

PASCOAG UTILITY DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

**PASCOAG UTILITY DISTRICT
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YEAR ENDED DECEMBER 31, 2014**

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INDEPENDENT AUDITORS' REPORT

To The Board of Utility Commissioners
Pascoag Utility District
Pascoag, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of the Pascoag Utility District which comprise the related statement of net position as of December 31, 2014 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Pascoag Utility District, as of December 31, 2014, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, the District's defined benefit plan implemented Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25. The District also early implemented GASB Statement No. 68, Accounting and Reporting for Pensions. Our opinion is not modified with respect to these matters.

As discussed in Note F to the financial statements, Management analyzed GASB Statement No. 67 and GASB No. 68 and determined that the beginning net position restricted for pension benefits has been restated by \$277,561 to include the net pension asset held as of December 31, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of changes in net pension liability and related ratios, contributions and investment returns on pages 4 - 11 and 29 - 31 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pascoag Utility District's financial statements. The Electric Division financial statements as listed in the table of contents and the Water Division financial statements as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements.

The Electric Division financial statements and the Water Division financial statements as listed in the table of contents as supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information had 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 Electric Division financial statements and the Water Division financial statements as listed in the table

of contents as supplementary information are fairly stated, in all material respects, in relation to the financial statements as a whole.

The Budget to Actual Information and Statistical Data included in the Schedule of Electric Operating Revenue and the Schedule of Electric Energy have not been subjected to the auditing procedures applied to the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2015 on our consideration of the Pascoag Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pascoag Utility District's internal control over financial reporting and compliance.

Marcum LLP

Providence, Rhode Island
June 5, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Pascoag Utility District (the District) is a quasi-municipal entity established by an Act of the Rhode Island General Assembly in 2001.

The governing body of the District is the Board of Utility Commissioners, consisting of five members who are elected by the voters of the District. The powers of the Utility District, as set forth in the Charter, are vested in and exercised by a majority of the Board. The Board of Utility Commissioners, in its discretion, may delegate Executive functions to its General Manager, by resolution or rule, or otherwise.

The District provides electric and water services to its customers through two separate and distinct divisions. The Electric division is the only public power utility in the State of Rhode Island. It purchases electricity and distributes it to approximately 4,700 customers in the Villages of Pascoag and Harrisville, both in the Town of Burrillville, Rhode Island. The Water Division serves approximately 1,100 residential and commercial/industrial customers in the Village of Pascoag.

The Electric Division is regulated by the Rhode Island Public Utilities Commission (RIPUC). Regulated activities include review of rates charged to customers and approval of conservation programs. The Water Division's oversight, on policy and rates, is provided by the Board of Utility Commissioners.

In a recent RIPUC Report and Order, the Commission commends Pascoag "for its efficient operation and superb management. Its ratepayers clearly receive high quality and committed service from Pascoag's manager and staff. Based on the strength of Pascoag's financial management, the Commission finds it unnecessary to continue the requirement that Pascoag file mid-year status reports with the Commission. Pascoag shall file monthly status reports with the Division reflecting over and/or under collections." This greatly reduces the time and expense District staff dedicates to the preparation of a complete filing. In addition, it validates Pascoag's fiscal practices and policies. Similarly, the Commission also wrote in its Report and Order dated September 9, 2014 in Docket 4454 the following: "The Commission is reassured by the expertise of Mr. Kirkwood and Ms. Allaire and their ability to constantly adjust and modify their practices to meet their customers' needs. It is impressive to the Commission that this small utility is able to secure contracts at such low prices especially during these economic times and in light of the significant pipeline constraints that exist in this region of the country."

Within this section of the District's annual financial report, management provides discussion and analysis of the financial activities of the District for the year ended December 31, 2014. The District's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements:

The financial statements include (1) the statement of net position, (2) the statement of revenue, expenses and changes in net position, (3) the cash flow statement, and (4) notes to the financial statements. Supplementary information is presented for clarification and expansion of financial information and is not a required part of the financial statements. Supplementary information consists of separate financial statements for the Electric and the Water Divisions.

The statement of net position is designed to indicate our financial position as of a specific point in time. Our net position went up in the current period by \$936,415.

The statement of revenues, expenses and changes in net position summarizes our operating results and reveals how much, if any, income was earned for the period. As discussed in more detail below, our net income for the year was \$815,312.

The statement of cash flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financing activities for the same period. A review of our cash flows indicates that the cash receipts from operating activities (sales of electricity) adequately covered

electric operating expenses, capital additions and debt service and cash flows from water activities adequately covered water operating expenses, capital additions and debt service.

In January 2013, the Rhode Island Public Utilities Commission (RIPUC) approved Pascoag's new base rate changes as submitted in the Cost of Service Study. The increased revenue, approximately \$514,000, was negotiated in a Settlement Agreement with the Division of Public Utilities. The Settlement Agreement resulted in the approval of the creation of a new Storm Fund and a new five-year capital program. These items will be addressed later in this discussion.

Financial Highlights:

Electric sales represent approximately 90% of the gross revenues of the District while water sales make up the remaining 10%.

For the year ending December 31, 2014, the Electric Department generated net income of \$874,598.

For the year ending December 31, 2014, the Water Department generated net income of \$61,817.

Summary of Net Position

	2014			2013
	<u>Electric</u>	<u>Water</u>	<u>Total</u>	<u>Total</u>
Current assets	\$ 2,604,754	\$ 1,763,496	\$ 4,368,250	\$ 4,313,606
Noncurrent assets	3,396,509	3,959,364	7,355,873	6,219,958
Deferred outflows of resources	<u>13,015</u>	<u>-</u>	<u>13,015</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 6,014,278</u>	<u>\$ 5,722,860</u>	<u>\$ 11,737,138</u>	<u>\$ 10,533,564</u>
Current liabilities	\$ 1,122,416	\$ 141,879	\$ 1,264,295	\$ 1,221,844
Long-term debt, net of current portion	-	1,033,000	1,033,000	1,078,000
Other liabilities	-	-	-	208,418
Deferred inflows of resources	<u>200,565</u>	<u>-</u>	<u>200,565</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>1,322,981</u>	<u>1,174,879</u>	<u>2,497,860</u>	<u>2,508,262</u>
Net investment in capital assets	1,823,654	2,057,431	3,881,085	3,683,438
Restricted for capital and power	1,287,218	317,883	1,605,101	1,254,236
Restricted for pension	-	-	-	-
Unrestricted net position	<u>1,580,425</u>	<u>2,172,667</u>	<u>3,753,092</u>	<u>3,087,628</u>
Total net position	<u>4,691,297</u>	<u>4,547,981</u>	<u>9,239,278</u>	<u>8,025,302</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 6,014,278</u>	<u>\$ 5,722,860</u>	<u>\$ 11,737,138</u>	<u>\$ 10,533,564</u>

Summary of Changes in Net Position

	2014			2013
	<u>Electric</u>	<u>Water</u>	<u>Total</u>	<u>Total</u>
Operating revenues	\$ 8,666,459	\$ 930,438	\$ 9,596,897	\$ 7,765,220
Operating expenses	<u>7,880,090</u>	<u>902,295</u>	<u>8,782,385</u>	<u>8,411,872</u>
Operating income (loss)	786,369	28,143	814,512	(646,652)
Nonoperating revenues less nonoperating expenses	<u>88,229</u>	<u>33,674</u>	<u>121,903</u>	<u>29,933</u>
Increase (decrease) in Net Position	<u>\$ 874,598</u>	<u>\$ 61,817</u>	<u>\$ 936,415</u>	<u>\$ (616,719)</u>

Power Supply:

Electric

The Electric Division provides power to its customers through both fixed contracts and purchases on the spot market. This diversity in portfolio management is intended to both stabilize power costs and take advantage of favorable market conditions. Purchased power costs are the costs associated with buying energy and associated capacity and having it delivered to the District. Market volatility will cause the cost of electric energy to fluctuate. Volatility can be evidenced in things like peak demand fluctuation caused by extended periods of time at above (or below) normal temperatures, unexpected power plant shutdowns for unforeseen repair, and fuel prices affected by fluctuation in demand, fuel supply and the global economy. Additionally, the lack of adequate pipeline capacity in New England has caused spikes in winter power prices due to the inability of gas-fired generators to secure fuel for

their facilities during peak winter months. Working with its electric power supply advisor, the Electric Division has worked diligently to position itself so that weather, market and economic conditions will have a minimal impact on the rates our customers pay. In a bench decision issued June 12, 2014, the Rhode Island Public Utilities Commission approved the District's request for a slight overall decrease in its "pass thru" rates. The pass thru rates – Standard Offer Service, Transition, and Transmission - were adjusted to reflect the substantial decrease in energy and moderate increases in transmission and transition expenses. This overall decrease is based on market prices and the District's new and existing purchase power contracts. The District and its power supply advisor, Energy New England, put out a three year supply solicitation for the period beginning in January 2015 to request bids for the unhedged portion of its load. The District awarded a load following contract to TransCanada Power Marketing for 7.03 cents/kWh for the period 2015 through 2017. Together with Pascoag's other intermediate and long term contracts this portfolio has provided stable power prices even in these turbulent times of highly volatile rates in New England, especially during the winter months due to the lack of adequate natural gas pipeline capacity to provide fuel to gas-fired generators.

The District's power portfolio is diverse, consisting of a mixture of hydroelectric power, wind power, nuclear power, and other contracts based on the market prices of efficient fossil fuel generation. As an example In September 2010, Pascoag executed a Purchase Power Agreement (PPA) with Spruce Mountain Wind, LLC for .53 MW at a cost of \$99.25/MWh. The PPA is for unit contingent energy, capacity and Renewable Energy Certificates (RECs) for a fifteen year term. The plant came on line in December of 2011. So far, Energy New England, which is our power supply procurement advisor, has been able to sell the RECs from this facility for over \$60/MWh, effectively resulting in a price to the District of around \$40/MWh. This contract is a great deal for a clean source of energy for our system. Although the price of RECs will fluctuate with market conditions over time, the District expects this wind contract to continue to be very cost effective.

The breakdown by entitlement for 2015 based on kWh to be received from each resource is:

New York Power Authority	24%	(hydro)
Miller Hydro Group	3%	(hydro)
Spruce Mountain Wind	3%	(wind)
Seabrook	18%	(nuclear)
TransCanada	42%	(fossil fuel)
NextEra	<u>10%</u>	(fossil fuel)
Total	<u>100%</u>	

Although the District is exempted from the Rhode Island Clean Energy Act of 2004 requiring that all utility companies provide at least 16% renewable energy by 2019, the District's power portfolio for 2015 already contains 30% renewable energy.

Additionally, the District's total power portfolio is comprised of 48% non-carbon based fuels. This mix of renewable and nuclear energy is important to offset the potential cost increase which could come about as the result of pending Federal carbon regulation known as the Clean Power Plan. If the climate and energy initiatives proposed in the preliminary rule are put into place, energy consumers will face increased costs for energy generated by coal, oil, and other fossil-fuel based resources. Therefore by reducing the District's reliance on fossil fueled generation, we are limiting the potential impact this will have on our customer's energy costs.

In its effort to be proactive in the procurement of additional energy supply, the District is an active participant, in conjunction with many other public power systems in New England, in reviewing various purchase power opportunities. Energy New England (ENE) on behalf of these public entities is actively involved in seeking out potential investment/contracting opportunities for the municipal systems it serves. These investments/purchases could be combined with other consortium members to the benefit of each participant. In fact, the District and other public power entities signed a 10-year agreement in 2012 which commenced in June of 2013, and provides a call-option for energy and capacity that replicates one of the most efficient gas-fired combined cycle power plants in New England.

In order to improve the District's position in contract negotiations, the District has EEI Master Power Purchase and Sales Agreements with several potential trading partners including Dominion Energy, TransCanada Power Marketing, NextEra Energy Resources, Constellation Energy, Shell Energy North America, PSEG Energy Resources and Trade, and Macquarie Energy. Once created, these documents can be easily modified to include other energy suppliers. The agreement streamlines the negotiation process by ensuring the District's credit worthiness to potential new partners and was the basis of the arrangements put in place with TransCanada as discussed above.

Water

Due to the MTBE contamination in our water supply in 2001, the Water Division has, from January 2002 through January 2008, purchased 100% of its water supply from the neighboring village of Harrisville. In January 2008, a new well, designated as Well #5, became operational and is currently producing approximately 15% of the District's water needs. The remainder of the water continues to be purchased from the Harrisville Water Department. However, financial savings from bringing Well #5 into operation were mitigated due to an increase in the rates from Harrisville Water Department for purchased water.

Beginning in late 2012, and continuing into 2015, the District is undergoing a water exploration program, funded with proceeds from the Exxon Settlement Fund. The water exploration program is promising, with permitting applications recently filed with the Rhode Island Department of Environmental Management for testing at two potentially productive well sites.

In August 2012, the District received \$2,714,654 from the Exxon Settlement Agreement. This Settlement was for the MTBE contamination to the District's well field in 2001. The Exxon Settlement Funds will be used for water exploration as mentioned above as well as debt service payments and improvements to the water infrastructure.

Utility Plant and Debt Administration:

Electric

The District's distribution system has a nominal voltage of 13.8 KV. The District built a new sub-station with state-of-the-art equipment in June 2000. The District continually improves its invested capital components, including its fleet of well maintained vehicles. In 2013, the District replaced the oldest bucket truck in its fleet with a new highly efficient bucket truck that has the latest emissions control technology installed. All street lighting in the District had previously been converted to High Pressure Sodium lamps, and beginning in 2013, the District has begun a program to replace streetlight fixtures with even more efficient LED modules for further energy savings as discussed in more detail in the next paragraph. The District was awarded a state grant in 2014 for \$62,500 to further the LED street-lighting program and the state Office of Energy Resources has indicated further funding may be awarded in 2015. These improvements, along with many others, have combined to provide the newest technology, the highest degree of safety, and significant savings of money and electric energy.

In 2012, the Rhode Island Public Utility Commission approved an LED Street Light Pilot Program with a budget of \$20,583.00, using funds from the Demand Side Management Program. The pilot program was approved for the cost of the LED street lights, photo eyes, and installation measures and to support a study. Based on the success of the implementation phase, the RIPUC approved a 50% rebate on all new LED street light fixtures, allowing the District to continue to replace street lighting throughout the District with the newer, more energy efficient fixtures. The replacement of HPS street lighting to LED street lighting continues throughout both villages, and has been accelerated thanks to the state grant of \$62,500 in 2014 as discussed above. It is the District's intention to convert all public streetlights to LED technology within the next year or two.

The implementation of new electric metering equipment is also being carried out by the District. Automatic Meter Reading (AMR) and the latest Advanced Metering Infrastructure (AMI) or smart metering are the most current technologies available. AMI works with the national "smart grid" to provide customers with real-time metering, demand response programs, outage management, and other vital energy applications. However, the cost in implementing an AMI system would have a substantial impact on the District's rates, and so the District determined moving to an AMR system to be the much better option. Beginning in 2014, and continuing for a period of several

years, funds have been set aside in the District's Restricted Fund Account to begin the implementation of an AMR program, which uses radio-read technology once a month to download consumption as opposed to meter readers needing to visit each property and meter individually.

The District has approximately 45 square miles in its electric service territory. The distribution system is constantly maintained and upgraded. Since much of the District's service territory is rural, covered wire is used, providing a higher degree of reliability. The District also conducts annual maintenance on circuit breakers and relay equipment. Additionally, the District has an aggressive tree-trimming program that ensures the reliability of service in heavily wooded areas. The success of this tree trimming program was highlight in recent severe storms – Irene in 2011 and Sandy in 2012 – by the fact that power was restored to our customers much quicker than neighboring utilities. During the intense winter weather for 2013/2014, the District had no major power outages.

The District has no Poly Chlorinated Biphenyl ("PCB") equipment. Phase out of the PCB's was completed in the 1990's. The District is in compliance with phase out requirements, as well as with emergency clean-up capabilities.

In 2013, the District selected a new state-of-the-art billing and financial software system from NICS called iVue, and began implementation in 2014. This software integrates all sections – financial, utility billing, engineering, field operations, and outage management. It is currently fully functional, and the District is continuing to activate various modules in 2015 to enhance such processes as work and outage management.

In 2012, the District improved the security at the District headquarters by installing new video surveillance in both the equipment yard and office complex

The District funds a Restricted Account dedicated to debt service payments and capital projects, totaling \$306,000 annually. The Restricted Fund is based on the District's five-year capital program approved in the Cost of Service Study approved in January 2013.

In addition to that fund, the District has a Purchase Power Restricted Fund approved by the RIPUC. The balance in that account at year-end 2014 was \$576,551. The District will retain the balance to be used in the event of low cash flow to satisfy power bills.

Water

Beginning in 2012, and continuing into 2015, the District is implementing an intensive water exploration study and is in fact in the testing and permitting phase in 2015 for two potential new ground water sources.

Based on a federal grant administered by the Rhode Island Department of Health, the water department developed a Facilities Improvement Plan to identify capital improvements to its infrastructure over a twenty year period and in fact has recently completely refurbished its two water storage tanks and implemented a remote control and data acquisition system as identified in the Plan. The District has also been replacing valves, hydrants and completed needed repairs to its water equipment and storage building.

In 2007, the District received notification that it was approved for a federal grant (STAG) administered through the Environmental Protection Agency. In 2007/2008, the District identified costs associated with the development of its new well (Well #5) at approximately \$196,500. In 2010 to 2012, the water department received an additional reimbursement from the grant totaling \$137,627 for a water meter project using AMR technology. The final disbursement from the grant, \$80,601, was received in 2012 for a rehabilitation project at one of Pascoag's water storage tanks.

At the annual meeting in December 2011, the voters of the Pascoag Utility District approved a request to fund a tank rehabilitation project for work at the South Main Street and Rock Avenue standpipes at a total of \$1,000,000. The project has been financed through the Rhode Island Clean Water Finance Agency. Work began in July 2012 and was completed in late 2013 and has provided an extended life of at least 20 years to each of these facilities.

The District has also implemented a new SCADA system (System Control and Data Acquisition) for the water system as discussed above, which is paying huge benefits in the proper monitoring and operation of the system.

The District is now able to monitor important water system parameters and perform limited control on a real time basis, and management has the ability to securely access the SCADA system even from remote desktops or laptops.

Debt Administration

District debt at the end of December 2014 totaled \$1,078,000 approximately 9% of the total District assets

The Electric Division has no debt at the end of calendar year 2014.

Water Division debt at the end of calendar year 2014 is \$1,078,000. The water department's debt is for the following:

Tank Rehabilitation Project	\$ 928,000
AMR Meter Project	<u>150,000</u>
Total	<u>\$1,078,000</u>

The financing for the AMR Meter Project is with General Obligation Drinking Water Bonds, thru the RICWFA. Based on ARRA principal forgiveness, net cost to the District will be \$137,480. Financing for the Tank Rehabilitation Project is with the Rhode Island Clear Water Financing Agency.

Significant Balances, Transactions and Notes of Interest:

Demand Side Management

DSM promotes energy conservation within the District's customer base. The District offers several innovative programs to its residential customers such as financial incentives for ENERGY STAR appliances, office equipment, home electronics, windows, door, central air conditioning, pool pumps, smart strips, boilers, furnaces, light bulbs, lighting fixtures, a refrigerator buy-back program and free home energy audits. The DSM program is funded by the Electric Division based on kilowatt-hour sales. The District has a dedicated funding vehicle for all DSM revenues and expenses.

Storm Fund

As part of the District's Settlement Agreement in the Cost of Service Study, a new Storm Fund has been approved by the RIPUC. This will be funded at an annual rate of \$20,000, and can be used in storm events where damage is in excess of \$4,000. The District has reporting requirements to both Division and Commission on use of money from the storm fund.

Customer Service

The District strives to continue to provide improved service to all its customers through training and education of staff. The District staff was recognized by Atlantic States Rural Water & Wastewater Association for their outstanding response during the MTBE crisis. In fact three of our staff has been recognized for excellence in customer service. Judith Allaire, Assistant General Manager, was recognized in 2005 by the Northeast Public Power Association with the Carol A. Tracey Award, given for excellence in customer service. In 2009 Harle Round, Senior Customer Service Representative was presented with this award at the annual Northeast Public Power Customer Service Conference, and in 2012 Julie Choquette was awarded the Carol A. Tracy Award for her work on the District's AMR Program in the Water Department. Additionally in 2012, Bill Guertin, PUD's Assistant General Manager of Operations, received Northeast Public Power Association's Francis Willey Individual Achievement Award as a champion of NEPPA's educational efforts for constructing and providing support for NEPPA's lineman training facility for the past six years.

Credit Rating

In 2008, Standard and Poor's issued Pascoag Utility District a credit rating of A- and stable outlook. This rating reflects the following factors:

- RIPUC timeliness in providing Pascoag with rate relief as required;
- A diverse supply of purchased power under contracts of varying length;
- Competitive rates; and
- Adequate coverage of fixed obligations and manageable capital needs.

In 2014, a review by Standard and Poor's maintained that rating.

Reliability and Federal Mandates

Although Pascoag had complied with all NPCC/NERC requirements and created documented procedures, in July 2010, the District requested an exemption from Directory #12 UFLS Program requirements. ISO-NE agreed, based on the UFLS Program data received from the District that the District qualifies for exclusion from ISO-NE's UFLS Program and can be considered as no longer material to the reliable operation of the bulk power system for purposes of the UFLS. In December 2010, the District received a letter from NPCC stating that after reviewing pertinent and individual UFLS program data, it is satisfied that the District qualifies for exclusion from ISO-NE's UFLS Program. As participation in the UFLS program was the sole reason for the original registration of Pascoag, the District is now delisted from the NERC/NPCC Compliance Registry as a DP and LSE.

**PASCOAG UTILITY DISTRICT
STATEMENT OF NET POSITION
December 31, 2014**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Electric Division</u>	<u>Water Division</u>	<u>Total</u>
<u>Assets:</u>			
Capital assets:			
Utility Plant in Service:			
Land, at cost	\$ 140,053	\$ 178,736	\$ 318,789
Buildings and equipment, at cost	8,955,970	4,037,070	12,993,040
	9,096,023	4,215,806	13,311,829
Less: accumulated depreciation	7,484,188	1,323,563	8,807,751
	1,611,835	2,892,243	4,504,078
Net Utility Plant in Service			
Construction in Progress	211,819	243,188	455,007
Capital assets, net	1,823,654	3,135,431	4,959,085
<u>Current and Accrued Assets:</u>			
Cash and cash equivalents	705,089	1,521,259	2,226,348
Cash, customer deposits	299,833	-	299,833
Accounts receivable, customers (net)	544,695	121,376	666,071
Unbilled revenues	709,500	76,894	786,394
Accounts receivable - other	4,732	14,494	19,226
Interdivisional receivable (payable)	8,118	(8,118)	-
Materials and supplies inventory	140,378	36,234	176,612
Prepayments	192,409	1,357	193,766
Total Current and Accrued Assets	2,604,754	1,763,496	4,368,250
<u>Other Assets:</u>			
Reserved cash	95,672	317,883	413,555
Investment in repurchase agreement	1,191,546	-	1,191,546
Investment	-	506,050	506,050
Long-term pension asset	285,637	-	285,637
Total Other Assets	1,572,855	823,933	2,396,788
<u>Deferred Outflows of Resources</u>			
Net difference between projected and actual earnings on pension plan investments	13,015	-	13,015
Total assets and deferred outflows of resources	\$ 6,014,278	\$ 5,722,860	\$ 11,737,138

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES
AND NET POSITION**

	<u>Electric Division</u>	<u>Water Division</u>	<u>Total</u>
<u>Net Position:</u>			
Net investment in capital assets	\$ 1,823,654	\$ 2,057,431	\$ 3,881,085
Reserved for capital and power	1,287,218	317,883	1,605,101
Unrestricted net position	1,580,425	2,172,667	3,753,092
Total Net Position	4,691,297	4,547,981	9,239,278
<u>Long-Term Liabilities:</u>			
Notes payable - net of current portion	-	1,033,000	1,033,000
Total Long-Term Liabilities	-	1,033,000	1,033,000
<u>Current Liabilities:</u>			
Notes payable - current portion	-	45,000	45,000
Accounts payable	685,355	15,885	701,240
Accrued compensated absences	62,016	3,494	65,510
Accrued expenses - other	13,286	76,775	90,061
Demand side management program	61,926	-	61,926
Customer deposits	299,833	725	300,558
Total Current Liabilities	1,122,416	141,879	1,264,295
Total Liabilities	1,122,416	1,174,879	2,297,295
<u>Deferred Inflows of Resources</u>			
Change of assumption related to pension plan	200,565	-	200,565
Total liabilities, deferred inflows of resources and net position	\$ 6,014,278	\$ 5,722,860	\$ 11,737,138

The accompanying notes are an integral part of these financial statements.

PASCOAG UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2014

	<u>Electric Division</u>	<u>Water Division</u>	<u>Total</u>
<u>Operating Revenues</u>	\$ 8,666,459	\$ 930,438	\$ 9,596,897
<u>Operating Expenses:</u>			
Operation and maintenance	6,535,331	418,813	6,954,144
General and administrative	1,059,958	338,845	1,398,803
Depreciation	199,616	139,802	339,418
Taxes on property and payroll	85,185	4,835	90,020
<u>Total Operating Expenses</u>	7,880,090	902,295	8,782,385
<u>Operating Income</u>	786,369	28,143	814,512
<u>Non-operating Revenue (Expense):</u>			
Grants	-	1,624	1,624
Miscellaneous service revenues	28,041	22,943	50,984
Rent from antenna sites	31,488	24,000	55,488
Interest income	11,273	17,100	28,373
Penalty interest	24,395	-	24,395
Interest on customer deposits	(6,968)	-	(6,968)
Other expense	-	(31,993)	(31,993)
<u>Total Non-operating Income</u>	88,229	33,674	121,903
<u>Net Income</u>	874,598	61,817	936,415
<u>Net position, beginning of year (as restated)</u>	3,816,699	4,486,164	8,302,863
<u>Total net position, end of year</u>	\$ 4,691,297	\$ 4,547,981	\$ 9,239,278

The accompanying notes are an integral part of these financial statements.

**PASCOAG UTILITY DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014**

	Electric Division	Water Division	Total
<u>Cash Flows from Operating Activities</u>			
Cash received from customers	\$ 8,043,770	\$ 933,569	\$ 8,977,339
Cash payments to suppliers and employees	(7,565,383)	(773,305)	(8,338,688)
Other revenues	89,940	64,177	154,117
<u>Net Cash Provided by (Used in) Operating Activities</u>	<u>568,327</u>	<u>224,441</u>	<u>792,768</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Capital acquisitions	(243,250)	(174,116)	(417,366)
Assets held by financing authority	-	51,279	51,279
Payments of loan principal	-	(43,000)	(43,000)
Interest paid	(6,968)	(31,993)	(38,961)
<u>Net Cash Used in Capital and Related Financing Activities</u>	<u>(250,218)</u>	<u>(197,830)</u>	<u>(448,048)</u>
<u>Cash Flows from Investing Activities:</u>			
Interest income	11,273	17,100	28,373
<u>Net Cash Provided by Investing Activities</u>	<u>11,273</u>	<u>17,100</u>	<u>28,373</u>
<u>Net Increase in cash and cash equivalents</u>	<u>329,382</u>	<u>43,711</u>	<u>373,093</u>
<u>Cash and cash equivalents, January 1</u>	<u>771,212</u>	<u>1,795,431</u>	<u>2,566,643</u>
<u>Cash and cash equivalents, December 31 (Note C)</u>	<u>\$ 1,100,594</u>	<u>\$ 1,839,142</u>	<u>\$ 2,939,736</u>
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating income	\$ 786,369	\$ 28,143	\$ 814,512
Adjustments to reconcile operating income to net cash provided by operating activities:			
Miscellaneous income	72,247	-	72,247
Miscellaneous service revenue	24,456	47,904	72,360
Depreciation	199,616	139,802	339,418
Debt issuance costs	-	14,933	14,933
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable and unbilled revenue	(333,575)	(1,949)	(335,524)
(Increase) decrease in inventory	1,277	(4,876)	(3,599)
(Increase) decrease in prepaid expenses	99,915	(219)	99,696
(Increase) decrease in restricted investment in repurchase agreement	(278,385)	-	(278,385)
(Increase) decrease in investments	-	(1,603)	(1,603)
Increase (decrease) in accounts payable and accrued liabilities	1,104	(1,049)	55
Increase (decrease) in interdivisional accounts	(3,355)	3,355	-
Increase (decrease) in deferred credits	(28,908)	-	(28,908)
Increase (decrease) in demand side management program	27,566	-	27,566
<u>Total adjustments</u>	<u>(218,042)</u>	<u>196,298</u>	<u>(21,744)</u>
<u>Net Cash Used in Operating Activities</u>	<u>\$ 568,327</u>	<u>\$ 224,441</u>	<u>\$ 792,768</u>
<u>Non-cash Investing Activities</u>			
Change in fair value of long-term pension asset	\$ 216,494	\$ -	\$ 216,494

The accompanying notes are an integral part of these financial statements.

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Pascoag Utility District (the District) was established in 2001 by an act of the Rhode Island General Assembly as a special district within the Village of Pascoag. Major functions include water utility services within the Village of Pascoag and electric utility services within the Villages of Pascoag and Harrisville, Rhode Island.

A five member Board of Utility Commission has full management authority over the water and electric departments and control of all real estate of the District. The electric utility is also subject to regulations of the Rhode Island Public Utilities Commission (RIPUC).

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles (GAAP) and follow the uniform system of accounts prescribed by regulatory bodies having jurisdiction over its activities.

The more significant of the District's accounting policies are described below.

Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has applied the entity definition criteria of Governmental Accounting Standards (GASB) in considering all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 61. Under GASB Statement No. 61, a legally separate entity is required to be included as a component unit if it is fiscally dependent upon the primary government and there is a financial benefit or burden relationship present. The primary government is financially accountable if it appoints the voting majority of the organizations governing board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A potential component unit has a financial benefit or burden relationship with the primary government if, for example, any one of the following conditions exists:

- a) The primary government is legally entitled to or can otherwise access the organization's resources.
- b) The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- c) The primary government is obligated in some manner for the debt of the organization.

Based upon the application of the criteria, it was determined that there were no component units to be reported separately.

Basis of Accounting

The District presents its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America promulgated by the GASB.

The Federal Energy Regulatory Commission (FERC) uniform system of accounts has been adopted for the electric division and the National Association of Regulatory Utility Commissioners uniform system of accounts has been adopted for the water division.

Cash and Cash Equivalents

The District maintains separate cash, cash equivalents and investment accounts for each of its two functions (water utility and electric utility) due to Board of Utility Commission and RIPUC restrictions on uses of the funds and requirements for separate accounting and financial reporting. The District conducts all its banking and investment transactions with a number of federally insured financial institutions. For the Statement of Cash Flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Unbilled Revenue

Accounts receivable customers are shown net of a reserve for uncollectible accounts of \$40,553 in the Electric division and \$8,194 in the Water division. Accounts receivable are considered uncollectible and written off when all legal means for collection have been exhausted. Estimated unbilled revenues from electric and water sales are recognized at the end of each calendar year. The estimated amount is based on billings during the period following the close of the calendar year.

Revenue Recognition

Electric division revenues are based on rates established by the District and filed with the DPU. Revenues from sales of electricity are recorded on the basis of bills rendered from monthly meter readings taken on a cycle basis. Revenues are stated net of discounts and any related bad debts.

Water division revenues are based on rates established by the District and approved by the Board of Utility Commissioners. Revenues from sales of water are recorded on the basis of bills rendered from monthly meter readings. Revenues are stated net of discounts and any related bad debts.

Materials and Supplies Inventory

Materials and supplies consist of water and electrical utility parts and supplies valued at cost. Cost is determined using a weighted average method on a first-in-first-out basis. The cost of materials and supplies is capitalized and recorded as capital additions or expenses when installed or consumed, rather than when purchased.

Capital Assets

Additions to capital assets with an individual cost of more than \$2,500 and an estimated useful life of more than one year are classified as capital assets. The cost of additions to utility plants includes contracted work, direct labor, materials, and other indirect charges (and interest, if applicable). Donated assets are valued at their estimated fair value on the date donated. Repairs and maintenance are recorded as expenses.

Depreciation of capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the estimated useful lives of 5 to 50 years using the straight-line method of depreciation. No depreciation is taken on land or land rights. Depreciation is taken in the year when the asset is placed in service in the electric division and the water division. The cost of property sold, retired or otherwise disposed of is removed from the asset account, and the related depreciation is removed from the accumulated depreciation account.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pascoag Utility District Defined Benefit Pension Plan (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 benefit terms. Investments are reported at fair value in the Plan.

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position can report a separate section for deferred outflows of resources. The separate section represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that later date. At December 31, 2014 there was \$13,015 in deferred outflows of resources related to the net difference between projected and actual earnings on pension plan investments in the Plan.

In addition to liabilities, the statement of financial position can report a separate section for deferred outflows of resources. This separate section represents the acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until a later date. At December 31, 2014 there was \$200,565 in deferred inflows due to changes of assumptions related to the pension plan.

Note B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deposits with Financial Institutions

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. It is the District's policy to follow the requirements contained in Section 35-10.1-7 of the General Laws of the State of Rhode Island, dealing with the collateralization of public deposits, which requires that all time deposits with maturities of greater than 60 days and all deposits in institutions that do not meet the minimum capital requirements of its Federal regulator must be collateralized.

Note C. CASH AND CASH EQUIVALENTS, RESERVED CASH AND INVESTMENTS

Deposits

The District maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). Beginning on January 1, 2013, the FDIC insures up to \$250,000 per depositor, per insured depository institution for each account ownership category. At December 31, 2014, the carrying amount of the District's cash and cash equivalents was \$4,637,332 of which \$565,702 was fully insured under FDIC and NCSIF limitations. The remaining balance of \$4,071,630 consists of \$1,191,546 of Repurchase Agreements which are supported by U.S. Government securities, \$506,050 in an 18 month Certificate of Deposit and \$2,374,034 of uninsured funds.

Cash and cash equivalents with a maturity in excess of 3 months consist of the following at December 31, 2014:

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Cash and cash equivalents	\$ 705,089	\$ 1,521,259	\$ 2,226,348
Cash, customer deposits	299,833	-	299,833
Reserved cash	95,672	317,883	413,555
	<u>\$ 1,100,594</u>	<u>\$ 1,839,142</u>	<u>\$ 2,939,736</u>

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note C. CASH AND CASH EQUIVALENTS, RESERVED CASH AND INVESTMENTS (Continued)

Investment in Repurchase Agreements

At December 31, 2014 the Electric Division held two investments in repurchase agreements with a Bank. The terms of the agreements stipulates that the District deposits funds with the bank in order to purchase government backed securities. At the end of the term of the repurchase agreement the bank agrees to repurchase the securities from the District at an agreed upon amount stipulated in the agreement in excess of the original purchase price. The increase from the original purchase price to the final repurchase approximates an agreed upon interest rate based on the repurchase agreement. The District is not subject to interest rate fluctuation within the market as the final repurchase is agreed upon within the repurchase agreement. Investment in repurchase agreements at December 31, 2014 was \$1,191,546.

Reserved Cash

At December 31, 2014, the Electric and Water Divisions had designated certain of its operating cash segregated and held for the following purposes:

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Contingency	\$ 10,000	\$ -	\$ 10,000
Storm	39,173	-	39,173
Capital projects and debt reserve	-	142,883	142,883
Harrisville surcharge reduction	-	175,000	175,000
Working cash reserve	40,783	-	40,783
Reserved for power	5,716	-	5,716
	<u>\$ 95,672</u>	<u>\$ 317,883</u>	<u>\$ 413,555</u>

Investment

At December 31, 2014 the Water Division held an 18 month certificate of deposit with a Bank. Due to the maturity date of the certificate of deposit (18 months) the Water Division has classified this as an investment rather than a cash equivalent at December 31, 2014. The balance at December 31, 2014 was \$506,050.

Note D. PREPAYMENTS

At December 31, 2014, prepayments consist of the following advance payments:

	<u>Electric Division</u>	<u>Water Division</u>	<u>Total</u>
Purchased power	\$ 188,608	\$ -	\$ 188,608
Insurance premiums	3,801	1,357	5,158
	<u>\$ 192,409</u>	<u>\$ 1,357</u>	<u>\$ 193,766</u>

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note E. CAPITAL ASSETS

A summary of capital assets is presented below:

	<u>Balances</u> <u>1/1/2014</u>	<u>Additions</u>	<u>Retirements &</u> <u>Adjustments</u>	<u>Balances</u> <u>12/31/2014</u>
<u>Electric</u>				
Nondepreciable assets:				
Land and land rights	\$ 140,053	\$ -	\$ -	\$ 140,053
Construction in progress	299	211,520	-	211,819
Depreciable assets:				
Buildings	1,676,408	-	-	1,676,408
Equipment	7,174,440	107,766	(2,644)	7,279,562
Total cost	<u>8,991,200</u>	<u>319,286</u>	<u>(2,644)</u>	<u>9,307,842</u>
Accumulated Depreciation				
Buildings	(877,470)	(94,357)	-	(971,827)
Equipment	(6,409,746)	(105,259)	2,644	(6,512,361)
Total accumulated depreciation	<u>(7,287,216)</u>	<u>(199,616)</u>	<u>2,644</u>	<u>(7,484,188)</u>
 Net capital assets, electric	 <u>\$ 1,703,984</u>	 <u>\$ 119,670</u>	 <u>\$ -</u>	 <u>\$ 1,823,654</u>
<u>Water</u>				
Nondepreciable assets:				
Land and land rights	\$ 178,736	\$ -	\$ -	\$ 178,736
Construction in progress	104,387	138,801	-	243,188
Depreciable assets:				
Buildings	287,866	16,454	-	304,320
Equipment	3,713,226	19,524	-	3,732,750
Total cost	<u>4,284,215</u>	<u>174,779</u>	<u>-</u>	<u>4,458,994</u>
Accumulated Depreciation				
Buildings	(206,574)	(8,080)	-	(214,654)
Equipment	(977,187)	(131,722)	-	(1,108,909)
Total accumulated depreciation	<u>(1,183,761)</u>	<u>(139,802)</u>	<u>-</u>	<u>(1,323,563)</u>
 Net capital assets, water	 <u>\$ 3,100,454</u>	 <u>\$ 34,977</u>	 <u>\$ -</u>	 <u>\$ 3,135,431</u>
 Capital assets, net	 <u>\$ 4,804,438</u>	 <u>\$ 154,647</u>	 <u>\$ -</u>	 <u>\$ 4,959,085</u>

Construction in progress consists of the billing system replacement project and the water exploration project for electric and water divisions, respectively.

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note F. PENSION COSTS

The Defined Benefit Plan of the District has adopted GASB Statement No. 67 *Financial Reporting for Pension Plans*. The District also early implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. These changes enhance the Plan's accounting and disclosure for the pension and expand the Required Supplemental Information (RSI) data with new schedules. These were issued to improve the financial reporting by state and local government pension plans. The following provides information required to be disclosed under GASB Statements No. 67 and No. 68.

Defined Benefit Pension Plan

Substantially all employees of the District are covered by the Pascoag Utility District's non-contributory single employer defined benefit pension plan. Employees are eligible to participate after one year of service, 1,000 hours worked and a minimum age of 21. Normal retirement date is the later of attaining age 65 or completion of five years of participation. Normal retirement benefits are payable equal to one and one-half percent of compensation times credited years. Benefits are based on average salary during the highest five consecutive years of employment. Upon termination for any reason other than death, disability or retirement, a participant will be entitled to a portion of the actuarial equivalent of the accrued benefit in accordance with a vesting schedule based on credited years. The Plan is administered by the Pascoag Utility District. The Plan does not issue a separate financial statement.

At December 31, 2014, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	4
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	19
	<u>26</u>

The Pascoag Utility District Defined Benefit Plan provides retirement and death benefits. Retirement benefits for plan members are calculated as 1.7 percent of the member's highest consecutive 5-year average salary times the member's years of plan participation to a maximum of 35 years. Plan members with 5 years of plan participation are eligible to retire at age 65. Plan members may retire early at age 60 after 10 years of service. Death benefits at the age of death are provided to all plan members.

The Pascoag Utility District establishes contribution rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended December 31, 2014, the actuarially determined contribution was \$112,694 and the actual contribution was \$139,200.

The Plan's investment policy in regard to the allocation of invested assets is established and may be amended by the Pascoag Utility District. It is the policy of the Pascoag Utility District Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the asset allocation as of December 31, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	48%
International equity	11%
Fixed income	40%
Cash and short term	1%
Total	<u>100%</u>

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note F. PENSION COSTS (Continued)

For the year ended December 31, 2014 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 6.13 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.00 percent
Salary increases	3.00 percent, average, including inflation
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with no assumed pre-retirement mortality or turnover.

The long-term expected rate of return on 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 allocation as of December 31, 2014 are summarized as follows:

Determination of Economic Assumptions			
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Weighted Real Rate of Return</u>
Domestic equity	48%	7.00%	3.36%
International equity	11%	6.50%	0.72%
Fixed income	40%	3.50%	1.40%
Short term investments	<u>1%</u>	<u>1.00%</u>	<u>0.01%</u>
 Total	 100%		 5.49%
		Inflation	2.00%
		Expense Adjustment	-0.50%
		Total calculated rate	6.99%
		 Long Term Rate of Return Assumption	 7.00%
		Merit and Productive pay increases	1.00%
		Inflation	2.00%
		Salary Increase Assumption	3.00%

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note F. PENSION COSTS (Continued)

The discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that the Pascoag Utility District contributions will be made at rates equal to the actuarially determined contribution. Based on these 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.

Net Pension Liability (Asset)

The net pension liability (asset) was measured as of December 31, 2013, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The components of the net pension liability (asset) at December 31, 2014, were as follows:

Total pension liability	\$ 1,692,344
Plan fiduciary net position	(1,977,981)
Net pension liability (asset)	<u>\$ (285,637)</u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	116.88%

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a)-(b)
Balance at 12/31/13	\$ 1,685,291	\$ 1,754,434	\$ (69,143)
Changes for the year:			
Service Cost	125,260		125,260
Interest	125,833		125,833
Differences between expected and actual experience	(16,470)		(16,470)
Changes in benefit terms	-		-
Changes in assumptions	(201,688)		(201,688)
Contributions - employer	-	139,200	(139,200)
Contributions - employee	-	-	-
Net investment income	-	110,498	(110,498)
Benefit payments, including refunds	(25,882)	(25,882)	-
Administration expenses	-	(269)	269
Other changes	-	-	-
Net Changes	<u>7,053</u>	<u>223,547</u>	<u>(216,494)</u>
Balances at 12/31/2014	<u>\$ 1,692,344</u>	<u>\$ 1,977,981</u>	<u>\$ (285,637)</u>

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note F. PENSION COSTS (Continued)

Sensitivity to the net pension liability to changes in the discount rate

The following present the net pension liability (asset), calculated using the discount rate of 7 percent, as well as what the sponsor's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6 percent) or 1 percentage point higher (8 percent) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Decrease 8.00%
Net pension liability (asset)	\$ (47,843)	\$ (285,637)	\$ (484,848)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2014, the District recognized pension expense of \$110,256. At December 31, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 15,142
Changes of assumption	-	185,423
Net difference between projected and actual earnings on pension plan investments	13,015	-
Total	\$ 13,015	\$ 200,565

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2015	14,339
2016	14,339
2017	14,339
2018	14,339
2019	17,593
Thereafter	112,600

Payable to the Plan

At December 31, 2014, the District reported a payable of \$0 for the outstanding amount of contributions to the Plan required for the year ended December 31, 2014.

401k Plan

In addition, the District maintains a contributory 401(k) plan. A participant must have completed one year of service, 1,000 hours worked, and a minimum age of 21. Salary reduction contributions are permitted up to the maximum allowed which would not cause the plan to exceed statutory limits as imposed by the Internal Revenue Service code. The District is not making contributions to this plan.

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note G. COMPENSATED ABSENCES

Sick days are granted to all employees at the rate of one working day for each full calendar month for a total of twelve days per year. Employees may bank up to fifteen sick days for which they will be paid upon termination. Employees are not permitted to carry over personal or vacation days. Unused vacation pay, up to a one week maximum, is paid to employees at the end of the calendar year.

As of December 31, 2014, the liability for accrued sick leave and vacation for electric and water divisions was \$62,016 and \$3,444, respectively.

Note H. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past four years.

Note I. INTERDIVISIONAL TRANSFERS AND CHARGES

The Electric and Water divisions share certain facilities and personnel. Costs are allocated to the appropriate division and are paid from resources of that division throughout the year. The effect of interdivisional transactions has been eliminated from the total columns of the financial statements.

Note J. LONG-TERM DEBT

The following is a summary of the District's long-term debt transactions for the year ended December 31, 2014:

		<u>Total</u>	<u>Electric Division</u>	<u>Water Division</u>
Debt outstanding January 1		\$ 1,121,000	\$ -	\$ 1,121,000
Retirements and repayments		<u>(43,000)</u>	<u>-</u>	<u>(43,000)</u>
Debt outstanding December 31		<u>\$ 1,078,000</u>	<u>\$ -</u>	<u>\$ 1,078,000</u>
	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amounts Issued</u>	<u>Amounts Outstanding</u>
Notes payable:				
Rhode Island Clean Water Finance Agency Drinking Water Revolving Fund Revenue Bond, Series 2009A, issued in June 2012	3.07%	09/01/2032	\$ 1,000,000	\$ 928,000
Rhode Island Clean Water Finance Agency Drinking Water Revolving Fund Revenue Bond, Series 2012A, issued in November 2009	2.67%	09/01/2030	\$ 179,000	150,000
				<u>\$ 1,078,000</u>
				<u>(45,000)</u>
				<u>\$ 1,033,000</u>

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note J. LONG-TERM DEBT (continued)

Presented below is a summary of debt service requirements to maturity by years:

<u>Year</u>	<u>Water Division</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2015	\$ 45,000	\$ 30,835	\$ 75,835
2016	47,000	29,555	76,555
2017	48,000	28,224	76,224
2018	50,000	26,863	76,863
2019	51,000	25,443	76,443
2020-2024	288,000	104,218	392,218
2025-2029	339,000	60,536	399,536
2030-2032	210,000	12,280	222,280
Total	<u>\$ 1,078,000</u>	<u>\$ 317,954</u>	<u>\$ 1,395,954</u>

Note K. LEASE OBLIGATIONS

The District leases certain equipment under monthly operating leases. Rental expense was \$6,822 for the year ended December 31, 2014. As of December 31, 2014, the remaining operating lease obligations are as follows:

2015	\$ 5,160
2016	4,576
2017	1,656
2018	<u>828</u>
Total	<u>\$ 12,220</u>

Note L. LINE OF CREDIT

On September 19, 2013 the District entered into a line of credit arrangement with a financial institution which carries a maximum possible balance of \$450,000. Amounts borrowed on the line bear interest at a rate of prime plus 1% (4.25% at December 31, 2014). The balance on the line of credit was \$0 as of December 31, 2014.

Note M. CREDIT RISK CONCENTRATION

The Electric Division operates within an industry which has undergone state and federal restructuring. The restructuring process has affected issues which may have significant financial impact on Pascoag, but at this time it is not possible to determine the nature of or extent of that impact.

The District provides water and electrical power service to customers within a small geographic area. The Division grants credit to all of its customers.

Approximately 12% of the Electric division and 21% of the Water division revenues were derived from sales with one particular customer.

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note N. COMMITMENTS AND CONTINGENCIES

Contingent Liability - MMWEC

Pascoag Utility District, acting through its Electric Division, is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. 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.

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, 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.

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note N. COMMITMENTS AND CONTINGENCIES (Continued)

Contingent Liability - MMWEC (Continued)

Pascoag Utility District has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the District is required to make certain payments to MMWEC payable solely from Electric 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 MMWEC or its participants.

Total capital expenditures for MMWEC's Projects amounted to \$1,616,889,000, of which \$11,590,000 represents the amount associated with the District's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the District. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$167,110,000, of which \$1,643,000 is associated with the District's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the District. As of December 31, 2014, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$184,002,000, of which \$1,825,000 is anticipated to be billed to the District in the future.

The estimated aggregate amount of Pascoag Utility District's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2014 and estimated for future years is shown below.

	<u>ANNUAL COSTS</u>
For years ending December 31, 2015	\$ 572,000
2016	534,000
2017	577,000
2018	9,000
2019	<u>133,000</u>
Total	<u>\$ 1,825,000</u>

In addition, under the PSAs the District is required to pay its share of the operation and maintenance (O&M) costs of the projects in which it participates. The District's total O&M costs including debt service under the PSAs were \$920,000 for the year ended December 31, 2014.

(CONTINUED)

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

Note N. COMMITMENTS AND CONTINGENCIES (Continued)

Contingent Liability - MMWEC (Continued)

In addition to its agreements through MMWEC, the District has entered into agreements to purchase power from various suppliers. These wholesale contracts are generally for fixed periods and require payment of demand and energy charges. The total estimated minimum costs under these contracts are included in purchased power in the statements of revenues, expenses and changes in net position and are normally recoverable in revenues under cost recovery mechanisms mandated by the State of Rhode Island. The estimated status of these contracts is as follows:

For years ending December 31,	Nextera <u>Energy Marketing</u>	Spruce <u>Mountain Wind</u>	Miller <u>Hydro Group</u>	Dominion <u>Energy Marketing</u>
2015	\$ 89,240	\$ 171,703	\$ 87,803	\$ 70,200
2016	99,170	171,703	62,194	-
2017	106,730	171,703	-	-
2018	111,240	171,703	-	-
2019	114,480	171,703	-	-
2020-2024	401,710	858,513	-	-
2025-2026	-	257,554	-	-
Total	<u>\$ 922,570</u>	<u>\$ 1,974,582</u>	<u>\$ 149,997</u>	<u>\$ 70,200</u>

Purchase power expenses under these agreements were approximately \$2,091,000 in 2014.

Note O. OTHER EXPENSE

During 2014 the water division had various other expenses totaling \$31,993. The details of these expenses are as follows:

	<u>Water</u>
Interest on long-term debt	<u>\$ 31,993</u>
Total Other Expenses	<u>\$ 31,993</u>

Note P. RESTATEMENT

The statement of net position – Electric Division has been restated as of December 31, 2013 to reflect the implementation of GASB Statements No. 67 – *Financial Reporting for Pensions*. The Division also early implemented GASB No. 68 – *Accounting and Financial Reporting for Pensions*. The implementation of GASB Standard No. 68 resulted in an adjustment of the net pension obligation ending balance at December 31, 2013. The following reflects the effect of implementation of GASB No.68:

Net Position - Electric Division, December 31, 2013 as originally stated	\$ 3,539,138
Adjustment to long term pension liability	<u>277,561</u>
Net position - Electric Division, December 31, 2013 as restated	<u>\$ 3,816,699</u>

(CONCLUDED)

REQUIRED SUPPLEMENTARY INFORMATION

PASCOAG UTILITY DISTRICT DEFINED BENEFIT PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
(Dollar amounts in thousands)

	2014
Total Pension Liability	
Service cost	\$ 125,260
Interest	125,833
Changes of benefit plans	--
Differences between expected and actual experience	(16,470)
Changes of assumptions	(201,688)
Benefit payments, including refunds of member contributions	(25,882)
Net Change in Total Pension Liability	7,053
Total Pension Liability - Beginning	1,685,291
Total Pension Liability - Ending (a)	<u>\$ 1,692,344</u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 139,200
Contributions - member	--
Net Investment income	110,498
Benefit payments, including refunds of member contributions	(25,882)
Administrative expense	(269)
Not Change in Plan Fiduciary Net Position	223,547
Plan Fiduciary Net Position - Beginning	1,754,434
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,977,981</u>
Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ (285,637)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	116.88%
Covered Employee Payroll	\$ 1,254,581
Net Pension Liability as a Percentage of Covered-Employee Payroll	-22.77%

PASCOAG UTILITY DISTRICT DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CONTRIBUTIONS

	2014
Actuarially determined contribution	\$ 112,694
Contributions in relation to the actuarially determined contribution	139,200
Contribution deficiency (excess)	\$ (26,506)
Covered-employee payroll	\$ 1,254,581
Contributions as a percentage of covered-employee payroll	11.10%

Notes to Schedule

Valuation date: December 31, 2013

Actuarially determined contribution rates are calculated as of 12/31, prior to the end of the year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual spread gain
Amortization method	Included in cost as level % of payroll over compensation weighted average working life
Remaining amortization period	N/A
Asset valuation method	Market Value
Inflation	2.0%
Salary increases	3.0
Investment rate of return	6.00
Retirement age	65
Mortality	2014 Applicable Mortality Table form IRS Notice 2013-49

PASCOAG UTILITY DISTRICT DEFINED BENEFIT PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	6.13%

SUPPORTING SCHEDULES AND STATISTICAL INFORMATION

ELECTRIC DIVISION - STATEMENTS

PASCOAG UTILITY DISTRICT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - ELECTRIC DIVISION - (UNAUDITED)
YEAR ENDED DECEMBER 31, 2014

	Actual on Budgetary Basis	Budget	Variance
<u>Revenues:</u>			
<u>Operating income</u>	\$ 8,666,459	\$ 7,816,435	\$ 850,024
<u>Other Income</u>			
Interest	11,273	16,500	(5,227)
Penalty interest	24,395	24,000	395
Rents	31,488	31,500	(12)
Miscellaneous service revenue	28,041	20,000	8,041
<u>Total Other Income</u>	95,197	92,000	3,197
<u>Total Revenues</u>	8,761,656	7,908,435	853,221
<u>Expenditures:</u>			
<u>Operating Expenses</u>			
Purchased power	5,648,633	3,773,983	1,874,650
Transmission	0	1,551,737	(1,551,737)
Operation and maintenance	601,711	1,008,080	(406,369)
Customer account expense	284,987	323,400	(38,413)
Administrative and general	1,059,958	1,147,735	(87,777)
Taxes on payroll and property	85,185	95,900	(10,715)
<u>Total Operating Expenses</u>	7,680,474	7,900,835	(220,361)
<u>Miscellaneous Income Deductions</u>			
Interest on customer deposits	6,968	7,600	(632)
<u>Total Miscellaneous Income Deductions</u>	6,968	7,600	(632)
 <u>Capital Expenditures, less advances for construction and new debt</u>	 243,250	 401,000	 (157,750)
<u>Total Expenditures</u>	7,930,692	8,309,435	(378,743)
<u>Excess of Expenditures over Revenue</u>	830,964	\$ (401,000)	\$ 1,231,964
<u>Reconciliation to net income (loss):</u>			
Depreciation expense	(199,616)		
Capital Expenditures, less advances for construction and new debt	243,250		
<u>Net Income GAAP Basis</u>	\$ 874,598		

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
STATEMENT OF NET POSITION
December 31, 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Assets:

Capital Assets:

Utility plant in service:	
Distribution plant	\$ 6,251,995
General plant	2,844,028
Total utility plant, in service, at cost	9,096,023
Less accumulated depreciation	7,484,188

Net electric utility plant in service 1,611,835

Construction in progress 211,819

Capital assets, net 1,823,654

Current and Accrued Assets:

Cash	705,089
Customer deposit cash	299,833
Accounts receivable (net)	544,695
Unbilled revenue	709,500
Due from Water Division	8,118
Accounts receivables - other	4,732
Materials and supplies	140,378
Prepayments	192,409

Total Current and Accrued Assets 2,604,754

Other Assets:

Restricted repurchase agreement	1,191,546
Restricted cash	95,672
Long-term pension asset	285,637

Total Other Assets 1,572,855

Deferred Outflows of Resources

Net difference between projected and actual earnings on pension plan investments	13,015
--	--------

Total Assets and Deferred Outflows of Resources \$ 6,014,278

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES
AND NET POSITION**

Net Position:

Net Investment in capital assets	\$ 1,823,654
Restricted for capital and power	1,287,218
Unreserved net position	1,580,425

Total Net Position 4,691,297

Current and Accrued Liabilities:

Accounts payable	685,355
Customer deposits	299,833
Accrued other	13,286
Accrued compensated absences	62,016
Demand side management program	61,926

Total Current and Accrued Liabilities 1,122,416

Deferred Inflows of Resources

Change of assumption related to pension plan	200,565
--	---------

Total Liabilities, Deferred Inflows of Resources
and Net Position

\$ 6,014,278

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2014

<u>Operating Income:</u>		
Operating revenue	\$ 8,666,459	100.00%
<u>Operating Expenses:</u>		
Operation expenses	7,203,456	83.12%
Maintenance expenses	391,833	4.52%
Depreciation expense	199,616	2.30%
Taxes on property and payroll	85,185	0.98%
<u>Total Operating Expense</u>	<u>7,880,090</u>	<u>90.93%</u>
<u>Operating Income</u>	<u>786,369</u>	<u>9.07%</u>
<u>Other Income:</u>		
Interest	11,273	
Penalty interest	24,395	
Rents	31,488	
Miscellaneous service revenue	28,041	
<u>Total Other Income</u>	<u>95,197</u>	
<u>Income Before Other Deductions</u>	<u>881,566</u>	
<u>Miscellaneous Income Deductions:</u>		
Interest on customer deposits	6,968	
<u>Total Miscellaneous Income Deductions</u>	<u>6,968</u>	
<u>Net income</u>	<u>874,598</u>	
<u>Net position, beginning of year</u>	<u>3,816,699</u>	
<u>Total net position, end of year</u>	<u>\$ 4,691,297</u>	

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
SCHEDULE OF ELECTRIC OPERATING REVENUE (AUDITED) AND STATISTICAL DATA (UNAUDITED)
YEAR ENDED DECEMBER 31, 2014

	Revenue	Kilowatt Hours Sold (Unaudited)	Revenue Per Kilowatt Hour Sold (Unaudited)
<u>Private Consumer Sales:</u>			
Residential	\$ 4,872,562	31,503,406	\$ 0.1547
Industrial	3,083,384	21,197,715	\$ 0.1455
Commercial	619,377	3,506,502	\$ 0.1766
Private Lighting	<u>50,227</u>	<u>441,878</u>	\$ 0.1137
<u>Total Private Consumer Sales</u>	8,625,550	56,649,501	\$ 0.1523
<u>Municipal Sales:</u>			
Public street and highway lights	<u>40,909</u>	<u>211,390</u>	\$ 0.1935
<u>Total Electric Operating Revenue</u>	<u>\$ 8,666,459</u>	<u>56,860,891</u>	\$ 0.1524

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
SCHEDULE OF OPERATION AND MAINTENANCE EXPENSES
YEAR ENDED DECEMBER 31, 2014

	<u>Operation</u>	<u>Maintenance</u>	<u>Total</u>
<u>Purchased Power Expenses:</u>			
Purchased power	\$ 3,862,781	\$ -	\$ 3,862,781
Other expenses	487	-	487
Transmission by others	1,785,365	-	1,785,365
<u>Total Purchased Power Expenses</u>	<u>5,648,633</u>	<u>-</u>	<u>5,648,633</u>
<u>Distribution Expenses:</u>			
Operation supervision	97,322	-	97,322
Operation supplies and expense	77,493	-	77,493
Street lighting and signal systems	25,470	3,306	28,776
Meter expenses	54,671	-	54,671
Maintenance of structures and equipment	-	6,139	6,139
Maintenance of overhead lines	-	337,310	337,310
<u>Total Distribution Expenses</u>	<u>254,956</u>	<u>346,755</u>	<u>601,711</u>
<u>Customer Accounts Expenses:</u>			
Meter reading expenses	36,193	-	36,193
Customer records and collections	248,794	-	248,794
<u>Total Customer Accounts Expenses</u>	<u>284,987</u>	<u>-</u>	<u>284,987</u>
 <u>Total Operation and Maintenance Expense</u>	 <u>\$ 6,188,576</u>	 <u>\$ 346,755</u>	 <u>\$ 6,535,331</u>
<u>General and Administrative Expenses</u>			
Administrative and general salaries	\$ 377,895	\$ -	\$ 377,895
Office supplies and expenses	84,566	-	84,566
Outside services employed	134,347	-	134,347
Property insurance	44,147	-	44,147
Injuries and damages	16,765	-	16,765
Employee pensions and benefits	343,448	-	343,448
Miscellaneous general expenses	175,557	-	175,557
Maintenance of general plant	-	45,078	45,078
Administrative expenses - transferred	(148,908)	-	(148,908)
Maintenance transportation	(12,937)	-	(12,937)
 <u>Total General and Administrative Expenses</u>	 <u>\$ 1,014,880</u>	 <u>\$ 45,078</u>	 <u>\$ 1,059,958</u>
 <u>Total Operation and Maintenance Expenses</u>	 <u>\$ 7,203,456</u>	 <u>\$ 391,833</u>	 <u>\$ 7,595,289</u>

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
COST OF UTILITY PLANT AND ACCUMULATED DEPRECIATION
December 31, 2014

	Cost 1/1/2014	Net Cost Property Added	Net Cost Property Disposed of	Cost 12/31/2014	Accumulated Depreciation 1/1/2014	Depreciation Expense	Reversed Depreciation	Accumulated Depreciation 12/31/2014	Book Value 12/31/2014
<u>Electric Utility Plant in Service:</u>									
<u>Electric Distribution Plant:</u>									
Land and land rights	\$ 140,053	\$ -	\$ -	\$ 140,053	\$ -	\$ -	\$ -	\$ -	\$ 140,053
Structures and improvements	1,011,066	-	-	1,011,066	630,524	45,150	-	675,674	335,392
Station equipment	388,251	3,691	-	391,942	388,251	-	-	388,251	3,691
Poles, towers and fixtures	1,034,643	17,247	-	1,051,890	1,033,830	722	-	1,034,552	17,338
Overhead conductors and devices	1,215,886	-	-	1,215,886	1,212,353	177	-	1,212,530	3,356
Underground conductors and devices	208,622	-	-	208,622	130,278	10,554	-	140,832	67,790
Line transformers	1,270,322	12,870	-	1,283,192	1,242,706	9,757	-	1,252,463	30,729
Services	271,206	-	-	271,206	271,206	-	-	271,206	-
Meters	357,429	36,072	2,644	390,857	223,998	17,840	2,644	239,194	151,663
Installation on customers' premises	44,305	758	-	45,063	44,305	22	-	44,327	736
Street lighting and signal systems	213,678	14,560	-	228,238	178,223	3,058	-	181,281	46,957
Other tangible property	13,980	-	-	13,980	13,980	-	-	13,980	-
<u>Total Electric Distribution Plant</u>	<u>6,169,441</u>	<u>85,198</u>	<u>2,644</u>	<u>6,251,995</u>	<u>5,369,654</u>	<u>87,280</u>	<u>2,644</u>	<u>5,454,290</u>	<u>797,705</u>
<u>Electric General Plant:</u>									
Structures and improvements	665,344	6,048	-	671,392	246,944	49,207	-	296,151	375,241
Office furniture and fixtures	561,954	-	-	561,954	561,954	-	-	561,954	-
Information systems	234,289	5,847	-	240,136	187,142	7,840	-	194,982	45,154
Transportation equipment	1,140,594	558	-	1,141,152	707,954	53,888	-	761,842	379,310
Tools, shop and garage equipment	155,292	10,115	-	165,407	155,292	154	-	155,446	9,961
Laboratory and test equipment	43,545	-	-	43,545	37,834	1,247	-	39,081	4,464
Communications equipment	20,442	-	-	20,442	20,442	-	-	20,442	-
<u>Total Electric General Plant</u>	<u>2,821,460</u>	<u>22,568</u>	<u>-</u>	<u>2,844,028</u>	<u>1,917,562</u>	<u>112,336</u>	<u>-</u>	<u>2,029,898</u>	<u>814,130</u>
<u>Total Electric Utility Plant in Service</u>	<u>\$ 8,990,901</u>	<u>\$ 107,766</u>	<u>\$ 2,644</u>	<u>\$ 9,096,023</u>	<u>\$ 7,287,216</u>	<u>\$ 199,616</u>	<u>\$ 2,644</u>	<u>\$ 7,484,188</u>	<u>\$ 1,611,835</u>

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
SCHEDULE OF ELECTRIC ENERGY
(UNAUDITED)
YEAR ENDED DECEMBER 31, 2014

	<u>Kilowatt Hours</u>		
	<u>2014</u>	<u>2013</u>	<u>Change</u>
<u>Kilowatt Hours Sold:</u>			
<u>Private Consumers:</u>			
Residential	31,503,406	32,338,825	-2.58%
Industrial	21,197,715	21,786,227	-2.70%
Commercial	3,506,502	3,330,223	5.29%
Private lighting	<u>441,878</u>	<u>411,981</u>	<u>7.26%</u>
	56,649,501	57,867,256	-2.10%
<u>Municipal Use:</u>			
Public street and highway lighting	<u>211,390</u>	<u>241,637</u>	<u>-12.52%</u>
<u>Total Kilowatt Hours Sold</u>	56,860,891	58,108,893	-2.15%
Kilowatt Hours Purchased	<u>58,361,285</u>	<u>58,193,655</u>	<u>0.29%</u>
<u>Kilowatt Hours Purchased in Excess of Kilowatt Hours Sold</u>	<u>1,500,394</u>	<u>84,762</u>	<u>1670.13%</u>
<u>Percentage of kilowatt hours unaccounted for</u>	<u>2.57%</u>	<u>0.15%</u>	<u>1665.04%</u>

WATER DIVISION - STATEMENTS

PASCOAG UTILITY DISTRICT
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - WATER DIVISION - (UNAUDITED)
YEAR ENDED DECEMBER 31, 2014

	Actual on Budgetary Basis	Budget	Variance
<u>Revenues:</u>			
Sales revenue from operations	\$ 930,438	\$ 832,593	\$ 97,845
Base Rate Credit from Settlement	-	-	-
<u>Total Operating Revenues</u>	<u>930,438</u>	<u>832,593</u>	<u>97,845</u>
<u>Other Income</u>			
Interest	17,100	13,412	3,688
Grants	1,624	-	1,624
Rent	24,000	24,000	-
Miscellaneous service revenue	22,943	-	22,943
<u>Total Other Income</u>	<u>65,667</u>	<u>37,412</u>	<u>28,255</u>
<u>Transfer of Settlement Restricted Funds</u>			
Capital Projects	-	175,000	(175,000)
Debt Service	-	77,835	(77,835)
Base Rate Credit	-	-	-
<u>Total Transfer of Settlement Restricted Funds</u>	<u>-</u>	<u>252,835</u>	<u>(252,835)</u>
<u>Total Revenues</u>	<u>996,105</u>	<u>1,122,840</u>	<u>(126,735)</u>
<u>Expenditures:</u>			
<u>Operating Expenses</u>			
Operation and maintenance	418,813	455,325	(36,512)
Administrative and general	338,845	339,680	(835)
Taxes on payroll	4,835	-	4,835
<u>Total Operating Expenses</u>	<u>762,493</u>	<u>795,005</u>	<u>(32,512)</u>
<u>Miscellaneous Income Deductions</u>			
Interest on long-term debt	31,993	37,360	(5,367)
<u>Capital Expenses</u>	<u>174,116</u>	<u>250,000</u>	<u>(75,884)</u>
<u>Debt Service:</u>			
Principal	125,316	40,475	84,841
<u>Total Expenditures</u>	<u>1,093,918</u>	<u>1,122,840</u>	<u>(28,922)</u>
<u>Excess of Expenditures over Revenue</u>	(97,813)	\$ -	\$ (97,813)
<u>Reconciliation to net income (loss):</u>			
Depreciation and amortization expense	(139,802)		
Capital Expense	174,116		
Loan principal	125,316		
<u>Net Income GAAP Basis</u>	<u>\$ 61,817</u>		

PASCOAG UTILITY DISTRICT - WATER DIVISION
STATEMENT OF NET POSITION
December 31, 2014

ASSETS		LIABILITIES AND NET POSITION	
<u>Assets:</u>		Net Position:	
Capital assets		Net investment in capital assets	\$ 2,057,431
Utility Plant in Service:		Restricted for other	317,883
Utility plant at cost	\$ 4,215,806	Unreserved net position	<u>2,172,667</u>
Less: Accumulated depreciation	<u>1,323,563</u>		
Net Utility Plant in Service	2,892,243	<u>Total Net Position</u>	<u>4,547,981</u>
Construction in progress	<u>243,188</u>		
<u>Capital assets, net</u>	<u>3,135,431</u>	<u>Long-Term Debt:</u>	
		Notes payable, net of current portion	<u>1,033,000</u>
<u>Current and Accrued Assets:</u>		<u>Total Long-Term Debt</u>	<u>1,033,000</u>
Cash and cash equivalent	1,521,259	<u>Current and Accrued Liabilities:</u>	
Accounts receivable, net	121,376	Notes payable - current portion	45,000
Accrued utility revenue	76,894	Accounts payable	15,885
Accounts receivables - other	14,494	Accrued compensated absences	3,494
Material and supplies	36,234	Other accrued liabilities	77,500
Prepayments	<u>1,357</u>	Due to electric division	<u>8,118</u>
<u>Total Current and Accrued Assets</u>	<u>1,771,614</u>	<u>Total Current and Accrued Liabilities</u>	<u>149,997</u>
<u>Other Assets:</u>			
Restricted cash	317,883	<u>Total Liabilities</u>	<u>1,182,997</u>
Investment	<u>506,050</u>		
	<u>823,933</u>	<u>Total Liabilities and Net Position</u>	<u>\$ 5,730,978</u>
<u>Total Assets</u>	<u>\$ 5,730,978</u>		

PASCOAG UTILITY DISTRICT - WATER DIVISION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2014

<u>Operating Revenue</u>	\$ 930,438	100.00%
<u>Operating Expenses:</u>		
<u>Operations and Maintenance:</u>		
Supervision and labor	99,201	10.66%
Water surcharge	274,651	29.52%
Utilities	27,827	2.99%
Licenses and test expenses	4,835	0.52%
Chemicals	3,156	0.34%
Materials and supplies	7,412	0.80%
Outside services	1,731	0.19%
<u>Total Operations and Maintenance</u>	418,813	45.01%
<u>General and Administrative:</u>		
Salaries	148,908	16.00%
Rent	31,488	3.38%
Office supplies and expense	3,997	0.43%
Outside services	30,060	3.23%
Property/liability insurance	18,801	2.02%
Injuries and damages	4,907	0.53%
Employee pensions and benefits	36,225	3.89%
Road maintenance	10,591	1.14%
Miscellaneous	40,480	4.35%
General plant expense	9,611	1.03%
Transportation expense	3,777	0.41%
<u>Total General and Administrative</u>	338,845	36.42%
<u>Other:</u>		
Depreciation	139,802	15.03%
Taxes on payroll	4,835	0.52%
<u>Total Other</u>	144,637	15.55%
<u>Total Operating Expenses</u>	902,295	96.98%
<u>Net Operating Income</u>	28,143	3.02%
<u>Other Income (Expense):</u>		
Contract revenue	22,943	
Interest income	17,100	
Grants	1,624	
Rent	24,000	
Interest on long-term debt	(31,993)	
<u>Total Other Income</u>	33,674	
<u>Net Income</u>	61,817	
<u>Net Position, beginning</u>	4,486,164	
<u>Net Position - Ending</u>	\$ 4,547,981	

PASCOAG UTILITY DISTRICT - WATER DIVISION
SCHEDULE OF OPERATING REVENUE
Year Ended December 31, 2014

Operating Revenues:

Sales - Water	\$ 640,446
Sales - Harrisville surcharge	272,155
Sales - Labor	3,787
Sales - Equipment	907
Sales - Material	2,643
Sales - Meter fees	9,600
Sales - Connection fees	<u>900</u>

<u>Total Operating Revenue</u>	<u>\$ 930,438</u>
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PASCOAG UTILITY DISTRICT - WATER DIVISION
COST OF PLANT AND ACCUMULATED DEPRECIATION
December 31, 2014

	<u>Cost</u> <u>1/1/2014</u>	<u>Net Cost</u> <u>Property</u> <u>Added</u>	<u>Net Cost</u> <u>Property</u> <u>Disposed of</u>	<u>Cost</u> <u>12/31/2014</u>	<u>Accumulated</u> <u>Depreciation</u> <u>1/1/2014</u>	<u>Depreciation</u> <u>Expense</u>	<u>Reversed</u> <u>Depreciation</u>	<u>Accumulated</u> <u>Depreciation</u> <u>12/31/2014</u>	<u>Book</u> <u>Value</u> <u>12/31/2014</u>
<u>Utility Plant in Service:</u>									
Land and land rights	\$ 178,736	\$ -	\$ -	\$ 178,736	\$ -	\$ -	\$ -	\$ -	\$ 178,736
Structures and improvements	287,866	16,454	-	304,320	206,574	8,080	-	214,654	89,666
Metering Equipment	230,014	-	-	230,014	22,892	11,501	-	34,393	195,621
Station equipment - wells	1,537,508	780	-	1,538,288	281,044	35,833	-	316,877	1,221,411
Standpipe extension	1,570,505	180	-	1,570,685	422,046	61,280	-	483,326	1,087,359
Furniture and fixtures	107,616	5,937	-	113,553	28,371	9,167	-	37,538	76,015
Transportation equipment	117,521	-	-	117,521	107,526	5,279	-	112,805	4,716
Shop equipment - tools	60,252	7,704	-	67,956	35,513	3,634	-	39,147	28,809
Corrosion control equipment	89,810	4,923	-	94,733	79,795	5,028	-	84,823	9,910
<u>Total Utility Plant in Service</u>	<u>\$ 4,179,828</u>	<u>\$ 35,978</u>	<u>\$ -</u>	<u>\$ 4,215,806</u>	<u>\$ 1,183,761</u>	<u>\$ 139,802</u>	<u>\$ -</u>	<u>\$ 1,323,563</u>	<u>\$ 2,892,243</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To The Board of Utility Commissioners
Pascoag Utility District
Pascoag, Rhode Island

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pascoag Utility District, which comprise the statement of net position as of December 31, 2014 and the statement of revenue, expenses and changes in net position, cash flows and related notes to the financial statements and have issued our report thereon dated June 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pascoag Utility District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pascoag Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pascoag Utility District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pascoag Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Providence, Rhode Island
June 5, 2015