



2015

2015 ANNUAL REPORT





To the Honorable Mayor, Members of the City Council, and our Valued Customers:

Submitted herewith is the One Hundred and Thirteenth Annual Report of the City of Holyoke Gas & Electric Department (HG&E) for the year ending December 31, 2015.

2015 was an exciting and productive year for HG&E. We completed major capital improvement projects on schedule, closed the year with strong financial performance, and maintained some of the most competitive rates in the region. Both Fitch and Moody's rating agencies affirmed HG&E's A1 credit rating during the year.

Weather has significant impacts on our business. The year started out extremely cold and with near record amounts of snowfall. January through March temperatures were 21% colder than the 10 year average and HG&E set an all-time record for peak natural gas consumption on February 15, 2015. The year ended with unseasonably warm temperatures, as November and December were 22% warmer than average. These weather extremes pose significant challenges for managing energy supply, but the Department was able to provide the necessary supplies at competitive rates.

The Gas Division operated the LNG vaporization facility almost continuously through the winter months in order to meet peak demand. The Division also continued its ongoing distribution system upgrade program with replacements of bare steel services and cast iron mains.

The Electric Division continued an aggressive capital improvement program and infrastructure modernization. These improvements have helped to reduce costs and add operational capabilities, and have also helped improve system reliability. In 2015, the Department received recognition from the American Public Power Association (APPA) as a Reliable Public Power Provider (RP3) based on HG&E's reliability statistics. HG&E received a Diamond level RP3 award, which is the highest level of quality recognized by APPA.

The Hydro Division completed two major capital projects during the year at Hadley Falls Station. The first project, construction of new downstream fish passage facilities, completes an outstanding obligation under the FERC License for the hydro project. While that project required the Station to be taken out of service for over six months, HG&E took the opportunity to completely rebuild the Unit #1 Generator at that station, and adding an additional 2 MW of capacity to the unit which will qualify for Renewable Energy Credits (REC's) through the Commonwealth's Renewable Portfolio Standard.

The Telecommunications Division continued strong sales growth in fiber-optic Internet and hosted business telephone delivered over the HG&E 10G network. In addition to serving as Department and City IT technical support, the Division also served as Project Manager for the Town of Leverett's Fiber-to-the-Home project, which broke ground in June of 2015. The Department continues to be involved in that project, serving as Network Operator.

HG&E also continued to do its part in protecting our environment and to give back to our community. In 2015, over 55% of the electricity sold by the Department came from renewable resources and over 83% of electricity sold was carbon free. In addition, HG&E employees volunteered over 3,000 hours in support of local community organizations.

We thank the City officials and HG&E employees for their continued faithful service to HG&E, and we shall continue to work diligently to provide our customers with reliable utility services at competitive rates, backed by an unprecedented dedication to customer service.

Respectfully,

Francis J. Hoey III, Commission Chairman

Robert H. Griffin, Commission Treasurer

James A. Sutter, Commission Secretary

James M. Lavelle, Manager

GAS DIVISION



From January through March it was 21% colder but November and December were 22% warmer than the 10-year average.

NEW SERVICES

In 2015, the Department installed 64 new natural gas service lines to new customers. The Department also replaced or retired 297 existing older services in Holyoke by installing new plastic pipe.

Per HG&E's Distribution Integrity Management Plan (DIMP) that was implemented in August 2011, the Department embarked on a 10-year bare steel service replacement program. There are currently approximately 1,957 bare steel gas services remaining in Holyoke, down from approximately 3,200 at the beginning of the program. Bare steel services were installed from the early 1900s through the late 1960's. At the conclusion of this replacement program, all gas services will be constructed of either polyethylene plastic or coated steel.

NEW AND REPLACEMENT MAINS

The Department continued its cast iron main replacement efforts and replaced a total of 3,463 feet of small diameter, wrought iron, and cast iron pipes with new plastic pipes on Oak Street, Vernon Street, and Saint James Avenue. An additional 2,190 feet of pipe was abandoned with the majority on Nonotuck Street. The new plastic mains are generally 4" or 6" in diameter.

On Richard Eager Drive, Lynn Ann Drive, and Ernest Lane, the Department replaced a section of steel main with new 2" plastic mains and also replaced 31 residential gas services in the area. In Southamptton, 1,488 feet of 2" main were installed during a Massachusetts Department of Transportation (MassDOT) sidewalk project.

In total, the Department installed over 8,400 feet of new mains and 350 new and replacement services. HG&E's natural gas distribution system now consists of over 180 miles of mains and 7,950 service lines.

LEAK SURVEYS

The Department helps ensure the safety and reliability of the gas distribution system through an extensive series of compulsory and voluntary, comprehensive leak surveys. Each year, the Department conducts public building, mobile and walking flame ionization patrols, special monthly winter patrols, and vegetation observation surveys. The full-length walking survey over each individual gas service covered more than 3,800 lines in 2015, or about one-half of the service pipes in the system. The combined surveys accounted for the detection of 399 mostly minor leaks. All leaks were investigated and prioritized according to applicable regulations. A total of 220 leaks were repaired and/or eliminated in 2015, and the remainder were monitored throughout the year or scheduled for repair, consistent with the applicable safety regulations. The number of leaks is higher than previous years due to the extremely cold winter months. Additionally, this years calculations include both above and below ground leaks. In previous years, only underground leaks were reported.

HG&E's hardworking gas crew, from the left: Ryan Sheehan, Michael Fern, Brendan Flynn, Jeff Sullivan, Daniel Falcetti, Kevin Fitzgerald, and Michael Gregoire.

GAS SUPPLY AND FLOW CONTROL

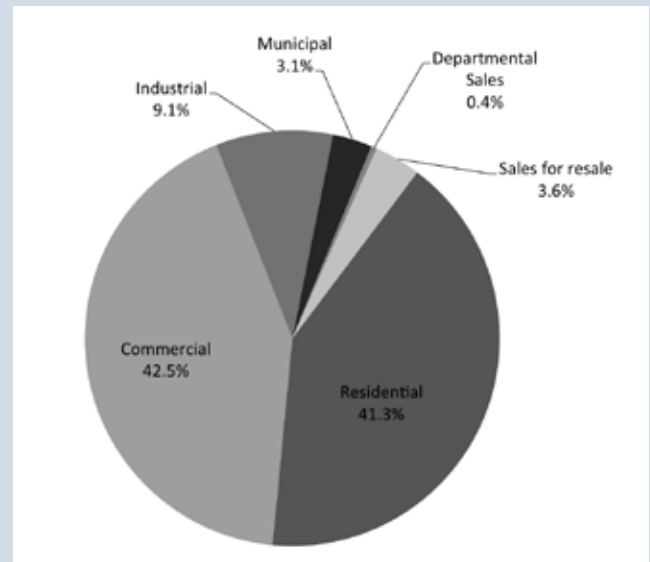
The Department delivered 2,299,585 decatherm (DTH) of gas in 2015, with a peak send-out of 18,377 DTH on February 15, which represented a new system peak. Of that, 12,303 DTH was delivered over the pipeline and 6,074 DTH was supplemented by Liquefied Natural Gas (LNG). 2015 was 4% colder than the 10 year average with 6,426 heating degree days compared to 6,178. The year started extremely cold, from January through March it was 21% colder than the 10-year average. November and December were 22% warmer than the 10-year average. These extremes resulted in a variety of gas supply challenges but the Department was able to provide the necessary supplies at competitive rates.

HG&E continues to operate its LNG storage and vaporizing system, providing the extra gas needed during the coldest winter days and as an emergency supply for the entire city, if needed.

HG&E added a new regulator station to the distribution system at the intersection of Cabot Street and North Canal Street. This regulator station completes the revived interconnect with Columbia Gas of Massachusetts' system in Chicopee. The line, which began as part of the Willimansett Bridge renovation, was completed following the installation of 220 feet of 8" steel and High Density Polyethylene (HDPE) pipe along Cabot Street and North Canal Street, including two new underground vaults. The system feeds into the 16" low-pressure distribution system downtown and will allow for Columbia Gas and HG&E to collaborate on load assistance to both utilities in the future. The new regulator station is referred to as "Willimansett Bridge Regulation Station".

HG&E added three new telemetry sites at regulator stations in 2015 including, Bobala Road, Arbor Way, and Willimansett Bridge. The telemetry system monitors and transmits gas system pressure data to the SCADA system. The system provides real-time pressure data to help manage the distribution system. All regulator stations in the gas distribution system are now equipped with telemetering equipment.

2015 Gas Division Revenues



SERVICE

The Department completed 4,757 appliance repair service calls for customers in Holyoke and Southamptom during the year. These calls include boiler/furnace, water heater and dryer repairs, and thermostat installations. In addition 1,801 gas meters were changed to comply with the state mandated seven-year meter exchange requirement. A total of 2,524 service orders were complete for gas and electric meter turn ons and turn offs, this number continues to decrease leaving additional time for service personnel to complete corrosion inspections. In lieu of sending an employee to each site for turn ons and turn offs, the Department was able to utilize the fixed meter network to read meters that were being transferred between customers. Service Department employees attended over 1,500 hours of training in 2015, including new technology, gas procedures (OQ), and safety sessions.

ELECTRIC PRODUCTION HYDRO



The Boatlock Unit 2 overhaul included turbine runner replacement, generator rewind, and bearing rehabilitation. The unit was returned to service in May 2015.

HYDROELECTRIC FACILITIES

A number of projects were completed which improved or will contribute to future generation capacity and reliability of the Department's Hydroelectric facilities. These projects included:

Boatlock Station Unit 2 Runner: On June 27, 2011, HG&E received a Grant Notice of Award from the Massachusetts Clean Energy Center, in an amount not to exceed \$300,000, toward the replacement of a turbine runner for Boatlock Station Unit 2. The Department proceeded with the Boatlock Unit 2 overhaul in June 2014 and the unit was returned to service in May 2015. The rehab included turbine runner replacement, generator rewind, and bearing rehabilitation.

Hadley Falls Unit 1 Modernizing Plans: The Hadley Falls Unit 1 overhaul began on May 18, 2015. The project included a new turbine runner, wicket gates, complete generator stator, rotor pole refurbishment, turbine guide bearing, and other miscellaneous components. The rotary exciter was converted from a brush type exciter to a brushless exciter. As part of the project, station service load rooms #1 and #2 were rebuilt; a new high voltage switchgear was installed for Hadley 1, as well as a new control system. The overhead crane was load tested in April 2015 to certify the capacity prior to the outage. The reassembly of the unit was completed in late December and commissioning of the unit will be performed in January 2016.

Hadley Falls Unit 2 Improvements: The Department converted the Hadley 2 governor system from a mechanical hydraulic system to an electric hydraulic governor. The unit went into an outage in July 2015 and was returned to service in October 2015. The Department utilized this outage to install a new mechanical shaft seal, perform non-destructive testing of the runner blades, inspect bearings, wicket gate end seal replacement, generator thrust and oil cooler cleaning, and other miscellaneous maintenance on the unit.

City #3 Unit Rebuild: In September 2013, the Department experienced a stator fault on City #3. The Department proceeded with the overhaul of the unit in 2014 and the unit was returned to service in April 2015. The rebuild consisted of turbine runner rehab, generator rewind, new wicket gates, HPU replacement and electrical and controls upgrade.

Hadley Station Downstream Fish Passage Project: In December 2014, a contract was awarded for the construction of the new downstream fish passage facility. This project was mandated by the Federal Energy Regulatory Commission (FERC) as part of HG&E's license to operate Hadley Station. In the first quarter, the contractor began mobilizing equipment, performing field measurements, and fabricating materials in preparation for construction activities to begin in the spring.

A new turbine is moved into place at Hadley Station at the Holyoke Dam.

All permits were received in early April and construction activities began with the installation of the access road and trestle which were located off Saint Kolbe Drive. Assembly of two work barges was then completed and materials and equipment were mobilized and moved downstream to the intake rack. At the end of June, the stop logs were installed at the Bascule Gate and installation of the downstream cofferdam followed. In order to install the new rack structure the contractor had to first remove woody debris, silt, and rock, in order to make a uniform foundation for the new rack to set on. Five 48-inch diameter drilled shafts were installed into the rock to act as vertical supports. In order to save time, the contractor assembled many of the structures on the barge and installed them in a modular fashion over the drilled shafts. The new rack structure has 2 inch bar rack spacing. In order to maintain unit availability, the Department installed a new trash raking system to remove debris from the new rack.

A feature of the new structure is the addition of a low and mid-level bypass entrance at the downstream face of the rack. The new entrances will allow fish to pass over the bascule gate and into the spillway below the dam. Within the spillway, improvements included the installation of a new Bascule gate and hydraulic operating system, modifications to the upstream spillway fish lift entrance, excavation of the rock ledge down approximately 13' for a new 45' x 26' reinforced concrete plunge pool, and installation of a new reinforced concrete training wall and flow deflector below the Bascule gate.

The contractor completed work in the intake area on November 25, 2015. Work at the downstream cofferdam area was completed on December 2, 2015. The project was completed 47 days ahead of the original proposed completion date.

Hadley Falls Unit #1: The penstock fill gate was rebuilt.

Hadley Falls Unit #2: Underwater repairs to tailrace gate guides were completed.

#1 Overflow: A new walkway at the top of the overflow was fabricated and installed.

Riverside #8: A new automated louver was installed to improve air flow through the building. In addition, the pump discharge sewer piping at Hadley Station was replaced.

OTHER PROJECTS

Annual Spring Canal Inspections: Assessment of canals and canal walls including overflows, intakes, penstocks, powerhouses, and tailraces. The fall canal inspection was postponed this year because of the projects at Hadley Station.

MAJOR COMPLIANCE ISSUES ADDRESSED, 2015

Texon Mill Park: Installation of the Texon Mill Park was completed in the spring of 2015. A Certificate of Completion (COC) was received on April 29, 2015 from the South Hadley Conservation Commission.

PRODUCTION: ADDITIONAL ACTIVITIES

Environmental Projects Included:

- Monitoring of invasive plant species along the impoundment; and, on-going efforts to control water chestnut in Log Pond Cove.
- Annual Water Quality Monitoring of Project operations.
- Completed and filed our Licensed Hydropower Development Recreation Report (Form 80) which is completed every 6 years.

Robert E. Barrett Fishway Operations: In 2015, HG&E continued its partnership with HCC for the collection of data on the number of fish and species passed at the Robert E. Barrett Fishway. Activities included: biological sampling, trapping and loading of shad, trapping of Shortnose sturgeon and Atlantic salmon, and, observations of lift operations and eel passage.



Hydroelectric Superintendent, Paul Duchenev after removal of the old turbine at Hadley Station.

2015 FISH PASSAGE

The fish lift at the Robert E. Barrett Fishway assists migrating fish to reach spawning areas above the Holyoke Dam. HG&E's fish passage facility was the first and most successful fish lift on the Atlantic coast. It is comprised of two fish elevators which carry migrating fish up and beyond the dam.

The passage of anadromous and resident fish species that were observed and monitored in the lift system this year included:

American Shad	412,656
Atlantic Salmon	13
Blueback Herring	87
Sea Lamprey	22,245
Striped Bass	21
Shortnose Sturgeon	1
Gizzard Shad	84

In addition to the fishlift, there are two eel ramp passage facilities on both the Holyoke and South Hadley shores below the dam. The number of American Eels counted at the eel ramps in 2015 was 20,038.

In 2015, the Barrett Fishway was not open to the public because of the two significant projects at Hadley Station.

2015 HG&E SHAD DERBY

The annual HG&E Shad Derby offers both adult and youth fishing enthusiasts the opportunity to enjoy the recreational benefits of the Connecticut River. In 2015, the HG&E Shad Derby celebrated its 50th anniversary.

The 2015 Shad Derby was held on the weekends of May 9-10 & 16-17. The event attracted 131 registrants in the Senior Division and 30 registrants in the Junior Division.

Carlos Viust of Holyoke, Massachusetts won the first place award in the 2015 Senior Division with a 5 lb. 1.5 oz. shad. Brando Deuso of Feeding Hills led the Junior Division with a 4 lb. 5.5 oz. shad. The John Dinapoli Award for the first shad caught by a youth went to Nick DiVenuto of Springfield.



Shad through the viewing window at the Robert E. Barrett Fishway.

ELECTRIC DIVISION



On average, newly installed LED fixtures, will reduce the City's street light consumption by approximately 65% and reduce Department maintenance costs.

ELECTRIC OPERATIONS

In 2015, a number of projects were completed which will increase the reliability of the Department's electric substation and transmission infrastructure. These projects included:

Completion of the Oakdale 41K Substation project. This project entailed converting the former 13.8kV/4.8kV distribution substation to a 13.8kV switching station. It included installation of padmounted switchgears with automatic source transfer, and outgoing protected ways for serving distribution loads, SCADA implementation for remote monitoring and operation, installation of eight new cable getaways for the incoming and outgoing feeders, and installation of two new reclosers for overhead line protection of the new circuits to be served out of the station. This project significantly improves reliability to the area by establishing new sectionalizing points that did not previously exist and allowing the capability to serve the load from either Ingleside or Holyoke Substations.

Replacement of primary and backup relay protection of eight feeders at Ingleside 52W Substation with microprocessor type relays. This job included installation of an additional Remote Terminal Unit (RTU) for connecting the new relays to our network, which allows remote monitoring of the relays and access to fault records and distance to fault calculations to aid in outage restoration efforts.

Installation of 400kW gas engine generator set at the Electric Station. The generator was designed to provide emergency backup power to the Electric Switchboard in the event of a city-wide blackout, and will also assist with peak shaving (up to 300 kW).

Replacement of the Holyoke 17L Substation Backup Battery & Charger. The previous batteries were 28 years old and at end of life. The new battery system was sized to accommodate the future Holyoke Substation expansion/upgrade.

As part of the Department's preventative maintenance (PM) plan, major maintenance and testing was performed on various substation and plant equipment throughout the year. In summary, major maintenance and/or testing was performed on:

- Two (2) 13.8/13.8kV bus tie power transformers and LTCs at Holyoke Substation
- Fourteen (14) 15kV vacuum circuit breakers at Holyoke Substation
- Two (2) 115kV SF6 circuit breakers at North Canal 44P Substation
- Forty-Three (43) protective relay packages.

Compliance related testing was also completed on the 1657 Line carrier system. The Department also fully transitioned to recording all maintenance in the Cascade software system and performed 228 maintenance orders.

Support for Electric Distribution & Hydro during the year included the preparation of 107 switching orders with 105 clearances issued for planned and emergency high voltage work and also assistance with the replacement of four transmission poles and the ongoing generator upgrades at Hadley Falls. Maintenance/repair operations were also performed as required on various pieces of distribution & hydro equipment including monthly inspections of line reclosers, sectionalizers, and capacitor switching controls. Support was again provided for the city-owned Flood Control Pumping Stations in the form of emergency maintenance and pumping operations as required. An arc flash study, at all applicable Electric Division facilities as well as several customer sites, was completed.

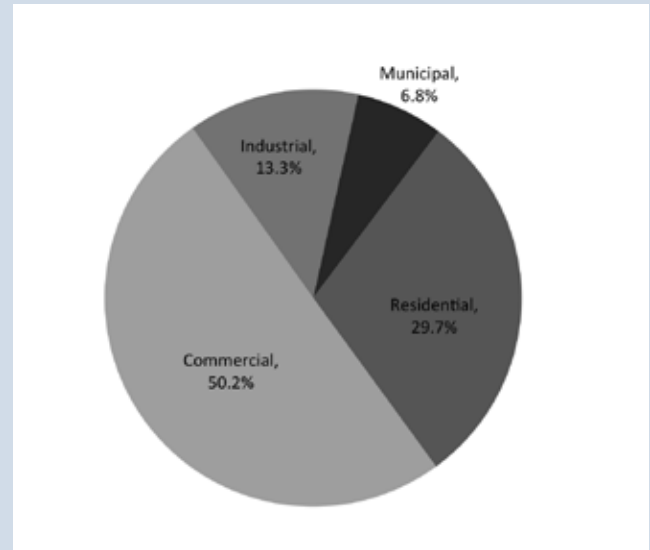
ELECTRIC DISTRIBUTION

Electric distribution system improvements in 2015 included the installation of a 500 foot section of underground primary cable on Sun Valley Road and two new step down transformer banks to refeed #3 and #4 hydro generation units served directly from Holyoke Substation to the nearby 44P1 circuit served from North Canal Substation. Intersection improvements were completed at Dwight and Northampton Streets where one existing wood pole was relocated away from the intersection, two new aluminum street light poles added, and all overhead crossings placed underground, enhancing area aesthetics.

New underground getaway cables and infrastructure were installed to the new Oakdale switching station next to Crosier Field. A new 400 foot duct bank and two manholes were installed to extend approximately 4,200 feet of underground cable into and around the intersection of Beech, Cherry, and Northampton Streets to improve system reliability and area aesthetics. The new automated station has two incoming source circuits from both Ingleside and Holyoke Substations along with an additional backup source circuit from Holyoke Substation which is shared with Highland Substation. Three new outgoing circuits from this station will refeed area customers and provide a higher degree of reliable service.

The first year of a two-year project to convert the WH1 circuit (located on Westfield Road between the I-91 overpass and Homestead Avenue and Homestead Avenue between Westfield Road and Lower Westfield Road including all nearby streets) from 4800 v to 13800 v was completed. The upgrades included replacing approximately three miles of overhead primary wire, two miles of secondary mains and services, and seventy-nine wood poles. In the process, new conduit

2015 Electric Division Revenues



was installed throughout the Knollwood Circle area as part of an infrastructure upgrade. Approximately 5,000 feet of conduit and 2,900 feet of underground cable were installed as part of the infrastructure upgrade. Additional tie points to nearby circuits, improved wildlife protection, and connectivity to new automated switchgear are among the reliability improvements made as part of this project.

The Department continued with the replacement of high pressure sodium (HPS) lights with more efficient light emitting diode (LED) lighting technology. A total of 244 HPS decorative fixtures on Maple Street, High Street, Walnut Street, and Newton Street, along with the original phase of the Canal Walk along the Second Level Canal, were retrofitted with LED lighting components and another 35 HPS roadway fixtures on High Street were replaced with new LED roadway fixtures. These LED fixtures, on average, will further reduce the City's street light consumption by approximately 65%, reduce Department lighting maintenance costs, last 2-3 times longer than a typical HPS decorative fixture, and provide more direct, uniform, and whiter lighting on City streets.

New underground cable along with a padmounted primary metering cabinet and fused switchgear were installed at Holyoke Community College as part of various infrastructure and reliability upgrades to the campus. Approximately 1,000 feet of underground primary cable from the 1970's was replaced and the metering point relocated from inside the school to a padmounted cabinet outside the school to improve accessibility to metering components and overall safety. A fused switchgear was installed on Homestead Avenue to isolate the college from the main line preventing any potential unnecessary outages to other nearby customers.



HG&E Lineman, from the left: Larry Laroque, Glen Cartwright, Daniel Donohue, Angel Maldonado Jr., Adam Dunn, Brian Wall, Alan Kwaznik, and Kenneth Atchison.

Three customers located on Whiting Farms Road and Sullivan Road were transferred from the 44P8 circuit originating from North Canal Substation to the 52W11 circuit originating from Ingleside Substation. New conduit and cabling was installed at Universal Plastics, Curtis Business Forms, and East Baking Company as part of the project which will now reduce customer exposure to potential faults along the overhead line from North Canal Substation. An existing overhead right-of-way from Whiting Farms Road to Sullivan Road was also eliminated and another customer, the Massachusetts Society for the Prevention of Cruelty to Children, was transferred to a new underground source on Sullivan Road. This will eliminate the need to perform tree trimming for this line and potential sources of outages throughout the year.

The second phase of the Canal Walk along the Second Level Canal between Appleton and Dwight Streets was completed. Thirty-nine new decorative LED street and walkway lights along with three load center metering locations were installed along the walk.

Two services on Oak Street and Vassar Circle were relocated from heavily overgrown areas with difficult accessibility to the street. This will provide these customers with a more reliable electric service and reduce some of the tree trimming and outage costs for the Department.

A number of preventative maintenance activities continued throughout the year including testing of 99 new and used transformers – 89 pole top units and 10 padmount units. HG&E also completed 292 manhole inspections throughout various areas of the City. Stray voltage testing of approximately 20% of the City was also completed in the Flats, S. Holyoke, and Churchill sections of the City. There were 145 padmount transformers on various circuits inspected by both in-house staff and Utility Service New England. HG&E also performed infrared inspections on all distribution circuits throughout the City, including an extensive Radio Frequency (RF) analysis on the distribution system. There were five transformers upgraded due to overload conditions and new and enhanced wildlife protection was installed in areas where wildlife has recently led to outages, including the West Holyoke, Oakdale, and Bemis Road areas of the City, which led to a significant reduction in outage time in 2015.

Annual visual inspections on all three transmission lines were performed to ensure reliable operation of the transmission system. In addition, a tree risk assessment, of a 12 mile section of our distribution system, was conducted to identify any unhealthy trees or limbs that should be trimmed or removed to reduce any potential outages and/or damage to nearby facilities. The area assessed in 2015 included Northampton Street from Lincoln Street to the Easthampton town line and on Southampton Road from Easthampton Road to Ross Road inclusive of all side streets and lateral taps.

Five new electric services were completed for the Chestnut Park condominiums on Chestnut Street, Marcotte Ford on Main Street, Holyoke Train Station on Main Street, Ingleside Square (Vitamin Shoppe and Chipotle Mexican Grill) on Lower Westfield Road, and Circle K on Appleton Street resulting in a net additional connected load of 650 kVA. There were also 2 new homes that required new electric services resulting in a connected load of 10 kVA. The new homes were constructed on available lots on Michelle Lane and Cherry Street.

In summary for 2015, HG&E set 179 poles and removed 73. A net 777.5 kVA connected load was installed on the distribution system. Some 20,158 circuit feet of underground cable was installed while 9,507 was removed. Similarly, 81,375 circuit feet of overhead wire was installed while 84,008 was removed. Approximately 6.2 miles of conduit was installed including 32,620 feet of PVC and 130 feet of steel. There was a net increase of 6 contract lights in the total number of contract lights and no change in the total number of street lights on the distribution system.

RELIABILITY

In 2015, HG&E was the recipient of the prestigious RP3 Diamond designation from the American Public Power Association, which is held by less than 2% of the country's over 2,000 municipally owned utility companies. Such status is awarded to municipal utility companies that provide customers with the highest degree of reliable and safe electric service.

Electric Distribution System Reliability Statistics

Statistic	2015	2014
ASAI	99.996%	99.991%
CAIDI	37.83 min	92.35 min
SAIDI	12.12 min	47.31 min
SAIFI	0.60 outages	0.51 outages

Average System Availability Index (ASAI)—represents how much of the time a customer actually has service available to them.

Customer Average Interruption Duration Index (CAIDI)—represents the average time expected to take to restore service after a sustained interruption.

System Average Interruption Duration Index (SAIDI)—defines the average interruption duration per customer served.

System Average Interruption Frequency Index (SAIFI)—defines the average number of times that a customer's service is interrupted during a given year.

Reliability statistics allow the Department to track its service reliability and compare them from year to year with other municipal and private utilities. There are four statistics used to define the length and frequency of interruptions to customers, system availability, and the number of customers impacted by outages (see chart).

METERING

The Department operated its Fixed Network Automated Meter Reading (AMR) system for a second year since installation in late 2013. Beyond performing meter reading tasks on a monthly basis, the system provides outage notification from electric meters, tampering diagnostics for electric and gas meters, interval meter data, and instantaneous meter reads, which allows the Department to perform certain tasks remotely such as successions when opening or closing an account. The metering group has utilized custom reports to track down inactive meters showing consumption, validate meter removals, and detect malfunctioning meters to reduce lost revenue and maintain system accuracy. In addition, system coverage was expanded during the year by installing a new collector on the Department's Self-Supporting Tower on top of Mt. Tom. This new collector allowed the Department to place its first repeater in Southampton at the corner of Strong Road and Brickyard Road on a pole owned by the Department. In addition, it has increased collector-to-repeater redundancy for 95% of the installed repeaters. Most notably, the repeaters in the West Holyoke, Bemis Heights, and Whiting Farms Road areas now have a collector-to-repeater redundancy of 3, which is the system average. The new collector has increased the total interval read rate from 98.5% to 99.2% in Holyoke and 87.03% to 96.18% in Southampton.

A total of 19 transformer, station service, and generation meters were tested to meet ISO-NE's OP-18 metering requirements which include meters at the Holyoke and Ingleside substations and Hadley Falls, City Hydro, Valley, Riverside, and Chemical generation stations. These meters are tested by the Meter Department on a biannual basis through the use of the Department's own portable test unit. In addition, ION meters were commissioned for the new Hadley Falls 1U switchgear, RICAR solar project, and the Cabot Street backup generator.

Testing of current transformers (CT) continued at various customer locations. There were 100 CT rated customer locations tested during the year. This testing ensures that customer metering remains accurate and any issues found are addressed in a timely fashion.

Throughout the year, the metering group continued to support the Credit Department performing delinquent customer ons and offs, tagging notifications, meter reads, and collections. In total, 4,924 credit related duties were performed in 2015.

In summary, there were a net total of 124 electric meters installed, 85 electric meters replaced, and 74 electric meters retired having

an average age of 10.89 years. A total of 77 electric meters were tested and calibrated, 40 power quality checks, 507 turn ons and 373 turn offs, and 25 electric successions performed, and 86 vacant with consumption/no consumption reports investigated for metering problems and/or theft of service. There were 18 current transformer installs and 6 removals. On the gas side, 1,743 meters were removed and tested, 1,899 meters were installed, another 1,803 meters were sealed, and 317 meters were retired.

WHOLESALE POWER

As part of the Department's Energy Purchasing and Risk Management Plan, the Department monitors the available energy supply and sources on a daily basis. The Department purchases its power on both a short-term and long-term basis to take advantage of the fluctuating market, manage the risk of rising prices and increase the stability of our future energy cost to ensure stable low rates for all customers.

During 2015, the Department proactively pursued low cost "carbon-free" projects to secure and further enhance its clean energy portfolio. A new 0.996 MW-DC of roof-top solar project came on line in late 2015 and produced 158 MWh. HG&E's County Road ground mounted solar project produced 1,050 MWh and HG&E's Constellation Solar Projects produced 4,945 MWh of carbon-free power for the Department in 2015.

Residential and Commercial customers continue to invest in renewable solar technologies resulting in 27,828 kWh of load reduction on the system in 2015. The harnessing of solar energy from these projects within Holyoke is offsetting the Department's demand and reducing future costs for all customers.

In 2011, HG&E executed a ten (10) year Power Transaction which included Nuclear Certificates with Nextera Energy Power Marketing, LLC. Year four (4) of this transaction produced 40,960 MWh of carbon/emission free power for the Department in 2015 and helped to stabilize rates for all customers.

A total of 187,917 MWh of net generation was produced from the Department-owned hydro resources which continued to help drive down the overall cost of power. During 2015, the hydro preference power credits to our residential customers remained at 1.2¢/kWh throughout the year which generated total savings of \$1,186,476, with \$920,806 coming from Department-owned hydro and \$265,670 from NYPA entitlements.

The Hydroelectric system including the Hadley Falls Dam and the Holyoke Canal hydro facilities was certified by the Low Impact Hydropower Institute (LIHI) effective January 1, 2012 allowing the Department to register for Massachusetts Class I and II status. One (1) Massachusetts Class I Statement of Qualification Application (Holyoke No.3 – City 3) was submitted and approved with a July 2015 effective date by the Department of Energy Resources (DOER) in

POWER SUPPLY

2015 Power Supply Resources

PROJECT NAME	FUEL TYPE	PROJECT	CONTRACT CAPACITY (kW)		CONTRACT
		START DATE	WINTER	SUMMER	END DATE
BASE UNITS					
NYPA FIRM	HYDRO	1985	1,844	2,662	9/1/25
MILLSTONE 3 - MIX 1	NUCLEAR	1986	1,334	1,334	11/25/45 *
MILLSTONE 3 - PROJ 3	NUCLEAR	1986	2,325	2,325	11/25/45 *
SEABROOK - MIX 1	NUCLEAR	1990	147	147	3/15/30 *
SEABROOK - PROJ 4	NUCLEAR	1990	3,306	3,306	3/15/30 *
SEABROOK - PROJ 5	NUCLEAR	1990	408	408	3/15/30 *
INTERMEDIATE UNITS					
HYDRO QUEBEC 1	N/A	1986	1,189	1,189	LOU **
HYDRO QUEBEC 2	N/A	1989	1,938	1,938	LOU **
W.F. WYMAN 4	#2 OIL	1978	4,199	4,152	LOU *
PEAKING UNITS					
HOLYOKE #6 & #8	#2 OIL, #6 OIL, GAS	1951	18,605	18,605	RETIRED 3/8/13 *
NYPA PEAK	HYDRO	1985	395	395	9/1/25
STONYBROOK GT 2A	#2 OIL	1982	2,476	1,910	LOU *
STONYBROOK GT 2B	#2 OIL	1982	2,413	1,850	LOU *
RENEWABLE					
HADLEY FALLS 1&2	HYDRO	1949	33,400	33,400	OWNED *
RIVERSIDE 8	HYDRO	1931	4,575	4,575	OWNED *
RIVERSIDE 4-7	HYDRO	1921	3,270	3,270	OWNED *
BOATLOCK	HYDRO	1924	3,313	3,313	OWNED *
HOLYOKE HYDRO / CABOT 1-2	HYDRO	1923	1,856	1,856	OWNED *
HOLYOKE HYDRO/CABOT 3	HYDRO	1940	450	450	OWNED * ****
HOLYOKE HYDRO/CABOT 4	HYDRO	1955	750	750	OWNED * ****
CHEMICAL	HYDRO	1935	1,600	1,600	OWNED *
BEEBE HOLBROOK	HYDRO	1948	205	205	OWNED *
SKINNER	HYDRO	1924	300	300	OWNED *
VALLEY HYDRO	HYDRO	2004	790	790	OWNED *
ALBION A	HYDRO	2004	281	281	OWNED * ***
ALBION D	HYDRO	2004	395	395	OWNED * ***
GILL D	HYDRO	2004	330	330	OWNED * ***
NONOTUCK	HYDRO	2004	472	472	OWNED * ***
OPEN SQUARE	HYDRO	2004	525	525	2/29/16
CONSTELLATION - MUELLER RD	SOLAR	2012	2693	2693	12/20/31 ****
CONSTELLATION - MEADOW ST	SOLAR	2012	793	793	12/20/31 ****
CITIZENS - COUNTRY RD	SOLAR	2013	615	615	2/5/33****
RICAR	SOLAR	2015	996	996	10/1/40****

All capacity contracts follow the ISO New England calendar system.

* Investments continue for the life of the unit (LOU)

** After 8/31/01 there is no firm energy contract, only capacity entitlement which continues for life of unit

*** Analysis of Relicensing

****Load Reducer



Work barges preparing for the Fish Exclusion Rack project at Hadley Station.

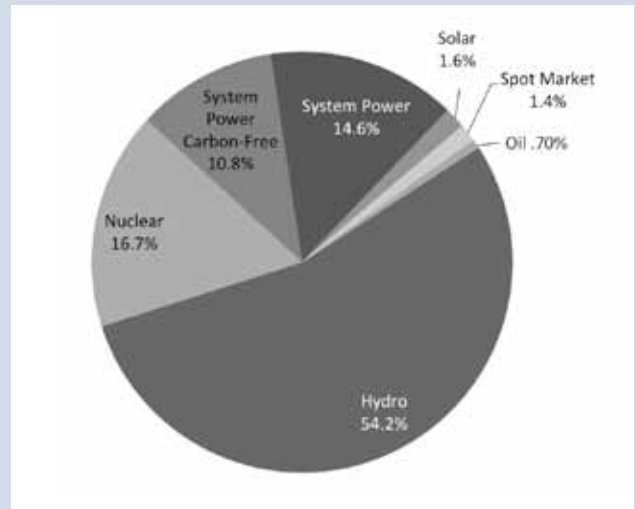
December 2015. All of the canal units, with the exception of Harris, are MA Class II certified and six canal units are certified with small percentages as MA Class I. Sale of these certificates resulted in \$2,095,889 of revenue to the Department in 2015.

In 2015, 55.8% of the Department's generation was from renewable resources (hydro and solar) and 83.37% of its generation was carbon free (renewable and nuclear). The following graph summarizes the Department's resource mix by energy type. Note that System Power represents short-term bilateral contracts representative of system mix within ISO-NE that were procured during the summer time frame and the Carbon Free System Power represents a long-term on peak bilateral contract with nuclear certificates attached.

The Department's average annual carbon dioxide emissions per MWh for 2015 is 31.64 pounds, compared to an average of 625 pounds for New England. The following chart is a summary of the Department's carbon footprint.

HG&E proactively works throughout the year to improve reliability by maintaining and making upgrades to its 9.25 circuit miles of Pool Transmission Facilities (PTF). Ensuring that all transmission lines and processes are up to date allows HG&E to meet its future needs and reduces transmission costs. Transmission Regional Network Service (RNS) rates increased 13.0% from \$87.35/kW-year to \$98.70/kW-year in June 2015. These are the rates that HG&E pays to the owners of the Regional Transmission System. The Department's RNS annual charge of \$5,616,038 was offset by 9.25 circuit miles of PTF revenues of \$3,178,081.

2015 Total Entitlements



2015 Carbon Footprint

Fuel Type	Energy	CO ² Emissions	
	(MWh)	(Tons)	(lbs CO ₂ /MWh)
Oil	2,681	2,531	
Hydro	205,100	0	
Nuclear	63,388	0	
System Power Carbon Free	40,960	0	
System Power	55,140	1,848	
Solar	6,181	0	0
Spot Market	5,153	1,611	
Total	378,603	5,990	31.64

TELECOMMUNICATIONS



HG&E's continues to manage and operate a 10G network upgrade which supports both internal Information Technology (IT) needs as well as City of Holyoke IT operations.

In 2015, the Department continued strong sales growth in fiber optic Internet and commercial network services. Through a third party provider, HG&E executed numerous contracts for hosted business telephone service delivered over the HGE.net commercial network. The Department developed multiple fiber optic Wide Area Network (WAN) service contracts for customers with multi-location requirements. The Department continues to manage and operate a 10G network. HG&E continues to support internal Information Technology (IT) needs in addition to providing support for the City of Holyoke IT operations.

Commercial Network Upgrades

HG&E's commercial network, now in its seventeenth year of operation, provides high-speed network connectivity via fiber optic lines to business-class customers located in Holyoke, Chicopee, Downtown Springfield, and throughout the Pioneer Valley. Both the Department itself and the City receive services from this network. The platforms in service are industry standard MetroE (Metropolitan Ethernet) and IP (Internet Protocol) supporting speeds up to 10 Gbps (Gigabit per second). Ongoing investment in this network continues as customer needs grow and application requirements evolve.

Commercial Network Expansion

In 2015, the Department continued to expand Fiber Optic Wide Area Networking (WAN) services to the Pioneer Valley. Within the expanded service territory, HG&E continues to focus on providing Fiber Optic WAN services for large institutions, in addition to a 10 Gig (Gigabit), six site customer Carrier Ethernet transport network. Since implementing Commercial Managed Router Services in 2013, the Department manages large Fiber Optic WAN services on behalf of clients.

Carrier Interconnection

HG&E developed interconnect relationships with other fiber ethernet carriers to service our core customers with locations outside of the footprint of Holyoke, Chicopee, Downtown Springfield, and throughout the Pioneer Valley. The Department has leveraged these high-speed interconnect arrangements to extend its' networking value to the bulk of the Pioneer Valley.

In 2015, the Department completed a major network upgrade from 1 Gig to a DWDM (Dense Wavelength Division Multiplexing) 10 Gig transport.

Utility Operations Network Upgrades

In addition to provisioning and maintaining retail commercial network customers, HG&E's Telecommunication Division continued its support for the design, operation, and maintenance of the Department's internal operations network and information intelligence needs.

Improvements to the distribution elements of the operations network continued in 2015 with the installation of additional Itron collector sites for the Electric Division's fixed wireless metering network project. Other major improvements included the management and enhancement to HG&E's firewall security features and management of physical security structure.

City of Holyoke Network Consulting

HG&E is responsible for ongoing maintenance, installation, and operation for the City of Holyoke's network. In addition to maintaining the City's servers, the Department continued PC support, hardware replacement, and security improvements.

Telecommunications Help Desk

HG&E administers a centralized help desk, accepting support calls from customers. In 2015 the help desk received 2,550 tickets and closed 2,557 tickets, solving 1,232 issues for Department employees, 924 for the City of Holyoke, 401 for Commercial Customers.



HG&E Customer Service representative, Lisa Fournier

GOODWILL



Lineman, Adam Dunn has the perfect day for teaching children about gas and electric safety.

In 2015, HG&E provided \$47,299 in discounts to businesses that relocated or expanded within Holyoke under the Economic Development Discount Program.

Community involvement is a central belief of the public power philosophy, and the Department is proud of the role it takes in making Holyoke a better place to call home.

In 2015, HG&E offered support to several major community events including the Hispanic Family Festival, the St. Patrick's Day Parade, and the Holyoke Fireworks, which is underwritten by the Department.

Additionally, HG&E employees volunteered over 3,000 hours in the community last year. In total, over \$115,471 in sponsorships and over \$11,692 in labor was provided for nonprofit causes.

NEIL J. MORIARTY, JR. SCHOLARSHIP FOR CADET ENGINEERS

The Cadet Engineer program is dedicated to the memory of our late Commission Chairperson, Neil J. Moriarty, Jr. He often noted that the admission of new students into the program was one of the most rewarding actions that the Commission made each year.

The program offers financial aid and internship opportunities to Holyoke students who are pursuing Bachelor's of Science in Engineering. Grace Hamel was admitted as the candidate for 2015.

ECONOMIC DEVELOPMENT

In 2015, the Department provided \$47,299 in additional discounts to businesses that have relocated or expanded within the City under the Economic Development Discount Program. This program provides an additional 10 percent discount for a three-year period for eligible customers.

The Department also offers a similar program for residential customers under which first-time Holyoke home buyers can receive 10 percent off of their first three years of gas and electric bills. In 2015, \$85,999 was provided under this program.

2015 Community Support

Contribution	Amount
Nonprofit Sponsorships	115,471
In-Kind Labor for Nonprofit Events	11,692
Cadet Engineer Program	60,000
Payment in Lieu of Taxes	1,080,940
Municipal Payment Discounts	361,753
Discounted Street Lighting	472,248
Economic Development Discount	47,299
New Homeowner Discount	85,999
Energy Conservation Assistance	1,111,073
Total Community Support	\$3,346,475

HG&E also promotes economic growth through our Commercial and Residential Energy Conservation Programs. These plans offer interest-free financial assistance to our customers while helping to make their homes and businesses more energy efficient. In 2015, the Department paid out over \$1,111,073 in zero-interest assistance to Holyoke home and business owners.

MUNICIPAL BENEFITS

The Department contributed \$1,080,940 to the City of Holyoke's General Fund during 2015 as an in-lieu of tax payment. In addition, payment discounts of \$361,753 were provided on the City's utility accounts. Beyond these direct financial benefits, HG&E continues to provide other valuable services to the City including: offering low-cost street lighting, low-cost maintenance on city-owned gas and electric equipment, and low municipal rates to City departments on their gas and electric accounts.





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INDEPENDENT AUDITORS' REPORT

To the Utility Commission
Holyoke Gas and Electric
Holyoke, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Holyoke Gas and Electric and Holyoke Gas and Electric OPEB Trust, enterprise and fiduciary funds, respectively, of the City of Holyoke, Massachusetts, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents. Hereafter the funds will collectively be referred to as "Holyoke Gas and Electric."

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Holyoke Gas and Electric'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 Holyoke Gas and Electric'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holyoke Gas and Electric as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows, where applicable, for the years then ended in accordance with accounting principles generally accepted in the United States of America.



To the Utility Commission
Holyoke Gas and Electric

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Holyoke Gas and Electric enterprise and fiduciary funds and do not purport to, and do not, present fairly the financial position of the City of Holyoke, Massachusetts, as of December 31, 2015 and 2014 and the respective changes in financial position or cash flows, where applicable, for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in the Note 1, Holyoke Gas and Electric has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective January 1, 2015. The cumulative effect of the change is shown in the current year. Our opinions are 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 required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental information as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 29, 2016

Holyoke Gas & Electric

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the years ended December 31, 2015, 2014, and 2013 UNAUDITED

The management of Holyoke Gas & Electric (HG&E) offers all persons interested in the financial position of the utility this narrative overview and analysis of the utility's financial performance during the years ending December 31, 2015, 2014, and 2013. You are invited to read this narrative in conjunction with the utility's financial statements.

FINANCIAL HIGHLIGHTS

- > Net revenues for the utility decreased by \$724,878 or 1.0% from 2014. Electric Operating Revenues increased \$1,073,255, or 2.3 % which was primarily due to a combination of increased electrical consumption and an increase in renewable energy certificate (REC) sales. Gas Operating Revenue on the other hand decreased \$1,798,133 (7.3%). Consumption year on year was down slightly but revenue per unit was down significantly due to lower fuel costs which caused a decrease in the corresponding Purchased Gas Adjustment (PGA) component of the gas rates in 2015.
- > Total Fuel Costs increased by 9.8% from 2014. Electric fuel costs increased by \$6,575,951, or 38.2%, due primarily to the capital projects at Hadley Falls Station which caused the generators to be taken off-line for over six months. In addition, higher cost wholesale power had to be purchased to replace the hydro generation that was lost due to Hadley Falls Station being off-line. Gas fuel costs were down \$3,252,454 (23.1%) compared to 2014 due to lower wholesale gas costs in 2015.
- > The Department's operating and maintenance expenses increased by \$276,538 (1.1%) in 2015. The electric division's operation and maintenance expenses increased \$173,446 (0.9%), and the gas division operation and maintenance expenses increased \$103,092 (1.5 %). No one item showed a significant increase in the year on year comparison.
- > Other Revenue and Deductions decreased by \$1,838,879 compared to 2014. This variance was primarily due to an unrealized loss on mark to market adjustments on investments of \$3,829,661. This reduction was partially offset by a gain on the sale of land of \$1,016,794.
- > The Departments' total net position decreased by (\$16,834,550) from the prior year, primarily as a result of a new accounting requirement, GASB No. 68, which requires the Department to recognize the liability associated with pension obligations. As of December 31, 2015, the Department reported a net pension liability of over \$27.4 Million. The impact of the pension liability was offset by a deferred outflow of resources (\$5.07 Million) related to the pension obligation and a combined increase in net position of \$6.1 Million from the combined activities of HG&E, Holyoke Solar Cooperative, and the Massachusetts Clean Energy Cooperative.

Holyoke Gas & Electric
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the years ended December 31, 2015, 2014, and 2013
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OVERVIEW OF THE FINANCIAL STATEMENTS/USING THIS REPORT

The HG&E Commission is a three member board comprised of three local citizens. Nominated by the mayor and approved by the city council, each member has a six year term when approved. One member come up for re-appointment every two years on a rotating schedule. HG&E provides Electric, Gas and Telecommunications services to the City of Holyoke.

The gas division has a distribution system that covers the City and the eastern portion of Southhampton, Massachusetts. There are approximately 11,500 customers and 185 miles of main pipes. The division also operates a Liquefied Natural Gas plant that is used to meet peak demand during the winter months. In addition to these services, gas and electric appliance repair is offered to the customers.

The electric division operates and maintains seven substations, 169+ miles of pole lines, 35+ miles of underground distribution, 9.25 miles of overhead transmission, 2655 transformers and 4,120 streetlights. There are approximately 17,445 electric customers.

HG&E also owns and operates over 50 MW of hydro-electric generation capacity within the City of Holyoke. The Holyoke Gas & Electric Hydroelectric system, including the Hadley Falls Dam and the Holyoke Canal hydro facilities, generated a total of 187,917 MWh of net generation which continued to help drive down the overall cost of power.

The Department is a member of the Massachusetts Municipal Wholesale Electric Company (MMWEC), a public corporation and a political subdivision of the Commonwealth of Massachusetts. Through MMWEC, HG&E has partial ownership (entitlements) to the following projects; Stony Brook Peaking Unit, Millstone Unit # 3, Seabrook Nuclear Power Station, and Wyman projects.

In addition to offering some of the lowest electric rates in the Commonwealth, over 55% of the electricity sold by the Department at retail came from renewable resources and over 83% of electricity sold was carbon-free, far exceeding the Commonwealth's renewable portfolio standard goals.

Other

Please refer to the table of contents for the various sections included in this report. The utility is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the utility.

- > The Statements of Net Position includes all of the utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utility.
- > The Statements of Revenues, Expenses, and Changes in Net Position provide an indication of the utility's financial health.
- > The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.

Holyoke Gas & Electric
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the years ended December 31, 2015, 2014, and 2013
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UTILITY FINANCIAL ANALYSIS

An analysis of the utility's financial position begins with a review of the Statements of Net Position, and the Statements of Revenues, Expenses and Changes in Net Position report information. These two statements report the utility's net position and changes therein. The utility's net position, the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is key to measuring the financial health of the utility. Over time, increases or decreases in the net position value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that the financial position can also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions and new regulations.

A summary of the utility's Statements of Net Position is presented below in Table 1.

Table 1
Condensed Statements of Net Position

	2015	2014	2013
Current and Other Assets	\$ 100,250,809	\$ 122,158,151	\$ 127,267,258
Capital Assets	152,270,352	127,950,242	123,417,778
Total Assets	\$ 252,521,161	\$ 250,108,393	\$ 250,685,036
Deferred Outflows of Resources	\$ 252,521,161	\$ -	\$ -
Long-term Debt Outstanding	\$ 92,644,689	\$ 97,569,122	\$ 101,382,842
Other Liabilities	47,258,861	18,021,958	22,741,028
Total Liabilities	\$139,903,550	\$115,591,080	\$ 124,123,870
Net Investment in Capital Assets	65,711,006	60,479,338	61,097,844
Restricted For Debt Service	9,260,691	9,211,193	9,167,625
Unrestricted Assets	1,441,217	23,556,933	15,025,848
Total Net Position	\$ 76,412,914	\$ 93,247,464	\$ 85,291,317

Current and other assets decreased by \$21,907,342 with a reduction of the construction fund at Mass Clean Energy Coop. from \$22,768,893 in 2014 to \$443,602 in 2015.

Capital assets increased by \$24,320,110 in 2015. Most of the increase was in the Construction in Progress (CIP) account for over \$18,000,000 related to the refurbishment of Hadley Falls Unit #1 and construction of downstream fish passage facilities.

Long-term bonds payable decreased by \$2,348,334 due to scheduled debt repayments during 2015.

Other liabilities increased by \$29.2 Million primarily due to the accounting change (GASB 68) that requires the Department to recognize a net pension obligation of \$27,426,467.

Holyoke Gas & Electric
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the years ended December 31, 2015, 2014, and 2013
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UTILITY FINANCIAL ANALYSIS (cont.)

Net capital assets, which are discussed more in the Capital Assets section, increased by \$ 5,231,668 in 2015 as a result of plant replacements and additions associated with the ongoing capital improvement plan.

The Net Position Restricted for Debt Service increased by \$49,498 due to an appreciation of funds in collateral accounts for bond and note payables.

The Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not "invested in capital assets" or "restricted for debt service". There was a decrease of \$22 Million in 2015 due to GASB No. 68 Pension changes. There was an accompanying increase in "Other Liabilities" for pension liability recognition.

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
OPERATING REVENUES	\$ 70,214,791	\$ 70,939,669	\$ 68,034,291
OPERATING EXPENSES	61,329,836	62,011,108	58,633,668
Operating Income	8,884,955	8,928,561	9,400,623
OTHER REVENUES (EXPENSES)	(1,724,698)	114,181	(1,947,378)
Change in Net Position before Transfers	7,160,257	9,042,742	7,453,245
TRANSFERS	(1,075,249)	(1,086,595)	(1,080,940)
Change in Net Position	6,085,008	7,956,147	6,372,305
NET POSITION - Beginning of Year	93,247,464	85,291,317	78,919,012
Cumulative Effect of a change in acct. principle	(22,919,558)	-	-
NET POSITION - End of Year	<u>\$ 76,412,914</u>	<u>\$ 93,247,464</u>	<u>\$ 85,291,317</u>

As previously noted, the Statements of Net Position shows the change in financial position. The specific nature or source of these changes then becomes more evident in the Statements of Revenues, Expenses and Changes in Net Position as shown above in Table 2. The decrease in net position represents results from operating activities and accounting changes.

Holyoke Gas & Electric
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the years ended December 31, 2015, 2014, and 2013
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UTILITY FINANCIAL ANALYSIS (cont.)

During 2015, operating revenues decreased \$724,878 or 1.0%. The biggest change occurred in the "Other Revenues (Expenses)" section, with an unrealized loss on investments with a Mark to Market reduction in valuations of over \$3,183,000.

Operating expenses decreased by \$681,272 due, primarily, to lower fuel costs in 2015

PILOT payments to the City of Holyoke decreased in 2015 by \$11,346 due to a credit issued in 2015 for an overbill on a Solar Pilot in 2014.

A change in Net Position of \$16,834,550 was primarily due to the cumulative effect of a change in accounting principles on Pensions (GASB No. 68) that caused a reduction in Net Position of \$22,919,558 (see Footnote # 15 in the audited statements), which was offset by a consolidated increase in net position of \$6,085,008, to equal a total net reduction in the Net Position of \$ 16,834,550.

Table 3
Condensed Statements of Cash Flows

	<u>2015</u>	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES	\$ 17,707,940	\$ 9,459,523	\$ 16,534,100
CASH FLOWS FROM INVESTING ACTIVITIES	281,529	9,495,528	(45,746,600)
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(1,075,249)	(1,086,595)	(759,600)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(35,040,772)	(17,165,433)	32,009,000
Increase in Cash and Cash Equivalents	(18,126,552)	703,023	2,036,800
CASH AND CASH EQUIVALENTS - Beginning of Year	72,042,535	71,339,512	69,302,600
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 53,915,983</u>	<u>\$ 72,042,535</u>	<u>\$ 71,339,500</u>
NONCASH FINANCING ACTIVITY			
Change in costs recoverable in future - pollution	\$ 74,360	\$ 523,360	\$ -
Loss on retirement of fixed assets	\$ 149,050	\$ 82,517	\$ -

Cash Flows from operating activities –Cash flow from operations increased by over \$8.2 Million due to increased cash from customers and decrease cash paid to suppliers (over \$7.8 Million less cash to suppliers in 2015).

Holyoke Gas & Electric
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the years ended December 31, 2015, 2014, and 2013
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UTILITY FINANCIAL ANALYSIS (cont.)

Cash Flows from investing activities decreased by over \$9.2 Million. Investments of \$6.6 Million were purchased, with reimbursed monies from Mass Clean Energy Construction Fund, in 2015 compared to \$539K in 2014.

Cash flows from Capital and related Financing Activities increased by over \$17.8 Million due to the capital investments related to the refurbishment of Hadley Falls Unit #1 and new downstream fish passage facilities.

Cash & Cash equivalents decreased by \$21,082,028 due to an increase in total capital spending of \$20,136,093, mostly from the Hadley Falls Unit #1 refurbishment and construction of new downstream fish passage facilities, as well as normal capital spending.

Table 4

Capital Assets - Electric

Capital Assets	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	4,773,373	5,443,873	5,439,873
Plant, Property and Equipment	157,078,591	147,885,050	144,756,541
Total Capital Assets	<u>161,851,964</u>	<u>153,328,923</u>	<u>150,196,414</u>
Construction Work in Progress	32,175,601	13,756,521	9,795,924
Less: Accumulated Depreciation	(64,186,766)	(60,305,293)	(56,361,556)
Net Capital Assets – Electric	<u><u>129,843,799</u></u>	<u><u>106,780,151</u></u>	<u><u>103,630,782</u></u>

Land values decreased by \$670,500 due to the sale of land. The Whiting Farm property that was purchased as part of the acquisition of the hydroelectric plant assets in 2001 was sold.

Plant, Property and Equipment increased by over \$9.2 Million mostly due to capital improvements including the WH1 Conversion of 4.8kV circuits to 13.8 kV and cast iron and bare steel service replacements.

Construction Work In Progress increased by over \$18.4 Million primarily due to the refurbishment of Hadley Falls Station Capital projects, as well as other routine capital upgrade projects.

Holyoke Gas & Electric
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the years ended December 31, 2015, 2014, and 2013
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UTILITY FINANCIAL ANALYSIS (cont.)

Table 5
Capital Assets – Gas

	2015	2014	2013
Capital Assets			
Land	214,304	288,804	288,804
Plant, Property and Equipment	47,247,449	44,791,532	12,318,568
Total Capital Assets	47,461,753	45,080,336	12,607,372
Construction Work in Progress	72,492	(6,647)	23,865
Less: Accumulated Depreciation	(25,107,692)	(23,903,598)	12,844,241)
Net Capital Assets – Electric	22,426,553	21,170,091	19,786,996

Plant, Property and Equipment increased by over \$2.4 Million due to ongoing replacements of bare steel and cast iron services. During 2015, net capital assets increased \$1,256,462 which was mostly maintenance capital in nature.

Further details on capital assets are included in Note 3.

LONG-TERM DEBT

As of December 31, 2015, Holyoke Gas & Electric had \$77,016,666 in bonds payable as well as \$9,992,028 outstanding in notes payable. The bonds and notes payable have decreased \$2,348,334 and \$628,620 respectively since 2014. No new bonds or notes payable were issued during 2015.

Details of the existing debt are included in Note 8.

CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS

Holyoke Gas & Electric continues its aggressive capital improvement programs to upgrade and maintain its infrastructure for today and the future. Also, a major goal is ongoing dedication to maintaining system reliability performance for all facets of the operation.

CONTACTING UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the Utility's finances. If you have questions about this report, or need additional financial information, contact Holyoke Gas & Electric Department at 99 Suffolk St, Holyoke Massachusetts 01040 or (413) 536 0300

HOLYOKE GAS AND ELECTRIC

STATEMENTS OF NET POSITION As of December 31, 2015 and 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 16,147,935	\$ 12,624,078
Restricted Assets		
Redemption account	2,574,798	1,540,069
Customer accounts receivable - net	5,321,718	6,721,622
Accounts receivable - City of Holyoke	15,000	30,000
Note receivable - current portion	394,093	346,238
Materials and supplies	2,829,766	3,010,955
Fuel for electric generation and gas in storage	645,995	1,172,466
Prepaid expense	2,651,878	3,058,257
Other receivables	1,347,864	1,652,349
Total Current Assets	31,929,047	30,156,034
NONCURRENT ASSETS		
Restricted Assets		
Accounts required under bond indenture/note payable	10,711,502	32,985,771
Customers' deposits	654,203	698,800
Note receivable - after one year	9,220,663	9,642,498
Hi-Lite assistance loans	2,619,700	2,687,183
Other Assets		
Purchased power accounts	356,629	353,633
Rate stabilization accounts	43,043,396	43,792,482
Costs recoverable in future - pollution	463,946	523,360
Other investments	188,390	188,390
Intangible assets	1,063,333	1,130,000
Capital Assets		
Plant, property and equipment in service	209,313,717	198,409,259
Construction in progress	32,248,093	13,749,874
	241,561,810	212,159,133
Less: Accumulated depreciation	89,291,458	84,208,891
Total Capital Assets	152,270,352	127,950,242
Total Noncurrent Assets	220,592,114	219,952,359
Total Assets	252,521,161	250,108,393
DEFERRED OUTFLOWS OF RESOURCES		
Pension related amounts	5,065,152	-

See accompanying notes to financial statements.

	<u>2015</u>	<u>2014</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 6,898,967	\$ 6,442,601
Customers' deposits	831,592	692,492
Accrued liabilities	790,084	662,533
Current portion - accrued compensated absences	205,230	171,952
Current portion - accrued environmental costs	144,000	120,000
Accrued charges - current	45,762	273,840
Liabilities Payable from Restricted Assets		
Current portion - bonds and notes payable	4,132,573	3,084,782
Accrued interest	<u>1,559,664</u>	<u>1,586,132</u>
Total Current Liabilities	<u>14,607,872</u>	<u>13,034,332</u>
LONG-TERM LIABILITIES AND CREDITS		
Bonds payable - long-term	73,598,333	77,016,667
Plus: Premium on bonds payable	<u>9,709,474</u>	<u>10,560,427</u>
	83,307,807	87,577,094
Notes payable - long-term	9,336,882	9,992,028
Leases payable - long term	5,321	64,415
Accrued compensated absences	2,849,132	2,733,356
Accrued environmental costs	305,000	403,360
Accrued other post employment benefits	50,722	283,188
Unearned revenue	1,569,610	1,058,570
Reserve fund for note receivable	444,737	444,737
Net pension liability	<u>27,426,467</u>	<u>-</u>
Total Long-Term Liabilities and Credits	<u>125,295,678</u>	<u>102,556,748</u>
Total Liabilities	<u>139,903,550</u>	<u>115,591,080</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization reserve	<u>41,269,849</u>	<u>41,269,849</u>
NET POSITION		
Net investment in capital assets	65,711,006	60,479,338
Restricted for debt service	9,260,691	9,211,193
Unrestricted	<u>1,441,217</u>	<u>23,556,933</u>
TOTAL NET POSITION	<u>\$ 76,412,914</u>	<u>\$ 93,247,464</u>

See accompanying notes to financial statements.

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Gas charges for service	\$ 22,890,373	\$ 24,688,506
Electric and telecommunications charges for service	<u>47,324,418</u>	<u>46,251,163</u>
Total Operating Revenues	<u>70,214,791</u>	<u>70,939,669</u>
OPERATING EXPENSES		
Gas operation and maintenance	18,419,794	21,749,156
Depreciation - gas plant and equipment	<u>1,352,916</u>	<u>1,277,839</u>
Total Gas Operating Expenses	<u>19,772,710</u>	<u>23,026,995</u>
Electric and telecommunications operation and maintenance	37,128,857	34,649,699
Depreciation - electric and telecom plant and equipment	<u>4,428,269</u>	<u>4,334,414</u>
Total Electric and Telecommunications Operating Expenses	<u>41,557,126</u>	<u>38,984,113</u>
Total Operating Expenses	<u>61,329,836</u>	<u>62,011,108</u>
OPERATING INCOME		
Gas	3,117,663	1,661,511
Electric and telecommunications	<u>5,767,292</u>	<u>7,267,050</u>
Total Operating Income	<u>8,884,955</u>	<u>8,928,561</u>
OTHER REVENUES (EXPENSES)		
Investment income - net of fees	3,357,392	3,451,819
Net gain (loss) on investments	(3,829,661)	(646,565)
Interest expense	(3,127,717)	(3,223,266)
Miscellaneous income (expense)	872,829	848,165
Amortization of intangible assets	(66,667)	(66,667)
Net gain (loss) - plant retirements	1,016,794	(241,706)
Net gain - merchandise jobbing	164,240	115,045
Mt. Tom property assessment expense	(32,140)	(42,876)
Taxes - other	<u>(79,768)</u>	<u>(79,768)</u>
Total Other Revenues (Expenses)	<u>(1,724,698)</u>	<u>114,181</u>
Change in Net Position Before Transfers	7,160,257	9,042,742
TRANSFERS		
Payment in lieu of taxes - City of Holyoke	<u>(1,075,249)</u>	<u>(1,086,595)</u>
Change in Net Position	6,085,008	7,956,147
NET POSITION - Beginning of Year	<u>93,247,464</u>	<u>85,291,317</u>
Cumulative effect of a change in accounting principle	<u>(22,919,558)</u>	<u>-</u>
NET POSITION - END OF YEAR	<u>\$ 76,412,914</u>	<u>\$ 93,247,464</u>

See accompanying notes to financial statements.

HOLYOKE GAS AND ELECTRIC

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 73,590,065	\$ 72,484,697
Cash paid to suppliers	(42,479,763)	(50,306,477)
Cash paid to employees	(13,402,362)	(12,718,697)
Net Cash Flows From Operating Activities	17,707,940	9,459,523
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	6,942,144	6,874,482
Purchase of investments	(6,562,326)	(539,100)
Investment income (loss) - net of fees	(472,269)	2,805,254
Repayments on notes receivable	373,980	354,892
Net Cash Flows From Investing Activities	281,529	9,495,528
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES		
Payment in lieu of taxes and other property taxes	(1,075,249)	(1,086,595)
Net Cash Used in Noncapital Financing Activities	(1,075,249)	(1,086,595)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net investment in plant, property and equipment	(30,072,758)	(9,936,665)
Proceeds from the sale of land	1,999,978	-
Payments on bonds and notes payable	(2,976,954)	(1,972,533)
Interest paid on bonds, notes and leases payable	(3,991,038)	(5,256,235)
Net Cash Flows From Capital and Related Financing Activities	(35,040,772)	(17,165,433)
 Increase in Cash and Cash Equivalents	(18,126,552)	703,023
CASH AND CASH EQUIVALENTS - Beginning of Year	72,042,535	71,339,512
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 53,915,983	\$ 72,042,535
SUPPLEMENTAL NONCASH FINANCING ACTIVITY		
Change in costs recoverable in future - pollution	\$ 74,360	\$ 523,360
Loss on retirement of fixed assets	\$ 149,050	\$ 82,517

	<u>2015</u>	<u>2014</u>
SCHEDULE OF RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	<u>\$ 8,884,955</u>	<u>\$ 8,928,561</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	5,781,185	5,612,253
Non-operating Income	858,494	773,899
Changes in operating assets and liabilities (Increase) decrease in		
Accounts receivable	1,399,904	400,769
Materials and supplies	181,189	(164,943)
Fuel for electric generation and gas in storage	526,471	136,663
Prepaid expense	406,379	(2,324,111)
Accounts receivable - City of Holyoke	15,000	1,179,391
Other receivables	304,485	1,025,138
Hi-Lite assistance loans	67,483	(674,357)
Accounts payable	(671,077)	(3,169,107)
Customers' deposits	139,100	198,491
Accrued liabilities	396,413	1,039,005
Accrued compensated absences	149,254	(24,616)
Accrued other post employment benefits	(232,466)	(3,893,237)
Pension related deferrals and liabilities	(558,243)	-
Accrued environmental costs	59,414	415,724
Total Adjustments	<u>8,822,985</u>	<u>530,962</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 17,707,940</u>	<u>\$ 9,459,523</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE
STATEMENTS OF NET POSITION**

Cash and investments	\$ 16,147,935	\$ 12,624,078
Redemption account	2,574,798	1,540,069
Accounts required under bond indenture/note payable	10,711,502	32,985,771
Customer deposits	654,203	698,800
Purchased power accounts	356,629	353,633
Rate stabilization accounts	43,043,396	43,792,482
Other investments	<u>188,390</u>	<u>188,390</u>
Total cash and investments	73,676,853	92,183,223
Less: Noncash equivalents	<u>(19,760,870)</u>	<u>(20,140,688)</u>
CASH AND CASH EQUIVALENTS	<u>\$ 53,915,983</u>	<u>\$ 72,042,535</u>

See accompanying notes to financial statements.

HOLYOKE GAS AND ELECTRIC OPEB TRUST

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUND

As of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
	ASSETS	
NONCURRENT ASSETS		
Restricted Assets		
Investments	\$ 5,350,291	\$ 4,408,900
Total Assets	<u>5,350,291</u>	<u>4,408,900</u>
	LIABILITIES	
Total Liabilities	<u>-</u>	<u>-</u>
	NET POSITION	
Held in trust for pension benefits	<u>\$ 5,350,291</u>	<u>\$ 4,408,900</u>

See accompanying notes to financial statements.

HOLYOKE GAS AND ELECTRIC OPEB TRUST

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUND

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ADDITIONS		
Employer contributions	\$ 1,207,106	\$ 4,411,653
Investment income (loss)	<u>(250,044)</u>	<u>97</u>
Total Additions	<u>957,062</u>	<u>4,411,750</u>
DEDUCTIONS		
Advisory fees	<u>15,671</u>	<u>2,850</u>
Total Deductions	<u>15,671</u>	<u>2,850</u>
CHANGE IN NET POSITION	941,391	4,408,900
NET POSITION - Beginning of Year	<u>4,408,900</u>	<u>-</u>
NET POSITION - END OF YEAR	<u>\$ 5,350,291</u>	<u>\$ 4,408,900</u>

See accompanying notes to financial statements.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Holyoke Gas and Electric (“Department”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

REPORTING ENTITY

The financial statements present information on the activities of the Department, an enterprise fund of the City of Holyoke, Massachusetts (the “City”) and its component units, Holyoke Solar Cooperative and Massachusetts Clean Energy Cooperative Corporation. Component units are legally separate organizations for which the Department is financially accountable or other organizations for which the nature and significance of their relationship with the Department are such that their exclusion would cause the reporting entity’s financial statements to be misleading. The Department is financially accountable if (1) it appoints a voting majority of the organization’s governing body and it is able to impose its will on that organization, (2) it appoints a voting majority of the organization’s governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Department. Certain legally separate, tax exempt organizations should also be reported as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the Department, its component units, or its constituents; (2) the Department or its component units, is entitled to, or has the ability to access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the Department, or its component units, is entitled to, or has the ability to otherwise access, are significant to the Department.

The Department provides gas, electric, water and telecommunications services to its customers, substantially all of whom are local residents and commercial and industrial businesses. Approximately 67% of the Department’s revenues are derived from its electric division.

Component units are reported using one of two methods, discrete presentation or blending. Generally, component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the Department using the blending method if it meets any one of the following criteria: (1) the Department and the component unit have substantively the same governing body and a financial benefit or burden relationship exists, (2) the Department and the component unit have substantively the same governing body and management of the primary government has operational responsibility for the component unit, (3) the component unit serves or benefits, exclusively or almost exclusively, the Department rather than its citizens, or (4) the total debt of the component unit will be paid entirely or almost entirely from resources of the Department.

Blended Component Units

The Holyoke Solar Cooperative (Solar Coop) is a cooperative organized in Massachusetts, in December, 2010, and is owned by the Department (its original Member). Solar Coop engages in transactions associated with the purchase, acquisition, distribution, sale, resale, supply and disposition of energy or energy-related services to wholesale or retail customers. The Solar Coop is included in the enterprise fund. The Solar Coop does not issue separate financial statements.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

REPORTING ENTITY (cont.)

Blended Component Units (cont.)

The Massachusetts Clean Energy Cooperative Corporation (“Clean Energy Coop”) was organized in Massachusetts, in March, 2013. The initial members are the Department and the Massachusetts Municipal Wholesale Electric Company (“MMWEC”). The business of the Clean Energy Coop is managed by the board of directors, a majority of which consist of members of the Department’s management or Commission. The Clean Energy Coop was formed to finance, purchase, own, lease or otherwise acquire, hold, and use property; transact any business associated with the property; and the purchase, acquisition, generation, transformation, distribution, sale, resale, supply and provision of energy and telecommunications products and services, which will include, but is not limited to, the purchase and sale of the electrical capacity of the Hadley Falls Station hydroelectric generator unit #1 in Holyoke. The Clean Energy Coop is included in the enterprise fund. Separately issued financial statements of the Clean Energy Coop may be obtained from the Department’s office.

The Cooperatives are organized under Chapters 157 and 164: Section 47C of the State of Massachusetts Statutes and are subject to the same federal and state laws and regulations applicable to municipal lighting plants or other public entities that provide those services.

All intercompany account balances and transactions have been eliminated in the basic financial statements.

Other Post-Employment Benefit (OPEB) Trust

The OPEB Trust fund is a fiduciary fund that is used to account for and report resources that are required to be held in trust for the members and beneficiaries of the OPEB plan. The OPEB Trust was established in October 2014.

Rate Regulation

The rates of the Department are approved by the Department’s Board of Commissioners. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Department, the rates are not subject to DPU approval.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Department is presented as an enterprise and fiduciary fund of the City. Enterprise and fiduciary funds are used to account for operations that are financed and operated in a manner similar to private business or when the governing body has decided that the determination of revenues earned, costs, incurred, and net income is necessary for management accountability. The OPEB trust fund is used to report resources that are held in trust by the Department for the members and beneficiaries of the defined benefit postemployment welfare plan. The financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (cont.)

GASB issued Statement No. 68 - Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 and Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting to the utility's cost-sharing multiple employer pension plan. This statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employer. The utility adopted these statements effective January 1, 2015. The cumulative impact of implementation is shown in Note 15.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Deposits and Investments

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Department considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Investments

Investments totaling \$20,390 represent the cost of the Department's equity in New England Hydro-Transmission Corporation and New England Hydro-Transmission Electric Company. These investments represent 00.2653% (percent) of the issued common stock of these untraded companies. In addition, the Department has invested \$168,000 with the Public Utility Mutual Insurance Company (PUMIC). See Note 14 for additional information related to PUMIC. These investments are carried at original cost.

Investments in debt and equity securities are recorded at fair value (See Note 2).

Investments of the fiduciary fund are limited to investing in assets as a prudent investor would, by considering purposes, terms, distribution requirements, and other circumstances of the trust.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Accounts Receivable

Accounts receivable are stated net of an allowance for uncollectible accounts of \$515,204 at December 31, 2015 and 2014. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the valuation allowance based on its collection history and its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Hi-Lite Assistance Loans

Hi-Lite assistance loans are receivables from residential and commercial customers for loans used to make energy efficient improvements to their property, secured by municipal liens. Loan amounts and terms vary based on the project type, but are generally 3 to 5 years with 0% interest.

Materials, Supplies and Fuel

Materials, supplies and fuel are valued at average cost. All materials are intended to be used in operations and are not intended for resale.

Prepaid Expense

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. This includes the purchase of prepaid power.

Plant, Property, and Equipment

Additions to and replacements of plant, property and equipment are recorded at cost. The cost of plant, property and equipment retired, less accumulated depreciation and salvage, is charged against revenue in the year retired. The cost of repairs and minor renewals is charged to maintenance expense.

Interest Capitalized

The Department follows the policy of capitalizing interest as a component of the cost of plant, property and equipment in service constructed for its own use and when a specific debt issue is borrowed for a specific project consistent with GASB accounting rules. During the years ended December 31, 2015 and 2014, there was no interest capitalized.

Intangible Assets

Intangible assets are recorded at cost. Intangible assets subject to amortization include customer contracts and franchise area fee associated with the December, 2001 hydroelectric project purchase. Customer contracts and franchise fees are being amortized on a straight-line basis over the remaining lives of the respective licenses.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Environmental Matters

Expenditures that result from the remediation of an existing condition caused by past operations and that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and the cost can be reasonably estimated. A related asset for pollution costs recoverable in future has been recorded according to the *General Standards of Accounting for the Effects of Regulation* included in GASB Statement No. 62.

Pensions

For purposes of measuring the net pension liability, and deferred outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Holyoke Retirement System (“the 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, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

Deferred Outflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Energy Tax

The Department is required to collect, on behalf of the State of Massachusetts, an energy tax based on 6.25% of gross sales to its commercial customers. The Department’s policy is to exclude these energy taxes from revenue when collected and expenses when paid, and instead, record the collection and payment of energy taxes through a liability account.

Compensated Absences

Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated in the various categories of absence is based generally on length of services. Compensated absences, which have been earned but not paid, have been accrued in the accompanying consolidated financial statements, based on current rates of pay.

Long-term Obligations

Long-term debt and other obligations are reported as liabilities. Bond premiums are being amortized using the effective-interest method over the lives of the bonds. The balance at year end for premiums is shown as an increase in the liability section of the statement of net position.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Unearned Revenues

The Department collects charges from customers that will be used to pay for future pollution remediation costs. In the event that fees collected are in excess of actual pollution remediation costs, these charges may require refunds to customers and are therefore classified as a liability on the balance sheet.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and, therefore, will not be recognized as an inflow of resources (revenue) until that future time. Rate stabilization reserves are reported as deferred inflows of resources for regulated business-type activities.

Net Position

The difference between assets and liabilities is net position. There are three components of net position: net investment in capital assets, restricted for debt service, and unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Net position is restricted when constraints placed on its use are either (1) externally imposed by creditors [such as through debt covenants], grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. The Department's restricted net position as of December 31, 2015 and 2014 is related to the bond debt fund requirements, collateral required under note payable, and funds reserved for payments on note receivable.

Unrestricted net position represents the net amount of assets and liabilities that are not "invested in property, plant and equipment" or "restricted for debt service."

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

REVENUES AND EXPENSES

Revenue Recognition

The Department distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Department's principal ongoing operations. The principal operating revenues of the Department are charges to customers for sales and services. Operating expenses for an enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not making this definition are reported as nonoperating revenues and expenses.

Operating revenues are recognized on the basis of cycle billings rendered monthly, net of discounts. Revenues are not accrued for services delivered beyond such cycle billing dates.

Discounts reported for the year ended December 31, 2015 and 2014 that have directly reduced Operating Revenue in the Statement of Revenue, Expenses and Changes in Net Position are as follows:

	<u>2015</u>	<u>2014</u>
Gas	\$ 2,167,443	\$ 2,336,923
Electric	<u>3,921,265</u>	<u>3,849,628</u>
Totals	<u>\$ 6,088,708</u>	<u>\$ 6,186,551</u>

Expense Allocation

Expenses associated with a particular division of the Department are charged to that division. For the years ended December 31, 2015 and 2014, shared expenses including administrative and supporting costs are allocated to each division as follows:

Gas	35.0%
Electric and Telecommunications	65.0%

Depreciation

Depreciation is recoded on a straight-line basis using an annual rate of 3% of depreciable plant, property and equipment in service. The rate is in accordance with Massachusetts Department of Public Utilities regulations.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 72, Fair Value Measure and Application, Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, and Statement No. 79, Certain External Investment Pools and Pool Participants.

When they become effective, application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation

NOTE 2 – DEPOSITS AND INVESTMENTS

The Department participates in a cash and investment pool maintained by the city. In addition, the Department holds certain cash separately from the pool.

Custody and use of restricted assets are subject to requirements and restrictions imposed under contractual agreements, bond indentures, and the General Laws of the Commonwealth of Massachusetts, and are not available for normal operating purposes. Purchased power funds are on deposit with Massachusetts Municipal Wholesale Electric Company (MMWEC) to pay for energy and related services as required under existing agreements. Rate stabilization funds are amounts set aside to be used to stabilize current and future power costs. Postemployment benefit funds have been segregated by the Department to cover certain healthcare and life insurance benefits (See Note 11).

The Department invests various funds in debt and equity securities held by Flynn Financial Partners Ltd. and US Bank. All investments must be made in securities or deposits as authorized by Massachusetts General Laws, Chapter 44, Sections 54, 55 and 55B. Investments are stated at fair value.

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)**NOTES TO FINANCIAL STATEMENTS**

As of and for the Year Ended December 31, 2015 and 2014

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

The Department's deposits and investments at as of December 31, 2014 were comprised of the following:

	<u>Statement Balances</u>	<u>Carrying Value</u>	<u>Associated Risks</u>
Demand deposits	\$ 35,920,637	\$ 36,257,340	Custodial credit risk
U.S. agencies – implicitly guaranteed	6,866,073	6,866,073	Credit risk, Custodial credit risk, Interest rate risk, Concentration of credit risk
U.S. agencies – explicitly guaranteed	4,008,595	4,008,595	Custodial credit risk, Interest rate risk
State & local bonds	1,207,376	1,207,376	Credit risk, Custodial credit risk, Interest rate risk
Mutual funds – bond funds	3,942,244	3,942,244	Credit risk, Interest rate risk
Equity securities/stocks	253,300	253,300	Custodial credit risk, Concentration of credit risk
Mutual funds – other than bond funds	36,440,241	36,440,241	N/A
Corporate bonds	7,616,954	7,616,954	Credit risk, Custodial credit risk, Interest rate risk
	<u>\$ 96,255,420</u>	<u>\$ 96,592,123</u>	
Reconciliation to Statement of Net Position			
Cash and investments		\$ 12,624,078	
Redemption account		1,540,069	
Accounts required under bond indenture/ notes payable		32,985,771	
Customer deposits		698,800	
Purchased power accounts		353,633	
Rate stabilization accounts		43,792,482	
Other investments		188,390	
OPEB Trust –Statement of fiduciary net position (separate financial statement)		<u>4,408,900</u>	
Total		<u>\$ 96,592,123</u>	

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

The Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government).

SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$100,000 may be in cash. \$500,000 of the Department's investments and \$500,000 of the OPEB Trust investments are covered by SIPC. Additionally, through Lloyds of London, accounts have securities coverage subject to a \$575 million aggregate firm limit. Coverage limits per customer are not available. The value of investments subject to Lloyds of London coverage was \$12,798,518 in 2015 and \$14,723,569 in 2014 for the Department; and \$457,106 in 2015 and \$1,908,887 in 2014 for the OPEB trust.

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that the Department's deposits may not be returned to the Department. Uninsured, uncollateralized, deposits subject to custodial credit risk were \$11,098,097 in 2015 and \$5,691,000 in 2014.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. The Department's investment policy addresses credit risk by defining allowable investments.

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014**NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)*****Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Department does not have a formal investment policy that limits investment maturities.

At December 31, 2015, the Department's investments were as follows:

Investment Type	Fair Value	Maturity in Years		
		Less Than 1	1-4	5-10
U.S. agencies – implicitly guaranteed	\$ 4,338,813	\$ 1,073,880	\$ 2,149,895	\$ 1,115,038
U.S. agencies – explicitly guaranteed	7,457,946	994,108	6,014,229	449,609
U.S. Treasuries	165,632	165,632	-	-
State and local bonds	1,109,824	-	859,799	250,025
Mutual funds – bond funds	4,234,172	-	-	4,234,172
Corporate bonds	6,019,395	1,433,322	4,586,073	-
CDs – negotiable	480,873	-	480,873	-
Totals	<u>\$ 23,806,655</u>	<u>\$ 3,517,842</u>	<u>\$ 13,736,375</u>	<u>\$ 6,403,338</u>

At December 31, 2014, the Department's investments were as follows:

Investment Type	Fair Value	Maturity in Years		
		Less Than 1	1-4	5-10
U.S. agencies – implicitly guaranteed	\$ 3,490,905	\$ -	\$ 994,650	\$ 2,496,255
U.S. agencies – explicitly guaranteed	4,008,595	-	1,678,179	2,330,416
State and local bonds	1,207,376	-	508,305	699,071
Mutual funds – bond funds	3,942,244	-	-	3,942,244
Corporate bonds	7,616,954	1,285,330	6,331,624	-
Totals	<u>\$ 20,266,074</u>	<u>\$ 1,285,330</u>	<u>\$ 9,512,758</u>	<u>\$ 9,467,986</u>

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department does not have a separate formal policy regarding credit risk.

As of December 31, 2015, the Department's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's Investment Service</u>	<u>Composite</u>
U.S. Agencies – implicitly guaranteed	AA+ to AAA	AAA to AA2	N/A
State and local bonds	AA+ to AA	AA2 to A2	N/A
Mutual funds – bond funds	N/A	N/A	B to BBB
Corporate bonds	AAA to BBB	AAA to BAA2	N/A
CDs – negotiable	N/A	N/A	N/A

As of December 31, 2014, the Department's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's Investment Service</u>	<u>Composite</u>
U.S. Agencies – implicitly guaranteed	AA+ to AA	AA2 to A2	N/A
State and local bonds	AAA to BBB	AAA to BAA2	N/A
Mutual funds – bond funds	N/A	N/A	B to BBB
Corporate bonds	AAA to BBB	AAA to BAA2	N/A

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Department's investment in a single issuer. Investments in any one issuer that represented greater than 5% of total investments included Federal Farm Credit Bank (5.12%) in 2015 and (5.76%) in 2014.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 3 – PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment as of December 31, 2015 consist of the following:

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Utility Plant not Being Depreciated				
Gas				
Land	\$ 288,804	\$ -	\$ 74,500	\$ 214,304
Construction in progress	(6,647)	2,121,712	2,042,573	72,492
	<u>282,157</u>	<u>2,121,712</u>	<u>2,117,073</u>	<u>286,796</u>
Electric/Telecommunications				
Land	5,443,873	-	670,500	4,773,373
Construction in progress	13,756,521	27,358,529	8,939,449	32,175,601
	<u>19,200,394</u>	<u>27,358,529</u>	<u>9,609,949</u>	<u>36,948,974</u>
Total Utility Plant Not Being Depreciated	<u>19,482,551</u>	<u>29,480,241</u>	<u>11,727,022</u>	<u>37,235,770</u>
Utility Plant Being Depreciated				
Gas				
Plant investment	41,979,904	2,484,771	113,135	44,351,540
Office furniture and equipment	1,317,158	252	-	1,317,410
Transportation and communication equipment	1,164,217	143,388	61,246	1,246,359
Other	330,253	1,887	-	332,140
	<u>44,791,532</u>	<u>2,630,298</u>	<u>174,381</u>	<u>47,247,449</u>
Electric/Telecommunications				
Plant investment	139,389,737	9,495,296	585,852	148,299,181
Office furniture and equipment	2,895,788	26,817	-	2,922,605
Transportation and communication equipment	4,877,253	311,095	114,800	5,073,548
Other	722,272	60,985	-	783,257
	<u>147,885,050</u>	<u>9,894,193</u>	<u>700,652</u>	<u>157,078,591</u>
Total Utility Plant Being Depreciated	<u>192,676,582</u>	<u>12,524,491</u>	<u>875,033</u>	<u>204,326,040</u>

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 3 – PLANT, PROPERTY AND EQUIPMENT (cont.)

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Less: Accumulated depreciation				
Gas				
Plant investment	\$ (21,758,589)	\$ (1,153,762)	\$ 84,936	\$ (22,827,415)
Office furniture and equipment	(1,035,767)	(49,895)	-	(1,085,662)
Transportation and communication equipment	(900,579)	(117,330)	61,246	(956,663)
Other	(208,663)	(29,289)	-	(237,952)
	<u>(23,903,598)</u>	<u>(1,350,276)</u>	<u>146,182</u>	<u>(25,107,692)</u>
Electric/Telecommunications				
Plant investment	(53,969,921)	(3,988,018)	437,631	(57,520,308)
Office furniture and equipment	(2,155,877)	(124,503)	-	(2,280,380)
Transportation and communication equipment	(3,571,566)	(281,991)	114,800	(3,738,757)
Other	(607,929)	(36,392)	-	(644,321)
	<u>(60,305,293)</u>	<u>(4,430,904)</u>	<u>552,431</u>	<u>(64,183,766)</u>
Total Accumulated Depreciation	<u>(84,208,891)</u>	<u>(5,781,180)</u>	<u>698,613</u>	<u>(89,291,458)</u>
Total Utility Plant Being Depreciated, Net				
Gas	20,887,934	1,280,022	28,199	22,139,757
Electric	87,579,757	5,463,289	148,221	92,894,825
	<u>108,467,691</u>	<u>6,743,311</u>	<u>176,420</u>	<u>115,034,582</u>
Total Utility Plant, Net				
Gas	21,170,091	3,401,734	2,145,272	22,426,553
Electric	106,780,151	32,821,818	9,758,170	129,843,799
	<u>\$ 127,950,242</u>	<u>\$ 36,223,552</u>	<u>\$ 11,903,442</u>	<u>\$ 152,270,352</u>

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 3 – PLANT, PROPERTY AND EQUIPMENT (cont.)

Plant, property and equipment as of December 31, 2014 consist of the following:

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Utility Plant not Being Depreciated				
Gas				
Land	\$ 288,804	\$ -	\$ -	\$ 288,804
Construction in progress	23,865	2,185,697	2,216,209	(6,647)
	<u>312,669</u>	<u>2,185,697</u>	<u>2,216,209</u>	<u>282,157</u>
Electric/Telecommunications				
Land	5,439,873	4,000	-	5,443,873
Construction in progress	9,795,924	6,510,456	2,549,859	13,756,521
	<u>15,235,797</u>	<u>6,514,456</u>	<u>2,549,859</u>	<u>19,200,394</u>
Total Utility Plant Not Being Depreciated	<u>15,548,466</u>	<u>8,700,153</u>	<u>4,766,068</u>	<u>19,482,551</u>
Utility Plant Being Depreciated				
Gas				
Plant investment	39,501,739	2,605,219	127,054	41,979,904
Office furniture and equipment	1,299,394	17,764	-	1,317,158
Transportation and communication equipment	1,187,182	68,164	91,129	1,164,217
Other	330,253	-	-	330,253
	<u>42,318,568</u>	<u>2,691,147</u>	<u>218,183</u>	<u>44,791,532</u>
Electric/Telecommunications				
Plant investment	136,375,956	3,441,837	428,056	139,389,737
Office furniture and equipment	2,848,777	47,011	-	2,895,788
Transportation and communication equipment	4,809,536	113,908	46,191	4,877,253
Other	722,272	-	-	722,272
	<u>144,756,541</u>	<u>3,602,756</u>	<u>474,247</u>	<u>147,885,050</u>
Total Utility Plant Being Depreciated	<u>187,075,109</u>	<u>6,293,903</u>	<u>692,430</u>	<u>192,676,582</u>

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 3 – PLANT, PROPERTY AND EQUIPMENT (cont.)

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Less: Accumulated depreciation				
Gas				
Plant investment	\$ (20,794,372)	\$ (1,077,643)	\$ 113,426	\$ (21,758,589)
Office furniture and equipment	(979,444)	(56,323)	-	(1,035,767)
Transportation and communication equipment	(891,052)	(100,656)	91,129	(900,579)
Other	(179,373)	(29,290)	-	(208,663)
	<u>(22,844,241)</u>	<u>(1,263,912)</u>	<u>204,555</u>	<u>(23,903,598)</u>
Electric/Telecommunications				
Plant investment	(50,459,027)	(3,869,306)	358,412	(53,969,921)
Office furniture and equipment	(2,009,410)	(146,467)	-	(2,155,877)
Transportation and communication equipment	(3,325,577)	(292,180)	46,191	(3,571,566)
Other	(567,542)	(40,387)	-	(607,929)
	<u>(56,361,556)</u>	<u>(4,348,340)</u>	<u>404,603</u>	<u>(60,305,293)</u>
Total Accumulated Depreciation	<u>(79,205,797)</u>	<u>(5,612,252)</u>	<u>609,158</u>	<u>(84,208,891)</u>
Total Utility Plant Being Depreciated, Net				
Gas	19,474,327	1,427,235	13,628	20,887,934
Electric	88,394,985	(745,584)	69,644	87,579,757
	<u>107,869,312</u>	<u>681,651</u>	<u>83,272</u>	<u>108,467,691</u>
Total Utility Plant, Net				
Gas	19,786,996	3,612,932	2,229,837	21,170,091
Electric	103,630,782	5,768,872	2,619,503	106,780,151
	<u>\$ 123,417,778</u>	<u>\$ 9,381,804</u>	<u>\$ 4,849,340</u>	<u>\$ 127,950,242</u>

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 4 – NOTE RECEIVABLE

	<u>2015</u>	<u>2014</u>
Note receivable from Holyoke Solar, LLC (separate non-related entity) due to the Solar Coop in monthly installments of \$74,191 including interest at 5.25%, secured by the Solar Installation Property, matures December 2031.	\$ 9,614,756	\$ 9,988,736
Less: Amount due within one year	<u>(394,093)</u>	<u>(346,238)</u>
Note Receivable - Due After One Year	<u>\$ 9,220,663</u>	<u>\$ 9,642,498</u>

The note and security agreement also requires the borrower to establish a Reserve Account to be held in an interest bearing savings account equal to no less than 6 months of principal and interest debt service payments. The Solar Coop shall use the Reserve Account to cure any failure of the borrower to pay when due any principal or interest payment. If the Reserve Account is not used by the Solar Coop during the first 6 years, the Reserve Account shall be decreased to no less than 2 months of principal and interest debt service payments. The Reserve Account was established with a required balance of \$444,737. The account balance at December 31, 2015 and 2014 was \$449,412 and \$448,514.

NOTE 5 – OTHER RECEIVABLES

Other receivables, all due within one year, consist of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Massachusetts Municipal Wholesale Electric Company	\$ -	\$ 446,564
Massachusetts Department of Transportation	573,388	220,447
Accrued interest receivable	117,631	129,516
Miscellaneous other receivables	<u>656,845</u>	<u>855,822</u>
Totals	<u>\$ 1,347,864</u>	<u>\$ 1,652,349</u>

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 6 – INTANGIBLE ASSETS

	Life in Years	2015	
		Gross Carrying Amount	Accumulated Amortization
2001 customer contracts and franchise costs	30	\$ 2,000,000	\$ 936,667

	Life in Years	2014	
		Gross Carrying Amount	Accumulated Amortization
2001 customer contracts and franchise costs	30	\$ 2,000,000	\$ 870,000

Aggregate amortization expense was \$66,667 for the years ended December 31, 2015 and 2014.
Estimated annual aggregate amortization expense is \$66,667 for the five years subsequent to 2015.

NOTE 7 – RATE STABILIZATION RESERVE

The Department established a rate stabilization reserve which will be used for rate stabilization in the development of future rates and allow the Department to remain competitive under various market conditions by either purchasing replacement power or using reserves to mitigate the Department's exposure. Each year the Department determines the amount to be charged or credited to the reserve. The Department has set aside funds which will be used to offset these reserves. The reserve balance at December 31, 2015 and 2014 is \$41,269,849 and is reported as a deferred inflow of resources.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 8 – LONG-TERM OBLIGATIONS

General Obligation Bonds – Issued through the City of Holyoke Original issue amount: \$30,532,000 Date of issue: April 2012 Bonds mature annually 2013-2031 Interest rates range from 2.0% - 5.0%	\$ 27,030,000
Revenue Bonds – Massachusetts Clean Energy Cooperative Corporation - Series 2013 Original issue amount: \$49,885,000 Date of issue: April 2013 Bonds mature annually 2015-2032 Interest rates range from 3.0% - 5.0%	48,945,000
Clean Renewable Energy Bond – Boatlock Hydroelectric Station Project - 2009 Series A Original issue amount: \$2,500,000 Date of issue: January 2009 Interest rate: 1.5% Secured by revenues of the Department	<u>1,041,666</u>
Less: Amount due within one year	<u>(3,418,333)</u>
Bonds Payable – Due After One Year	<u>\$ 73,598,333</u>

Principal maturing and interest payments are anticipated to be as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 3,418,333	\$ 3,521,047	\$ 6,939,380
2017	3,533,333	3,401,786	6,935,119
2018	3,678,333	3,252,917	6,931,250
2019	3,793,333	3,134,311	6,927,644
2020	3,953,334	2,974,103	6,927,437
2021 – 2025	21,425,000	12,138,528	33,563,528
2026 – 2030	26,915,000	6,648,984	33,563,984
2031 – 2032	<u>10,300,000</u>	<u>720,250</u>	<u>11,020,250</u>
Totals	<u>\$ 77,016,666</u>	<u>\$ 35,791,926</u>	<u>\$ 112,808,592</u>

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014

NOTE 8 – LONG-TERM OBLIGATIONS (cont.)

The Department is required to satisfy certain bond covenant requirements in connection with the bonds payable. In addition, the notes payable detailed on the following page also have funding requirements. The following funds are required as part of the bond and note agreements:

	<u>2015</u>	<u>2014</u>
<u>Revenue Bonds</u>		
Project fund	\$ 443,602	\$ 22,768,893
Revenue fund	-	45,176
Debt service reserve fund	4,408,003	4,383,701
Redemption account		
Capitalized interest fund	-	1,046,108
Reserve and contingency fund	417,497	433,188
Principal account	987,319	-
Bond interest fund	1,169,982	60,773
<u>Clean Renewable Energy Bond</u>		
Debt service reserve fund	<u>256,329</u>	<u>255,561</u>
Sub-total related to bonds	<u>7,682,732</u>	<u>28,993,400</u>
<u>Notes Payable</u>		
Collateral account	5,154,156	5,083,926
Reserve fund	<u>449,412</u>	<u>448,514</u>
Sub-total related to notes	<u>5,603,568</u>	<u>5,532,440</u>
Total Funds Required Under Bond Indenture/Note Payable	<u>\$ 13,286,300</u>	<u>\$ 34,525,840</u>

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 8 – LONG-TERM OBLIGATIONS (cont.)

Notes Payable

Note payable to bank, secured by revenues of the Department, monthly payments of \$20,587 including interest at 5.25% through maturity date of October, 2018.	\$ 648,343
Note payable to bank, secured by all assets of the Holyoke Solar Cooperative, monthly payments of \$6,346 including interest at 4.47%, matures in September 2031.	859,072
Note payable to bank, secured by all assets of the Holyoke Solar Cooperative, monthly payments of \$29,820 including interest at 4.00%, matures in September 2031.	4,174,986
Note payable to bank, secured by all assets of the Holyoke Solar Cooperative, monthly payments of \$29,470 including interest at 3.40%, Matures in September 2031.	
A pledge of securities as collateral, with a value of \$5,083,926 at December 31, 2015 is also required under this note.	<u>4,309,627</u>
	9,992,028
Less: Amount due within one year	<u>(655,146)</u>
Notes Payable – Due After One Year	<u><u>\$ 9,336,882</u></u>

Principal maturing and interest payments are anticipated to be as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 655,146	\$ 379,531	\$ 1,034,677
2017	685,066	349,612	1,034,678
2018	673,984	319,518	993,502
2019	491,383	288,484	779,867
2020	509,651	277,979	787,630
2021 – 2025	2,864,644	1,073,503	3,938,147
2026 – 2030	3,466,853	471,294	3,938,147
2031	<u>645,301</u>	<u>11,362</u>	<u>656,663</u>
Totals	<u><u>\$ 9,992,028</u></u>	<u><u>\$ 3,171,283</u></u>	<u><u>\$ 13,163,311</u></u>

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014

NOTE 8 – LONG-TERM OBLIGATIONS (cont.)

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activities for the years ended December 31, 2015 are as follows:

	Balance 1/1/15	Additions	Reductions	Balance 12/31/15	Current Portion
Long-term bonds and loans					
Bonds payable	\$ 79,365,000	\$ -	\$ 2,348,334	\$ 77,016,666	\$ 3,418,333
Premium on bonds	10,560,427	-	850,953	9,709,474	-
Notes payable	10,620,648	-	628,620	9,992,028	655,146
Leases payable	172,244	-	107,829	64,415	59,094
	<u>100,718,319</u>	<u>-</u>	<u>3,935,736</u>	<u>96,782,583</u>	<u>4,132,573</u>
Other long-term liabilities					
Compensated absences	2,905,308	225,503	76,449	3,054,362	205,230
Other postemployment benefits	283,188	-	232,466	50,722	-
Environmental costs	523,360	-	74,360	449,000	144,000
Reserve fund for note receivable	444,737	-	-	444,737	-
	<u>444,737</u>	<u>-</u>	<u>-</u>	<u>444,737</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 104,874,912</u>	<u>\$ 225,503</u>	<u>\$ 4,319,011</u>	<u>\$ 100,781,404</u>	<u>\$ 4,481,803</u>

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 8 – LONG-TERM OBLIGATIONS (cont.)

CHANGES IN LONG-TERM LIABILITIES (cont.)

Long-term liability activities for the years ended December 31, 2014 are as follows:

	Balance 1/1/14	Additions	Reductions	Balance 12/31/14	Current Portion
Long-term bonds and loans					
Bonds payable	\$ 80,735,333	\$ -	\$ 1,370,333	\$ 79,365,000	\$ 2,348,333
Premium on bonds	11,397,204	-	836,777	10,560,427	-
Notes payable	11,222,848	-	602,200	10,620,648	628,620
Leases payable	151,962	99,464	79,182	172,244	107,829
	<u>103,507,347</u>	<u>99,464</u>	<u>2,888,492</u>	<u>100,718,319</u>	<u>3,084,782</u>
Other long-term liabilities					
Compensated absences	2,929,924	225,503	250,119	2,905,308	171,952
Other postemployment benefits	4,176,425	-	3,893,237	283,188	-
Environmental costs	642,846	-	119,486	523,360	120,000
Reserve fund for note receivable	444,737	-	-	444,737	-
	<u>444,737</u>	<u>-</u>	<u>-</u>	<u>444,737</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 111,701,279</u>	<u>\$ 324,967</u>	<u>\$ 7,151,334</u>	<u>\$ 104,874,912</u>	<u>\$ 3,376,734</u>

REVENUE DEBT

The Department has pledged future revenues, net of certain operating expenses to repay revenue bonds issued in 2013. Proceeds from the bonds provided financing for improvements to the Hadley Falls generating station. The bonds are payable solely from revenues generated by the power purchase agreement with MMWEC through 2032. Annual principal and interest payments on the bonds are expected to require 100% of the Clean Energy Coop future gross revenues from MMWEC. The principal and interest remaining to be paid on the bonds is \$73,323,050. Principal and interest paid in 2015 and 2014 were \$3,307,350 and \$2,367,350 respectively. Total customer net revenues in 2015 and 2014 were \$4,280,750 and \$0, respectively. Customer revenues began in 2015 to coincide with the first bond principal payment due.

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 9 – BLENDED COMPONENT UNITS

The following schedules provide details of the blended component units balances, activities, and eliminations.

COMBINING SCHEDULE OF NET POSITION

As of December 31, 2015

ASSETS	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
Current Assets					
Cash and investments	\$ 13,897,872	\$ 2,088,095	\$ 161,968	\$ -	\$ 16,147,935
Restricted Assets					
Redemption account	-	-	2,574,798	-	2,574,798
Customer accounts receivable - net	5,302,942	18,776	-	-	5,321,718
Accounts receivable - City of Holyoke	15,000	-	-	-	15,000
Note receivable - current portion	-	394,093	-	-	394,093
Materials and supplies	2,829,766	-	-	-	2,829,766
Fuel for electric generation and gas in storage	645,995	-	-	-	645,995
Prepaid expense	2,651,878	-	49,468,128	(49,468,128)	2,651,878
Other receivables	1,321,843	26,021	-	-	1,347,864
Total Current Assets	<u>26,665,296</u>	<u>2,526,985</u>	<u>52,204,894</u>	<u>(49,468,128)</u>	<u>31,929,047</u>
Noncurrent Assets					
Restricted Assets					
Accounts required under bond indenture/note payable	256,329	5,603,568	4,851,605	-	10,711,502
Customers' deposits	654,203	-	-	-	654,203
Other receivables - after one year	-	9,220,663	-	-	9,220,663
Hi-Lite assistant loans	2,619,700	-	-	-	2,619,700
Advances to other funds	431,000	-	-	(431,000)	-
Other Assets					
Purchased power accounts	356,629	-	-	-	356,629
Rate stabilization accounts	43,043,396	-	-	-	43,043,396
Costs recoverable in future - pollution	463,946	-	-	-	463,946
Other investments	188,390	-	-	-	188,390
Intangible assets	1,063,333	-	-	-	1,063,333
Capital Assets					
Plant, property and equipment in service	209,313,717	-	-	-	209,313,717
Construction in progress	32,248,093	-	-	-	32,248,093
	<u>241,561,810</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,561,810</u>
Less: Accumulated depreciation	<u>(89,291,458)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(89,291,458)</u>
Total Capital Assets	<u>152,270,352</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>152,270,352</u>
Total Noncurrent Assets	<u>201,347,278</u>	<u>14,824,231</u>	<u>4,851,605</u>	<u>(431,000)</u>	<u>220,592,114</u>
Total Assets	<u>228,012,574</u>	<u>17,351,216</u>	<u>57,056,499</u>	<u>(49,899,128)</u>	<u>252,521,161</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension related amounts	5,065,152	-	-	-	5,065,152

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014**NOTE 9 – BLENDED COMPONENT UNITS (cont.)**COMBINING SCHEDULE OF NET POSITION (cont.)
As of December 31, 2015

LIABILITIES	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
Current Liabilities					
Accounts payable	\$ 6,888,603	\$ 9,953	\$ 411	\$ -	\$ 6,898,967
Customers' deposits	831,592	-	-	-	831,592
Accrued liabilities	790,084	-	-	-	790,084
Current portion - accrued compensated absences	205,230	-	-	-	205,230
Current portion - accrued environmental costs	144,000	-	-	-	144,000
Accrued charges - current	45,762	-	-	-	45,762
Liabilities Payable from Restricted Assets					
Current portion - bonds and notes payable	1,720,141	437,432	1,975,000	-	4,132,573
Accrued interest	390,089	-	1,169,575	-	1,559,664
Total Current Liabilities	<u>11,015,501</u>	<u>447,385</u>	<u>3,144,986</u>	<u>-</u>	<u>14,607,872</u>
Long-Term Liabilities					
Bonds payable - long-term	26,628,333	-	46,970,000	-	73,598,333
Plus: Unamortized premium on bonds payable	2,483,852	-	7,225,622	-	9,709,474
	29,112,185	-	54,195,622	-	83,307,807
Notes payable - long-term	430,629	8,906,253	-	-	9,336,882
Leases payable - long term	5,321	-	-	-	5,321
Accrued compensated absences	2,849,132	-	-	-	2,849,132
Accrued environmental liability	305,000	-	-	-	305,000
Accrued other post employment benefits	50,722	-	-	-	50,722
Unearned revenue	51,037,738	-	-	(49,468,128)	1,569,610
Reserve account advance	-	444,737	431,000	(431,000)	444,737
Net pension liability	27,426,467	-	-	-	27,426,467
Total Long-Term Liabilities	<u>111,217,194</u>	<u>9,350,990</u>	<u>54,626,622</u>	<u>(49,899,128)</u>	<u>125,295,678</u>
Total Liabilities	<u>122,232,695</u>	<u>9,798,375</u>	<u>57,771,608</u>	<u>(49,899,128)</u>	<u>139,903,550</u>
DEFERRED INFLOWS OF RESOURCES					
Rate stabilization reserve	41,269,849	-	-	-	41,269,849
NET POSITION					
Net investment in plant, property and equipment	121,438,026	-	-	(55,727,020)	65,711,006
Restricted for debt service	256,329	5,166,136	3,838,226	-	9,260,691
Restricted for purchase of future power capacity	-	-	443,602	(443,602)	-
Unrestricted (deficit)	(52,119,173)	2,386,705	(4,996,937)	56,170,622	1,441,217
TOTAL NET POSITION (DEFICIT)	<u>\$ 69,575,182</u>	<u>\$ 7,552,841</u>	<u>\$ (715,109)</u>	<u>\$ -</u>	<u>\$ 76,412,914</u>

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 9 – BLENDED COMPONENT UNITS (cont.)COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2015

	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
OPERATING REVENUES	\$ 70,214,791	\$ 266,426	\$ 4,280,750	\$ (4,547,176)	\$ 70,214,791
OPERATING EXPENSES					
Operation and maintenance	59,944,634	151,193	-	(4,547,176)	55,548,651
Depreciation - plant and equipment	5,781,185	-	-	-	5,781,185
Total Operating Expenses	65,725,819	151,193	-	(4,547,176)	61,329,836
Operating Income	4,488,972	115,233	4,280,750	-	8,884,955
NONOPERATING OTHER REVENUES (EXPENSES)					
Investment income - net of fees	2,617,560	636,163	103,669	-	3,357,392
Net gain (loss) on investments	(3,719,588)	(91,139)	(18,934)	-	(3,829,661)
Interest expense	(1,059,611)	(365,551)	(1,702,555)	-	(3,127,717)
Miscellaneous income (expense)	879,545	6,518	(13,234)	-	872,829
Amortization of intangible assets	(66,667)	-	-	-	(66,667)
Net gain (loss) - disposal of assets	1,016,794	-	-	-	1,016,794
Net gain - merchandise jobbing	164,240	-	-	-	164,240
Mt. Tom property assessment expense	(32,140)	-	-	-	(32,140)
Taxes - other	(79,768)	-	-	-	(79,768)
Total Other Revenues (Expenses)	(279,635)	185,991	(1,631,054)	-	(1,724,698)
Change in Net Position Before Transfers	4,209,337	301,224	2,649,696	-	7,160,257
TRANSFERS					
Payment in lieu of taxes - City of Holyoke	(1,075,249)	-	-	-	(1,075,249)
Change in Net Position	3,134,088	301,224	2,649,696	-	6,085,008
NET POSITION (Deficit) - Beginning of Year	89,360,652	7,251,617	(3,364,805)	-	93,247,464
Cumulative effect of a change in accounting principle	(22,919,558)	-	-	-	(22,919,558)
NET POSITION (Deficit) - END OF YEAR	\$ 69,575,182	\$ 7,552,841	\$ (715,109)	\$ -	\$ 76,412,914

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 9 – BLENDED COMPONENT UNITS (cont.)CONDENSED COMBINING SCHEDULE OF CASH FLOWS
For the Year Ended December 31, 2015

NET CASH FLOWS FROM (USED IN)	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
Operating activities	\$ 17,580,278	\$ 127,662	\$ 4,280,339	\$ (4,280,339)	\$ 17,707,940
Investing activities	898,969	973,910	(1,591,350)	-	281,529
Noncapital financing activities	(1,075,249)	-	-	-	(1,075,249)
Capital and related financing activities	(30,931,205)	(787,630)	(25,519,831)	22,197,894	(35,040,772)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(13,527,207)</u>	<u>313,942</u>	<u>(22,830,842)</u>	<u>17,917,555</u>	<u>(18,126,552)</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>69,827,133</u>	<u>2,210,113</u>	<u>5,289</u>	<u>-</u>	<u>72,042,535</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 56,299,926</u>	<u>\$ 2,524,055</u>	<u>\$ (22,825,553)</u>	<u>\$ 17,917,555</u>	<u>\$ 53,915,983</u>

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014**NOTE 9 – BLENDED COMPONENT UNITS (cont.)**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2015

	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
OPERATING REVENUES	<u>\$ 70,214,791</u>	<u>\$ 266,426</u>	<u>\$ 4,280,750</u>	<u>\$ (4,547,176)</u>	<u>\$ 70,214,791</u>
OPERATING EXPENSES					
Operation and maintenance	59,944,634	151,193	-	(4,547,176)	55,548,651
Depreciation - plant and equipment	<u>5,781,185</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,781,185</u>
Total Operating Expenses	<u>65,725,819</u>	<u>151,193</u>	<u>-</u>	<u>(4,547,176)</u>	<u>61,329,836</u>
Operating Income	<u>4,488,972</u>	<u>115,233</u>	<u>4,280,750</u>	<u>-</u>	<u>8,884,955</u>
NONOPERATING OTHER REVENUES (EXPENSES)					
Investment income - net of fees	2,617,560	636,163	103,669	-	3,357,392
Net gain (loss) on investments	(3,719,588)	(91,139)	(18,934)	-	(3,829,661)
Interest expense	(1,059,611)	(365,551)	(1,702,555)	-	(3,127,717)
Miscellaneous income (expense)	879,545	6,518	(13,234)	-	872,829
Amortization of intangible assets	(66,667)	-	-	-	(66,667)
Net gain (loss) - disposal of assets	1,016,794	-	-	-	1,016,794
Net gain - merchandise jobbing	164,240	-	-	-	164,240
Mt. Tom property assessment expense	(32,140)	-	-	-	(32,140)
Taxes - other	<u>(79,768)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(79,768)</u>
Total Other Revenues (Expenses)	<u>(279,635)</u>	<u>185,991</u>	<u>(1,631,054)</u>	<u>-</u>	<u>(1,724,698)</u>
Change in Net Position Before Transfers	4,209,337	301,224	2,649,696	-	7,160,257
TRANSFERS					
Payment in lieu of taxes - City of Holyoke	<u>(1,075,249)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,075,249)</u>
Change in Net Position	3,134,088	301,224	2,649,696	-	6,085,008
NET POSITION (Deficit) - Beginning of Year	<u>89,360,652</u>	<u>7,251,617</u>	<u>(3,364,805)</u>	<u>-</u>	<u>93,247,464</u>
Cumulative effect of a change in accounting principle	<u>(22,919,558)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,919,558)</u>
NET POSITION (Deficit) - END OF YEAR	<u>\$ 69,575,182</u>	<u>\$ 7,552,841</u>	<u>\$ (715,109)</u>	<u>\$ -</u>	<u>\$ 76,412,914</u>

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 9 – BLENDED COMPONENT UNITS (cont.)CONDENSED COMBINING SCHEDULE OF CASH FLOWS
For the Year Ended December 31, 2015

NET CASH FLOWS FROM (USED IN)	<u>HGE</u>	<u>Holyoke Solar</u>	<u>Mass Clean Energy</u>	<u>Eliminations</u>	<u>Total</u>
Operating activities	\$ 17,580,278	\$ 127,662	\$ 4,280,339	\$ (4,280,339)	\$ 17,707,940
Investing activities	898,969	973,910	(1,591,350)	-	281,529
Noncapital financing activities	(1,075,249)	-	-	-	(1,075,249)
Capital and related financing activities	<u>(30,931,205)</u>	<u>(787,630)</u>	<u>(25,519,831)</u>	<u>22,197,894</u>	<u>(35,040,772)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(13,527,207)</u>	<u>313,942</u>	<u>(22,830,842)</u>	<u>17,917,555</u>	<u>(18,126,552)</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>69,827,133</u>	<u>2,210,113</u>	<u>5,289</u>	<u>-</u>	<u>72,042,535</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 56,299,926</u>	<u>\$ 2,524,055</u>	<u>\$ (22,825,553)</u>	<u>\$ 17,917,555</u>	<u>\$ 53,915,983</u>

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014**NOTE 9 – BLENDED COMPONENT UNITS (cont.)**

COMBINING SCHEDULE OF NET POSITION

As of December 31, 2014

ASSETS	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
Current Assets					
Cash and investments	\$ 10,718,602	\$ 1,900,187	\$ 5,289	\$ -	\$ 12,624,078
Restricted Assets					
Redemption account	-	-	1,540,069	-	1,540,069
Customer accounts receivable - net	6,702,587	19,035	-	-	6,721,622
Accounts receivable - City of Holyoke	30,000	-	-	-	30,000
Note receivable - current portion	-	346,238	-	-	346,238
Materials and supplies	3,010,955	-	-	-	3,010,955
Fuel for electric generation and gas in storage	1,172,466	-	-	-	1,172,466
Prepaid expense	3,058,257	-	27,269,823	(27,269,823)	3,058,257
Other receivables	1,621,353	30,996	-	-	1,652,349
Total Current Assets	<u>26,314,220</u>	<u>2,296,456</u>	<u>28,815,181</u>	<u>(27,269,823)</u>	<u>30,156,034</u>
Noncurrent Assets					
Restricted Assets					
Accounts required under bond indenture/note payable	255,561	5,532,440	27,197,770	-	32,985,771
Customers' deposits	698,800	-	-	-	698,800
Other receivables - after one year	-	9,642,498	-	-	9,642,498
Hi-Lite assistant loans	2,687,183	-	-	-	2,687,183
Advances to other funds	431,000	-	-	(431,000)	-
Other Assets					
Purchased power accounts	353,633	-	-	-	353,633
Rate stabilization accounts	43,792,482	-	-	-	43,792,482
Costs recoverable in future - pollution	523,360	-	-	-	523,360
Other investments	188,390	-	-	-	188,390
Intangible assets	1,130,000	-	-	-	1,130,000
Capital Assets					
Plant, property and equipment in service	198,409,259	-	-	-	198,409,259
Construction in progress	13,749,874	-	-	-	13,749,874
	212,159,133	-	-	-	212,159,133
Less: Accumulated depreciation	(84,208,891)	-	-	-	(84,208,891)
Total Capital Assets	<u>127,950,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,950,242</u>
Total Noncurrent Assets	<u>178,010,651</u>	<u>15,174,938</u>	<u>27,197,770</u>	<u>(431,000)</u>	<u>219,952,359</u>
Total Assets	<u>204,324,871</u>	<u>17,471,394</u>	<u>56,012,951</u>	<u>(27,700,823)</u>	<u>250,108,393</u>

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014**NOTE 9 – BLENDED COMPONENT UNITS (cont.)**

COMBINING SCHEDULE OF NET POSITION (cont.)

For the Year Ended December 31, 2014

LIABILITIES	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
Current Liabilities					
Accounts payable	\$ 6,433,325	\$ 9,276	\$ -	\$ -	\$ 6,442,601
Customers' deposits	692,492	-	-	-	692,492
Accrued liabilities	662,533	-	-	-	662,533
Current portion - accrued compensated absences	171,952	-	-	-	171,952
Current portion - accrued environmental costs	120,000	-	-	-	120,000
Accrued charges - current	273,840	-	-	-	273,840
Liabilities Payable from Restricted Assets					
Current portion - bonds and notes payable	1,722,703	422,079	940,000	-	3,084,782
Accrued interest	402,457	-	1,183,675	-	1,586,132
Total Current Liabilities	10,479,302	431,355	2,123,675	-	13,034,332
Long-Term Liabilities					
Bonds payable - long-term	28,071,667	-	48,945,000	-	77,016,667
Plus: Unamortized premium on bonds payable	2,682,346	-	7,878,081	-	10,560,427
	30,754,013	-	56,823,081	-	87,577,094
Notes payable - long-term	648,343	9,343,685	-	-	9,992,028
Leases payable - long term	64,415	-	-	-	64,415
Accrued compensated absences	2,733,356	-	-	-	2,733,356
Accrued environmental liability	403,360	-	-	-	403,360
Accrued other post employment benefits	283,188	-	-	-	283,188
Unearned revenue	28,328,393	-	-	(27,269,823)	1,058,570
Reserve account advance	-	444,737	431,000	(431,000)	444,737
Net pension liability					
Total Long-Term Liabilities	63,215,068	9,788,422	57,254,081	(27,700,823)	102,556,748
Total Liabilities	73,694,370	10,219,777	59,377,756	(27,700,823)	115,591,080
DEFERRED INFLOWS OF RESOURCES					
Rate stabilization reserve	41,269,849	-	-	-	41,269,849
NET POSITION					
Net investment in plant, property and equipment	95,473,526	-	-	(34,994,188)	60,479,338
Restricted for debt service	255,561	5,110,361	3,845,271	-	9,211,193
Restricted for purchase of future power capacity	-	-	22,768,893	(22,768,893)	-
Unrestricted (deficit)	(6,368,435)	2,141,256	(29,978,969)	57,763,081	23,556,933
TOTAL NET POSITION (DEFICIT)	\$ 89,360,652	\$ 7,251,617	\$ (3,364,805)	\$ -	\$ 93,247,464

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 9 – BLENDED COMPONENT UNITS (cont.)CONDENSED COMBINING SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
For the Year Ended December 31, 2014

	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Consolidated Total
OPERATING REVENUES	<u>\$ 70,939,669</u>	<u>\$ 267,548</u>	<u>\$ -</u>	<u>\$ (267,548)</u>	<u>\$ 70,939</u>
OPERATING EXPENSES					
Operation and maintenance	56,524,599	141,804	-	(267,548)	56,398,855
Depreciation - plant and equipment	5,612,253	-	-	-	5,612
Total Operating Expenses	<u>62,136,852</u>	<u>141,804</u>	<u>-</u>	<u>(267,548)</u>	<u>62,011</u>
Operating Income	<u>8,802,817</u>	<u>125,744</u>	<u>-</u>	<u>-</u>	<u>8,928</u>
NONOPERATING OTHER REVENUES (EXPENSES)					
Investment income - net of fees	2,643,031	669,414	139,374	-	3,451,819
Net gain (loss) on investments	(828,426)	151,664	30,197	-	(646,565)
Interest expense	(1,122,122)	(381,288)	(1,719,856)	-	(3,223,266)
Miscellaneous income (expense)	879,395	1,078	(32,308)	-	848,165
Amortization of intangible assets	(66,667)	-	-	-	(66,667)
Net gain (loss) - disposal of assets	(241,706)	-	-	-	(241,706)
Net gain - merchandise jobbing	115,045	-	-	-	115,045
Mt. Tom property assessment expense	(42,876)	-	-	-	(42,876)
Taxes - other	(79,768)	-	-	-	(79)
Total Other Revenues (Expenses)	<u>1,255,906</u>	<u>440,868</u>	<u>(1,582,593)</u>	<u>-</u>	<u>114</u>
Change in Net Position Before Transfers	10,058,723	566,612	(1,582,593)	-	9,042,742
TRANSFERS					
Payment in lieu of taxes - City of Holyoke	(1,086,595)	-	-	-	(1,086)
Change in Net Position	8,972,128	566,612	(1,582,593)	-	7,956,147
NET POSITION (Deficit) - Beginning of Year	<u>80,388,524</u>	<u>6,685,005</u>	<u>(1,782,212)</u>	<u>-</u>	<u>85,291</u>
Cumulative effect of a change in accounting principle	-	-	-	-	-
NET POSITION (Deficit) - END OF YEAR	<u>\$ 89,360,652</u>	<u>\$ 7,251,617</u>	<u>\$ (3,364,805)</u>	<u>\$ -</u>	<u>\$ 93,247</u>

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 9 – BLENDED COMPONENT UNITS (cont.)

CONDENSED COMBINING SCHEDULE OF CASH FLOWS For the Year Ended December 31, 2014

NET CASH FLOWS FROM (USED IN)	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
Operating activities	\$ 9,333,094	\$ 126,429	\$ -	\$ -	\$ 9,459,523
Investing activities	2,345,469	1,075,970	6,074,089	-	9,495,528
Noncapital financing activities	(1,086,595)	-	-	-	(1,086,595)
Capital and related financing activities	(13,978,144)	(787,630)	(6,078,440)	3,678,781	(17,165,433)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,386,176)	414,769	(4,351)	3,678,781	703,023
CASH AND CASH EQUIVALENTS - Beginning of Year	69,534,528	1,795,344	9,640	-	71,339,512
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 66,148,352	\$ 2,210,113	\$ 5,289	\$ 3,678,781	\$ 72,042,535

NOTE 10 – RETIREMENT PLANS

The Department implemented GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective January 1, 2015. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2015. The prior year balances for deferred outflows of resources and the net pension liability were not restated due to the measurement date used for the calculation of the balances and the timing of information received by the plan. For this reason, prior year pension footnote disclosures are included under GASB No. 27.

GENERAL INFORMATION ABOUT THE PENSION PLAN

Substantially all full-time employees participate in the Holyoke Contributory Retirement System, a cost sharing multiple employer defined benefit public employee retirement system. The system is partially funded by employee contributions. The plan provides pension benefits, deferred allowances and death and disability benefits. Retirement allowance is based on the following factors: age, length of creditable service, level of salary, and group classification. Age at retirement and group classification determine a benefit rate. Percentages are specified in Chapter 32 of the Massachusetts General Laws. Participants may elect to receive their retirement in one of three optional forms of payment.

Member employers are required by state statutes to make contributions to the plan. Contributions are determined by the Commonwealth of Massachusetts Division of Public Employee Retirement Administration (PERA).

Covered employees are required by state statute to contribute a fixed percentage of their earnings into the plan. The percentage varies from 5 to 9 percent depending upon date of hire. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over \$30,000 per year.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 10 – RETIREMENT PLANS (cont.)

GENERAL INFORMATION ABOUT THE PENSION PLAN (cont.)

Members hired on or after April 2, 2012 are covered by the provisions of Chapter 32 as amended by Chapter 176 of the Acts of 2011 and Chapter 139 of the Acts of 2012.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing or calling the plan as follows: Attn: Cheryl Dugre, Executive Director, Holyoke Retirement Board, City Hall Annex - Room 207, Holyoke, Massachusetts 01040, 413 534 2179.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions

At December 31, 2015, the Department reported a liability of \$27,426,467 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actual valuation as of January 1, 2014 and rolled forward to December 31, 2014. No material changes in the assumptions or benefit terms occurred between the actual valuation date and the measurement date. The Department's proportion of the net pension liability was based on the Department's share of appropriations of the pension plan relative to the appropriations of all participating employers. At December 31, 2014 the Department's proportion was 20.467167% which was an increase of 0.629125% from its proportion measured as of January 1, 2014.

For the year ended December 31, 2015, the Department recognized pension expense of \$2,828,232.

At December 31, 2015 the utility reported deferred outflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>
Net differences between project and actual earnings on pension plan	\$ 843,029
Changes in proportion and differences between employer contributions and proportionate share of contributions	695,204
Employer contributions subsequent to the measurement date	<u>3,526,919</u>
Total	<u>\$ 5,065,152</u>

Deferred outflows related to pension resulting from the Department's employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. \$3,526,919 is reported for the Department. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 10 – RETIREMENT PLANS (cont.)

<u>Year Ended December 31</u>	<u>Deferred Outflows of Resources</u>
2016	\$ 349,798
2017	349,798
2018	349,798
2019	349,798
2020	<u>139,041</u>
Total	<u>\$ 1,538,233</u>

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of January 1, 2014, using the following actual assumptions, applied to all periods included in the measurement:

Inflation	4.00%
Salary Increases	4.25% - 4.75%
Investment Rate of Return	7.75%
Cost of Living Adjustments	3%
Pre-retirement:	RP-2000 Employee Mortality Table projected generationally using Scale AA from 2010
Healthy Retiree:	P-2000 Healthy Annuitant Mortality Table projected generationally using Scale AA from 2010
Disabled Retiree:	RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale AA from 2010, set forward 3 years for males

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 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 pension plan's target asset allocation as of December 31, 2013 are summarized in the following table:

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 10 – RETIREMENT PLANS (cont.)

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	6.60%
International developed markets equity	7.10%
Core fixed income	2.20%
High-yield fixed income	4.70%
Real estate	4.40%
Commodities	4.40%
Short-term government money market	1.80%
Hedge fund, GTAA, Risk parity	3.90%
Private equity	11.70%

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and the City of Holyoke Retirement system contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension 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 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 of the Department, calculated using the discount rate of 7.75%, as well as what the Department's net pension liability would be if it were calculated using a discount rate that is 1- percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate.

	1% Decrease to Discount Rate (6.75%)	Current Discount Rate (7.75%)	1% Increase to Discount Rate (8.75%)
The Department's proportionate share of the net position liability	\$ 35,856,968	\$ 27,426,467	\$ 20,275,596

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014

NOTE 10 – RETIREMENT PLANS (cont.)

REQUIRED DISCLOSURES UNDER GASB No. 27

The Department's contributions charged to expense for the year ended December 31, 2014 was \$3,386,745. The Department's contribution for the year was 20% of the total contributions for all employers covered by the plan. Total contributions for the years ended 2013 and 2012 were \$3,242,309 and \$2,973,199, respectively, equal to 20% of the total contributions for all employers covered by the plan. Employee contributions for the year ended December 31, 2014 were \$1,041,821. Employee contributions for the years ended December 31, 2013 and 2012 were \$1,010,052 and \$951,134, respectively.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires that other postemployment benefits (OPEB), primarily healthcare, be accounted for on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the consolidated statement of revenues, expenses and change in net position when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the statement of net position over time.

PLAN DESCRIPTION

The Department's policy is to provide certain healthcare and life insurance benefits to eligible retirees, their dependents, or their survivors through the City of Holyoke's cost-sharing multiple- employer postemployment welfare benefit plan.

FUNDING POLICY

The Department is not required to provide funding for OPEB, other than the pay-as-you go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. The cost of providing these benefits was \$659,839 and \$507,188 for 162 retirees in 2015 and 2014, respectively. In 2015 and 2014, the Department contributed assets into a separate legal trust, Holyoke Gas and Electric OPEB Trust, for the payment of future OPEB obligations. Contributions were \$1207,106 in 2015 and \$5,022,454 in 2014.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The Department's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount that was actuarially determined in accordance with the parameters of GASB Statement No. 45. The projected unit credit method was used in the actuarial valuations prepared as of December 31, 2015, which is the basis for the 2015 ARC calculation.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015 and 2014

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

ANNUAL OPEB COST AND NET OPEB OBLIGATION (cont.)

The following table shows the elements of the Department's annual OPEB cost, the amounts actually contributed, and changes in the Department's net OPEB obligation as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 1,666,929	\$ 1,119,091
Interest on net OPEB obligation	21,239	313,232
Adjustment to annual required contribution	<u>(53,689)</u>	<u>(303,106)</u>
Annual OPEB cost	1,634,479	1,129,217
Contributions made	<u>(1,866,945)</u>	<u>(5,022,454)</u>
Change in Net OPEB Obligation	(232,466)	(3,893,237)
Net OPEB Obligation – Beginning	<u>283,188</u>	<u>4,176,425</u>
Net OPEB Obligation – Ending	<u>\$ 50,722</u>	<u>\$ 283,188</u>

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for year ended December 31, 2015 and the two preceding years were:

<u>Period Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2015	\$1,634,479	114.2%	\$ 50,722
December 31, 2014	1,129,217	444.8%	283,188
June 30, 2013	1,390,180	41.57%	4,176,425

FUNDED STATUS AND FUNDING PROGRESS

The most recent actuarial valuation date was December 31, 2014. The funded status of the plan as of December 31, 2014 was as follows:

Actuarial accrued liability (AAL)	\$ 11,362,451
Actuarial value of plan assets	<u>4,411,653</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 6,950,798</u>
Funded ratio (actuarial value of plan assets/AAL)	38.8%
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

ACTUARIAL METHODS AND ASSUMPTIONS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0% investment rate of return and an annual healthcare cost trend rate of 8.0% initially, reduced by decrements of 0.5% to an ultimate rate of 5.0% after 6 years. Both rates include a 3.5% inflation assumption. The actuarial value of Retiree Health Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The plans' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at December 31, 2015 and 2014 were 19 and 20 years, respectively.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Clean Energy Coop signed a power sales contract in April 2013 with its member Massachusetts Wholesale Electric Company (MMWEC). Through this contract, MMWEC will purchase the net electrical capacity of the Hadley Falls Facility from the Clean Energy Coop at a monthly charge as defined in the contract. There were no sales to MMWEC during 2015 and 2014.

There is also an agency contract between the Clean Energy Coop and MMWEC, whereby MMWEC will act as agent for the Clean Energy Coop in the performance of its administrative obligations.

The Department transacted business with Tighe Bond for engineering services in the amount of \$60,337 in 2015 and \$187,041 in 2014. One of the Department's commissioners has a financial interest in this company, requiring disclosure.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014

NOTE 13 – COMMITMENTS AND CONTINGENCES

PURCHASED POWER CONTRACTS

Short-term power - On a continuing basis, the Department enters into several short-term power supply contracts for either the purchase or sale of capacity, energy, renewable certificates, or ancillary services with various suppliers. This includes bilateral purchases to meet Department's shortfall position during the summer months of 2016 through 2021, where commitments were made by end of 2015 in the amount of \$717,270 for 2016 and \$2,317,840 for the five year period from 2017-2021.

In December, 2010, the Department, through its Subsidiary Holyoke Solar Cooperative, signed a 20 year solar Power Purchase Agreement with Holyoke Solar, LLC (the Seller). The Department has agreed to purchase the electricity produced by the grid-connected solar power facility which will vary between \$265,000 and \$425,000 annually. After the initial term, this agreement can be renewed for two consecutive five year terms. In conjunction with this PPA, the Department is leasing, to Holyoke Solar, LLC, the property on which the solar power facility is located at \$100 per usable acre per year for the first 20 years. After the initial term under the PPA, the rate shall be \$3,000 per usable acre per year subject to a 2.5% annual escalation.

In June 2011, the Department signed a 20 year solar Power Sales Agreement with Rivermoor-Citizens Holyoke LLC (the Seller). The Department agreed to purchase the electricity produced by the photovoltaic solar electric generation system for an annual payment of between \$48,000 - \$72,000 beginning in February 2013. After the initial term, this agreement shall automatically renew for successive one-year terms, up to a maximum of ten such renewal terms.

In December 2014, the Department signed a twenty (20) year solar Power Sales Agreement with Healthy Planet Partners, LLC, for a 0.997 MW-dc project. The annual energy payment will vary between \$54,200 and \$61,200 over a twenty-five (25) year contract term beginning October 2015.

The Department contracted for several 20 year solar PPA's during 2015 with various solar developers and executed interconnection only agreements with a few others. It is unknown which project(s), if any, will ultimately be constructed; however terms and conditions, and pricing were developed to mitigate market risk and help diversify the Department's energy portfolio.

In December 2011, the Department signed a ten year contract with Nextera Energy Power Marketing to purchase on-peak physical energy each year at an estimated cost of \$2,400,000. For the six (6) years remaining to the contract, the total future commitment is \$14,437,568.

In September, 2015, the Department executed a four (4) year contract starting October 1, 2015 with Nextera Energy Power Marketing for 2.5 MW of around-the-clock energy each year. The annual energy payment will be around \$995,793 and for the 3.9 years remaining to the contract, the total future commitment is \$3,734,792.16. At the same time, the Department executed a four (4) year contract with the Massachusetts Green High Performance Computing Center, Inc. locking in the Energy Only piece of the rate to cover this transaction.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS

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NOTE 13 – COMMITMENTS AND CONTINGENCES (cont.)

PURCHASED POWER CONTRACTS (cont.)

In November 2013, the Department entered into an agreement to provide electricity to the Open Square facility and purchase any excess electricity from the operation of the Open Square D and G wheels at a monthly charge as defined in the agreement. The Department does not have any liability associated with these energy purchases as any excess energy beyond contract water rights is at Department discretion under terms with the customer that expired on October 31, 2015, and was extended formally to December 31, 2015 then again verbally through February 29, 2016. At this time, a new multi-year agreement is planned between parties.

In December 2013, the Department signed a twenty-five (25) year PPA for 6.032 MW of energy and capacity out of the Hancock Wind Project, located in Hancock County, Maine. The annual energy payment will be about \$813,200 based on an estimate of 14,267 MWh per year over the contract term for this project that has an estimated revised commercial operation date of fourth quarter 2016.

In December 2015, the Department contracted with Scuderi Clean Energy, LLC under a twenty (20) year PPA for a 4.375 MW natural gas generator. Uncertain if this project will move forward; however Department mitigated market and development risk by ensuring interconnection costs are born by other party and that rates under PPA are discounted to full wholesale energy and resulting load reduction cost savings (where and if applicable).

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY

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

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

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NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 13 – COMMITMENTS AND CONTINGENCES (cont.)

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY (cont.)

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC, and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

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

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

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

As of December 31, 2015, total capital expenditures for MMWEC's Projects amounted to \$1,626,959,000 of which \$46,831,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$112,510,000, of which \$2,767,000 is associated with the Department's share of Project Capability. As of December 31, 2015, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$121,353,000 of which \$2,948,000 is anticipated to be billed to the Department in the future.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014

NOTE 13 – COMMITMENTS AND CONTINGENCES (cont.)

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY (cont.)

The estimated aggregate amount of Holyoke Gas And Electric Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2015 and estimated for future years is shown below.

<u>For the Years Ended December 31,</u>	
2016	\$ 1,873,000
2017	856,000
2018	219,000
2019	<u>-</u>
Total	<u>\$ 2,948,000</u>

In addition, under the PSAs, the Department is required to pay its share of the operation and maintenance (O&M) costs of the Projects in which they participate. The Department's total O&M costs including debt service under the PSAs were \$4,774,000 and \$5,219,000 for the year ended December 31, 2015 and 2014, respectively.

TELECOMMUNICATIONS CONTRACTS

The Department has entered into long-term contracts for dedicated point- to-point data lines and Internet Access services from several companies. These contracts have three year terms. In addition the Department has entered into five-year contracts for data fiber services.

In 2002, the Department entered into a lease with Fiber Technologies Networks, LLC (Fibertech) for use of the Department's fiber optic lines. The lease provides for an annual payment per route mile for 20 years with an option to renew for an additional five years.

The Department has long-term contracts which range from one to five years with customers for telecommunications services.

HYDROELECTRIC FACILITY

As part of the Department's purchase of hydroelectric generating assets and a distribution franchise in 2001, FERC required certain modifications to the hydroelectric facility. As of 2015, the Department has spent approximately \$30 million. Most of the commitments have been fulfilled.

ENVIRONMENTAL PROTECTION AND OTHER ISSUES

In 1990, the Massachusetts Department of Environmental Protection (MDEP) sent a notice of responsibility to the Department and other parties regarding the presence of coal tar on property known as the gas works, adjacent to the Connecticut River. An investigation of the site has revealed concentrations of contaminants on the site and MDEP classified the area as a priority site. A second notice of responsibility was issued in September 1993 for gas tar deposits in the Connecticut River, effectively separating the gas works into a land site and a river site.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
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NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 and 2014

NOTE 13 – COMMITMENTS AND CONTINGENCES (cont.)

ENVIRONMENTAL PROTECTION AND OTHER ISSUES (cont.)

Effective February 2003, the Department increased the gas rates in order to collect additional dollars for clean-up of the gas works site and is accruing amounts, based on management's best estimate of the probable and reasonably estimable costs related to this clean-up. The current estimate for the remaining clean-up of only the land site is approximately \$449,000. No estimate is currently available for the river site. However, the cost of clean-up may be significant and material to the financial statements. The measurement of the accrual for remediation costs is subject to uncertainty, including the evolving nature of environmental regulations and the difficulty in estimating the extent and type of remediation activity that will be utilized. The utility is also in negotiations with another counterparty under a similar order to fund part of the clean-up efforts. A final agreement as to the cost-sharing methodology between the parties has not been reached. The impact of these negotiations may be material to the financial statements but cannot be estimated.

SOURCES OF LABOR SUPPLY

Fifty-nine percent of the Department's labor force is covered under a collective bargaining agreement between the City of Holyoke Gas and Electric Department and the Holyoke Municipal Gas, Light & Power Guild, Inc. The agreement expires March 31, 2017.

CLAIMS AND JUDGMENTS

From time to time, the utility is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the utility's legal counsel that the likelihood is remote that any such claims or proceedings, other than those listed above, will have a material adverse effect on the utility's financial position or results of operations.

NOTE 14 – RISK MANAGEMENT

The utility is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors, and omissions; workers compensations; and health care of its employees. The utility participates in a public entry risk pool called the PUMIC to provide coverage for the above mentioned risks except for workers compensation. The following details the coverage through the PUMIC. Settled claims have not exceeded the risk pool coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2015 and 2014

NOTE 14 – RISK MANAGEMENT (cont.)

PUBLIC ENTITY RISK POOL

Public Utility Mutual Insurance Company (PUMIC)

The PUMIC is a liability insurance company, which is owned by its members. The PUMIC was formed in 1997 to provide general insurance to members of the Public Utility Risk Management Association (PURMA). PURMA is a 501(c)(6) not-for-profit association whose members include municipal utilities and rural cooperatives.

The PUMIC is self-insured up to a maximum of \$1,000,000 of each insurance risk. Losses paid by the PUMIC plus administrative expenses will be recovered through premiums to the participating pool of municipal utilities and rural cooperatives.

Management of each organization consists of a board of directors comprised of representatives elected by the participants. The utility has an employee participating as a board member in each of the organizations.

Financial statements of PUMIC and PURMA can be obtained directly from PUMIC's offices.

The initial investment in PUMIC is refundable upon withdrawal from the organization and has been reported at the original amount of \$168,000.

For general liability purposes, the Department is self-insured up to \$50,000, has self-insurance trust coverage in the amount of \$400,000 and general liability insurance through the risk pool for \$50,000 to \$10,000,000 per occurrence. The Department was also self-insured for workers compensation up to \$250,000 per occurrence through December 31, 2014. The Department has since moved to commercial insurance for workers compensation.

NOTE 15 – CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The Department adopted GASB Statement No. 68 effective January 1, 2015. The cumulative effect of implementation is reflected as a change in net position as follows:

Net pension liability January 1, 2015	\$ (26,306,033)
Deferred outflow January 1, 2015	<u>3,386,475</u>
Cumulative Effect of a Change in Accounting Principle	<u>\$ 22,919,558</u>

REQUIRED SUPPLEMENTARY INFORMATION

HOLYOKE GAS AND ELECTRIC

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) City of Holyoke Retirement System Last 10 Fiscal Years*

The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

	<u>2015</u>
Holyoke Gas and Electric's proportion of the net pension liability	20.4671670%
Holyoke Gas and Electric's proportionate share of the net pension liability	\$ 27,426,467
Holyoke Gas and Electric's covered employee payroll	\$ 10,776,026
Plan fiduciary net position as a percentage of the total pension liability	64.47%

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

SCHEDULE OF CONTRIBUTIONS - PENSION City of Holyoke Retirement System Last 10 Fiscal Years*

	<u>2015</u>
Contractually required contributions	\$ 3,526,919
Contributions in relation to the contractually required contributions	(3,526,919)
Contributions deficiency (excess)	-
Holyoke Gas and Electric's covered-employee payroll	10,776,026
Contributions as a percentage of covered-employee payroll	32.51%

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

See independent auditors' report and accompanying notes to required supplementary information.

HOLYOKE GAS AND ELECTRIC

SCHEDULE OF FUNDING PROGRESS OTHER POST-EMPLOYMENT BENEFITS December 31, 2015 and 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
12/31/2014	\$ 4,411,653	\$ 11,362,451	\$ 6,950,798	38.8%	N/A	N/A
6/30/2013	\$ -	10,596,663	10,596,663	0.0%	N/A	N/A

Note: the studies completed prior to December 31, 2014 related to the City of Holyoke as a whole and were completed as of the city's fiscal year end. A new study was completed for the Department due to a change in funded status during October 2014. The December 31, 2014 study is the latest study available.

See independent auditors' report.

HOLYOKE GAS AND ELECTRIC

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2015

Changes of benefit terms: There were no changes of benefit terms for any participating employer in the City of Holyoke Retirement System.

Changes of assumptions: There were no changes in the assumptions.

S U P P L E M E N T A L I N F O R M A T I O N

HOLYOKE GAS AND ELECTRIC

SCHEDULES OF OPERATING REVENUES AND EXPENSES - GAS DIVISION

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Residential	\$ 9,491,557	\$ 10,042,405
Commercial	9,771,741	11,032,541
Industrial	2,103,711	2,585,356
Municipal	711,199	786,420
Departmental sales	98,732	125,249
Sales for resale	829,359	698,687
Uncollectible accounts	<u>(115,926)</u>	<u>(582,152)</u>
Total Operating Revenues	<u>\$ 22,890,373</u>	<u>\$ 24,688,506</u>
COST OF GAS SOLD		
Purchases - natural gas	\$ 9,525,894	\$ 12,959,447
Liquid natural gas processed	1,615,632	1,524,527
Environmental response	74,360	159,513
Supplies and expenses	<u>216,018</u>	<u>220,871</u>
Total Cost of Gas Sold	<u>\$ 11,431,904</u>	<u>\$ 14,864,358</u>
DISTRIBUTION		
Salaries and Wages		
System control and load dispatch	\$ 341,593	\$ 333,082
Supervision and engineering	258,886	259,055
Customer installation	535,185	520,042
Operation	489,040	447,159
Maintenance	870,473	766,937
Supplies and expenses	<u>1,044,302</u>	<u>1,016,303</u>
Total Distribution	<u>\$ 3,539,479</u>	<u>\$ 3,342,578</u>
CUSTOMER ACCOUNTS		
Salaries and Wages		
Meter reading	\$ 57,489	\$ 61,144
Accounting and collection	143,064	138,221
Supplies and expenses	<u>57,067</u>	<u>61,081</u>
Total Customer Accounts	<u>\$ 257,620</u>	<u>\$ 260,446</u>
GENERAL AND ADMINISTRATIVE		
Salaries	\$ 880,697	\$ 765,712
Pensions and benefits	1,581,401	1,796,122
Insurance	118,357	98,117
General supplies and expenses	<u>610,336</u>	<u>621,823</u>
Total General and Administrative	<u>\$ 3,190,791</u>	<u>\$ 3,281,774</u>

HOLYOKE GAS AND ELECTRIC

SCHEDULE OF OPERATING REVENUES AND EXPENSES - ELECTRIC AND TELECOMMUNICATIONS DIVISIONS For the Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Electric Sales		
Residential	\$ 12,664,641	\$ 12,410,403
Commercial	21,392,313	21,147,767
Industrial	5,673,229	5,519,396
Municipal	2,608,948	2,571,089
Interdepartmental	301,699	275,871
Water	6,300	6,345
Renewable energy revenue	2,095,889	1,774,027
Cobble Mountain operation - net	567,452	551,701
Telecommunication sales	2,436,564	2,251,047
Uncollectible accounts - electric/hydro	(417,001)	(261,815)
Uncollectible accounts - telecommunications	(5,616)	5,332
	\$ 47,324,418	\$ 46,251,163
COST OF ELECTRICITY/STEAM/WATER SOLD		
Purchases - electricity	\$ 18,184,420	\$ 11,554,521
Salaries and Wages		
Production	1,254,272	1,231,261
Maintenance	1,559,260	1,319,837
Supplies and expenses	2,397,823	2,715,674
Cost of water sold	388,435	386,966
	\$ 23,784,210	\$ 17,208,259
ELECTRIC TRANSMISSION		
Salaries and wages	\$ 627,793	\$ 581,061
Supplies and expenses	122,880	271,866
Transmission by others	2,874,845	2,986,833
	\$ 3,625,518	\$ 3,839,760
DISTRIBUTION		
Electric		
Salaries and Wages		
Lines, equipment and street lights	\$ 2,128,262	\$ 2,054,882
Customer installations	218,329	207,789
Supplies and expenses	2,475,820	2,035,405
Telecommunications distribution	1,224,500	1,166,835
	\$ 6,046,911	\$ 5,464,911
CUSTOMER ACCOUNTS		
Electric		
Salaries and Wages		
Meter reading	\$ 107,285	\$ 114,318
Accounting and collection	265,709	256,695
Supplies and expenses	98,598	113,007
	\$ 471,592	\$ 484,020
GENERAL AND ADMINISTRATIVE		
Electric		
Salaries	\$ 1,474,626	\$ 1,413,947
Pensions and benefits	3,482,389	3,653,007
Insurance	447,963	408,308
General supplies and expenses	1,594,909	1,701,976
Telecommunications general and administrative	596,722	601,255
	\$ 7,596,609	\$ 7,778,493

