

CITY OF TAUNTON, MASSACHUSETTS

MUNICIPAL LIGHTING PLANT

(AN ENTERPRISE FUND)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)**

**TABLE OF CONTENTS
Years Ended December 31, 2014 and 2013**

	Page(s)
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)	3-5
FINANCIAL STATEMENTS	
Statements of Net Position.....	6
Statements of Revenues, Expenses and Changes in Net Position.....	7
Statements of Cash Flows.....	8
Notes to the Financial Statements.....	9-19
REQUIRED SUPPLEMENTARY INFORMATION	
Other Post-Employment Benefit Plan.....	20
Notes to Required Supplementary Information.....	21
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	22-23

INDEPENDENT AUDITORS' REPORT

To the Municipal Lighting 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, which comprise the related statements of net position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years 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 financial position of, the **City of Taunton, Massachusetts, Municipal Lighting Plant** as of December 31, 2014 and 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.

Emphasis of Matter

As discussed in Note A, the financial statements present the **City of Taunton, Massachusetts, Municipal Lighting Plant** only and do not purport to, and do not present fairly the financial position of the City of Taunton, Massachusetts, as of December 31, 2014 and 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, 2015 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, 2015

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
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, 2014 and 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 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 Net Position is designed to indicate the Plant's financial position as of a specific point in time. At December 31, 2014, it shows our net position of \$105,122,911 which is comprised of \$83,947,736 invested in capital assets net of related debt, \$2,308,818 restricted for depreciation and \$18,866,357 available for operations. At December 31, 2013 it shows our net position of \$105,088,789 which is comprised of \$79,788,053 invested in capital assets net of related debt, \$2,308,818 restricted for depreciation and \$22,991,918 available for operations.

The Statement of Net Position summarizes our operating results for the years ended December 31, 2014 and 2013. As discussed in more detail below, the Plant's net income for 2014 and 2013, was \$2,934,122 and \$2,856,070, 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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current Assets	\$ 29,438,975	\$ 35,940,919	\$ 34,361,987
Noncurrent Assets	<u>117,528,312</u>	<u>111,498,024</u>	<u>108,279,098</u>
Total Assets	<u>\$ 146,967,287</u>	<u>\$ 147,438,943</u>	<u>\$ 142,641,085</u>
Current Liabilities	\$ 8,957,378	\$ 10,688,554	\$ 8,722,645
Noncurrent Liabilities	<u>26,886,998</u>	<u>25,661,600</u>	<u>28,785,721</u>
Total Liabilities	<u>35,844,376</u>	<u>36,350,154</u>	<u>37,508,366</u>
Deferred Inflows of Resources	<u>6,000,000</u>	<u>6,000,000</u>	<u>-</u>
Net Investment in Capital Assets	83,947,736	79,788,053	70,302,485
Restricted for Depreciation	2,308,818	2,308,818	12,308,818
Unrestricted	<u>18,866,357</u>	<u>22,991,918</u>	<u>22,521,416</u>
Total Net Position	<u>105,122,911</u>	<u>105,088,789</u>	<u>105,132,719</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 146,967,287</u>	<u>\$ 147,438,943</u>	<u>\$ 142,641,085</u>

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
MANAGEMENT'S DISCUSSION AND ANALYSIS**

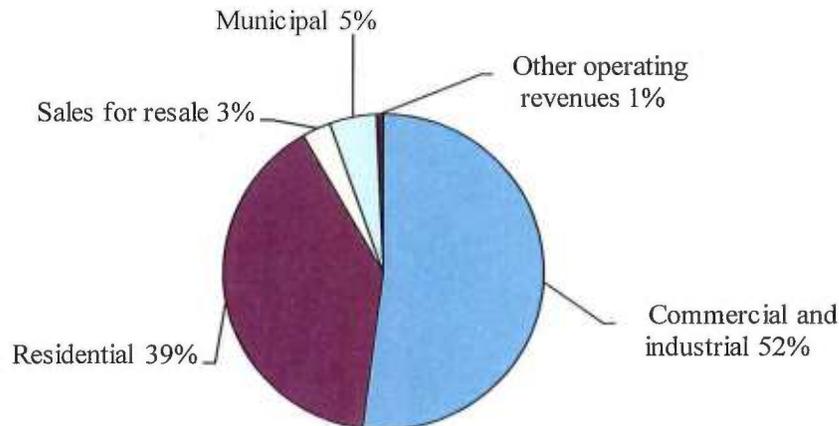
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues	\$ 93,274,479	\$ 94,765,862	\$ 91,641,726
Operating Expenses	<u>91,440,158</u>	<u>93,619,501</u>	<u>82,484,945</u>
Operating Income	1,834,321	1,146,361	9,156,781
Nonoperating Revenues Less Nonoperating Expenses	<u>1,099,801</u>	<u>1,709,709</u>	<u>1,021,918</u>
Increase in Net Position before Transfers	2,934,122	2,856,070	10,178,699
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 Position	<u>\$ 34,122</u>	<u>\$ (43,930)</u>	<u>\$ 7,278,699</u>

Financial Highlights:

Operating revenues for 2014 decreased by \$1.5 million or 2% from 2013. The revenue decrease was a result of a reduction of sales to consumers of approximately 1.5% as well as a rate adjustment that was made in 2014. 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 2014 decreased by \$2.2 million or 2% from 2013. The decrease in expenses is directly related to the reduction in sales to consumers. As sales decrease so does the expense to supply power for the customer's needs. 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 2014 Operating Revenues



**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Utility Plant and Debt Administration:

Utility Plant

There was an increase in net utility plant in service of \$15,367,000 for 2014. This increase is the difference between the current year additions of \$21.5 million and the annual depreciation (3% of depreciable gross plant) expense of \$6.1 million. Additions to plant consisted principally of approximately \$15 million in production and transmission plant, \$4.5 million in distribution plant and \$2 million in general plant. Major items capitalized include a Major Overhaul to the Cleary 9 generating 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 \$1,425,000 of long-term serial general obligation bonds on May 22, 2014. The Plant issued \$2,125,000 of long-term serial general obligation bonds on September 26, 2013. These general obligation bonds are guaranteed in full faith and credit of the City of Taunton.

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 fiduciary fund (plant retirement trust) 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.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)**

**Statements of Net Position
December 31, 2014 and 2013**

ASSETS			LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>
<u>Utility Plant - at cost</u>			<u>Net Position:</u>		
Plant in service	\$ 230,610,064	\$ 209,153,384	Net Investment in capital assets	\$ 83,947,736	\$ 79,788,053
Less: Accumulated depreciation	<u>144,241,435</u>	<u>138,151,782</u>	Restricted for depreciation - designated funds	2,308,818	2,308,818
<u>Net Utility Plant in Service</u>	86,368,629	71,001,602	Unrestricted net position	<u>18,866,357</u>	<u>22,991,918</u>
Investment in Seabrook	523,172	678,224	<u>Total Net Position</u>	<u>105,122,911</u>	<u>105,088,789</u>
Construction work in progress	<u>4,855,935</u>	<u>15,434,227</u>			
<u>Total Utility Plant</u>	<u>91,747,736</u>	<u>87,114,053</u>	<u>Non-current Liabilities:</u>		
<u>Other Assets</u>			Bonds payable - excluding current portion	6,705,000	6,375,000
Depreciation - designated funds	2,308,818	2,308,818	Sick leave	8,037,922	8,743,588
Rate stabilization - designated funds	6,000,000	6,000,000	Sick leave annuities - obligation	4,325,675	3,728,755
Sick leave trust fund	12,177,152	11,444,204	Other post-employment benefits obligation	<u>7,818,401</u>	<u>6,814,257</u>
Sick leave annuities	4,325,675	3,728,755	<u>Total Non-current Liabilities</u>	<u>26,886,998</u>	<u>25,661,600</u>
Investment in Hydro Quebec Project	59,113	59,113	<u>Current Liabilities:</u>		
Investment in Energy New England LLC	<u>909,818</u>	<u>843,081</u>	Bonds payable - current portion	1,095,000	951,000
<u>Total Other Assets</u>	<u>25,780,576</u>	<u>24,383,971</u>	Accounts payable	4,144,342	6,404,416
<u>Current Assets</u>			Customer deposits	1,971,271	1,595,490
Cash	11,017,393	19,486,426	Accrued liabilities:		
Customer deposits	1,502,397	1,414,865	Vacation	1,419,208	1,503,632
Accounts receivable, less allowance for doubtful accounts of \$1,393,286 and \$1,382,619 in 2014 and 2013, respectively	7,986,144	7,352,951	Interest	44,304	28,939
Accounts receivable - internet services	109,490	77,208	Payroll	175,045	147,326
Due from plant retirement trust	592,023	536,927	Other	<u>108,208</u>	<u>57,751</u>
Materials and supplies inventory	6,093,660	4,689,101	<u>Total Current Liabilities</u>	<u>8,957,378</u>	<u>10,688,554</u>
Prepaid expenses	<u>2,137,868</u>	<u>2,383,441</u>	<u>Total Liabilities</u>	<u>35,844,376</u>	<u>36,350,154</u>
<u>Total Current Assets</u>	<u>29,438,975</u>	<u>35,940,919</u>	<u>Deferred Inflows of Resources</u>		
<u>Total Assets</u>	<u>\$ 146,967,287</u>	<u>\$ 147,438,943</u>	Rate stabilization adjustment	<u>6,000,000</u>	<u>6,000,000</u>
			<u>Total Liabilities, Deferred Inflows of Resources and Net Position</u>	<u>\$ 146,967,287</u>	<u>\$ 147,438,943</u>

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

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)**

**Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>Operating Revenues:</u>		
Sales of electricity		
Commercial and industrial	\$ 49,966,318	\$ 50,145,466
Residential	37,971,053	38,309,448
Sales for resale	2,808,677	3,748,637
Municipal	4,582,581	4,651,304
Discounts given	(2,730,412)	(2,785,154)
Total sales of electricity	<u>92,598,217</u>	<u>94,069,701</u>
Other operating revenues	<u>676,262</u>	<u>696,161</u>
<u>Total Operating Revenues</u>	<u>93,274,479</u>	<u>94,765,862</u>
<u>Operating Expenses:</u>		
Power production and purchases	56,915,247	60,716,517
Transmission and distribution	16,135,967	16,683,419
Customer accounting	3,798,530	3,809,364
Administrative and general	7,936,962	6,121,876
Depreciation and amortization	6,253,637	5,951,794
Nuclear expense	<u>399,815</u>	<u>336,531</u>
<u>Total Operating Expenses</u>	<u>91,440,158</u>	<u>93,619,501</u>
<u>Earnings from Operations</u>	<u>1,834,321</u>	<u>1,146,361</u>
<u>Other Income (Expense)</u>		
Interest expense	(233,556)	(191,255)
Interest income	3,000	8,611
Internet income, net	530,665	275,604
Investment income-Sick Leave Trust	732,947	1,625,069
Other income (expenses)	<u>66,745</u>	<u>(8,320)</u>
<u>Total Other Income</u>	<u>1,099,801</u>	<u>1,709,709</u>
<u>Net Income</u>	<u>\$ 2,934,122</u>	<u>\$ 2,856,070</u>
<u>Net Position January 1</u>	\$ 105,088,789	\$ 105,132,719
<u>Net Income</u>	2,934,122	2,856,070
<u>Transfers out:</u>		
Payment in lieu of taxes	<u>(2,900,000)</u>	<u>(2,900,000)</u>
<u>Net Position, December 31</u>	<u>\$ 105,122,911</u>	<u>\$ 105,088,789</u>

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

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)**

**Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>Cash Flows From Operating Activities:</u>		
Cash received from customers	\$ 94,462,802	\$ 97,537,226
Cash payments to suppliers and employees	<u>(90,283,811)</u>	<u>(88,453,794)</u>
<u>Net Cash Provided by Operating Activities</u>	<u>4,178,991</u>	<u>9,083,432</u>
<u>Cash Flows from Non-capital Financing Activities:</u>		
Payment to City in lieu of taxes	<u>(2,900,000)</u>	<u>(2,900,000)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Additions to utility plant	(11,042,365)	(17,639,164)
Proceeds from bond issuance	1,425,000	2,251,000
Principal paid on bonds	(951,000)	(725,000)
Interest paid on bonds	<u>(218,058)</u>	<u>(178,532)</u>
<u>Net Cash Used in Capital and Related Financing Activities</u>	<u>(10,786,423)</u>	<u>(16,291,696)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest and dividend income	3,000	8,611
Investment income-Sick Leave Trust	<u>1,122,931</u>	<u>1,280,342</u>
<u>Net Cash Provided by Investing Activities</u>	<u>1,125,931</u>	<u>1,288,953</u>
<u>Net (Decrease) in Cash</u>	<u>(8,381,501)</u>	<u>(8,819,311)</u>
<u>Cash and cash equivalents, Beginning</u>	<u>29,210,109</u>	<u>38,029,420</u>
<u>Cash and cash equivalents, Ending (Note D)</u>	<u>\$ 20,828,608</u>	<u>\$ 29,210,109</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>		
Operating income	\$ 1,834,321	\$ 1,146,361
Adjustments to reconcile operating income to net cash provided by operating activities:		
Internet income, net	530,665	275,604
Equity in losses on investments in associated companies	155,052	628,880
Depreciation and amortization	6,253,637	5,951,794
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(665,475)	1,333,661
Increase in sick leave trust fund	(1,122,931)	(1,280,342)
Increase in due from plant retirement trust	(55,096)	(52,730)
(Increase) decrease in prepaid expenses	245,573	(1,228,571)
Increase in materials and supplies	(1,404,559)	(450,603)
Increase in other postemployment benefits obligation	1,004,144	828,783
Increase (decrease) in accounts payable	(2,260,074)	1,688,315
Increase in customer deposits	375,781	239,582
Increase (decrease) in sick leave liability	(705,666)	203,409
Decrease in accrued liabilities	<u>(6,381)</u>	<u>(200,711)</u>
<u>Total Adjustments</u>	<u>2,344,670</u>	<u>7,937,071</u>
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 4,178,991</u>	<u>\$ 9,083,432</u>
<u>Non-Cash Investing Activities:</u>		
Change in the fair value of investments-sick leave trust	<u>\$ 389,984</u>	<u>\$ 344,727</u>

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

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
Notes to the Financial Statements
Years Ended December 31, 2014 and 2013**

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 400 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.

Rates

The Plant is under the charge and control of the Municipal Lighting 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 Department of Public Utilities 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.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position can report a separate section for deferred outflows of resources. This 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 and 2013, there were no deferred outflows of resources.

In addition to liabilities, the statement of financial position can report a separate section for deferred inflows 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 and 2013, there was \$6,000,000 in deferred inflows relating to rate stabilization adjustment.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
Notes to the Financial Statements
Years Ended December 31, 2014 and 2013**

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Utility Plant

The provision for depreciation of the utility plant was computed in 2014 and 2013 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 designated 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.

Investment in Seabrook

The Plant's Investment in Seabrook Plant 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.

Pension Trust Fund

The Plant has established a separate Employees Retirement Fund ("Trust Fund") for the financing of future pension payments (see Note G).

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. The cost of inventory is expensed when consumed rather than purchased.

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).

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
Notes to the Financial Statements
Years Ended December 31, 2014 and 2013**

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Lighting Commission.

Restricted Versus Unrestricted Resources

When both restricted and unrestricted amounts are available for use, it is the Plant's practice to use restricted resources first.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are reflected as prepaid costs. The cost of prepaid expenses is expensed when consumed rather than purchased.

NOTE B. PLANT IN SERVICE

Plant in service activity for the year ended December 31, 2014 was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	Retirements & Adjustments	Ending <u>Balance</u>
Production	\$ 77,931,993	\$ 14,986,342	\$ (500)	\$ 92,917,835
Transmission	7,533,812	-	-	7,533,812
Distribution	89,434,454	4,524,274	-	93,958,728
General	<u>34,253,125</u>	<u>1,947,159</u>	<u>(595)</u>	<u>36,199,689</u>
Total plant in service	<u>209,153,384</u>	<u>21,457,775</u>	<u>(1,095)</u>	<u>230,610,064</u>
Less accumulated depreciation for:				
Production	63,773,395	765,413	-	64,538,808
Transmission	6,942,028	21,522	-	6,963,550
Distribution	51,857,902	2,597,736	-	54,455,638
General	<u>15,578,457</u>	<u>2,705,577</u>	<u>(595)</u>	<u>18,283,439</u>
Total accumulated depreciation	<u>138,151,782</u>	<u>6,090,248</u>	<u>(595)</u>	<u>144,241,435</u>
Net utility plant in service	<u>\$ 71,001,602</u>	<u>\$ 15,367,527</u>	<u>\$ (500)</u>	<u>\$ 86,368,629</u>

Depreciation expense for utility plant in service of \$6,090,248 and for the investment in Seabrook of \$163,389 was charged to operating expenses for the year ended December 31, 2014.

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

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
Notes to the Financial Statements
Years Ended December 31, 2014 and 2013**

NOTE B. PLANT IN SERVICE (Continued)

	Beginning Balance	Additions	Retirements & Adjustments	Ending Balance
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.

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 \$1,149,830 as of December 31, 2014 (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.

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 \$67,000 and \$54,000 of gains for the years December 31, 2014 and 2013, respectively, representing the Plant's share of ENE's results of operations.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
Notes to the Financial Statements
Years Ended December 31, 2014 and 2013**

NOTE C. INVESTMENTS (Continued)

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, 2014 and 2013, the Plant received dividends from the two companies of approximately \$0 and \$5,600, 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>2014</u>	<u>2013</u>
Cash - operating	\$ 9,135,470	\$ 17,604,503
Customer deposits	1,502,397	1,414,865
Depreciation - designated funds	2,308,818	2,308,818
Rate stabilization - designated funds	<u>6,000,000</u>	<u>6,000,000</u>
Cash deposited with City of Taunton	18,946,685	27,328,186
Cash deposited with Energy New England LLC	<u>1,881,923</u>	<u>1,881,923</u>
	<u>\$ 20,828,608</u>	<u>\$ 29,210,109</u>

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>2014</u>	<u>2013</u>
Cash	\$ 11,017,393	\$ 19,486,426
Customer deposits	1,502,397	1,414,865
Depreciation - designated funds	2,308,818	2,308,818
Rate stabilization - designated funds	<u>6,000,000</u>	<u>6,000,000</u>
	<u>\$ 20,828,608</u>	<u>\$ 29,210,109</u>

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
Notes to the Financial Statements
Years Ended December 31, 2014 and 2013**

NOTE E. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2014</u>	<u>2013</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.	\$ 4,350,000	\$ 5,075,000
\$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.	2,025,000	2,251,000
\$1,425,000 general obligation bond, issued May 22, 2014, with interest rates ranging from 2% to 4% and annual principal and semi-annual interest payments through March 1, 2024.	1,425,000	-
Less: current installments of long-term debt	<u>(1,095,000)</u>	<u>(951,000)</u>
Long-term debt, excluding current installments	<u>\$ 6,705,000</u>	<u>\$ 6,375,000</u>

Long-term debt activity for the years ended December 31, 2014 and 2013 was as follows:

Balance of long-term debt, Beginning	\$ 7,326,000	\$ 5,800,000
Bond issued	1,425,000	2,251,000
Principal payments	<u>(951,000)</u>	<u>(725,000)</u>
Balance of long-term debt, Ending	<u>\$ 7,800,000</u>	<u>\$ 7,326,000</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,095,000	\$ 215,172	\$ 1,310,172
2016	1,095,000	183,909	1,278,909
2017	1,095,000	154,818	1,249,818
2018	1,095,000	121,954	1,216,954
2019	1,095,000	87,869	1,182,869
2020-2024	<u>2,325,000</u>	<u>114,051</u>	<u>2,439,051</u>
Total	<u>\$ 7,800,000</u>	<u>\$ 877,773</u>	<u>\$ 8,677,773</u>

These general obligation bonds are guaranteed in full faith and credit of the City of Taunton.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
Notes to the Financial Statements
Years Ended December 31, 2014 and 2013**

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, 2014 and 2013.

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 the Plant'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
(AN ENTERPRISE FUND)
Notes to the Financial Statements
Years Ended December 31, 2014 and 2013**

NOTE F. COMMITMENTS AND CONTINGENCIES (Continued)

The status of these contracts is as follows:

<u>Counter Party</u>	<u>Fuel</u>	<u>2014 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	5,000-8,340	2014-2017	\$ 6,149,000
Exelon Generation Company, LLC	Unspecified	5,000	2017	\$ 2,189,000
Macquarie Energy LLC	Unspecified	5,000-30,000	2015	\$ 5,227,000
Fortistar Methane Group-GRS Fall River	Methane	5,000	2020	\$ 2,922,986
Dominion Energy Marketing, Inc	Unspecified	16,200	2015	\$ 478,000
PSEG Energy Resources and Trade LLC	Unspecified	12,500	2015	\$ 5,978,000
MM Taunton Energy, LLC	Methane	1,630-1900	2019	\$ 2,015,000
Seabrook Nuclear Power Plant	Nuclear	1,170	2020	\$ 533,000
New York Power Authority	Hydro	4,845	2025	\$ 1,011,000
Braintree Electric Light Department	Methane	10,000	2029	\$ 3,332,000
Miller Hydro Group, Inc.	Unspecified	2,700	2016	\$ 1,356,000
Industrial Power Services Corporation	Unspecified	470	2017	\$ 210,000

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 2014, 2013 and 2012 were \$3,783,079, \$3,468,249 and \$3,188,038, respectively, and were equivalent to the required payments.

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
Notes to the Financial Statements
Years Ended December 31, 2014 and 2013**

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 2031. 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 Fund ("Trust Fund") for the financing of future pension payments. The fair value of the net position at December 31, 2014 and 2013, was approximately \$8,611,000 and \$9,123,000, 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 2014 and 2013.

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.

	December 31,	
	2014	2013
Contributions assessed by and paid to the System	\$ 3,783,079	\$ 3,468,249
Contributions from the Trust Fund	(1,128,948)	(1,021,123)
Recorded pension expense	\$ 2,654,131	\$ 2,447,126

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 Massachusetts General Laws assigns authority to establish and amend benefit provisions of the Plan. The Plan does not issue a publicly available financial report.

At June 30, 2014, the most recent actuarial valuation date, the Plant's membership consisted of the following:

Current retirees and beneficiaries	130
Current active members	220
Total	350

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
Notes to the Financial Statements
Years Ended December 31, 2014 and 2013**

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, 2014, the Plant contributed approximately \$1,009,000 to the Plan, and total member contributions were approximately \$336,000.

	<u>2014</u>	<u>2013</u>
Normal cost	\$ 892,849	\$ 884,439
Amortization of unfunded actuarial accrued liability	<u>1,456,232</u>	<u>1,282,107</u>
Annual OPEB cost/expense	2,349,081	2,166,546
Contributions made	<u>(1,344,937)</u>	<u>(1,337,763)</u>
Increase in net OPEB obligation	1,004,144	828,783
Net OPEB obligation - beginning of year	<u>6,814,257</u>	<u>5,985,474</u>
Net OPEB obligation - end of year	<u>\$ 7,818,401</u>	<u>\$ 6,814,257</u>

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 No.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:

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:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/12	\$ 2,262,225	\$ 1,252,495	55%	\$ 5,985,474
12/31/13	\$ 2,166,546	\$ 1,337,763	62%	\$ 6,814,257
12/31/14	\$ 2,349,081	\$ 1,344,937	57%	\$ 7,818,401

Funding Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$43,686,973, all of which was unfunded. The covered payroll (annual payroll of the Department's active employees covered by the plan) was \$16,538,227, and the ratio of the Unfunded Actuarial Accrued Liability ("UAAL") to the covered payroll was 264%.

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
(AN ENTERPRISE FUND)
Notes to the Financial Statements
Years Ended December 31, 2014 and 2013**

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, 2014, 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 6% decreasing to 4.5% in 2018. The UAAL is being amortized as a level percentage of pay assuming a 4% increasing, open basis. The remaining amortization period at June 30, 2014, 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 \$1,478,00 and \$1,198,000 for the years ended December 31, 2014 and 2013, respectively. Expenses were approximately \$947,000 and \$922,000 for the same periods, respectively.

The business unit leases certain assets from the Plant. For the years ended December 31, 2014 and 2013, 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 2014-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 2014-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.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
Other Post-Employment Benefit Plan
Required Supplementary Information
Years Ended December 31, 2014 and 2013**

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, 2014	\$ -	\$ 43,686,973	\$ 43,686,973	0.00%	\$ 16,538,227	264%
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%

Schedule of Actuarial Methods and Assumptions

Actuarial methods:	
Valuation date	06/30/14
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount
Remaining amortization period	30 years as of June 30, 2014
Actuarial assumptions:	
Investment rate of return	4.00%
Projected salary increases	4.50%
Medical/drug cost trend rate	6% decreasing to 4.5% in 2018
Plan membership:	
Current retirees and beneficiaries	220
Current active members	130
Total	350

See notes to required supplementary information

**CITY OF TAUNTON, MASSACHUSETTS
MUNICIPAL LIGHTING PLANT
(AN ENTERPRISE FUND)
Other Post-Employment Benefit Plan
Notes to Required Supplementary Information
Years Ended December 31, 2014 and 2013**

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.

**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 Municipal Lighting 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 City of Taunton, Massachusetts, Municipal Lighting Plant (an enterprise fund) (the "Plant") which comprise the statement of net position, as of December 31, 2014 and 2013, and the statements of revenue, expenses, net position, cash flows and related notes to the financial statements, and have issued our report thereon dated April 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plant's internal control over financial reporting (internal control) 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 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 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. 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 the 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*.

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, 2015