

HINGHAM MUNICIPAL LIGHTING PLANT
Financial Statements
December 31, 2019 and 2018

HINGHAM MUNICIPAL LIGHTING PLANT
TABLE OF CONTENTS
DECEMBER 31, 2019 AND 2018

	Page
Independent Auditors' Report	1,2
Management's Discussion and Analysis	3-6
Financial Statements:	
Operating Fund:	
Statements of Net Position	7,8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10,11
Other Postemployment Benefits (OPEB) Trust Fund:	
Statements of Fiduciary Net Position	12
Statements of Changes in Fiduciary Net Position	12
Notes to the Financial Statements	13-36
Supplemental Information:	
Operating Fund:	
Required Supplementary Information – Net Pension Liability	37
Operating and OPEB Trust Fund:	
Required Supplementary Information – Other Postemployment Benefits	38,39
Notes to the Required Supplementary Information – Net Pension Liability	40
Operating Fund:	
Schedules of Sales of Electricity	41
Schedules of Operations and Maintenance Expenses	42

GOULET, SALVIDIO
& ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Hingham Municipal Lighting Plant
31 Bear Cove Park Drive
Hingham, MA 02043

We have audited the accompanying financial statements of Hingham Municipal Lighting Plant as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Hingham Municipal Lighting Plant's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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, 2019 and 2018, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Hingham Municipal Lighting Plant and do not purport to, and do not present fairly the financial position of the Town of Hingham, Massachusetts, as of December 31, 2019 and 2018, and the changes in financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Other Postemployment Benefits and Net Pension Liability information on pages three through six and 37 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Sales of Electricity and Schedules of Operations and Maintenance Expenses on pages 41 and 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
June 23, 2020

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, 2019 and 2018. 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 position (2) the statements of revenues, expenses and changes in net position (3) the statements of cash flows and (4) notes to the financial statements.

The Statements of Net Position are designed to indicate our financial position as of a specific point in time. At December 31, 2019, it shows our net worth has increased by \$3,732,649 or 8.5% over the year ended December 31, 2019.

The Statements of Revenues, Expenses and Changes in Net Position, summarizes our operating results and reveals how much net income was earned for the year. As discussed in more detail, our net income for December 31, 2019 and 2018 was \$4,214,036 and \$149,907, 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 Position – Operating Fund

	<u>2019</u>	<u>2018</u>
Current Assets	\$ 13,440,365	\$ 10,259,890
Noncurrent Assets	<u>50,124,759</u>	<u>48,498,984</u>
Total Assets	<u>63,565,124</u>	<u>58,758,874</u>
Deferred Outflows of Resources	<u>1,644,182</u>	<u>1,355,473</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 65,209,306</u>	<u>\$ 60,114,347</u>
Current Liabilities	\$ 2,482,879	\$ 2,463,050
Noncurrent Liabilities	<u>6,629,723</u>	<u>5,697,145</u>
Total Liabilities	<u>9,112,602</u>	<u>8,160,195</u>
Deferred Inflows of Resources	<u>8,303,429</u>	<u>7,896,526</u>

	<u>2019</u>	<u>2018</u>
Net Position:		
Net Investment in Capital Assets	27,996,164	28,904,039
Net Position Restricted for Depreciation	12,749,509	10,571,304
Unrestricted Net Position	<u>7,044,602</u>	<u>4,582,283</u>
Total Net Position	<u>47,790,275</u>	<u>44,057,626</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 65,209,306</u>	<u>\$ 60,114,347</u>

Summary of Changes in Net Position – Operating Fund

	<u>2019</u>	<u>2018</u>
Operating Revenues	\$ 30,913,392	\$ 28,727,165
Operating Expenses	<u>27,068,914</u>	<u>28,910,161</u>
Operating Income	3,844,478	(182,996)
Nonoperating Revenues	<u>369,558</u>	<u>332,903</u>
Income Before Contributions and Transfers	4,214,036	149,907
Transfers Out – Payments in Lieu of Taxes	(481,387)	(504,081)
Beginning Net Position	<u>44,057,626</u>	<u>44,411,800</u>
Ending Net Position	<u>\$ 47,790,275</u>	<u>\$ 44,057,626</u>

Financial Highlights:

Operating revenues increased \$2.2m in 2019 or approximately 7.6%. This is attributable to a full year's worth of revenue after having had a rate increase approximately midway through the prior year. Operating expenses decreased \$1.8m in 2019, or approximately 6.4%. This decrease in expenses can be attributed in large part to decreases in kWh sold and capacity charges.

Over the past decade or so, even in times of a down economy, the Lighting Plant had experienced significant load growth in its system. There were a few years in those ten (10) + when the total number of customers remained largely unchanged and no larger projects came on line so any increase in sales were weather dependent vs. new load. The kwh's sales in 2019 decreased, by about 3.8%, likely because of weather as the number of customers increased by under 200 customers for 2019. There are three (3) apartment/condo complexes which are in various stages of development. When complete they will add approximately 500 residential units to HMLP's load. If the developers' consumption projections come to full fruition, history shows similar predictions rarely do, these projects could possibly add about 3MW of load. The Lighting Plant distribution system is well situated for growth as we continue to make capital improvements to our infrastructure. The Lighting Plant has funded 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.

Financial Highlights (Continued):

The Hingham Municipal Lighting Plant experienced, in July 2019, its annual peak consumption at approximately 52.4 MW. This represents a decrease in peak load of about 8.8% from 2018 which was our previous all-time peak at 57MW. During 2019 the total kilowatt-hour purchased was, 198.4m kWh which, as was earlier stated, a decrease of approximately 3.8% on a total load of 206m kWh from 2018.

The number of customers who pay their bills online or with a credit card continues to rise. We are averaging approximately 3,600 customers, or 36%, a month paying in that manner.

In 2017 the Hingham Municipal Lighting Plant adopted a policy that allowed it to become the first electric utility in at least all of New England to be able to say 100% of our supply is carbon free. To meet that definition, have 100% of our supply be considered carbon free, the Board directed the General Manager to retire whatever renewable energy credits (RECS) we have rights to and buy enough replacement RECs to offset any of our fossil fuel supply or renewable supply for which we do not own the RECs. The Board opted to do that for our 2017 and 2018 RECs. For HMLP's 2019 RECs we took a hybrid approach. We sold some of those financially more valuable RECs, we retired the others and bought offsetting RECs to cover those we sold and our fossil fuel supply. These actions still allowed us to be designated as having our supply be carbon free.

Debt Administration and Utility Plant:

Debt Administration

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 Eversource, 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, were financed through municipal bonds. The collective debt owed under these bonds was at approximately \$7.4 million of which Hingham Municipal Lighting Plant's share was just over \$373,000 for 2018. These bonds have been paid in full during 2019.

Utility Plant

Net utility plant decreased by \$907,075 from 2018. This decrease is the difference between the current year additions of \$957,749 and the annual depreciation write off of \$1,908,897. The Light Plant continues to add infrastructure to its system to provide service to the new growth in Town.

The Lighting Plant completed 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.

Debt Administration and Utility Plant (Continued):

In an effort to keep power outages to a minimum and provide an asset database the HMLP completed a mapping of the Town's electrical distribution system some years ago. This has greatly assisted our operations folks when addressing outages that occur and when locating and switching circuits to balance load more evenly and restore power. The Lighting Plant has the capability to locate the poles, transformers, meters, and other types of services remotely via a tablet. A further benefit to this mapping was achieved when the online outage management system we purchased became fully operational. This system, which we continuously upgrade, helps us better track outages, identifies the likely source of the trouble and gives a sense of areas that may become problematic.

Significant Balances and Transactions:

Pension Fund

The Pension Fund's purpose is to set aside monies for retirement costs attributable to the 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 Lighting Plant recognizes a net pension liability related to its future pension commitments of \$3,763,750 and \$2,968,051 for the years ended December 31, 2019 and 2018, respectively.

OPEB Trust Fund

The Other Postemployment Benefits Trust Fund's purpose is to set aside monies for costs attributable to the Lighting Plant's retiree's medical costs. The Lighting Plant has set aside funds for this liability and the current fund is sixty-eight percent funded, well ahead of the potential need for the fund to be fully funded. The fund is being managed by an experienced wealth management firm, based on the Lighting Plant's Investment Policy Statement.

Depreciation Fund

The 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.

Rate Stabilization Fund

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 increased our contributions to this fund to better position us for any increases.

Purchased Power Working Capital

The purchased power working capital is an amount held by Energy New England (ENE), our power supply agent. ENE 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 POSITION
DECEMBER 31, 2019 AND 2018

OPERATING FUND

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2019	2018
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 6,974,789	\$ 4,362,165
Accounts Receivable, Net	2,214,886	2,234,203
Accounts Receivable, Related Party	123,325	124,579
Other Receivable	722,215	157,540
Materials and Supplies	1,034,672	946,983
Prepaid Power Contracts	526,980	591,587
Purchased Power Working Capital	1,843,498	1,842,833
TOTAL CURRENT ASSETS	13,440,365	10,259,890
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	12,749,509	10,571,304
Customer Deposits	1,735,824	1,733,474
Insurance Reserve Fund	253,687	253,687
Rate Stabilization Fund	6,956,402	6,627,694
Investments	362,170	362,170
Preliminary Survey and Investigations	71,003	46,616
Utility Plant Assets, Net	27,996,164	28,904,039
TOTAL NONCURRENT ASSETS	50,124,759	48,498,984
TOTAL ASSETS	63,565,124	58,758,874
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflows of Resources Related to OPEB	335,173	233,159
Deferred Outflows of Resources Related to Pensions	1,309,009	1,122,314
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,644,182	1,355,473
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 65,209,306	\$ 60,114,347

See Accompanying Notes to the Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

OPERATING FUND

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2019	2018
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,533,311	\$ 1,508,530
Accounts Payable - Related Party	466,815	504,480
Accrued Expenses	117,674	112,078
Customer Advances for Construction	314,075	288,775
Sales Tax Payable	51,004	49,187
 TOTAL CURRENT LIABILITIES	 2,482,879	 2,463,050
NONCURRENT LIABILITIES:		
Customer Deposits	1,735,824	1,733,474
Net Pension Liability	3,763,750	2,968,051
Net Other Postemployment Benefits Obligation	1,130,149	995,620
 TOTAL NONCURRENT LIABILITIES	 6,629,723	 5,697,145
 TOTAL LIABILITIES	 9,112,602	 8,160,195
DEFERRED INFLOWS OF RESOURCES:		
Contribution in Aid of Construction, Net	866,330	771,941
Deferred Inflows of Resources Related to Pensions	401,133	801,039
Deferred Inflows of Resources Related to OPEB	82,564	89,852
Rate Stabilization Reserve	6,956,402	6,233,694
 TOTAL DEFERRED INFLOWS OF RESOURCES	 8,306,429	 7,896,526
NET POSITION:		
Net Investment in Capital Assets	27,996,164	28,904,039
Net Position Restricted for Depreciation	12,749,509	10,571,304
Unrestricted Net Position	7,044,602	4,582,283
 TOTAL NET POSITION	 47,790,275	 44,057,626
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	 \$ 65,209,306	 \$ 60,114,347

See Accompanying Notes to the Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

	2019	2018
OPERATING REVENUES:		
Sales of Electricity	\$ 30,662,653	\$ 28,424,897
Other Operating Revenues	250,739	302,268
	30,913,392	28,727,165
TOTAL OPERATING REVENUES		
OPERATING EXPENSES:		
Operations and Maintenance	25,186,811	27,055,991
Depreciation, Net of Amortization	1,882,103	1,854,170
	27,068,914	28,910,161
TOTAL OPERATING EXPENSES		
OPERATING INCOME (LOSS)	3,844,478	(182,996)
NONOPERATING REVENUES (EXPENSES):		
Grant Income	0	63,505
Investment Income	418,028	285,291
Interest Expense	(48,470)	(15,893)
	369,558	332,903
TOTAL NONOPERATING REVENUES (EXPENSES)		
Income Before Contributions and Transfers	4,214,036	149,907
NET POSITION - JANUARY 1	44,057,626	44,411,800
Transfers Out - Payments in Lieu of Taxes	(481,387)	(504,081)
NET POSITION - DECEMBER 31	\$ 47,790,275	\$ 44,057,626

See Accompanying Notes to the Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 30,446,538	\$ 28,601,602
Cash Paid to Suppliers	(19,329,655)	(22,827,587)
Cash Paid to Employees	(3,457,001)	(3,237,742)
Cash Paid for Benefits	(1,493,927)	(1,501,054)
Payment in Lieu of Taxes	(481,387)	(504,081)
	<u>5,684,568</u>	<u>531,138</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest Expense	(48,470)	(15,893)
	<u>(48,470)</u>	<u>(15,893)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net Transfers (to) from the Depreciation Fund	(1,893,472)	(1,878,045)
Additions to Plant Assets	(1,003,822)	(1,146,302)
Grant Income	0	63,505
Contribution in Aid of Construction	71,583	36,885
	<u>(2,825,711)</u>	<u>(2,923,957)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(2,825,711)</u>	<u>(2,923,957)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Income	10,587	58,939
Net Transfers to Rate Stabilization Fund	(206,000)	(600,000)
	<u>(195,413)</u>	<u>(541,061)</u>
Net Cash Used in Investing Activities	<u>(195,413)</u>	<u>(541,061)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,614,974	(2,949,773)
CASH AND CASH EQUIVALENTS - JANUARY 1	6,349,326	9,299,099
CASH AND CASH EQUIVALENTS - DECEMBER 31	\$ 8,964,300	\$ 6,349,326

See Accompanying Notes to the Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

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

	2019	2018
Operating Income (Loss)	\$ 3,844,478	\$ (182,996)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,908,897	1,878,044
Amortization of Contribution in Aid of Construction	(26,794)	(23,874)
Payment in Lieu of Taxes	(481,387)	(504,081)
Rate Stabilization Reserve	722,708	281,641
Reserve for Discount	(4,376)	20,991
Pension Expense	606,636	504,643
OPEB Expense	157,905	341,676
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Accounts Receivable	23,693	(599,052)
Accounts Receivable, Related Party	1,254	(20,852)
Other Receivables	(564,675)	349,283
Materials and Supplies	(84,889)	51,682
Prepaid Expenses	64,607	(153,210)
Purchased Power Working Capital	(665)	(697,569)
Preliminary Survey and Investigations	(24,387)	(46,616)
Deferred Outflows of Resources Related to Pension	(397,538)	(348,157)
Increase (Decrease) in Liabilities:		
Accounts Payable	24,781	(364,757)
Accounts Payable - Related Party	(37,665)	14,480
Accrued Expenses	5,596	18,417
Sales Tax Payable	1,817	8,795
Customer Deposits	2,350	26,867
Customer Advances for Construction	74,900	97,200
Net Other Postemployment Benefits Obligation	(132,678)	(121,417)
	\$ 5,684,568	\$ 531,138

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

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

	2019	2018
Operating Cash	\$ 6,974,789	\$ 4,362,165
Customer Deposits	1,735,824	1,733,474
Insurance Reserve Fund	253,687	253,687
	\$ 8,964,300	\$ 6,349,326

See Accompanying Notes to the Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF FIDUCIARY NET POSITION
DECEMBER 31, 2019 AND 2018

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

ASSETS

	2019	2018
Funds on Deposit with Town Treasurer		
Cash and Cash Equivalents	\$ 30,914	\$ 11,580
Investments	2,016,073	1,814,109
	\$ 2,046,987	\$ 1,825,689

FIDUCIARY NET POSITION

FIDUCIARY NET POSITION - Restricted	\$ 2,046,987	\$ 1,825,689
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HINGHAM MUNICIPAL LIGHTING PLANT
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

	2019	2018
Net Investment Income	\$ 213,286	\$ 74,231
Net Appreciation (Depreciation) in Fair Value of Investments	15,001	(118,468)
Management and Related Fees	(6,989)	(7,282)
CHANGE IN FIDUCIARY NET POSITION	221,298	(51,519)
FIDUCIARY NET POSITION - January 1	1,825,689	1,877,208
FIDUCIARY NET POSITION - December 31	\$ 2,046,987	\$ 1,825,689

See Accompanying Notes to the Financial Statements

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 under direction and control of the Municipal Lighting Board, has full charge of the operations and management of the Plant.

Regulation and Basis of Accounting

The Lighting Plant's financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Under Massachusetts Law, electric rates of the 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.

Utility Plant

The statutory provision for depreciation of utility plant is computed on the straight-line method at three percent of cost of the Lighting Plant's assets in service at the beginning of the year, exclusive of land and land rights. Therefore, no depreciation is taken in the year of the Lighting Plant's additions. Massachusetts law stipulates that the Lighting Plant may change from the statutory depreciation rate only with the approval of the DPU up to five percent. The Lighting Plant used a rate of 3% for 2019 and 2018. The Lighting Plant charges maintenance and repairs to expense when incurred. Replacements and betterments are charged to the utility plant.

Revenue Recognition

The Department owns and maintains an electric distribution network serving the Town of Hingham, Massachusetts. Distribution revenues are primarily from the sale of electricity to Town customers. Distribution sales are regulated by the DPU, which is responsible for determining the prices and other terms of services as part of the ratemaking process. The arrangement where a utility provides a service to a customer in exchange for a price approved by a regulator is referred to as a tariff sales contract. Electric distribution revenues are derived from the regulated sale and distribution of electricity to residential, commercial, and industrial customers within the Town of Hingham under the tariff rates. The tariff rates approved by the regulator are designed to recover the costs incurred by the Department for products and services provided along with a return on investment.

The performance obligation for distribution sales is to provide electricity to the customer on demand. The electricity supplied under the tariff represents a single performance obligation as it is a series of distinct goods and services that are substantially the same. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the electricity as the Department provides this service. The Department records revenues related to the distribution sales based upon the approved tariff rate and the volume delivered to the customers, which corresponds with the amount the Department has the right to invoice.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

Revenue Recognition (continued)

Revenues are recognized for energy service provided on a monthly billing cycle basis. No recognition is given to the amount of sales to customers which are unbilled at the end of the accounting period.

Provision for Payment in Lieu of 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 2018 financial statements have been reclassified to conform to the 2019 presentation with no effect on previously reported net income.

Contribution in Aid of Construction

Contributions in Aid of Construction represent non-refundable payments received from consumers and developers for extension of electric services for assets owned and maintained by Hingham Municipal Lighting Plant. These amounts are recorded as a deferred inflow of resources net of amortization.

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 an original 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.

Union 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.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

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 plant 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 \$50,000 for both 2019 and 2018.

Operating Revenue

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

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 yet remitted.

Pensions

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

Other Postemployment Benefits (OPEB)

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

Deferred Outflows/Inflows of Resources

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

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - CONCENTRATION OF CREDIT RISK:

The Town Treasurer is the custodian of the Hingham Municipal Lighting Plant's cash and investments. The Plant coordinates all investment activity with the Treasurer, who has responsibility for these transactions.

Separate cash and investment pools are maintained for the depreciation fund, customer deposits, insurance reserve fund, rate stabilization fund and other postemployment benefit funds.

Investment policies authorize the investment in obligations of certificates of deposit, money market accounts and bank deposits. Since these investments are held to maturity they are recorded at cost. The treasurer may also invest trust funds in securities which are legal for the investment of funds under the laws of the Commonwealth.

Custodial Credit Risk - Deposits

In the event of bank failure, the Plant's deposits may not be returned. 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 Hingham Municipal 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 the Plant's deposits is not determinable because the limits of insurance are computed on a town-wide basis.

Custodial Credit Risk - Investments

Investment custodial risk is the risk that, in the event of a failure by the counterparty, the Plant will not be able to recover the value of its investments. The Plant invests in U.S. Treasury/Agency Securities, Equity Securities, Mutual Funds and Corporate Bonds. The Plant has a custodial credit risk exposure of the amount invested in equity securities. The Plant tried to keep this risk at a minimum by only allowing a certain percentage of the total investments to be invested in these securities (20-60% for the OPEB Trust Funds). The investments with Rockland Trust are protected in accordance with the Securities Investor Protection Corporation (SIPC) up to \$500,000 including cash claims up to \$250,000.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Plant tries to reduce this risk by investing in fixed income investments that mature in less than 5 years.

NOTE 3 - 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. The Insurance Reserve Fund balance at December 31, 2019 and 2018 was \$253,687.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 - RATE STABILIZATION FUND:

The rate stabilization fund was created as an aftermath of Massachusetts Electricity Restructuring Act of 1997. 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. The rate stabilization fund balance at December 31, 2019 and 2018 was \$6,956,402 and \$6,627,694, respectively. The balance in the fund is offset by a corresponding deferred inflow of resources for the accumulated provision for rate refund.

NOTE 5 - DEPRECIATION FUND:

Pursuant to provisions of the Commonwealth's General Laws, the Lighting Plant is required to maintain a restricted cash fund to finance utility plant additions. 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. The fund is managed by the Town Treasurer and 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.

<u>Year End</u>	<u>Ratings as of Value</u>	<u>2019 Fair Year</u>	<u>2019 Under 1 Years</u>	<u>2018 Fair Value</u>
<u>Term Securities</u>				
Certificates of Deposit	N/A	\$ 2,961,068	<u>\$ 3,450,000</u>	\$ 3,450,000
<u>Other Securities</u>				
Century Bank Savings Account		2,975,936		2,922,652
Massachusetts Municipal Depository Trust		6,756,561		4,197,489
Money Market Funds		<u>55,944</u>		<u>1,163</u>
Total Investments		<u>\$ 12,749,509</u>		<u>\$ 10,571,304</u>

As of December 31, 2019, there are no investments in any one issuer (excluding U.S. Treasury securities and mutual funds) that represented 5% or more of the total portfolio value.

NOTE 6 - OTHER RECEIVABLES:

Other receivables consist of the following:

	<u>2019</u>	<u>2018</u>
Merchandise and Jobbing	\$ 57,472	\$ 62,956
Mutual Aid	0	68,019
Interest Receivable	<u>2,085</u>	<u>26,565</u>
Total Other Receivables	<u>\$ 59,557</u>	<u>\$ 157,540</u>

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 7 - PURCHASED POWER WORKING CAPITAL:

The purchased power working capital are amounts held by power supply agents. Agents are required to hold a set amount of capital from which it may pay our power obligations when 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 monthly power billing. Balances as of December 31, 2019 and 2018 are noted on the following schedule.

	2019	2018
Watson	\$ 140,294	\$ 164,290
MMWEC	1,599	1,582
ENE	1,701,605	1,676,961
Total	\$ 1,843,498	\$ 1,842,833

NOTE 8 - 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 a 5% ownership interest in Energy New England, LLC. During 2016, the Light Plant invested \$164,920 for an additional 5% ownership interest in Energy New England, LLC. Energy New England, LLC, is a nonpublic 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. Fair market value approximates stated value.

NOTE 9 - 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 \$1,444,501 in 2019 and \$1,319,017 in 2018. Included in the accompanying statements of net assets as of December 31, 2019 and 2018 is \$123,325 and \$124,579, respectively, of amounts due from the Town.

The Town provides to the Lighting Plant, police detail, various insurances and other expenses, which amounted to approximately \$1,333,356 in 2019 and \$1,311,943 in 2018. As of December 31, 2019 and 2018 amounts payable to the Town were \$416,815 and \$504,480, respectively.

In 2019 and 2018, the Lighting Plant made payments in lieu of property taxes to the Town in the amount of \$481,387 and \$504,480, respectively.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 10 - NET INVESTMENT IN CAPITAL ASSETS:

	2019	2018
Cost of Capital Assets Acquired	\$ 65,162,184	\$ 64,200,413
Less: Accumulated Depreciation	(37,166,020)	(35,296,374)
Net Investment in Capital Assets	\$ 27,996,164	\$ 28,904,039

NOTE 11 - UTILITY PLANT ASSETS:

	Balance January 1, 2019	Increases	Decreases	Balance December 31, 2019
Capital Assets Not Being Depreciated:				
Land	\$ 434,863	\$ 0	\$ 0	\$ 434,863
Construction in Progress	135,587	46,073	0	181,660
Total Capital Assets Not Being Depreciated	570,450	46,073	0	616,523
Capital Assets Being Depreciated:				
Distribution Plant	1,783,046	10,957	0	1,794,003
Distribution Plant	45,060,042	824,979	(39,251)	45,845,770
General Plant	16,786,875	121,813	(2,800)	16,905,888
Total Capital Assets Being Depreciated	63,629,963	957,749	(42,051)	64,545,661
Less Accumulated Depreciation for:				
Distribution Plant	(1,671,724)	(53,491)	0	(1,725,215)
Distribution Plant	(28,995,382)	(1,351,801)	39,251	(30,307,932)
General Plant	(4,629,268)	(503,605)	0	(5,132,873)
Total Accumulated Depreciation	(35,296,374)	(1,908,897)	39,251	(37,166,020)
Capital Assets Being Depreciated, Net	28,333,589	(951,148)	(2,800)	27,379,641
Utility Plant Assets, Net	\$ 28,904,039	\$ (905,075)	\$ (2,800)	\$ 27,996,164

Depreciation expense for the years ended December 31, 2019 and 2018 was \$1,908,897 and \$1,878,044, respectively. Depreciation expense reported on the Statements of Revenues, Expenses and Changes in Net Position is net of amortization of \$26,794 and \$23,874 related to contribution in aid of construction for the years ended December 31, 2019 and 2018, respectively.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 12 - GRANT INCOME:

During 2018, Hingham Municipal Lighting Plant was awarded a LED Streetlight Grant from Massachusetts FOEP for the purpose of converting existing streetlights to LED streetlights. The grant provided reimbursement of 50% of the costs incurred by the Department related to the LED streetlight conversion. As of December 31, 2018, the lighting Plant received \$63,505 of grant funding.

NOTE 13 - PENSION PLAN:

Plan Description

The Plant, through the Town of Hingham, is a member of the Hingham Contributory Retirement System which, in turn, is a member of the Massachusetts Contributory Retirement System which is governed by M.G.L. c.32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The plan is a cost-sharing multiple-employer contributory defined benefit plan for all town employees except those employees who are covered by teachers' retirement board. The Plan's separately issued financial statements can be obtained by contacting Hingham Retirement Board at 210 Central Street, Hingham, Massachusetts 02043.

Benefits Provided

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

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

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

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors: including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status, and group classification.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 13 - PENSION PLAN (Continued):

Benefits Provided (continued)

Employees who resign from state service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total contributions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

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

Contributions

Active members are required to contribute at rates from 5-9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired after 1978 contribute an additional 2% of annual pay above \$30,000. The Plant is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the member units based on the actuarial study. The actuarially determined Plant contribution is an amount, when combined with employee contributions, is expected to finance the cost of benefits earned by the employees during the year, with an additional amount to finance the unfunded liability. The Plant's required contributions to the System for the years ended December 31, 2019 and 2018 were \$348,157 and \$419,203, respectively, which \$348,157 and \$331,435 were paid during calendar year 2018 and 2017, respectively.

Pension Liabilities

At December 31, 2019 and 2018, the Plant reported a liability of \$3,763,750 and \$2,968,051, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018 and 2017, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of January 1, 2018, respectively. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating member units. At the measured date of December 31, 2018 and 2017 the Town's proportion was 88.84% and 88.71%, respectively.

The Plant's portion of the net pension liability was based on the percentage of the Plant's contributions to the total Town's contributions as of the measured date of December 31, 2018 and 2017. At the measured date of December 31, 2018 and 2017, the Plant's portion was 6.87% and 6.97%, respectively, of the Town's total contributions.

Pension Expense

For the years ended December 31, 2019 and 2018, the Plant recognized a pension expense of \$606,636 and \$504,643, respectively. For the years ended December 31, 2019 and 2018, the Plant reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources on the following page.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 13 - PENSION PLAN (Continued):

Pension Expense (continued)

<u>Deferred Outflows of Resources Related to Pension</u>	<u>2019</u>	<u>2018</u>
Changes of assumptions	\$ 296,365	\$ 415,680
Net difference between projected and actual earnings on Pension plan investments	344,786	0
Changes in proportion and differences between employer contributions and proportionate share at the Plant level	270,320	358,477
Plan contributions subsequent to the measurement date	<u>397,538</u>	<u>348,157</u>
Total	<u>\$ 1,309,009</u>	<u>\$ 1,122,314</u>
<u>Deferred Inflows of Resources Related to Pension</u>	<u>2019</u>	<u>2018</u>
Differences between expected and actual experience	\$ 358,629	\$ 480,135
Net difference between projected and actual earnings on Pension plan investments	0	312,968
Changes in proportion and differences between employer contributions and proportionate share at the Plant level	<u>42,504</u>	<u>7,936</u>
Total	<u>\$ 401,133</u>	<u>\$ 801,039</u>

The Plant's net deferred outflows and inflows of resources related to pensions will be recognized in pension expense as shown below.

Year Ended December 31:

2020	\$ 212,765
2021	94,156
2022	43,856
2023	162,948
2024	<u>(3,387)</u>
Total	<u>\$ 510,338</u>

As discussed in the previous paragraph, deferred outflows of resources related to pension as of December 31, 2019 and 2018 was \$1,309,009 and \$1,122,314, respectively, which includes \$397,538 and \$348,157, respectively, of contributions made subsequent to the measurement date that will be included as a reduction of the net pension liability in the years ended December 31, 2020 and 2019, respectively.

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2019 AND 2018

NOTE 13 - PENSION PLAN (Continued):

Actuarial Assumptions

The total pension liability as of December 31, 2019 was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement.

Valuation Date	January 1, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	<i>Unfunded Actuarial Accrued Liability (UAAL):</i> Increasing dollar amount at 4% to reduce the Unfunded Actuarial Accrued Liability to zero on or before June 30, 2035.
Asset Valuation Method	The Actuarial Value of Assets is the market value of assets as of the valuation date reduced by the sum of: <ul style="list-style-type: none"> a. 80% of gains and losses of the prior year, b. 60% of gains and losses of the second prior year, c. 40% of gains and losses of the third prior year and d. 20% of gains and losses of the fourth prior year
Inflation Rate	3% per year
Projected Salary Increases	Group 1: 6% - 4.25%, based on service Group 4: 7% - 4.75%, based on service
Cost of Living Allowance	Cost-of Living Allowances (COLA) are assumed to be 3% of the pension amount, capped at \$390 per year.
Rates of Retirement	Varies based upon age for general employees, police and fire employees.
Mortality Rates:	
Healthy Retirees	RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB.
Disabled Retirees	RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB.
Investment Rate of Return	7.5% per year, net of pension plan investment expense, including inflation.
Administrative Expenses	The anticipated administrative expenses for the fiscal year 2019 were assumed to be \$150,000 and are anticipated to increase 4% per year.

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2019 AND 2018

NOTE 13 - PENSION PLAN (Continued):

Investment Policy

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major category asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pensions plan's target asset allocation as of the measured date of December 31, 2017 are summarized on the following schedule.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Global Equity	39%	4.75%
Fixed Income	23%	2.28%
Private Equity	13%	8.15%
Real Estate	10%	3.43%
Timber/Natural Resources	4%	4.00%
Hedge Funds	<u>14%</u>	3.76%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from participating employers will be made in accordance with Sections 22D and 22F of Chapter 32 of the Massachusetts General Laws. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Proportionate share of the Net Pension Liability	\$ 5,051,281	\$ 3,763,750	\$ 2,671,132

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Hingham Contributory Retirement System financial report.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 14 - LEASES:

During March 2017, the Lighting Plant extended an operating lease agreement to lease antenna space. This lease expires in February 2020. Rent expense related to this lease was approximately \$22,179 and \$23,851 for the years ended December 31, 2019 and 2018, respectively. Future minimum lease payment for 2020 amount to \$3,521.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) TRUST FUND:

The Other Postemployment Benefit Liability Trust Fund was established by vote of the Board of Commissioners on January 10, 2009. The Board voted to accept the provisions of MGS Chapter 32B, Section 20 which establishes a separate Fund and a funding schedule for the Fund. The schedule and any future updates shall be designed, consistent with standards issued by the Governmental Accounting Standards Board, to reduce the unfunded actuarial liability of health care and postemployment benefits to zero as of an actuarially acceptable period of years and to meet the normal costs of all future benefits for which the government unit is obligated. The Trust is under custodianship of the treasurer of the Town of Hingham. The balance in the Trust as of December 31, 2019 and 2018 was \$2,046,987 and \$1,825,689, respectively.

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, provides a definition of fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described as follows:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Department has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to valuation methodology are unobservable and significant to the fair value measurement.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 15 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) TRUST FUND (Continued):

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2019 and 2018.

- Common Stocks, Corporate Bonds and U.S. Government Securities:
Valued at closing price as reported on the active market on which the individual securities are traded.
- Mutual Funds:
Valued at the net asset value (NAV) of shares held by the Department at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuations methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth, by level within the fair value hierarchy, the Department's investments at fair value at December 31, 2019 and 2018. As of December 31, 2019 and 2018, the Trust did not have any investments that were measured using Level 2 or Level 3 inputs.

<u>Description</u>	<u>December 31, 2019</u> Quoted Prices in Active Markets for Identical Assets (All Level 1)	<u>December 31, 2018</u> Quoted Prices in Active Markets for Identical Assets (All Level 1)
<u>FMV Investments:</u>		
Corporate Bonds:		
Credit Rating		
AA+	\$ 50,853	\$ 49,891
AA-	30,590	40,426
A+	68,514	65,579
A	132,026	87,978
A-	31,501	0
BBB+	0	58,217
Equities	244,658	189,500
Mutual Funds	836,747	726,750
US Government Securities	<u>621,184</u>	<u>595,768</u>
Total FMV Investments	2,016,073	1,814,109
 <u>Other Securities</u>		
Money Market	<u>30,914</u>	<u>11,580</u>
 Total	 <u>\$ 2,046,987</u>	 <u>\$ 1,825,689</u>

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 15 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) TRUST FUND (Continued):

There were no investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represented 5% or more of total investments as of December 31, 2019.

Plan Description

The Town of Hingham administers the retiree health care benefits program—a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees.

Plan Membership

At June 30, 2019 OPEB plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits payments	15
Active plan members	<u>30</u>
	<u>45</u>

Benefits provided

The Town provides health care benefits for retirees and their dependents. Benefits are provided through the Town and Group Insurance Commissions (GIC), and the full cost of benefits is shared between the Town and retirees.

Contributions

The Town annual contributes an actuarially determined contribution based on the results of the most recent actuarial valuation.

Investment Policy

The OPEB plan's investment policy in regard to the allocation of invested assets is established by Rockland Trust and may be amended at any time. It is the policy of Rockland Trust to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The OPEB plan's investment policy discourages the use of cash equivalents, except for liquidity purposes in times of market uncertainty, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Rate of Return

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of OPEB plan investments by the proportion of time they are available to earn a return during that period. The rate of return is then calculated by solving, through an iterative process, for the rate that equates the sum of the weighted external cash flows into and out of the OPEB plan investments to the ending fair value of OPEB plan investments.

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2019 AND 2018

NOTE 15 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) TRUST FUND (Continued):

Net OPEB Liability of the Plan

The components of the net OPEB liability at June 30, 2019 and 2018, were as follows:

	2019	2018
Total OPEB Liability	\$ 3,106,835	\$ 2,857,908
Fiduciary Net Position	(1,976,686)	(1,862,288)
Net OPEB Liability	\$ 1,130,149	\$ 995,620

Fiduciary net position as a percentage of the total OPEB liability was 63.56% and 65.16% for the years ending December 31, 2019 and 2018, respectively.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017, using the following assumptions, applied to all periods included in the measurement:

Inflation	2.6% per year
Actuarial Cost Method	Entry Age Normal
Amortization Method	Increasing at 3.5% over 30 years on an open amortization period for partial pre-funding.
Asset Valuation Method	Market Value
Payroll Growth	3.5% per year
Investment rate of return	7.25%, net of investment expenses, including inflation
Healthcare cost trend rate	8% for 2017, decreasing .5% per year to an ultimate rate of 3.8%.
Pre-Retirement Mortality- General and Public Safety	RP-2000 Employee Mortality Table, base year 2009, projected with generational mortality improvement using scale BB
Post-Retirement Mortality- General and Public Safety	RP-2000 Healthy Annuitant Mortality Table, base year 2009, projected with generational mortality improvement using scale BB.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 15 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) TRUST FUND (Continued):

Actuarial Assumptions (continued)

The long-term expected rate of return on OPEB plan investments was determined using a building – block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2019 are summarized in the following table.

Asset Class	Town Target Allocation	Town Long-Term Expected Rate of Return	Light Target Allocation	Light Long-Term Expected Rate of Return
Global Equity	39%	4.75%	22%	7.76%
Private Equity	13%	8.15%	0%	N/A
Core Fixed Income	15%	1.05%	0%	N/A
Value-Added Fixed Income	8%	4.58%	0%	N/A
Domestic Fixed Income	0%	N/A	59%	1.25%
International Fixed Income	0%	N/A	6%	3.90%
Real Estate	10%	3.43%	4%	7.46%
Timberland	4%	4.00%	0%	N/A
Portfolio Completion Strategies	11%	3.76%	0%	N/A
Alternatives	0%	0.00%	8%	3.86%
Cash and Cash Equivalents	0%	0.00%	1%	-0.20%
Total	100%		100%	

Discount Rate

The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made in accordance with the Plan’s funding policy. Based on those assumptions, the OPEB Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability calculated using the discount rate of 7.25%, as well as what the net OPEB liability would be if it were calculated using a discount rate 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net OPEB Liability	\$ 1,338,826	\$ 1,130,149	\$ 961,663

HINGHAM MUNICIPAL LIGHTING PLANT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2019 AND 2018

NOTE 15 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) TRUST FUND (Continued):

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

The table on the following page presents the net OPEB liability calculated using current healthcare cost trend rates as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (7% year 1 decreasing to 2.8%) or 1-percentage point higher (9% year 1 decreasing to 4.8%) than the current healthcare cost trend rates:

	1% Decrease 7% Year 1 <u>Decreasing to 2.8%</u>	Current Healthcare Cost Trend Rates 8% Year 1 <u>Decreasing to 3.8%</u>	1% Increase 9% Year 1 <u>Decreasing to 4.8%</u>
Net OPEB Liability	\$ 928,942	\$ 1,130,149	\$ 1,384,880

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

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

Plan Description

The Town of Hingham administers the retiree health care benefits program—a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees.

Plan Membership

At June 30, 2019, OPEB plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits payments	15
Active plan members	<u>30</u>
	<u>45</u>

Benefits provided

The Town provides health care benefits for retirees and their dependents. Benefits are provided through the Mayflower Municipal Health Group, and the full cost of benefits is shared between the Town and retirees.

Contributions

The Town annually contributes an actuarially determined contribution based on the results of the most recent actuarial valuation.

OPEB Liabilities

At December 31, 2019 and 2018, the Lighting Plant reported a liability of \$1,130,149 and \$995,620, respectively, for its net OPEB liability. The 2019 and 2018 net OPEB liability was measured as of June 30, 2019 and 2018, and was determined by an actuarial valuation as of July 1, 2017.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

OPEB Expense

For the years ended December 31, 2019 and 2018, the Lighting Plant recognized an OPEB expense of \$157,905 and \$341,676, respectively. At December 31, 2019 and 2018, the Lighting Plant reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources below.

<u>Deferred Outflows of Resources Related to OPEB</u>	<u>2019</u>	<u>2018</u>
Changes of assumptions	\$ 310,842	\$ 233,159
Net difference between projected and actual earnings on OPEB plan investments	<u>24,331</u>	<u>0</u>
Total	<u>\$ 335,173</u>	<u>\$ 233,159</u>
<u>Deferred Inflows of Resources Related to OPEB</u>		
Differences between expected and actual experience	\$ 70,581	\$ 73,875
Net difference between projected and actual earnings on OPEB plan investments	<u>11,983</u>	<u>15,977</u>
Total	<u>\$ 82,564</u>	<u>\$ 89,852</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Lighting Plant's OPEB expense as follows:

Net Deferred Outflows/Inflows of Resources Related to OPEB

Year Ended December 31:

2020	\$ 44,811
2021	44,811
2022	44,811
2023	45,807
2024	44,194
Thereafter	<u>28,175</u>
Total	<u>\$ 252,609</u>

GASB 75 requires the disclosure of actuarial assumptions, the discount rate, and sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. Refer to the previous note "Other Postemployment Benefit Trust Fund" for these disclosures.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 17 - RISK MANAGEMENT:

Self-Insurance Trust

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

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, 2019 and 2018, the Lighting Plant considers its pro rata share of these losses to be immaterial to its financial statements.

NOTE 18 - 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.

Current Power Purchase Commitments

Hingham Municipal Lighting Plant (HMLP) has entered into various power contracts through Energy New England (ENE), as their acting agent. These power contracts began in 2008 and some go through to the life of the unit.

HMLP is a .5% entitlement owner in the Seabrook nuclear power plant and is entitled to almost 6MW. The average 2019 energy price for Seabrook was \$0.00527/kWh. This contract is a life of unit contract.

HMLP is a .1% entitlement owner in the Millstone nuclear power plant and is entitled to almost 1 ¼ MW. The average 2019 energy price for Millstone was \$0.00624/kWh. This contract is a life of unit contract.

HMLP is a 6% entitlement owner in the Brown Bear (formerly Miller Hydro) plant for hydroelectric renewable energy and is entitled to almost 1 MW. HMLP entered into an initial six-year contract with Brown Bear that expired in 2016. It was renewed to run until 2021. The average 2019 energy price for Brown Bear was \$0.05094/kWh.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 18 - COMMITMENTS AND CONTINGENCIES (Continued):

Current Power Purchase Commitments (continued)

HMLP has entered into a 15-year contract terminating in 2026 with Spruce Mountain Wind Farm for renewable wind energy. HMLP has an ownership entitlement of 9% with a commitment to purchase almost 2 MW. The average 2019 energy price for Spruce Mountain Wind was \$0.09925/kWh.

HMLP has entered into a 20-year contract terminating in 2035 with Saddleback Ridge Wind for renewable wind energy. HMLP has an ownership entitlement of 5.6% with a commitment to purchase almost 2 MW. The average 2019 energy price for Saddleback Ridge Wind was \$0.09500/kWh.

The Canton Mountain Wind project commenced commercial operation and began delivering power on January 1, 2019. HMLP has an ownership entitlement of 7.25% in this 20 MW facility, which should provide about 5,000 megawatt-hours of electricity annually for the Lighting Plant. The average 2019 energy price for Canton Mountain Wind was \$0.10250/kWh.

HMLP has a supply contract with the New Bedford Landfill for 25% of the output from the 3.2 megawatt plant. In 2019 HMLP received 347,363 kWh of electricity from this facility at an average cost of \$0.04030/kWh.

HMLP has entered into a 25-year contract terminating in 2041 with NUGen - Harrington St. PV for renewable solar energy. HMLP has an ownership entitlement of 20 % in each of the two 5.996 MW DC facilities. Each facility is projected to produce about 7,000 megawatt-hours of electricity each year, with a degradation of approximately 0.5% annually. In 2019, these two facilities produced a combined 50k kWh of electricity for HMLP at an average cost of \$0.06379/kWh.

HMLP has entered in an 18-year contract starting in 2019 and terminating in 2037 with Granite Reliable Power for renewable wind energy. The project began delivering power on January 1, 2019 and has thirty-three (33) wind turbines each having a nameplate rating of 3 megawatts in the Town of Coos County, New Hampshire. HMLP has an ownership entitlement of 1.1% in this facility which meant we received about 352 MW of electricity. The average 2019 energy price for Granite Wind was \$0.03477 per kWh.

HMLP is a 2% entitlement owner in the NYPA Hydro Base and Peaking plants for hydroelectric renewable energy. The contracts are life of unit contracts. The average 2018 energy price for the NYPA units was \$0.00497/kWh.

HMLP has entered into a contract with Firstlight Power Resources, a hydroelectric generating facility entity, located in Connecticut commencing in March of 2019 and commencing through the end of 2023. We are entitled to 3.55% of the Shepaug hydroelectric station's output and 2.51% of the Stevenson hydroelectric station's output. Between both plants we received approximately 1013 MW and the average 2019 energy price for Firstlight electricity was \$0.07454 per kWh.

HMLP has entered into a contract with Braintree Electric Light Department as a 10% entitlement owner to the Watson Power Plant. This purchase power contract is effective from 2009 thru 2029. Watson Units 1 and 2 entitle HMLP to 11.4 MWs. They are primarily natural gas fired, but can burn oil if needed for reliability. The average 2018 energy price for Watson was \$0.07923/kWh. HMLP is a 2.3% entitlement owner to Potter 2 CC which is a life of unit contract. Potter 2 CC entitles HMLP to 2.1 MW of electricity when the plant runs.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 18 - COMMITMENTS AND CONTINGENCIES (Continued):

Current Power Purchase Commitments (continued)

HMLP is an entitlement owner in the Stony Brook Intermediate (4%) and Peaking (5 1/3%) units. The Intermediate units can run on either gas or oil while the peaking unit runs on oil. Units 1A, B and C of the Intermediate units entitle HMLP to a total of 14MW. Units 2A and B of the Peaking units entitle HMLP to a total of 9.2MW. The contracts are for the life of the units. The average 2019 energy price for the Peaking units was \$0.18879/kWh.

HMLP has other contracts with various generators which allows for the purchase of energy when various price points come into play. In 2019, the companies HMLP bought from under these agreements were NextEra, Shell Energy and Excelon/Constellation. For NextEra the average per kWh price was \$0.05323, for Shell was \$0.04450 and for Excelon/Constellation was \$0.04830.

Additionally, HMLP has the ability to purchase from ISO-New England's Energy Interchange. In 2019, HMLP paid \$0.05277/kWh for energy through ISO-New England.

Future Power Purchase Commitments

HMLP entered in to a ten-year power purchase agreement with NextEra that starts on January 1, 2020. The contract will provide 2.5 megawatts of electricity every hour. The price is \$40.87/MWH, escalating at 2.5% annually.

Also, ENE has been engaged in talks with the owners of Brown Bear Hydro regarding the opportunity to extend that contract beyond 2021, but there are no formal results to report at this time. Similarly, ENE is talking to other renewable generators about possible power purchase opportunities for HMLP. Offerings are being put together which will position HMLP to be in compliance with CES requirements (which currently do not apply to municipal light plants. There is pressure being exerted on legislators which would require us to follow those directives.). Certainly, extending existing contracts and entering into new ones will be driven by the economics.

Finally, HMLP gets 52% of its electricity from carbon free sources.

MMWEC Contingencies and Liabilities

Town of Hingham acting through its Light Department 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 operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has the Nuclear Mix No 1 Project, Nuclear Project Three, Nuclear Project Four, Nuclear Project Five and Project Six, which comprise an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. The operating license for Seabrook Station extends to March 15, 2050. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 18 - COMMITMENTS AND CONTINGENCIES (Continued):

MMWEC Contingencies and Liabilities (continued)

On July 19, 2019, MMWEC sold its 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.

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). The Light Department has entered into PSAs with MMWEC. Under the PSAs the Department is required to make certain payments to MMWEC payable solely from Municipal Light Department revenues. 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. 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. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations 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).

Pursuant to the PSAs, the MMWEC 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 Millstone and Seabrook 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.

As of July 1, 2019, MMWEC has no debt service obligations outstanding relating to the Projects. 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.

The total capital expenditures and annual capacity, fuel and transmission costs (which include debt service and decommissioning expenses as discussed above) associated with the Department's Project Capability of the Projects in which it participates for the years ended December 31, 2019 and 2018, respectively are listed in the table on the following page.

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 18 - COMMITMENTS AND CONTINGENCIES (Continued):

MMWEC Contingencies and Liabilities (continued)

<u>Projects</u>	<u>Percentage Share</u>	<u>Total Capital Expenditures 2019</u>	<u>Capacity, Fuel and Transmission Billed 2019</u>	<u>Capacity, Fuel and Transmission Billed 2018</u>
Stony Brook Peaking	5.3307%	\$ 3,183,692	\$ 194,506	\$ 247,550
Stony Brook Int.	4.3870%	7,854,122	569,083	876,589
Nuclear Mix 1-SBK	3.4281%	346,449	18,717	17,748
Nuclear Mix 1-MLS	3.4281%	2,075,470	201,013	232,346
Nuclear Project 3-MLS	1.4311%	2,118,643	168,667	195,550
Nuclear Project 4-SBK	3.4180%	10,230,445	499,658	487,957
Nuclear Project 5-SBK	1.6644%	1,349,527	62,422	61,125
Project No. 6-SBK	5.0331%	<u>28,016,514</u>	<u>1,157,440</u>	<u>1,217,827</u>
		<u>\$ 55,174,863</u>	<u>\$ 2,871,506</u>	<u>\$ 3,336,692</u>

NOTE 19 - SUBSEQUENT EVENT:

Management has evaluated subsequent events through June 23, 2020 the date on which the financial statements were available to be issued. Changes in investment returns and fair values can have a significant effect on the Light Plant Investments and OPEB Trust Fund. Since December 31, 2019, the U.S. and world markets have continued to experience significant declines. Management is monitoring investment market conditions and the impact such declines are having on the Light Plant's and OPEB Trust Fund's investment portfolio. Due to the volatility of the financial markets as of the date of this report, there is uncertainty regarding the impact that continued volatility might have on the Light Plant's and OPEB Trust's investment portfolio.

HINGHAM MUNICIPAL LIGHTING PLANT
REQUIRED SUPPLEMENTARY INFORMATION
NET PENSION LIABILITY

OPERATING FUND

For the Year Ending December 31,	2019	2018	2017	2016	2015
Actuarial Valuation Date	1/1/2018	1/1/2018	1/1/2016	1/1/2016	1/1/2014
Measurement Date	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014

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

Plant's Portion of the NPL	6.8699%	6.9651%	6.1815%	6.2142%	5.9032%
Plant's Proportionate Share of the NPL	\$ 3,763,750	\$ 2,968,051	\$ 3,353,532	\$ 3,309,805	\$ 2,349,591
Covered Payroll	\$ 2,471,404	\$ 2,510,092	\$ 3,218,083	\$ 2,885,804	\$ 2,850,178
NPL as a Percentage of Covered Payroll	152.29%	118.24%	104.21%	114.69%	82.44%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	67.76%	73.71%	65.39%	64.21%	70.93%

Schedule of Contributions:

Actuarially Determined Contributions	\$ 348,157	\$ 331,435	\$ 279,906	\$ 272,180	\$ 246,899
Less: Contributions in Relation to the Actuarially Determined Contribution	(348,157)	(331,435)	(279,906)	(272,180)	(246,899)
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 2,471,404	\$ 2,510,092	\$ 3,218,083	\$ 2,885,804	\$ 2,850,178
Contributions as a Percentage of Covered Payroll	14.09%	13.20%	8.70%	9.43%	8.66%

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

HINGHAM MUNICIPAL LIGHTING PLANT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY

OPERATING AND OPEB TRUST FUND

	2019	2018	2017
Total OPEB Liability:			
Service Cost	\$ 72,184	\$ 74,350	\$ 61,714
Interest	214,781	190,960	180,144
Difference Between Expected and Actual Experience	0	259,916	0
Changes of Benefit Terms	0	(295,512)	0
Changes of Assumptions	94,640	299,248	0
Benefit Payments	(132,678)	(121,417)	(108,438)
Net Change in Total OPEB Liability	248,927	407,545	133,420
Total OPEB Liability - Beginning	2,857,908	2,450,363	2,316,943
Total OPEB Liability - Ending	\$ 3,106,835	\$ 2,857,908	\$ 2,450,363
 Plan Fiduciary Net Position:			
Contributions-Employer	\$ 132,678	\$ 121,417	\$ 108,438
Net Investment Income	114,398	51,217	45,343
Benefit Payments	(132,678)	(121,417)	(108,438)
Administrative Expenses	0	(7,238)	(619)
Net Change in Plan Fiduciary Net Position	114,398	43,979	44,724
Plan Fiduciary Net Position - Beginning	1,862,288	1,818,309	1,773,585
Plan Fiduciary Net Position - Ending	\$ 1,976,686	\$ 1,862,288	\$ 1,818,309
Net OPEB Liability - Ending	\$ 1,130,149	\$ 995,620	\$ 632,054

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

HINGHAM MUNICIPAL LIGHTING PLANT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF NET OPEB LIABILITY, EMPLOYER CONTRIBUTIONS AND INVESTMENT RETURNS

OPERATING AND OPEB TRUST FUND

	2019	2018	2017
Schedules of Net OPEB Liability:			
Total OPEB Liability	\$ 3,106,835	\$ 2,857,908	\$ 2,450,363
Plan Fiduciary Net Position	(1,976,686)	(1,862,288)	(1,818,309)
Net OPEB Liability	\$ 1,130,149	\$ 995,620	\$ 632,054
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	63.62%	65.16%	74.21%
Total Employee Payroll	\$ 3,457,001	\$ 3,237,742	\$ 3,218,083
Net OPEB Liability as a Percentage of Covered Payroll	32.69%	30.75%	19.64%
Schedules of Employer Contributions:			
Actuarially Determined Contributions	\$ 136,212	\$ 118,438	\$ 86,796
Less: Contributions in relation to the actuarially determined contribution	(132,678)	(121,417)	(108,438)
Contribution Deficiency (Excess)	\$ 3,534	\$ (2,979)	\$ (21,642)
Total Employee Payroll	\$ 3,457,001	\$ 3,237,742	\$ 3,218,083
Contributions as a percentage of covered payroll	3.84%	3.75%	3.37%
Schedules of Investment Returns:			
Annual Money-Weighted rate of Return, net of investment expenses	6.00%	8.91%	11.67%

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

HINGHAM MUNICIPAL LIGHTING PLANT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS

OPERATING FUND AND OPEB TRUST FUND

NOTE A - OTHER POSTEMPLOYMENT BENEFITS:

Changes in Assumptions

Since the last measurement date, the discount rate changed from 7.5% to 7.25%.

HINGHAM MUNICIPAL LIGHTING PLANT
 SCHEDULES OF SALES OF ELECTRICITY
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

	2019	2018
SALES OF ELECTRICITY:		
Residential	\$ 14,539,853	\$ 13,153,586
Commercial and Industrial	14,488,688	13,725,684
Municipal	1,535,403	1,455,247
Security Lighting	98,709	90,380
 TOTAL SALES OF ELECTRICITY	 \$ 30,662,653	 \$ 28,424,897

See Independent Auditors' Report

HINGHAM MUNICIPAL LIGHTING PLANT
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

	2019	2018
POWER PRODUCTION EXPENSES:		
Purchased Power	\$ 19,794,990	\$ 21,015,790
Flush of Funds	(558,143)	(135,905)
Other Purchased Power	439,556	770,243
	19,676,403	21,650,128
DISTRIBUTION EXPENSES:		
Miscellaneous Distribution Expenses	1,028,354	923,662
	1,028,354	923,662
MAINTENANCE EXPENSES:		
Maintenance of Lines	740,254	1,006,087
Maintenance - Other	44,949	98,305
	785,203	1,104,392
CUSTOMER ACCOUNTS:		
Customer Accounting and Collection Expense	980,180	907,457
Uncollectible Accounts	20,146	3,389
Meter Reading Expense	83,334	84,646
	1,083,660	995,492
GENERAL AND ADMINISTRATIVE EXPENSES:		
Administrative and General Salaries	331,841	258,747
Office Supplies and Expenses	48,357	30,633
Outside Services Employed	171,959	164,772
Property Insurance	203,780	194,112
Employees' Pension and Benefits	1,493,927	1,501,054
Dues, Meetings and Other General Expenses	96,672	81,310
Transportation	66,747	66,790
Maintenance of General Plant	199,908	84,899
	2,613,191	2,382,317
TOTAL OPERATION AND MAINTENANCE EXPENSES	\$ 25,186,811	\$ 27,055,991

See Independent Auditors' Report