

CITY OF TAUNTON, MASSACHUSETTS

MUNICIPAL LIGHTING PLANT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2013 AND 2012

MARCUM
ACCOUNTANTS ▲ ADVISORS

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

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Years Ended December 31, 2013 and 2012**

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INDEPENDENT AUDITORS' REPORT

To the Municipal Light Commission
City of Taunton, Massachusetts, Municipal Lighting Plant

Report on the Financial Statements

We have audited the accompanying financial statements of the **City of Taunton, Massachusetts, Municipal Lighting Plant** (the "Plant"), an enterprise fund of the City of Taunton, Massachusetts, as of and for the year ended December 31, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial position of, the **City of Taunton, Massachusetts, Municipal Lighting Plant** as of December 31, 2013, and the 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.

Prior Period Financial Statements

The financial statements of the **City of Taunton, Massachusetts, Municipal Lighting Plant** as of December 31, 2012 were audited by Braver P.C. whose practice was combined with Marcum LLP as of January 1, 2014, and whose report dated April 29, 2013, expressed a qualified opinion on those statements. The basis for that qualified opinion was that the Plant did not determine the cost of its other post-employment benefits in accordance with accounting principles generally accepted in the United States of America, which require an actuarial valuation at least biennially for other post-employment benefit plans with a total membership of 200 or more. Quantification of the effects of that departure on the financial statements was not considered practicable.

Emphasis of Matter

As discussed in Note A, the financial statements present only the **City of Taunton, Massachusetts, Municipal Lighting Plant** and do not purport to, and do not present fairly the financial position of the City of Taunton, Massachusetts, as of December 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Other Post-Employment Benefits information on pages 3 through 5 and 19 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2014 on our consideration of the **City of Taunton, Massachusetts, Municipal Lighting Plant'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 the **City of Taunton, Massachusetts, Municipal Lighting Plant's** internal control over financial reporting and compliance.

Marcum LLP

Providence, Rhode Island
April 30, 2014

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Within this section of the City of Taunton, Massachusetts, Municipal Lighting Plant annual financial report, management provides narrative discussion and analysis of the financial activities of the Municipal Lighting Plant for the year ended December 31, 2013. The Plant's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements:

The basic financial statements include (1) the statements of assets, liabilities and net position (2) the statements of revenues, expenses and changes in net position (3) the cash flow statements and (4) notes to the financial statements.

The Statement of Assets, Liabilities and Net Position is designed to indicate the Plant's financial position as of a specific point in time. At December 31, 2013, it shows our net worth of \$105,088,789 which is comprised of \$79,788,053 invested in capital assets, \$2,308,818 restricted for depreciation and \$22,991,918 available for operations.

The Statement of Revenues, Expenses and Changes in Net Position summarizes our operating results for the years ended December 31, 2013 and 2012. As discussed in more detail below, the Plant's net income for 2013 and 2012, was \$2,865,070 and \$10,178,699, respectively, before payments in lieu of taxes (PILOT).

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 the Plant's Statements of Cash Flows indicates that the cash receipts from operating activities, (that is, electricity and internet access sales and related services) were sufficient to cover the operating expenses and capital projects, as well as contributions to the City.

Summary of Net Position

	2013	2012	2011
Current Assets	\$ 35,940,919	\$ 34,361,987	\$ 28,354,493
Noncurrent Assets	111,498,024	108,279,098	98,195,707
Total Assets	\$ 147,438,943	\$ 142,641,085	\$ 126,550,200
Current Liabilities	\$ 10,688,554	\$ 8,722,645	\$ 7,501,914
Noncurrent Liabilities	31,661,600	28,785,721	21,194,266
Total Liabilities	42,350,154	37,508,366	28,696,180
Invested in Capital Assets	79,788,053	70,302,485	67,666,336
Restricted for Depreciation	2,308,818	12,308,818	12,308,818
Unrestricted	22,991,918	22,521,416	17,878,866
Total Net Assets	105,088,789	105,132,719	97,854,020
Total Liabilities and Net Position	\$ 147,438,943	\$ 142,641,085	\$ 126,550,200

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Summary of Changes in Net Position

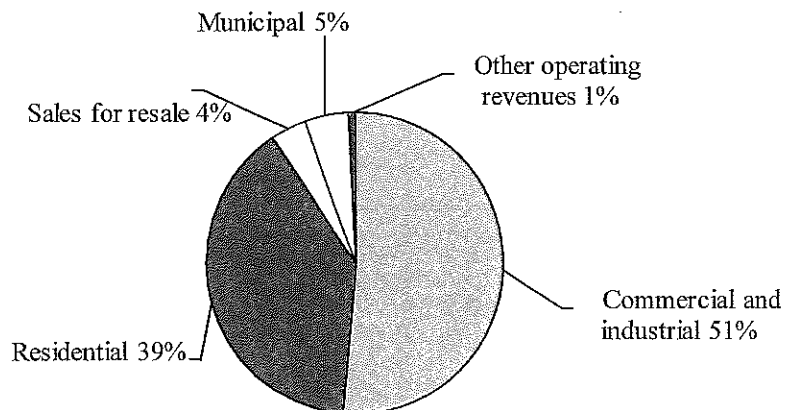
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues	\$ 94,765,862	\$ 91,641,726	\$ 95,903,272
Operating Expenses	<u>93,619,501</u>	<u>82,484,945</u>	<u>87,392,213</u>
Operating Income	1,146,361	9,156,781	8,511,059
Nonoperating Revenues Less Nonoperating Expenses	<u>1,709,709</u>	<u>1,021,918</u>	<u>(98,202)</u>
Increase in Net Assets before Transfers	2,856,070	10,178,699	8,412,857
Transfers Out - Payment in lieu of taxes	<u>(2,900,000)</u>	<u>(2,900,000)</u>	<u>(2,900,000)</u>
Increase (decrease) in Net Assets	<u><u>\$ (43,930)</u></u>	<u><u>\$ 7,278,699</u></u>	<u><u>\$ 5,512,857</u></u>

Financial Highlights:

Operating revenues for 2013 increased by \$3.1 million or 3% from 2012. The revenue increase was a result of a result of funds not being transferred as a provision of rate stabilization during 2013.

Operating expenses for 2013 increased by \$11.1 million or 13.5% from 2012. The increase is attributable principally to increases in power supply costs (fuel, and purchased power expenses), transmission costs, generation maintenance expenses and distribution maintenance expenses.

Source of 2013 Operating Revenues



**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Utility Plant and Debt Administration:

Utility Plant

There was an increase in net utility plant in service of \$2,692,000 for 2013. This increase is the difference between the current year additions of \$8.5 million and the annual depreciation (3% of depreciable gross plant) expense of \$5.8 million. Additions to plant consisted principally of approximately \$1.5 million in production and transmission plant, \$4.1 million in distribution plant and \$2.9 million in general plant. Major items capitalized in 2013 include Unit #9 roof repairs, distribution upgrades for South Main St. Berkley, installation of overhead and underground conductors and devices, general plant communications equipment, distribution line transformers and transportation equipment.

Debt Administration

The Plant issued \$2,125,000 of long-term serial general obligation bonds on September 26, 2013. The bond proceeds were used for roof repairs at 55 Weir Street and for containment improvements to the #8 fuel oil storage tank.

Significant Balances and Transactions:

Depreciation Fund

The Plant maintains this fund to pay for capital investments and improvements. These capital items are paid from the operating fund, which is then replenished by funds transferred from the depreciation fund. The depreciation fund is required by state statute. The Light Plant must set aside 3% of its gross depreciable plant annually to be used principally for capital expenditures. Interest earned on the account is kept in the fund.

Sick Leave Trust Fund

The Plant maintains a fully funded Sick Leave Trust Fund ("Trust") for the financing of future sick leave payments. It is the Plant's intention that the Trust be funded to the extent of the Plant's sick leave liability and that future sick leave expense will be paid by the Trust.

Pension Plans

The employees of the Light Plant participate in the City of Taunton Retirement System. In addition to investments made by the System, a separate trust fund has been established by the Plant to provide funding of the Plant's past unfunded service costs. Each year the Light Plant is assessed by the City for its share of such pension costs.

Customer Deposits

The Plant collects deposits from residential and commercial accounts when they come into the system. Deposits can be refunded when a customer has demonstrated a good credit history or upon leaving the system. Interest is paid for as long as the Plant holds the deposit.

Unit 10

The Plant has placed on hold the further development of the Unit #10 combined cycle generating project. A total of \$2,531,922 has been booked in CIP related to this project. The portion of this total expended during 2013 was \$0.

Statements of Assets, Liabilities and Net Position December 31, 2013 and 2012

See accompanying notes and independent auditors' report.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<u>Operating Revenues:</u>		
Sales of electricity		
Commercial and industrial	\$ 50,145,466	\$ 51,539,760
Residential	38,309,448	38,042,183
Sales for resale	3,748,637	3,223,797
Municipal	4,651,304	4,657,585
Provision for rate stabilization	-	(4,000,000)
Discounts given	(2,785,154)	(2,758,030)
Total sales of electricity	94,069,701	90,705,295
Other operating revenues	696,161	936,431
<u>Total Operating Revenues</u>	<u>94,765,862</u>	<u>91,641,726</u>
<u>Operating Expenses:</u>		
Power production and purchases	60,716,517	51,324,532
Transmission and distribution	16,683,419	13,877,452
Customer accounting	3,809,364	4,222,386
Administrative and general	6,121,876	6,701,653
Depreciation and amortization	5,951,794	5,901,346
Nuclear expense	336,531	457,576
<u>Total Operating Expenses</u>	<u>93,619,501</u>	<u>82,484,945</u>
<u>Earnings from Operations</u>	<u>1,146,361</u>	<u>9,156,781</u>
<u>Other Income (Expense)</u>		
Interest expense	(191,255)	(198,469)
Interest income	8,611	10,070
Internet income, net	275,604	210,573
Investment income-Sick Leave Trust	1,625,069	880,004
Other expenses	(8,320)	119,740
<u>Total Other Income (Expense)</u>	<u>1,709,709</u>	<u>1,021,918</u>
<u>Net Income</u>	<u>\$ 2,856,070</u>	<u>\$ 10,178,699</u>
<u>Net Position January 1</u>	<u>\$ 105,132,719</u>	<u>\$ 97,854,020</u>
<u>Net Income</u>	<u>2,856,070</u>	<u>10,178,699</u>
<u>Transfers in (out):</u>		
Payment in lieu of taxes	(2,900,000)	(2,900,000)
<u>Net Position, December 31</u>	<u>\$ 105,088,789</u>	<u>\$ 105,132,719</u>

See accompanying notes and independent auditors' report .

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<u>Cash Flows From Operating Activities:</u>		
Cash received from customers	\$ 97,537,226	\$ 96,336,743
Cash payments to suppliers and employees	(88,453,794)	(75,150,338)
<u>Net Cash Provided by Operating Activities</u>	<u>9,083,432</u>	<u>21,186,405</u>
<u>Cash Flows from Non-capital Financing Activities:</u>		
Payment to city in lieu of taxes	(2,900,000)	(2,900,000)
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Additions to utility plant	(17,639,164)	(7,920,525)
Proceeds from bond issuance	2,251,000	-
Principal paid on bonds	(725,000)	(725,000)
Interest paid on bonds	(178,532)	(200,281)
<u>Net Cash Used in Capital and Related Financing Activities</u>	<u>(16,291,696)</u>	<u>(8,845,806)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest and dividend income	8,611	10,070
Investment income-Sick Leave Trust	1,280,342	126,000
<u>Net Cash Provided by Investing Activities</u>	<u>1,288,953</u>	<u>136,070</u>
<u>Net Increase (Decrease) in Cash</u>	<u>(8,819,311)</u>	<u>9,576,669</u>
<u>Cash and cash equivalents, Beginning</u>	<u>38,029,420</u>	<u>28,452,751</u>
<u>Cash and cash equivalents, Ending</u>	<u>\$ 29,210,109</u>	<u>\$ 38,029,420</u>
<u>Reconciliation of Operating Income to Net Cash</u>		
<u>Provided by Operating Activities:</u>		
Operating income	\$ 1,146,361	\$ 9,156,781
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest income, net	275,604	210,573
Equity in losses on investments in associated companies	628,880	120,599
Depreciation and amortization	5,951,794	5,901,346
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	1,333,661	(197,280)
Increase in Sick Leave Trust Fund	(1,280,342)	(126,000)
Increase in due from Plant Retirement Trust	(52,730)	(50,457)
Increase in prepaid expenses	(1,228,571)	(139,802)
Increase in materials and supplies	(450,603)	(43,286)
Increase in rate stabilization liability	-	4,000,000
Increase in other postemployment benefits obligation	828,783	1,009,730
Increase in accounts payable	1,688,315	1,214,366
Increase in customer deposits	239,582	114,800
Increase in sick leave liability	203,409	121,657
Decrease in accrued liabilities	(200,711)	(106,622)
<u>Total Adjustments</u>	<u>7,937,071</u>	<u>12,029,624</u>
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 9,083,432</u>	<u>\$ 21,186,405</u>
<u>Non-Cash Investing Activities:</u>		
Change in the fair value of investments-Sick Leave Trust	\$ 344,727	\$ 754,004

See accompanying notes and independent auditors' report .

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Notes to the Financial Statements
Years Ended December 31, 2013 and 2012**

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Plant is a regulated municipal electric utility located in Taunton, Massachusetts. The Plant operates as an enterprise fund of the City of Taunton, Massachusetts, and produces, purchases and distributes electricity to approximately 35,900 customers in the city of Taunton and the surrounding areas. The Plant also operates an internet access business unit and provides services to approximately 1,700 customers.

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates relating to the allowance for doubtful accounts, contingencies (see note F), and other post-employment benefits (see note H) represent significant estimates included in the financial statements. Management bases its estimates of these items on historical experience, specific identification and future expectations.

Rates

The Plant is under the charge and control of the Municipal Light Plant Commissioners in accordance with Chapter 164, Section 55, of the General Laws of the Commonwealth of Massachusetts. Electric power is both produced and purchased and is distributed to customers within their service area. The rates charged by the Plant to its customers are filed with the DPU and are subject to Chapter 164, Section 58, of the General Laws, which provides that prices shall be fixed to yield not more than 8% per annum on the cost of the plant after repayment of operating expenses, interest on outstanding debt, the requirements of any serial debt and depreciation.

The Plant's rates include a Purchased Power Cost Adjustment ("PPCA") which allows an adjustment of rates charged to customers in order to recover all changes in power costs from stipulated base costs. The PPCA provides for a quarterly reconciliation of total power costs billed with the actual cost of power incurred.

Utility Plant

The provision for depreciation of utility plant was computed in 2013 and 2012 at 3% of the cost of plant in service at the beginning of the year, exclusive of land and land rights. No depreciation is taken in the year of plant additions and a full year's depreciation is taken in the year of disposal. Massachusetts law stipulates that the Plant may change its depreciation rate from the statutory 3% only with the approval of the DPU.

Depreciation Fund cash is used in accordance with state laws for replacements, enlargements and additions to the utility plant in service.

The Plant capitalizes individual purchases of \$3,000 or more and groups of purchases of similar items of \$5,000 or more. Office furniture purchased for more than \$1,000 or office equipment, meters, transformers and vehicles purchased for more than \$500 are capitalized.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Notes to the Financial Statements
Years Ended December 31, 2013 and 2012**

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Seabrook

The Plant's Investment in Seabrook represents a 0.10034% joint ownership share. The Plant records annual depreciation computed at 4% of the initial investment in Seabrook. The Plant's percentage share of new plant additions are capitalized and their share of operating and maintenance expenses, and decommissioning expenses (see Note C) are charged against earnings.

Sick Leave Trust Fund

The Plant maintains a fully funded Sick Leave Trust Fund ("Trust") for the financing of future sick leave payments. It is the Plant's intention that the Trust be funded to the extent of the Plant's sick leave liability and that future sick leave expense will be paid by the Trust. The assets of the Trust are shown in the financial statements to provide a more meaningful presentation, as the assets of the Trust are for the sole purpose of satisfying a liability of the Plant.

The invested funds are reported at fair value in the statements of assets, liabilities and net position. Realized gains and losses, as well as changes in value of the invested funds, are included in the statements of revenues, expenses and changes in net position.

Cash Equivalents

For purposes of the Statement of Cash Flows, the Plant considers all deposits with original maturities of three months or less to be cash equivalents.

Accounts Receivable

The Plant carries its accounts receivable at fair market value by way of an allowance for doubtful accounts. Collectability of receivables is determined based on historical write offs and collections, on knowledge of specific large accounts, and on current economic conditions.

Inventory

Materials and supplies inventory is carried at cost, principally on the average cost method.

Pension Plan

Substantially all employees of the Plant are covered by a contributory pension plan administered by the City of Taunton in conformity with State Retirement Board requirements (see Note G).

Taxes

The Plant is exempt from federal and state income taxes as well as local property taxes. The Plant pays an amount to the City of Taunton in lieu of taxes. That amount is voted annually by the Municipal Light Commission.

Subsequent Events

Subsequent events have been evaluated through April 30, 2014, the date the financial statements were available to be issued.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Notes to the Financial Statements
Years Ended December 31, 2013 and 2012**

NOTE B. PLANT IN SERVICE

Plant in service activity for the year ended December 31, 2013 was as follows:

	Beginning		Retirements	Ending
	<u>Balance</u>	<u>Additions</u>	<u>& Adjustments</u>	<u>Balance</u>
Production	\$ 76,375,585	\$ 1,557,129	\$ (721)	\$ 77,931,993
Transmission	7,533,812	-	-	7,533,812
Distribution	85,334,037	4,100,417	-	89,434,454
General	31,992,073	2,920,773	(659,721)	34,253,125
Total plant in service	<u>201,235,507</u>	<u>8,578,319</u>	<u>(660,442)</u>	<u>209,153,384</u>
Less accumulated depreciation for:				
Production	62,462,313	1,311,082	-	63,773,395
Transmission	6,914,822	27,206	-	6,942,028
Distribution	49,364,573	2,493,329	-	51,857,902
General	14,184,455	1,956,786	(562,784)	15,578,457
Total accumulated depreciation	<u>132,926,163</u>	<u>5,788,403</u>	<u>(562,784)</u>	<u>138,151,782</u>
Net utility plant in service	<u>\$ 68,309,344</u>	<u>\$ 2,789,916</u>	<u>\$ (97,658)</u>	<u>\$ 71,001,602</u>

Depreciation expense for utility plant in service of \$5,788,405 and for the investment in Seabrook of \$163,389 was charged to operating expenses for the year ended December 31, 2013.

Plant in service activity for the year ended December 31, 2012 was as follows:

	Beginning		Retirements	Ending
	<u>Balance</u>	<u>Additions</u>	<u>& Adjustments</u>	<u>Balance</u>
Production	\$ 76,229,521	\$ 146,064	\$ -	\$ 76,375,585
Transmission	7,302,304	231,508	-	7,533,812
Distribution	81,627,031	3,707,006	-	85,334,037
General	31,147,635	1,076,367	(231,929)	31,992,073
Total plant in service	<u>196,306,491</u>	<u>5,160,945</u>	<u>(231,929)</u>	<u>201,235,507</u>
Less accumulated depreciation for:				
Production	61,153,776	1,308,537	-	62,462,313
Transmission	6,782,987	131,835	-	6,914,822
Distribution	46,974,367	2,390,206	-	49,364,573
General	12,501,110	1,907,379	(224,034)	14,184,455
Total accumulated depreciation	<u>127,412,240</u>	<u>5,737,957</u>	<u>(224,034)</u>	<u>132,926,163</u>
Net utility plant in service	<u>\$ 68,894,251</u>	<u>\$ (577,012)</u>	<u>\$ (7,895)</u>	<u>\$ 68,309,344</u>

Depreciation expense for utility plant in service of \$5,737,957 and for the investment in Seabrook of \$163,389 was charged to operating expenses for the year ended December 31, 2012.

NOTE C. INVESTMENTS

Seabrook

The Plant is a 0.10034% joint owner of the Seabrook New Hampshire Unit 1.

The joint owners of Seabrook have established a Decommissioning Fund that is currently held by a Trustee. The Plant's share of the estimated decommissioning liability is approximately \$1,107,203 as of December 31, 2013 (the most current valuation date). The Plant is currently contributing, based on a present value formula, \$1,005 per month over 25 years. The cost is included in nuclear expense on the statement of revenues, expenses and changes in net position as it is paid.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Notes to the Financial Statements
Years Ended December 31, 2013 and 2012**

NOTE C. INVESTMENTS (Continued)

Energy New England

Energy New England, LLC ("ENE") is an energy services company established to assist publicly owned entities to ensure their continued viability in the deregulated wholesale electric utility markets and to strengthen their competitive position in the retail energy market for the benefit of the municipal entities. ENE functions as an autonomous, entrepreneurial business unit that is free from many of the constraints imposed on traditional municipal utility operations. The Plant owns a 28.33% interest in ENE. Each of the six members has one seat on the Board of Directors along with three outside Directors. The Plant's initial investment in the company in 1998 was \$500,000. The Plant records this investment under the equity method.

Included in other income is approximately \$54,000 and \$128,000 of gains for the years December 31, 2013 and 2012, respectively, representing the Plant's share of ENE's results of operations.

Hydro Quebec Electric Company

In 1988, the Plant entered into an agreement with the Massachusetts Municipal Wholesale Electric Company and other New England Utilities and Hydro-Quebec Electric Corporation ("Hydro Quebec"). In connection with the agreement, the Plant advanced approximately \$800,000 toward development of the project of which approximately \$450,000 was returned after the project obtained financing. In 1991, the Hydro Quebec project was completed. Upon completion of this project, each participant received stock in the New England Hydro Transmission Electric Company and the New England Hydro Transmission Corporation proportional to their advances. The investment is being accounted for on the cost basis. The stock received is not readily marketable, but gives the holder rights to purchase power at a percentage of the fossil fuel rate. During the years ended December 31, 2013 and 2012, the Plant received dividends from the two companies of approximately \$5,600 and \$7,100, respectively.

NOTE D. CASH AND CERTIFICATES OF DEPOSIT

The Plant's cash is primarily deposited with the City of Taunton treasurer who commingles it with other City funds. Accordingly, it is not practical to disclose the related bank balance and credit risk of such cash deposits for the Plant. Funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC). The amount of insurance coverage for the Plant's deposits is not determinable because the limits of insurance are computed on a City-wide basis.

The City invests the cash and credits the Plant each year with interest earned on the cash deposits.

Cash, certificates of deposit and short term investments consist of the following at December 31,

	<u>2013</u>	<u>2012</u>
Cash - operating	\$ 17,604,503	\$ 16,813,728
Customer deposits	1,414,865	1,355,284
Depreciation fund	2,308,818	12,308,818
Rate stabilization fund	<u>6,000,000</u>	<u>6,000,000</u>
Cash deposited with City of Taunton	27,328,186	36,477,830
Cash deposited with Energy New England LLC	<u>1,881,923</u>	<u>1,551,590</u>
	<u>\$ 29,210,109</u>	<u>\$ 38,029,420</u>

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Notes to the Financial Statements
Years Ended December 31, 2013 and 2012**

NOTE D. CASH AND CERTIFICATES OF DEPOSIT (Continued)

Cash, certificates of deposit and short term investments at December 31 are reflected on the statements of assets, liabilities and net position as follows:

	<u>2013</u>	<u>2012</u>
Cash	\$ 19,486,426	\$ 18,365,318
Customer deposits	1,414,865	1,355,284
Depreciation fund	2,308,818	12,308,818
Rate stabilization fund	6,000,000	6,000,000
	<u>\$ 29,210,109</u>	<u>\$ 38,029,420</u>

NOTE E. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2013</u>	<u>2012</u>
\$7,250,000 general obligation bonds, issued June 15, 2010, with interest rates ranging from 2.5% to 4% and annual principal and semi-annual interest payments through June 1, 2020.	\$ 5,075,000	\$ 5,800,000
\$2,251,000 general obligation bond, issued September 26, 2013, with interest rates ranging from 2% to 3% and annual principal and semi-annual interest payments through September 1, 2023.	2,251,000	-
Less: current installments of long-term debt	<u>(951,000)</u>	<u>(725,000)</u>
Long-term debt, excluding current installments	<u>\$ 6,375,000</u>	<u>\$ 5,075,000</u>

Long-term debt activity for the years ended December 31, 2013 and 2012 was as follows:

Balance of long-term debt, Beginning	\$ 5,800,000	\$ 6,525,000
Bond issued	2,251,000	-
Principal payments	<u>(725,000)</u>	<u>(725,000)</u>
Balance of long-term debt, Ending	<u>\$ 7,326,000</u>	<u>\$ 5,800,000</u>

The future payments on the long-term debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 951,000	\$ 205,816	\$ 1,156,816
2015	950,000	171,989	1,121,989
2016	950,000	144,833	1,094,833
2017	950,000	120,094	1,070,094
2018	950,000	92,787	1,042,787
2019-2020	<u>2,575,000</u>	<u>132,820</u>	<u>2,707,820</u>
Total	<u>\$ 7,326,000</u>	<u>\$ 868,339</u>	<u>\$ 8,194,339</u>

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Notes to the Financial Statements
Years Ended December 31, 2013 and 2012**

NOTE F. COMMITMENTS AND CONTINGENCIES

Litigation and Other Matters

The Plant is involved in various legal matters incident to its business, none of which is believed by management to be significant to the financial condition or the results of operations of the Plant.

The Plant is also involved in proceedings relating to environmental matters. Although it is not possible to estimate the liability, if any, of the Plant related to these environmental matters, the Plant believes that these matters will not have a material adverse effect upon its financial condition or the results of operations.

The Plant has a program for insurance coverage provided by the Massachusetts Municipal Utility Self-Insurance Trust Fund ("Trust"). The insurance coverage provided by the Trust is in excess of a \$50,000 self retention up to a maximum of \$500,000 per occurrence. Additionally, coverage for certain environmental claims is provided by the Trust through a separate policy for which the plant is responsible for a \$50,000 self-retention and the Trust covers the next \$50,000. Above this combined \$100,000 self-retention, the separate pollution liability policy provides coverage for certain claims up to \$1 million per occurrence and \$10 million aggregate.

Option Contracts

The Plant manages risk associated with power supply commitments and excess capacity by entering into forward contracts for the purchase and sale of electricity and fuel in the normal course of business. It also uses put and call option contracts to reduce the price risk associated with its power supply portfolio.

Put and call options are reflected at fair value as determined by actively quoted prices and are recorded on the balance sheet with changes in fair value included in purchased power and transmission expense. No option contracts were open as of December 31, 2013 and 2012.

Forward contracts to purchase electricity and fuel at set prices and other contracts to sell electricity at fixed prices qualify for the normal purchases and sales exception and are not accounted for as derivatives.

The objectives of TMLP's risk management procedures for option contract and power and fuel purchase and sale forward contract activities are to optimize power supply resources, control costs, and manage price volatility to customers while avoiding speculative positions in the commodities markets.

Power Contracts

The Plant has commitments under contracts for the purchase of electricity from various suppliers. These wholesale contracts are generally for fixed periods and require payment of demand and energy charges. The total 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 Commonwealth of Massachusetts.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Notes to the Financial Statements
Years Ended December 31, 2013 and 2012**

NOTE F. COMMITMENTS AND CONTINGENCIES (Continued)

The status of these contracts is as follows:

<u>Counter Party</u>	<u>Fuel</u>	<u>2013 KW Entitlements</u>	<u>Contract End Date</u>	<u>Estimated Annual Minimum Payments</u>
NextEra Energy Power Marketing, LLC	Unspecified	10,000	2018	\$ 4,326,000
Shell Energy of North America (US), L.P.	Unspecified	5,000-10,000	2014-2017	\$ 6,319,000
Exelon Generation Company, LLC	Unspecified	5,000	2017	\$ 2,189,000
Macquarie Energy LLC	Unspecified	10,000	2014	\$ 198,000
Fortistar Methane Group-GRS Fall River	Methane	5,000	2014	\$ 2,179,000
Dominion Energy Marketing, Inc	Unspecified	16,200	2015	\$ 539,000
PSEG Energy Resources and Trade LLC	Unspecified	15,000	2015	\$ 5,946,000
MM Taunton Energy, LLC	Methane	1,630-1900	2019	\$ 1,981,000
Seabrook Nuclear Power Plant	Nuclear	1,170	2020	\$ 522,000
New York Power Authority	Hydro	4,845	2025	\$ 991,000
Braintree Electric Light Department	Methane	10,000	2029	\$ 3,266,000

NOTE G. PENSION PLANS

The Plant contributes to the City of Taunton Retirement System (the "System"), a public employee retirement system that acts as the investment and administrative agent for the City. The System is a contributory cost-sharing multiple employer defined benefit plan. All full-time employees participate in the System.

Instituted in 1937, the System is a member of the Massachusetts Contributory System and is governed by Massachusetts General Laws Chapter 32. Membership in the System is mandatory upon the commencement of employment for all permanent, full-time employees.

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

Members of the System become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the City's payroll on January 1, 1978, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Active members contribute either 5%, 7%, 8%, 9% of their regular compensation or 2% of salary in excess of \$30,000, depending on the date upon which their membership began. The System also provides death and disability benefits.

The System assesses the City each fiscal year an amount determined in accordance with its current funding schedule. The City allocates a portion of its obligation to the Plant based on the relative number of participants and the amount of payroll. The Plant's contributions to the System for 2013, 2012 and 2011 were \$3,468,249, \$3,188,038 and \$3,048,523, respectively, and were equivalent to the required payments.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Notes to the Financial Statements
Years Ended December 31, 2013 and 2012**

NOTE G. PENSION PLANS (Continued)

The current funding schedule includes the amount required to pay the employer normal cost (in addition to member contributions) plus the amortization of the prior unfunded actuarial accrued liability. The current funding schedule projects that the plan will be fully funded in 2028. The funding schedule has been approved by the Public Employees Retirement Association.

Copies of the System's audited financial statements can be obtained by writing to The City of Taunton Retirement System, 40 Dean Street, Taunton, MA 02780.

The Plant has established a separate Employees Retirement Trust Fund ("Trust Fund") for the financing of future pension payments. The market value of the net position at December 31, 2013 and 2012, was approximately \$9,123,000 and \$8,753,000, respectively. These funds are invested in money market funds, fixed income securities including government and corporate bonds and other equity securities. The Plant made no contributions to the Trust Fund in 2013 and 2012.

The Plant pays the normal costs plus expenses and a levelized amount of the amortization. The Plant receives from the Trust Fund, over the next fifteen years, the balance of the annual amortization of the unfunded pension liability. Prior to 2007, the Plant received 100% of the annual amortization of the unfunded pension liability from the Trust Fund.

The following represents the components of the Plant's recorded pension expense.

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Contributions assessed by and paid to the System	\$ 3,468,249	\$ 3,188,038
Contributions from the Trust Fund	<u>(1,021,123)</u>	<u>(917,942)</u>
Recorded pension expense	<u>\$ 2,447,126</u>	<u>\$ 2,270,096</u>

NOTE H. OTHER POST-EMPLOYMENT BENEFITS

The Plant follows GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions."

Plan Description

The Plant participates in The Post Retirement Benefits Plan of The City of Taunton, an agent multi-employer defined benefit healthcare plan administered by the City of Taunton. The Plant provides post-employment health care benefits to retirees that meet certain requirements. Retirees of the Plant under age 65 are eligible for the same health benefits as active employees, while retirees over the age of 65 are eligible for MEDEX. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. The plan does not issue a publicly available financial report.

At June 30, 2012, the most recent actuarial valuation date, the Plant's membership consisted of the following:

Current retirees and beneficiaries	200
Current active members	<u>143</u>
Total	<u><u>343</u></u>

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Notes to the Financial Statements
Years Ended December 31, 2013 and 2012**

NOTE H. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy

The contribution requirements of the plan members and the Plant are established and may be amended through collective bargaining. The cost of the benefits provided to retirees are borne 75% by the Plant, and 25% by the retiree. For plan year ended June 30, 2013, the Plant contributed approximately \$1,003,000 to the plan, and total member contributions were approximately \$334,800.

Annual OPEB Costs and Net OPEB Obligation

The Plant's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Plant's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the Plant's net OPEB obligation are summarized in the following table:

	<u>2013</u>	<u>2012</u>
Normal cost	\$ 884,439	\$ 1,093,381
Amortization of unfunded actuarial accrued liability	1,282,107	1,168,844
Annual OPEB cost/expense	2,166,546	2,262,225
Contributions made	(1,337,763)	(1,252,495)
Increase in net OPEB obligation	828,783	1,009,730
Net OPEB obligation - beginning of year	5,985,474	4,975,744
Net OPEB obligation - end of year	<u>\$ 6,814,257</u>	<u>\$ 5,985,474</u>

The Plant's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year is as follows:

Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2011	\$ 2,262,225	\$ 1,253,723	55%	\$ 4,975,744
12/31/2012	\$ 2,262,225	\$ 1,252,495	55%	\$ 5,985,474
12/31/2013	\$ 2,166,546	\$ 1,337,763	62%	\$ 6,814,257

Funding Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$41,268,845, all of which was unfunded. The covered payroll (annual payroll of the Department's active employees covered by the plan) was \$15,982,448, and the ratio of the Unfunded Actuarial Accrued Liability ("UAAL") to the covered payroll was 258%

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

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Notes to the Financial Statements
Years Ended December 31, 2013 and 2012**

NOTE H. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions

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

In the June 30, 2012, actuarial valuation, actuarial liabilities were determined using the projected unit cost method. The actuarial methods and assumptions included a 4% investment rate of return and an annual health care cost rate trend of 7% decreasing to 4.5% in 2018. The UAAL is being amortized as a level percentage of pay assuming a 4.5% increasing, open basis. The remaining amortization period at June 30, 2012, was 30 years.

NOTE I. INTERNET ACCESS BUSINESS UNIT

Revenue and expense for this business unit are combined and presented as a single line item in other income (expense) in the statement of revenues, expenses and changes in net position. Internet services generated revenues of approximately \$1,198,000 and \$1,157,000 for the years ended December 31, 2013 and 2012, respectively. Expenses were approximately \$922,000 and \$947,000 for the same periods, respectively.

The business unit leases certain assets from the Plant. For the years ended December 31, 2013 and 2012, other operating revenue for the Plant and internet expense includes approximately \$162,000 and \$162,000, respectively, relating to this lease.

NOTE J. SALE OF EMISSION ALLOWANCES

The Plant receives emission allowances in connection with the operation of its generation facilities. The Plant may from time to time purchase or sell excess emission allowances on the open market. The income from the sale or the expense from the expiration of allowances are recorded as other income or expense on the statement of revenues, expenses and changes in net position.

NOTE K. SICK LEAVE ANNUITIES

If an employee is terminated for any reason, other than for cause, the Taunton Municipal Lighting Plant purchases a single premium annuity for the employees benefit. The value of the annuity is the value of the employee's unused sick leave at the time of termination. The Taunton Municipal Lighting Plant retains ownership of said annuity with the terminated employee being the designated annuitant on the policy.

NOTE L. RECLASSIFICATION

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Other Post-Employment Benefit Plan
Required Supplementary Information
Years Ended December 31, 2012 and 2011**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Payroll
June 30, 2012	\$ -	\$ 41,268,845	\$ 41,268,845	0.00%	\$ 15,982,448	258%
June 30, 2010	\$ -	\$ 37,623,107	\$ 37,623,107	0.00%	\$ 15,955,539	236%
June 30, 2008	\$ -	\$ 50,082,169	\$ 50,082,169	0.00%	\$ 13,794,910	363%

Schedule of Actuarial Methods and Assumptions

Actuarial methods:

Valuation date	6/30/2012
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount
Remaining amortization period	30 years as of June 30, 2012

Actuarial assumptions:

Investment rate of return	4.00%
Projected salary increases	4.50%
Medical/drug cost trend rate	7% decreasing to 4.5% in 2018

Plan membership:

Current retirees and beneficiaries	200
Current active members	143
Total	<u>343</u>

See notes to required supplementary information

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT**

**Other Post-Employment Benefit Plan
Notes to Required Supplementary Information
Years Ended December 31, 2013 and 2012**

NOTE A. The Plant participates in an agent multi-employer defined benefit healthcare plan, administered by the City of Taunton, which provides lifetime health care and life insurance benefits for eligible retirees and their spouses through the city's health and life insurance plans, which covers both active and retired members.

The Plant currently finances its other post-employment benefits ("OPEB") on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Plant has recorded its OPEB cost equal to the actuarially determined annual required contribution ("ARC") which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

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

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.



**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 Municipal Light Commission
City of Taunton, Massachusetts, Municipal Lighting Plant

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 business-type activities of the **City of Taunton, Massachusetts, Municipal Lighting Plant** as of and for the year ended December 31, 2013, and related notes to the financial statements, which collectively comprise the **City of Taunton, Massachusetts, Municipal Lighting Plant's** basic financial statements, and have issued our report thereon dated April 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **City of Taunton, Massachusetts, Municipal Lighting Plant'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 **City of Taunton, Massachusetts, Municipal Lighting Plant's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **City of Taunton, Massachusetts, Municipal Lighting Plant'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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **City of Taunton, Massachusetts, Municipal Lighting Plant'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*.

The City of Taunton, Massachusetts, Municipal Lighting Plant's Response to Findings

The **City of Taunton, Massachusetts, Municipal Lighting Plant's** response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The **City of Taunton, Massachusetts, Municipal Lighting Plant's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
April 30, 2014

CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2013

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expressed an unmodified opinion on the financial statements of the City of Taunton, Massachusetts, Municipal Lighting Plant.
2. Three significant deficiencies in internal control over financial reporting of the City of Taunton, Massachusetts, Municipal Lighting Plant have been identified and are described in Part B below as Items 2013-1, 2013-2 and 2013-3 and were disclosed during the audit.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.

B. FINANCIAL STATEMENTS FINDINGS

Significant Deficiencies

Current Year Findings:

2013-1: Reconciliations of Accounts Receivable:

Criteria

Receivables should be reviewed and investigated on an ongoing basis to determine validity and collectability.

Condition

We noted that the City of Taunton, Massachusetts, Municipal Lighting Plant's detailed accounts receivable records did not agree with the general ledger accounts at December 31, 2013.

Cause

Controls are not in place to reconcile accounts receivable from the general ledger to the accounts receivable detail ledger on a timely basis.

Effect

The effect is a potential misstatement of the amounts reflected as receivables, revenue and fund balance/net position in the financial statements.

Recommendation

In order to make the financial reports generated by the accounting system as meaningful as possible, the City of Taunton, Massachusetts, Municipal Lighting Plant should reconcile the general ledger accounts for accounts receivable to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

View of Responsible Officials and Planned Corrective Action

Management Information Systems department will schedule an accounts receivable report to be run at midnight on the close of each month. Accounting personnel will reconcile the report to the general ledger. Kevin J. Kiernan, Financial Manager will be responsible for implementation of the corrective action plan which is expected to be implemented at the beginning of May, 2014.

CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2013

B. FINANCIAL STATEMENTS FINDINGS (Continued)

Significant Deficiencies (Continued)

Current Year Findings (Continued):

2013-2: Accounts Payable/Cut off Procedures:

Criteria

A sound internal control system includes policies and procedures which provide guidance for monitoring year end cut-off to ensure that financial activity is reported in the proper period.

Condition

Based on our audit procedures we believe that the City of Taunton, Massachusetts, Municipal Lighting Plant, has a significant deficiency in its ability to properly report all liabilities to the appropriate fiscal year. We noted instances where accounts payable at December 31, 2013 were not properly recorded.

Cause

The primary cause of the condition noted above is a lack of adherence with their current cut off policies and procedures. Specifically, invoices were initially received by departments other than the Accounting Department and not forwarded to the Accounting Department in a timely manner.

Effect

Failure to properly establish sound year end cut-off procedures increases the risk of financial statement misstatements occurring and going undetected by management. In addition, these misstatements may have an adverse effect on management's ability to make sound financial decisions.

Recommendation

We recommend that management review current cut-off procedures and communicate to the departments the importance of adherence to cut-off Policies and Procedures to ensure that all financial transactions are reported in the appropriate period.

View of Responsible Officials and Planned Corrective Action

A memo was forwarded to all supervisory personnel reminding them that whenever someone received a vendor invoice directly (electronically or otherwise) a copy of the invoice needed to be forwarded to the Accounting Department. Kevin J. Kiernan, Financial Manager was responsible for implementation of the corrective action plan which was implemented in April, 2014.

CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2013

B. FINANCIAL STATEMENTS FINDINGS (Continued)

Significant Deficiencies (Continued)

Current Year Findings (Continued):

2013-3: Inventory:

Criteria

The establishment and maintenance of accurate accounting records for inventory are necessary to help assure that the Plant's inventory is not stolen or misused and is appropriately valued on the financial statements.

Condition

While performing our audit procedures we noted that there are differences between the general ledger inventory balances and physical counts.

Cause

This is caused because the Energy Services Department's clerk was not issuing the fuel out correctly. The Energy Services Department was aware of this issue however did not communicate it to the Accounting Department in a timely manner.

Effect

An overstatement of inventory results in an understatement of expenses as well as an overstatement of net position.

Recommendation

We recommend reviewing the procedures relating to inventory control to identify or add procedures of oversight and matching the correct employee with the responsibility.

View of Responsible Officials and Planned Corrective Action

Accounting personnel have been reconciling oil inventory on a monthly basis by comparing the general ledger to end of month oil tank readings. Kevin J. Kiernan, Financial Manager was responsible for implementation of the corrective action plan which was implemented in January, 2014.