferring \$2,128,216 to the Town's retirement fund to fully fund HMLP's employee pension obligation, as of July 1, 2007.

The Statements of Revenues, Expenses and Changes in Net Assets, summarizes our operating results and reveals how much of a profit was earned for the year. As discussed in more detail below, our net profit for December 31, 2007 and 2006 was \$908,421 and \$965,865 respectively.

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

| | 2007 | 2006 |
|---|----------------------|----------------------|
| Current Assets | \$ 5,721,598 | \$ 5,397,057 |
| Non-current Assets | 31,819,236 | 32,442,773 |
| Total Assets | <u>\$ 37,540,834</u> | <u>\$ 37,839,830</u> |
| Current Liabilities | 5,967,967 | 5,719,714 |
| Non-current Liabilities | 3,412,876 | 3,234,355 |
| Total Liabilities | <u>9,380,843</u> | <u>8,954,069</u> |
| Net Assets: | | |
| Restricted for Debt Service | 0 | 300,000 |
| Invested in Capital Assets, Net of Related Debt | 24,511,282 | 23,082,910 |
| Unrestricted | 3,648,709 | 5,502,851 |
| Total Net Assets | <u>28,159,991</u> | <u>28,885,761</u> |
| Total Liabilities and Net Assets | <u>\$ 37,540,834</u> | <u>\$ 37,839,830</u> |

Summary of Changes in Net Assets – Operating Fund

| | 2007 | 2006 |
|--|----------------------|----------------------|
| Operating Revenues | \$ 26,367,251 | \$ 23,699,133 |
| Operating Expenses | 25,789,796 | 22,997,288 |
| Operating Income | 577,455 | 701,845 |
| Non-operating Revenues (Expenses) | 330,966 | 264,020 |
| Income Before Contributions and Transfers | 908,421 | 965,865 |
| Transfers In (Out) - Retirement Fund | (2,275,925) | (104,931) |
| Transfers In - Restricted for Capital Projects | 1,289,484 | 38,163 |
| Transfers Out – Payments in Lieu of Taxes | (647,750) | (474,048) |
| Beginning Net Assets | 28,885,761 | 28,460,712 |
| Ending Net Assets | <u>\$ 28,159,991</u> | <u>\$ 28,885,761</u> |

Financial Highlights:

Operating revenues increased \$2,668,118 in 2007 or approximately 11.3%. This increase in revenue can be attributed to a rate increase and increased kilowatt usage.

Operating expenses increased \$2,792,508 in 2007, or approximately 12.1%. This increase in expenses can be attributed to an increase in purchased power costs, capacity charges and increased depreciation expense.

The Hingham Municipal Lighting Plant is continuing to experience significant load growth in its system and will continue to grow over the next few years. The Derby Street Shoppes', Erickson Retirement Community, Blue Cross/Blue Shield and the Hingham Shipyard projects have increased the peak electrical usage by more than 30%. Hingham Light has prepared for this growth by developing a rolling five year Capital Plan to identify the required projects to meet this unprecedented growth. This growth has required capital spending by the Lighting Plant to provide the facilities necessary to accommodate these new customers and development. The Lighting Plant was able to fund these capital infrastructure improvements from internal sources with no borrowing required. The Lighting Plant continues to improve its reliability by funding a maintenance and replacement program for the areas in the Town where it is required. The financial statements also show the increase in plant value that Hingham Municipal Lighting Plant has added to the system in order to serve the new customers.

Financial Highlights (Continued):

The Hingham Municipal Lighting Plant experienced, on August 2, 2006, its all-time peak usage at 48.9 MW. This represents an increase in peak load of 30% in the past two years. During 2007, the kilowatt-hour usage in the system increase by 8.1%. The new growth and continued steady increases in the residential sector contributed to this dramatic increase.

The Hingham Municipal Lighting Board voted to purchase a 5% owner's interest in the Energy New England Company. This organization is the premier power supply and risk management organization in New England and its ownership is made up of several Massachusetts and one Connecticut municipal electric system. This ownership and relationship gives Hingham Municipal Lighting Plant an opportunity to bolster its power supply portfolio and strengthen its risk management area, by having professional power supply individuals assisting the system in its short and long term supply options. The ownership also serves as an investment for the system in an organization that is growing its business.

Utility Plant and Debt Administration:Debt Administration

Bonds outstanding at year-end 2007 was zero, a reduction of \$300,000 from the prior year. This payment represents the end of long-term debt during the year end 2007.

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 National Grid and NSTAR, 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 \$642 million of which Hingham Municipal Lighting Plant's share is just over \$23.4 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

Net utility plant increased by \$1,128,372 from 2006. This increase is the difference between the current year additions of \$2,314,908 and the annual depreciation write off of \$1,186,536. During 2007, the Lighting Plant purchased new accounting software that accounted for 13% of current year additions and overhead and underground conductors and devices placed in service accounted for approximately 60%.

Utility Plant and Debt Administration (Continued):

Hingham Municipal Lighting Plant continues to work on the installation and implementation of a new Enterprise Resource Planning (ERP) computer program with Cogsdale. The Cogsdale billing system went into production in late 2007. This system allows all components of the business; Customer Service, Financial, Inventory, Work Order, Project Accounting and Billing to reside on the same database and make the financial information and reporting more readily available.

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 the poles, transformers, meters, and other types of services that are on the mapping system.

Significant Balances and Transactions:

Pension Fund

The Pension Fund's purpose is to set aside monies 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. The Hingham Municipal Lighting Plant's pension system liability was met with a transfer to the pension system in October 2007 and fully funded the pension obligation for the Hingham Municipal Lighting Plant's employees as of July 1, 2007.

Rate Stabilization Fund

The board voted to establish a rate stabilization fund as an aftermath of deregulation. These funds are for unexpected escalation in costs, such as the decommissioning of nuclear power plants before the end of their operating license, unusual price spikes in fuel prices and transmission cost increases. We will also 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, 2007 and 2006 was \$2,472,611 and \$2,371,810, 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.

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.

Significant Balances and Transactions (Continued):

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.

Community Service:

The Lighting Plant provides an Electrical Safety Education Program for all the schools in Hingham. This program emphasizes safe practices around electricity and electrical equipment and has been well received by the educators. A solar array project is scheduled for the Hingham High School to act as a renewable energy source and teaching tool on how the energy from the sun can create electricity that can be used to power a classroom.

The Lighting Plant has been involved in the Christmas in the Square celebration the past two years by installing the Christmas lights in the downtown area for the holidays. We are also working on the plans for the new downtown lighting project along with the Hingham Development and Industrial Council.

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006

ASSETS

| | <u>2007</u> | <u>2006</u> |
|--------------------------------------|--------------------------|--------------------------|
| CURRENT ASSETS: | | |
| Funds on Deposit with Town Treasurer | | |
| Operating Cash | \$ 15,066 | \$ 15,674 |
| Accounts Receivable, Net | 2,902,818 | 2,949,356 |
| Materials and Supplies | 1,298,956 | 833,397 |
| Prepaid Power Contracts | 812,601 | 906,528 |
| Purchased Power Working Capital | <u>692,157</u> | <u>692,102</u> |
| TOTAL CURRENT ASSETS | <u>5,721,598</u> | <u>5,397,057</u> |
| NONCURRENT ASSETS: | | |
| Funds on Deposit with Town Treasurer | | |
| Depreciation Fund | 2,294,428 | 1,998,273 |
| Customer Deposits | 941,045 | 886,739 |
| Insurance Reserve Fund | 253,687 | 253,687 |
| Rate Stabilization Fund | 2,472,611 | 2,371,810 |
| Pension Fund | 1,143,706 | 3,491,508 |
| Investments | 202,477 | 52,477 |
| Unamortized Debt Discount | 0 | 5,369 |
| Utility Plant Assets, Net | <u>24,511,282</u> | <u>23,382,910</u> |
| TOTAL NONCURRENT ASSETS | <u>31,819,236</u> | <u>32,442,773</u> |
| TOTAL ASSETS | <u>\$ 37,540,834</u> | <u>\$ 37,839,830</u> |

See Accompanying Notes To Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006

LIABILITIES

| | <u>2007</u> | <u>2006</u> |
|------------------------------------|------------------|------------------|
| CURRENT LIABILITIES: | | |
| Accounts Payable | \$ 1,576,482 | \$ 1,463,190 |
| Accounts Payable - Related Party | 2,280,986 | 2,013,971 |
| Accrued Expenses | 194,138 | 179,304 |
| Bonds Payable | 0 | 300,000 |
| Customer Advances for Construction | 1,688,827 | 1,541,619 |
| Sales Tax Payable | 39,307 | 38,057 |
| Other Deferred Credits | 188,227 | 183,573 |
| | <u>5,967,967</u> | <u>5,719,714</u> |
| TOTAL CURRENT LIABILITIES | | |
| | <u>5,967,967</u> | <u>5,719,714</u> |
| NONCURRENT LIABILITIES: | | |
| Customer Deposits | 940,265 | 862,545 |
| Rate Stabilization Reserve | 2,472,611 | 2,371,810 |
| | <u>3,412,876</u> | <u>3,234,355</u> |
| TOTAL NONCURRENT LIABILITIES | | |
| | <u>3,412,876</u> | <u>3,234,355</u> |
| TOTAL LIABILITIES | <u>9,380,843</u> | <u>8,954,069</u> |

NET ASSETS

| | | |
|---|----------------------|----------------------|
| Restricted for Debt Service | 0 | 300,000 |
| Invested in Capital Assets, Net of Related Debt | 24,511,282 | 23,082,910 |
| Unrestricted | 3,648,709 | 5,502,851 |
| | <u>28,159,991</u> | <u>28,885,761</u> |
| TOTAL NET ASSETS | | |
| | <u>28,159,991</u> | <u>28,885,761</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 37,540,834</u> | <u>\$ 37,839,830</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, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|
| OPERATING REVENUES: | | |
| Sales of Electricity | \$ 26,256,357 | \$ 23,504,167 |
| Other Operating Revenues | <u>110,894</u> | <u>194,966</u> |
| TOTAL OPERATING REVENUES | <u>26,367,251</u> | <u>23,699,133</u> |
| OPERATING EXPENSES: | | |
| Operations and Maintenance | 24,603,260 | 22,094,629 |
| Depreciation | <u>1,186,536</u> | <u>902,659</u> |
| TOTAL OPERATING EXPENSES | <u>25,789,796</u> | <u>22,997,288</u> |
| OPERATING INCOME | <u>577,455</u> | <u>701,845</u> |
| NONOPERATING REVENUES (EXPENSES): | | |
| Investment Income | 395,080 | 328,321 |
| Interest Expense | <u>(64,114)</u> | <u>(64,301)</u> |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>330,966</u> | <u>264,020</u> |
| Income Before Contributions and Transfers | 908,421 | 965,865 |
| NET ASSETS - January 1 | 28,885,761 | 28,460,712 |
| Transfers In (Out) - Retirement Fund | (2,275,925) | (104,931) |
| Transfers In - Restricted for Capital Projects | 1,289,484 | 38,163 |
| Transfers Out - Payments in Lieu of Taxes | <u>(647,750)</u> | <u>(474,048)</u> |
| NET ASSETS - December 31 | <u>\$ 28,159,991</u> | <u>\$ 28,885,761</u> |

See Accompanying Notes To Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash Received from Customers | \$ 26,638,717 | \$ 24,573,019 |
| Cash Paid to Suppliers | (21,987,390) | (19,722,774) |
| Cash Paid to Employees | (2,290,903) | (2,330,045) |
| Cash Paid for Benefits | (728,666) | (878,027) |
| Payment in Lieu of Taxes | (624,048) | (451,474) |
| | <u>1,007,710</u> | <u>1,190,699</u> |
| Net Cash Provided by Operating Activities | | |
| CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Interest Expense | <u>(48,514)</u> | <u>(31,107)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Accounts Payable - Related Party | 267,015 | 1,720,207 |
| Additions to Plant Assets | (2,102,261) | (7,459,004) |
| Additions to Construction in Progress | (212,647) | 0 |
| Principal Repayment on Bonds Payable | (300,000) | (345,000) |
| Customer Advances for Construction | 1,289,484 | 38,163 |
| Interest Expense | (15,600) | (33,195) |
| | <u>(1,074,009)</u> | <u>(6,078,829)</u> |
| Net Cash Provided (Used) in Capital and Related Financing Activities | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Transfer to Hingham Contributory Retirement System | (2,128,216) | 0 |
| Investment Income | 395,080 | 328,321 |
| Rate Stabilization Reserve | 100,801 | 431,738 |
| Purchases of Investments | (150,000) | 0 |
| | <u>(1,782,335)</u> | <u>760,059</u> |
| Net Cash Provided by Investing Activities | | |
| NET (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,897,148) | (4,159,178) |
| CASH AND CASH EQUIVALENTS - Beginning | 9,017,691 | 13,176,869 |
| CASH AND CASH EQUIVALENTS - Ending | <u>\$ 7,120,543</u> | <u>\$ 9,017,691</u> |

See Accompanying Notes To Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:

| | 2007 | 2006 |
|--|---------------------|---------------------|
| Operating Income | \$ 577,455 | \$ 701,845 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | 1,186,536 | 902,659 |
| Payment in Lieu of Taxes | (624,048) | (451,474) |
| Payment of Current Year Pension | (147,709) | (285,215) |
| (Increase) Decrease in Assets: | | |
| Accounts Receivable | 46,538 | 197,944 |
| Materials and Supplies | (465,559) | 293,504 |
| Prepaid Expenses | 93,927 | 227,695 |
| Purchased Power Working Capital | (55) | 382,928 |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | 113,292 | (1,565,967) |
| Accrued Expenses | (3,499) | 63,930 |
| Customer Advances for Construction | 147,208 | 653,879 |
| Sales Tax Payable | 1,250 | 5,523 |
| Other Deferred Credits | 4,654 | 41,385 |
| Customer Deposits | 77,720 | 22,063 |
| Net Cash Provided by Operating Activities | <u>\$ 1,007,710</u> | <u>\$ 1,190,699</u> |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

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

| | 2007 | 2006 |
|-------------------------|---------------------|---------------------|
| Depreciation Fund | \$ 2,294,428 | \$ 1,998,273 |
| Operating Cash | 15,066 | 15,674 |
| Customer Deposits | 941,045 | 886,739 |
| Insurance Reserve Fund | 253,687 | 253,687 |
| Pension Fund | 1,143,706 | 3,491,508 |
| Rate Stabilization Fund | 2,472,611 | 2,371,810 |
| | <u>\$ 7,120,543</u> | <u>\$ 9,017,691</u> |

See Accompanying Notes To Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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 Public Utilities (DPU). 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 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 Public Utilities. While the DPU exercises general supervisory authority over the Lighting Plant, the 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 three percent of cost of plant in service at the beginning of the year, exclusive of land and land rights. Massachusetts law stipulates that the Lighting Plant may change from the statutory depreciation rate only with the approval of the DPU. The Lighting Plant has used a rate of 3% for 2007 and 2006. 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, 2007 AND 2006

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 2006 financial statements have been reclassified to conform to the 2007 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.

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 permitted to carry over 10 vacation days 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 Lighting Plant will send a delinquent notice specifying a termination date. The termination notice is sent out giving the customer at least seventy-two hours notice before termination. On a periodic basis, the Lighting Plant does evaluate its accounts receivable to determine if any write-offs are necessary. Accounts receivable are stated net of an allowance for doubtful accounts of \$48,466 for 2007 and 2006, respectively.

Sales Tax

The Lighting Plant 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 remitted.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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 Lighting Plant keeps the amount separate in their records.

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 rate stabilization fund was created as an aftermath of deregulation. These funds are for unexpected escalation in costs, such as the decommissioning of nuclear power plants before the end of their operating license, unusual price spikes in fuel prices and transmission cost increases. We will also 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. The Reserve Fund had an increase of \$100,801 for 2007 and an increase of \$431,738 for 2006. The rate stabilization amounts are approved by the Board of Commissioners and will be held by the Town in a reserve trust fund.

NOTE 5 - PENSION FUND:

The pension fund was created to fund pension obligations of the Lighting Plant. During 2007, \$2,128,216 was transferred over to the town which fully funded the pension obligation based on the actuarial amount given to the Lighting Plant by the retirement board as of July 1, 2007.

NOTE 6 - 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 \$692,157 as of December 31, 2007 and \$692,102 as of December 31, 2006.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 7 - INVESTMENTS:

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

Hingham Municipal Lighting Plant invested \$150,000 for an ownership interest in Energy New England, LLC that's currently 5%. Energy New England, LLC, is a non public energy and energy services cooperative formed to aggregate the resources and collective buying power of municipal electric systems. Products and services include power supply/power brokering, risk management, all requirements contracts, total system resource management, consolidated wholesale billing, report preparation and filing and energy market services. The investment is stated at cost.

NOTE 8 - UTILITY PLANT ASSETS:

| | Balance January 1, 2007 | Increases | Decreases | Balance December 31, 2007 |
|---------------------------------------|-------------------------------|---------------------|-------------|---------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 17,856 | \$ 0 | \$ 0 | \$ 17,856 |
| Construction in Progress | 159,246 | 212,647 | | 371,893 |
| Total | 177,102 | 212,647 | 0 | 389,749 |
| Capital assets being depreciated: | | | | |
| Transmission Plant | 1,524,483 | 13,559 | 0 | 1,538,042 |
| Distribution Plant | 34,003,943 | 1,792,484 | (47,921) | 35,748,506 |
| General Plant | 4,023,062 | 296,218 | 0 | 4,319,280 |
| Total | 39,551,488 | 2,102,261 | (47,921) | 41,605,828 |
| Less accumulated depreciation for: | | | | |
| Transmission Plant | (963,297) | (45,734) | 0 | (1,009,031) |
| Distribution Plant | (13,022,758) | (1,020,110) | 47,921 | (13,994,947) |
| General Plant | (2,359,625) | (120,692) | 0 | (2,480,317) |
| Total accumulated depreciation | (16,345,680) | (1,186,536) | 47,921 | (17,484,295) |
| Capital assets being depreciated, Net | 23,205,808 | 915,725 | 0 | 24,121,533 |
| Utility Plant Assets, Net | <u>\$ 23,382,910</u> | <u>\$ 1,128,372</u> | <u>\$ 0</u> | <u>\$ 24,511,282</u> |

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 9 - CONSTRUCTION IN PROGRESS:

There is a project under construction in Hingham. The Lighting Plant has received \$1,205,572 from a customer for the renovation to the shipyards. As of December 31, 2007 the Lighting Plant has incurred costs of \$212,647.

There are smaller projects of which the Lighting Plant has received \$483,255 from their customers. As of December 31, 2007, the Lighting Plant had not incurred any costs related to these projects.

In 2006, the Lighting Plant started a project for East Weymouth. The costs incurred during 2006 were \$159,246. The project is not complete and has been put on hold.

NOTE 10 - 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 matured on July 15, 2007.

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 did reduce its aggregate debt service payments by approximately \$101,225 over the past 15 years, and achieved 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 is \$5,369 for the years ended December 31, 2007 and 2006.

NOTE 11 - INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT:

| | 2007 | 2006 |
|--|----------------------|----------------------|
| Cost of Capital Assets Acquired | \$ 41,995,577 | \$ 39,728,590 |
| Less: Accumulated Depreciation | 17,484,295 | 16,345,680 |
| Less: Outstanding Debt Related to Capital Assets | <u>0</u> | <u>300,000</u> |
| Invested in Capital Assets, Net of Related Debt | <u>\$ 24,511,282</u> | <u>\$ 23,082,910</u> |

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 12 - 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 13 - UNBILLED REVENUE:

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

NOTE 14 - OTHER DEFERRED CREDITS:

The Lighting 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 Lighting 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, 2007 and 2006 is \$188,227 and \$183,573, respectively.

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 \$1,124,254 in 2007 and \$1,284,814 in 2006. Included in the accompanying statements of net assets as of December 31, 2007 and 2006 is \$70,972 and \$111,494, 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 \$887,956 in 2007 and \$856,662 in 2006. Included in the accompanying statements of net assets as of December 31, 2007 and 2006 is \$497,750 and \$474,048, respectively of amounts due to the Town.

In 2007 and 2006, the Light Board approved a payment in lieu of property taxes to the Town in the amount of \$647,750 and \$474,048, respectively. The regular payment due for 2007 was \$497,750 with a board voted additional one time payment of \$150,000.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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 teacher's 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, 2007 AND 2006

NOTE 16 - PENSION PLAN (Continued):

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

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 amount of pension expense charged to net assets for the year ended December 31, 2007 was approximately \$147,709. In addition, expense for the current year amounted to \$146,576. The amount charged to retirement trust fund was \$285,215 and \$274,826 for the years ended December 31, 2006 and 2005, respectively.

The plan's separately issued financial statements can be obtained by contacting the Town of Hingham Retirement Board at 210 Central Street, Hingham, MA 02043.

The Lighting Plant is making provisions for their share of the Town of Hingham's unfunded actuarial liability by contributing to a pension fund to which they make contributions as deemed necessary by an actuary hired every two years to analyze the fund's estimated actuarial liability and assets. In addition to its annual town assessment, the Lighting Plant has set aside amounts totaling \$2,128,216, \$3,491,508 and \$3,776,723 as of December 31, 2007, 2006 and 2005, for the Plant's anticipated future liabilities for its current employees.

During 2007 \$2,128,216 from our pension fund was remitted to the town's retirement fund to fully fund the Lighting Plant's retirement liability according to actuarial calculations as of July 1, 2007. The balance in the pension fund of \$1,143,706 will be used toward funding our OPEP liability.

NOTE 17 - MMWEC PARTICIPATION:

The 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 entities 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.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 17 - MMWEC PARTICIPATION (Continued):

In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's 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 Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Lighting Plant is required to make certain payments to MMWEC payable solely from Lighting Plant 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).

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 general 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. 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 fully insured. Damage is covered in full with a \$1,000 deductible per incident. 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, 2007 and 2006, the Lighting Plant considers it's pro rata share of these losses to be immaterial to its financial statements.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 19 - LEASES:

The Lighting Plant has an operating lease agreement to lease antenna space. This lease expires in 2010 and has one sixty-month renewal option. Rent expense related to this lease was approximately \$5,280 and \$5,032 for the years ended December 31, 2007 and 2006, respectively.

NOTE 20 - COMMITMENTS AND CONTINGENCIES:

The Lighting Plant is subject to various legal proceedings covering a range of matters that arise in the ordinary course of its business activities. No provision for loss on litigation and/or claims has been made. Management and legal counsel do not anticipate that any related settlement would have a material adverse effect on the Lighting Plant's financial position.

Power Purchase Commitments

Hingham Municipal Lighting Plant has entered into a contract with Integrys Energy Service to purchase 10 MWs per year. This purchase power contract is effective from 2006 thru 2010 with an estimated annual cost of \$7,047,420.

Through membership in MMWEC, the Lighting Plant is contingently liable on various projects in which they participated as described below.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. 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.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of FPL Energy, LLC and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear unit. In November 2005, the Nuclear Regulatory Commission (NRC) renewed the operating licenses for the Millstone Unit 2 and Unit 3 nuclear units for an additional twenty years. The license for Unit 2 was extended to July 31, 2035 and the license for Unit 3 was extended to November 25, 2045.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 20 - COMMITMENTS AND CONTINGENCIES (Continued):

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by FPL Energy Seabrook, LLC (FPLE Seabrook), the majority owner and an indirect subsidiary of FPL Group, Inc. In December 2005, the NRC issued an amendment to the operating license that extends its expiration date from October 2026 to March 2030, to recapture the period from 1986 to 1990 during which time Seabrook Station had an operating license, but did not operate. FPLE Seabrook has stated its intention to request an extension of the Seabrook Station operating license beyond March 2030.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

Hingham Municipal Lighting Plant has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Lighting Plant is required to make certain payments to MMWEC payable solely from Lighting Plant revenues. Under the PSAs, each Participant is unconditionally obligated to make all 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).

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

As of December 31, 2007, total capital expenditures for MMWEC's Projects amounted to \$1,538,931,000, of which \$60,751,000 represents the amount associated with the Lighting Plant's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Lighting Plant. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds totaling \$641,630,000, of which \$23,415,000 is associated with the Lighting Plant's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Lighting Plant. As of December 31, 2007, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$763,040,000, of which \$27,943,000 is anticipated to be billed to the Lighting Plant in the future.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 20 - COMMITMENTS AND CONTINGENCIES (Continued):

The estimated 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 and Integrys Energy Service at December 31, 2007 and estimated for future years is shown below.

| | <u>ANNUAL COSTS</u> | |
|------------------------------|---------------------|----------------------|
| For Years Ended December 31, | 2008 | \$ 10,715,420 |
| | 2009 | 10,299,420 |
| | 2010 | 10,999,420 |
| | 2011 | 2,926,000 |
| | 2012 | 2,921,000 |
| | 2013 TO 2017 | 11,711,000 |
| | 2018 TO 2019 | <u>513,000</u> |
| | TOTAL | <u>\$ 50,085,260</u> |

In addition, under the PSAs, the Lighting Plant is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Lighting Plant's total O&M costs including debt service under the PSAs were \$7,518,000 and \$7,500,000 for the years ended December 31, 2007 and 2006, respectively.

NOTE 21 - FUTURE ACCOUNTING PRONOUNCEMENTS:

GASB Statement Nos. 43 and 45, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions are effective in three phases based on the Town of Hingham's annual revenue in the first fiscal year ending after June 15, 1999. Phase 1 is for governments with total revenues of \$100 million or more, will implement for period beginning after December 15, 2006. Phase 2 is for governments with total annual revenues of \$10 million or more, but less than \$100 million, will implement for periods beginning after December 15, 2007. Phase 3 is for governments with total annual revenues of less than \$10 million, will implement for periods beginning after December 15, 2008.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 21 - FUTURE ACCOUNTING PRONOUNCEMENTS (Continued):

These statements will require the Town to account for and report the value of its future other postemployment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The Lighting Plant follows the Town on Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents or their survivors. These benefits are provided through the Town's group plans. The cost of the benefits is included in the total cost of benefits for both active and retired employees.

The Lighting Plant had approximately 17 retirees meet the eligibility requirements. The Lighting Plant pays 50% of the health insurance premiums incurred by retirees and their dependents. The Lighting Plant also provides for \$11 per month of the premiums of life insurance for each eligible retiree.

Expenditures of approximately \$72,028 for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in calendar year 2007.

GASB Statement Nos. 43 and 45, Financial Reporting for Postemployment Benefit Plans Other Than Pensions are effective for December 31, 2008 and December 31, 2009, respectively.

These statements will require the Lighting Plant to account for and report the value of its future other postemployment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The Lighting Plant has estimated its total OPEB obligation as of July 1, 2006 from the actuarial study to be approximately \$4,163,196. Based on these estimates, the Lighting Plant's actuarially required contribution (ARC) is estimated to be between \$321,957 and \$169,588.

The Lighting Plant has put aside \$1,143,706 to be used toward funding this OPEB liability.

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, 2006 and 2005, which was presented in the preceding section of this report. The supplemental information presented on pages 26 and 27 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
October 7, 2008

HINGHAM MUNICIPAL LIGHTING PLANT
SCHEDULES OF SALES OF ELECTRICITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|----------------------------|-----------------------------|-----------------------------|
| SALE OF ELECTRICITY: | | |
| Residential | \$ 11,545,353 | \$ 11,006,409 |
| Commercial and Industrial | 12,972,432 | 10,761,364 |
| Municipal | 1,260,074 | 1,258,708 |
| Security Lighting | 54,928 | 61,016 |
| Forfeited Discounts | <u>423,570</u> | <u>416,670</u> |
| TOTAL SALES OF ELECTRICITY | <u><u>\$ 26,256,357</u></u> | <u><u>\$ 23,504,167</u></u> |

See Independent Auditors' Report on Supplemental Information

HINGHAM MUNICIPAL LIGHTING PLANT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|--|-----------------------------|-----------------------------|
| POWER PRODUCTION EXPENSES: | | |
| Purchased Power | \$ 19,679,938 | \$ 17,738,235 |
| Transmission and Other Purchased Power Charges | <u>1,266,141</u> | <u>1,463,601</u> |
| Total Power Production Expenses | <u>20,946,079</u> | <u>19,201,836</u> |
| DISTRIBUTION EXPENSES: | | |
| Miscellaneous Distribution Expenses | <u>613,824</u> | <u>492,599</u> |
| MAINTENANCE EXPENSES: | | |
| Maintenance of Lines | 554,553 | 439,681 |
| Maintenance - Other | <u>16,778</u> | <u>26,304</u> |
| Total Maintenance Expenses | <u>571,331</u> | <u>465,985</u> |
| CUSTOMER ACCOUNTS: | | |
| Customer Accounting and Collection Expense | 542,963 | 415,994 |
| Meter Reading Expense | <u>152,437</u> | <u>175,917</u> |
| Total Customer Accounts | <u>695,400</u> | <u>591,911</u> |
| GENERAL AND ADMINISTRATIVE EXPENSES: | | |
| Administrative and General Salaries | 286,137 | 249,833 |
| Office Supplies and Expenses | 20,473 | 32,045 |
| Outside Services Employed | 102,800 | 133,530 |
| Property Insurance | 128,998 | 152,002 |
| Injuries and Damages | 258,648 | 14,185 |
| Employees' Pension and Benefits | 728,666 | 592,812 |
| Dues, Meetings, and Other General Expenses | 137,302 | 42,293 |
| Transportation | 79,428 | 85,450 |
| Rent | 18,651 | 31,105 |
| Maintenance of General Plant | <u>15,523</u> | <u>9,043</u> |
| Total General and Administrative Expenses | <u>1,776,626</u> | <u>1,342,298</u> |
| TOTAL OPERATIONS AND MAINTENANCE EXPENSES | <u><u>\$ 24,603,260</u></u> | <u><u>\$ 22,094,629</u></u> |

See Independent Auditors' Report on Supplemental Information