

**CITY OF TAUNTON, MASSACHUSETTS**

**MUNICIPAL LIGHTING PLANT  
(AN ENTERPRISE FUND)**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

# MUNICIPAL LIGHTING PLANT

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## 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 statements of financial position as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position 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, an enterprise fund of the City of Taunton, Massachusetts, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 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, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years 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 Schedule of Funding Progress for Other Post-Employment Benefits, Schedule of Plant's Contributions, and Schedule of Investment Returns on Pages 4-7 and 40-42 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2017 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, RI  
May 24, 2017

**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's annual financial report, management provides narrative discussion and analysis of the financial activities of the Municipal Lighting Plant for the year ended December 31, 2016 and 2015. 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, 2016, it shows our net position of \$109,872,254 which is comprised of \$92,607,851 invested in capital assets net of related debt, \$5,597,455 restricted for depreciation, \$9,484,494 restricted for pensions and \$2,182,454 available for operations. At December 31, 2015, it shows our net position of \$95,203,096 which is comprised of \$89,721,479 net investment in capital assets, \$2,597,455 restricted for depreciation, \$8,686,444 restricted for pensions and \$5,802,282 unrestricted net position deficit.

The Statement of Net Position summarizes our operating results for the years ended December 31, 2016 and 2015. As discussed in more detail below, the Plant's net income for 2016 and 2015, was \$17,569,158 and \$9,284,635, 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.

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

**Summary of Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current Assets	\$ 37,985,577	\$ 29,348,332	\$ 28,846,952
Noncurrent Assets	138,107,542	131,178,406	126,138,831
<b>Total Assets</b>	<u>176,093,119</u>	<u>160,526,738</u>	<u>154,985,783</u>
Deferred Outflows of Resources	9,002,763	4,974,752	3,856,196
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 185,095,882</u>	<u>\$ 165,501,490</u>	<u>\$ 158,841,979</u>
Current Liabilities	\$ 11,710,230	\$ 9,837,572	\$ 9,229,266
Noncurrent Liabilities	49,638,886	54,460,822	54,794,252
<b>Total Liabilities</b>	<u>61,349,116</u>	<u>64,298,394</u>	<u>64,023,518</u>
Deferred Inflows of Resources	13,874,512	6,000,000	6,000,000
Net Investment in Capital Assets	92,607,851	89,721,479	83,947,736
Restricted for Depreciation	5,597,455	2,597,455	2,308,818
Restricted for Pension	9,484,494	8,686,444	8,610,519
Unrestricted	2,182,454	(5,802,282)	(6,048,612)
<b>Total Net Position</b>	<u>109,872,254</u>	<u>95,203,096</u>	<u>88,818,461</u>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 185,095,882</u>	<u>\$ 165,501,490</u>	<u>\$ 158,841,979</u>

**Summary of Changes in Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues	\$ 97,891,540	\$ 99,532,435	\$ 93,274,479
Operating Expenses	82,253,365	90,345,088	91,440,158
Operating Income	15,638,175	9,187,347	1,834,321
Nonoperating Revenues Less Nonoperating Expenses	1,930,983	97,288	1,099,801
Increase in Net Position before Transfers	17,569,158	9,284,635	2,934,122
Transfers Out - Payment in Lieu of Taxes	(2,900,000)	(2,900,000)	(2,900,000)
<b>Increase (decrease) in Net Position</b>	<u>\$ 14,669,158</u>	<u>\$ 6,384,635</u>	<u>\$ 34,122</u>

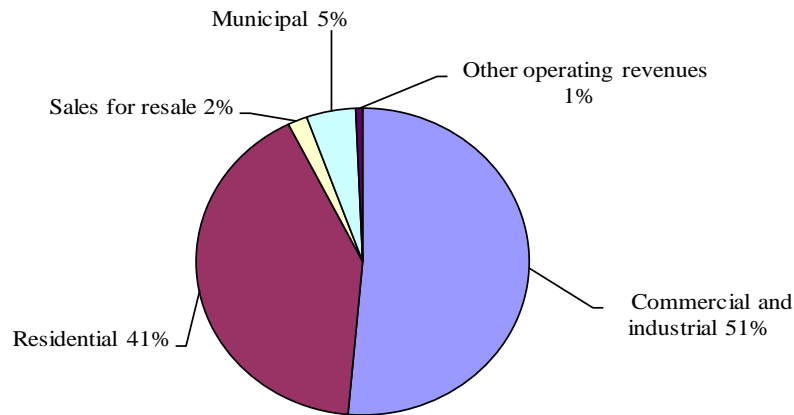
**CITY OF TAUNTON, MASSACHUSETTS  
MUNICIPAL LIGHTING PLANT  
(AN ENTERPRISE FUND)  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Financial Highlights:**

Operating revenues for 2016 decreased by \$1.6 million or 2% from 2015. The revenue decrease was a result of a reduction of sales to consumers of approximately 2.6%. Operating revenues for 2015 increased by \$6.2 million or 7% from 2014. The revenue increase is a result of an adjustment of Power Cost Adjustment rate.

Operating expenses for 2016 decreased by \$8.1 million or 9% from 2015. 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 2015 decreased by \$1.1 million or 1% from 2014. The decrease in expenses is directly related to the purchase price locked in power supply contracts.

**Source of 2016 Operating Revenues**



**Utility Plant and Debt Administration:**

Utility Plant

There was an increase in net utility plant in service of \$1,319,000 for 2016. This increase is the difference between the current year additions of \$8.9 million and the annual depreciation (3% of depreciable gross plant) expense of \$7.6 million. Additions to plant consisted principally of approximately \$1.2 million in production and transmission plant, \$6.4 million in distribution plant and \$1.3 million in general plant. Major items capitalized include a Substation Upgrade, and Generator Control System.



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

There was an increase in net utility plant in service of \$1,532,000 for 2015. This increase is the difference between the current year additions of \$8.2 million and the annual depreciation (3% of depreciable gross plant) expense of \$6.7 million. Additions to plant consisted principally of approximately \$1.9 million in production and transmission plant, \$3.8 million in distribution plant and \$2.5 million in general plant. Major items capitalized include improvements to the Distribution System.

Debt Administration

The Plant issued a \$1,200,000 Bond Anticipation Note on June 30, 2016. This general obligation bond anticipation note is guaranteed in full faith and credit of the City of Taunton. Additional information on the Plant's debt obligations can be found in Note E (pages 26-27) to the financial statements.

**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.

**Request for Information:**

This financial report is designed to provide a general overview of the City of Taunton, Massachusetts, Municipal Lighting Plant's finances for all those with an interest in the Plant's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Office of the Business Manager, 55 Weir Street, Taunton, MA 02780.

# MUNICIPAL LIGHTING PLANT

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

### Assets

	2016	2015
<b>Utility Plant - at Cost</b>		
Plant in service	\$ 247,584,923	\$ 238,705,090
Less: Accumulated depreciation	158,371,262	150,810,238
<b>Net Utility Plant in Service</b>	89,213,661	87,894,852
Investment in Seabrook	277,471	284,706
Construction work in progress	8,726,719	8,246,921
<b>Total Utility Plant</b>	98,217,851	96,426,479
<b>Other Assets</b>		
Depreciation - designated funds	5,597,455	2,597,455
Rate stabilization - designated funds	6,000,000	6,000,000
Sick leave fund	12,337,690	12,313,802
Sick leave annuities	4,567,867	4,150,205
Plant employees' retirement fund	9,484,494	8,686,444
Other post - employment benefits fund	506,590	--
Investment in Hydro Quebec Project	148,663	59,113
Investment in Energy New England LLC	1,246,932	944,908
<b>Total Other Assets</b>	39,889,691	34,751,927
<b>Current Assets</b>		
Cash	22,328,016	12,735,807
Customer deposits	1,707,735	1,609,130
Accounts receivable, less allowance for doubtful accounts of \$1,711,531 and \$1,828,836 in 2016 and 2015, respectively	7,025,039	7,226,537
Accounts receivable - internet services	100,772	100,078
Materials and supplies inventory	5,634,460	5,740,580
Prepaid expenses	1,189,555	1,936,200
<b>Total Current Assets</b>	37,985,577	29,348,332
<b>Total Assets</b>	176,093,119	160,526,738
<b>Deferred Outflows of Resources</b>		
Deferred outflows for pensions	9,002,763	4,974,752
<b>Total Assets and Deferred Outflows of Resources</b>	\$ 185,095,882	\$ 165,501,490

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

# MUNICIPAL LIGHTING PLANT

## STATEMENTS OF FINANCIAL POSITION (CONTINUED)

DECEMBER 31, 2016 AND 2015

### Liabilities, Deferred Inflows of Resources and Net Position

	2016	2015
<b>Net Position</b>		
Net Investment in capital assets	\$ 92,607,851	\$ 89,721,479
Restricted for depreciation	5,597,455	2,597,455
Restricted for pensions	9,484,494	8,686,444
Unrestricted net position	2,182,454	(5,802,282)
<b>Total Net Position</b>	109,872,254	95,203,096
<b>Non-Current Liabilities</b>		
Bonds payable - excluding current portion	4,515,000	5,610,000
Sick leave - excluding current portion	7,210,188	7,293,818
Sick leave annuities - obligation	4,567,867	4,150,205
Accrued vacation - excluding current portion	306,550	290,042
Other post - employment benefits obligation	9,618,882	8,856,870
Net pension liability	23,420,399	28,259,887
<b>Total Non-Current Liabilities</b>	49,638,886	54,460,822
<b>Current Liabilities</b>		
Bonds payable - current portion	1,095,000	1,095,000
Bond anticipation note	1,200,000	--
Accounts payable	5,419,509	4,960,611
Customer deposits	2,177,762	2,077,954
Accrued liabilities:		
Vacation - current portion	1,091,830	1,084,634
Sick leave - current portion	253,375	233,792
Interest	34,636	39,445
Payroll	311,857	222,783
Other	126,261	123,353
<b>Total Current Liabilities</b>	11,710,230	9,837,572
<b>Total Liabilities</b>	61,349,116	64,298,394
<b>Deferred Inflows of Resources</b>		
Rate stabilization	6,000,000	6,000,000
Deferred inflows for pensions	7,874,512	--
<b>Total Deferred Inflows of Resources</b>	13,874,512	6,000,000
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	\$ 185,095,882	\$ 165,501,490

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

# MUNICIPAL LIGHTING PLANT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>Operating Revenues</b>		
Sales of Electricity		
Commercial and industrial	\$ 51,802,590	\$ 53,058,120
Residential	41,535,130	41,555,061
Sales for resale	1,908,898	2,230,792
Municipal	4,815,781	4,986,215
Discounts given	(2,855,368)	(2,930,538)
<b>Total Sales of Electricity</b>	97,207,031	98,899,650
Other Operating Revenues	684,509	632,785
<b>Total Operating Revenues</b>	97,891,540	99,532,435
<b>Operating Expenses</b>		
Power production and purchases	46,128,004	53,160,783
Transmission and distribution	18,216,678	17,932,560
Customer accounting	3,904,722	4,910,549
Administrative and general	6,138,438	7,066,394
Depreciation and amortization	7,570,146	6,897,225
Nuclear expense	295,377	377,577
<b>Total Operating Expenses</b>	82,253,365	90,345,088
<b>Earnings from Operations</b>	15,638,175	9,187,347
<b>Other Income (Expense)</b>		
Interest expense	(183,909)	(215,172)
Interest income	8,430	3,000
Internet income, net	141,389	67,334
Investment income-sick leave fund	1,023,888	136,650
Investment income-retirement fund	798,050	75,925
Investment income other post - employment benefits fund	6,590	--
Other income (expenses)	136,545	29,551
<b>Total Other Income</b>	1,930,983	97,288
<b>Net Income Before Transfers</b>	17,569,158	9,284,635
<b>Transfers Out</b>		
Payment in lieu of taxes	(2,900,000)	(2,900,000)
<b>Change in Net Position</b>	14,669,158	6,384,635
<b>Net Position, Beginning</b>	95,203,096	88,818,461
<b>Net Position, Ending</b>	\$ 109,872,254	\$ 95,203,096

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

# MUNICIPAL LIGHTING PLANT

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 99,517,302	\$ 101,562,198
Cash payments to suppliers and employees	<u>(76,474,186)</u>	<u>(85,504,645)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>23,043,116</u>	<u>16,057,553</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>		
Payment to City in lieu of taxes	(2,900,000)	(2,900,000)
Transfer from the sick leave fund	<u>1,000,000</u>	<u>--</u>
<b>Net Cash Used in Non-Capital Financing Activities</b>	<u>(1,900,000)</u>	<u>(2,900,000)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Additions to utility plant, including construction in process	(9,369,312)	(11,819,974)
Proceeds from bond anticipation notes	1,200,000	--
Principal paid on bonds	(1,095,000)	(1,095,000)
Interest paid on bonds	<u>(188,369)</u>	<u>(220,056)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(9,452,681)</u>	<u>(13,135,030)</u>
<b>Cash Flows from Investing Activities</b>		
Interest and dividend income	15,020	3,000
Investment income - sick leave fund	609,532	1,249,100
Investment income - retirement fund	<u>375,827</u>	<u>839,161</u>
<b>Net Cash Provided by Investing Activities</b>	<u>1,000,379</u>	<u>2,091,261</u>
<b>Net Increase in Cash and Cash Equivalents</b>	12,690,814	2,113,784
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>22,942,392</u>	<u>20,828,608</u>
<b>Cash and Cash Equivalents - End of Year (Note D)</b>	<u>\$ 35,633,206</u>	<u>\$ 22,942,392</u>

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

**MUNICIPAL LIGHTING PLANT**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 15,638,175	\$ 9,187,347
Adjustments to reconcile operating income to net cash provided by operating activities:		
Internet income, net	141,389	67,334
Investment income on investments in associated companies	7,236	238,465
Depreciation and amortization	7,570,146	6,897,225
Changes in assets and liabilities:		
Decrease in accounts receivable	200,804	769,019
Increase in sick leave fund	(609,532)	(1,249,100)
Increase in retirement fund	(375,827)	(839,161)
Increase in other post - employment benefits fund	(506,590)	
Decrease in prepaid expenses	746,645	201,668
Increase in deferred outflows of resources	(4,028,011)	(1,118,556)
Decrease in materials and supplies inventory	106,120	353,080
Increase in deferred inflows of resources	7,874,512	--
Increase in other postemployment benefits obligation	762,012	1,038,469
(Decrease) increase in net pension liability	(4,839,488)	80,745
Increase in accounts payable	204,428	816,269
Increase in customer deposits	99,808	106,683
Decrease in sick leave liability	(64,047)	(510,312)
Increase in accrued liabilities	115,336	18,378
<b>Total Adjustments</b>	<b>7,404,941</b>	<b>6,870,206</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 23,043,116</b>	<b>\$ 16,057,553</b>
<b>Non-Cash Investing Activities:</b>		
Change in the fair value of investments-sick leave fund	\$ (585,644)	\$ (1,112,450)
Change in the fair value of investments-retirement fund	\$ 422,223	\$ 333,051

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

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**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 37,000 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.

***BASIS OF ACCOUNTING***

The Plant presents its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB). Under the accrual basis revenues are recognized when earned and expenses when the related liability for goods and services is incurred regardless of the timing of cash flows.

***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 (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.

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***RATES (CONTINUED)***

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, 2016 and 2015, there was \$9,002,763 and \$4,974,752, respectively in deferred outflows of resources related to the pension plan.

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, 2016 and 2015, there was \$6,000,000 in deferred inflows related to a rate stabilization adjustment. The Plant also reports a deferred inflow of resources related to pension plan. At December 31, 2016 and 2015, there was \$7,874,512 and \$0, respectively, in deferred inflows due to changes of assumptions related to the pension plan. A deferred inflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and include in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

***UTILITY PLANT***

The provision for depreciation of the utility plant was computed in 2016 and 2015 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.



**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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 FUND***

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

***PLANT EMPLOYEES' RETIREMENT FUND***

The Plant has established a separate Employees Retirement Fund for the financing of future contributions to the City's pension plan (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 when purchased to be cash equivalents.

***INVESTMENTS***

The Plant invests in various types of investments, which are stated at fair value in the statement of net position, based on quotations from applicable national securities exchanges. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized gains and losses, as well as changes in value of the invested funds, are included in the statement of revenues, expenses and changes in net position. The Plant investments are held in the Sick Leave Fund and Plant Employees' Retirement Fund.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risks associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of net position and activities.

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***ACCOUNTS RECEIVABLE***

The Plant carries its accounts receivable at net realizable 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.

***REVENUE RECOGNITION***

The Plant revenues are based on rates established by the Plant as authorized by the Board of Commissioners and filed with the Massachusetts Department of Public Utilities. Revenues from sales of electricity are recorded on the basis of bills rendered from monthly meter readings taken on a cycle basis. Revenues are stated net of discounts and any related bad debts.

***MATERIAL AND SUPPLIES 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 defined benefit 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. The 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 expenses. Prepaid expenses are expensed when consumed rather than purchased.

# MUNICIPAL LIGHTING PLANT

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

#### NOTE B – PLANT IN SERVICE

Plant in service activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Retirements & Adjustments	Ending Balance
Production	\$ 94,817,508	\$ 1,135,144	\$ --	\$ 95,952,652
Transmission	7,533,812	41,082	--	7,574,894
Distribution	97,743,460	6,437,652	--	104,181,112
General	<u>38,610,310</u>	<u>1,269,065</u>	<u>(3,110)</u>	<u>39,876,265</u>
Total Plant in Service	<u>238,705,090</u>	<u>8,882,943</u>	<u>(3,110)</u>	<u>247,584,923</u>
Less Accumulated Depreciation for:				
Production	66,513,907	2,173,866	--	68,687,773
Transmission	6,983,096	21,081	--	7,004,177
Distribution	56,967,241	2,855,171	--	59,822,412
General	<u>20,345,994</u>	<u>2,513,456</u>	<u>(2,550)</u>	<u>22,856,900</u>
Total Accumulated Depreciation	<u>150,810,238</u>	<u>7,563,574</u>	<u>(2,550)</u>	<u>158,371,262</u>
Net Utility Plant in Service	<u>\$ 87,894,852</u>	<u>\$ 1,319,369</u>	<u>\$ (560)</u>	<u>\$ 89,213,661</u>

Depreciation expense for utility plant in service of \$7,563,574 and for the investment in Seabrook of \$6,572 was charged to operating expenses for the year ended December 31, 2016.

Plant in service activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions	Retirements & Adjustments	Ending Balance
Production	\$ 92,917,835	\$ 1,899,673	\$ --	\$ 94,817,508
Transmission	7,533,812	--	--	7,533,812
Distribution	93,958,728	3,784,732	--	97,743,460
General	<u>36,199,689</u>	<u>2,581,902</u>	<u>(171,281)</u>	<u>38,610,310</u>
Total plant in service	<u>230,610,064</u>	<u>8,266,307</u>	<u>(171,281)</u>	<u>238,705,090</u>
Less Accumulated Depreciation for:				
Production	64,538,808	1,975,099	--	66,513,907
Transmission	6,963,550	19,546	--	6,983,096
Distribution	54,455,638	2,511,603	--	56,967,241
General	<u>18,283,439</u>	<u>2,228,308</u>	<u>(165,753)</u>	<u>20,345,994</u>
Total Accumulated Depreciation	<u>144,241,435</u>	<u>6,734,556</u>	<u>(165,753)</u>	<u>150,810,238</u>
Net Utility Plant in Service	<u>\$ 86,368,629</u>	<u>\$ 1,531,751</u>	<u>\$ (5,528)</u>	<u>\$ 87,894,852</u>

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE B – PLANT IN SERVICE (CONTINUED)**

Depreciation expense for utility plant in service of \$6,734,556 and for the investment in Seabrook of \$162,669 was charged to operating expenses for the year ended December 31, 2015.

**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 \$1,202,000 as of December 31, 2016 (the most current valuation date).

Each joint owner is required to make monthly payments into the Nuclear Decommissioning Financing Fund in accordance with the Decommissioning Fund Funding Schedule. The cost is included in nuclear expense on the statement of revenues, expenses and changes in net position as it is paid. No payments into the Nuclear Decommissioning Financing Fund were required for the year ended December 31, 2016.

***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 36.35% 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 \$137,104 and \$35,000 of gains for the years December 31, 2016 and 2015, respectively, representing the Plant's share of ENE's results of operations.

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**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, 2016 and 2015, the Plant received no dividends from the two companies.

***SICK LEAVE FUND AND PLANT EMPLOYEES’ RETIREMENT FUND INVESTMENTS***

Investments are stated at fair value which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plant follows the guidance for fair value measurements and disclosures in accordance with GASB Statement No. 72, “*Fair Value Measurement and Application*”.

In determining fair value, the Plant uses various valuation approaches, as appropriate in the circumstances. GASB Statement No. 72 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Unadjusted quoted priced in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs for the asset or liability (supported by little or no market activity). Inputs include management’s own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE C – INVESTMENTS (CONTINUED)**

***SICK LEAVE FUND AND PLANT EMPLOYEES’ RETIREMENT FUND INVESTMENTS  
(CONTINUED)***

*Domestic Equities (excluding mutual funds):* Valued using prices quoted in active markets for those securities.

*Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Plant are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plant are deemed to be actively traded.

*Fixed income securities:* Valued using active market quotations or prices obtained from independent pricing sources which may employ various pricing methods to value the investments, including matrix pricing based on quoted prices for securities with similar coupons, ratings and maturities. Accordingly, this class of investments is rated within Levels 1 and 2 of hierarchy.

Financial assets and liabilities carried at fair value as of December 31, 2016 are classified in the following tables in one of the three categories described above:

Sick Leave Fund				
Description	Level 1	Level 2	Level 3	Fair Value
Domestic Equities (excluding mutual funds)	\$ 4,788,038	\$ -	\$ -	\$ 4,788,038
Mutual Funds				
Domestic Equity	3,822,163			3,822,163
Domestic Fixed Income	623,308			623,308
International Fixed Income	622,434			622,434
Fixed Income Securities (excluding mutual funds)	468,198	1,875,401		2,343,599
	\$ 10,324,141	\$ 1,875,401	\$ -	12,199,542
Cash and cash equivalents				138,148
Total sick leave fund				\$ 12,337,690

**MUNICIPAL LIGHTING PLANT**  
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**NOTE C – INVESTMENTS (CONTINUED)**

***SICK LEAVE FUND AND PLANT EMPLOYEES’ RETIREMENT FUND INVESTMENTS  
(CONTINUED)***

Plant Employees’ Retirement Fund				
Description	Level 1	Level 2	Level 3	Fair Value
Domestic Equities (excluding mutual funds)	\$ 3,703,754	\$ -	\$ -	\$ 3,703,754
Mutual Funds				
Domestic Equity	2,966,722			2,966,722
Domestic Fixed Income	475,243			475,243
International Fixed Income	453,856			453,856
Fixed Income Securities (excluding mutual funds)	334,417	1,448,940		1,783,357
	<u>\$ 7,933,992</u>	<u>\$ 1,448,940</u>	<u>\$ -</u>	9,382,932
Cash and cash equivalents				<u>101,562</u>
Total Plant employees’ retirement fund				<u>\$ 9,484,494</u>

Financial assets and liabilities carried at fair value as of December 31, 2015 are classified in the following tables in one of the three categories described above:

Sick Leave Fund				
Description	Level 1	Level 2	Level 3	Fair Value
Domestic Equities (excluding mutual funds)	\$ 4,414,145	\$ -	\$ -	\$ 4,414,145
Mutual Funds				
Domestic Equity	3,279,119			3,279,119
Domestic Fixed Income	770,727			770,727
International Fixed Income	333,987			333,987
Fixed Income Securities (excluding mutual funds)	310,601	1,935,653		2,246,254
	<u>\$ 9,108,579</u>	<u>\$ 1,935,653</u>	<u>\$ -</u>	11,044,232
Cash and cash equivalents				<u>1,269,570</u>
Total sick leave fund				<u>\$ 12,313,802</u>

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE C – INVESTMENTS (CONTINUED)**

***SICK LEAVE FUND AND PLANT EMPLOYEES’ RETIREMENT FUND INVESTMENTS  
(CONTINUED)***

Plant Employees’ Retirement Fund				
Description	Level 1	Level 2	Level 3	Fair Value
Domestic Equities (excluding mutual funds)	\$ 3,187,155	\$ -	\$ -	\$ 3,187,155
Mutual Funds				
Domestic Equity	2,580,522			2,580,522
Domestic Fixed Income	610,269			610,269
International Fixed Income	344,341			344,341
Fixed Income Securities (excluding mutual funds)	284,903	1,528,470		1,813,373
	\$ 7,007,190	\$ 1,528,470	\$ -	8,535,660
Cash and cash equivalents				150,784
Total Plant employees’ retirement fund				\$ 8,686,444

The following are maturities of the Plant’s debt related securities, as of December 31, 2016:

Sick Leave Fund				
Type of Investment	Fair Value	0-3 Years	3-5 Years	Over 5 years
Fixed Income Securities	\$ 2,343,599	\$ 498,952	\$ 454,658	\$ 1,389,989

Plant Employees’ Retirement Fund				
Type of Investment	Fair Value	0-3 Years	3-5 Years	Over 5 years
Fixed Income Securities	\$ 1,783,357	\$ 395,727	\$ 301,744	\$ 1,085,886



# MUNICIPAL LIGHTING PLANT

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE C – INVESTMENTS (CONTINUED)**

***SICK LEAVE FUND AND PLANT EMPLOYEES’ RETIREMENT FUND INVESTMENTS  
(CONTINUED)***

The following are maturities of the Plant’s debt related securities, as of December 31, 2015:

Type of Investment	Sick Leave Fund			
	Fair Value	0-3 Years	3-5 Years	Over 5 years
Fixed Income Securities	\$ 2,246,254	\$ 456,678	\$ 586,064	\$ 1,203,512

Type of Investment	Plant Employees’ Retirement Fund			
	Fair Value	0-3 Years	3-5 Years	Over 5 years
Fixed Income Securities	\$ 1,813,373	\$ 367,851	\$ 461,593	\$ 983,929

Average ratings of the investments comprising the debt related securities above, as determined by Standards & Poor’s as of December 31, 2016 are as follows:

	Sick Leave Fund	Plant Employees’ Retirement Fund
	Fixed Income Securities	
United States Treasury	\$ 529,653	\$ 395,823
Government Agencies	732,843	558,868
AAA	222,173	183,220
AA	64,215	48,814
A	228,735	175,186
BBB	561,058	417,493
B	4,922	3,953
Total	\$ 2,343,599	\$ 1,783,357

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE C – INVESTMENTS (CONTINUED)**

***SICK LEAVE FUND AND PLANT EMPLOYEES’ RETIREMENT FUND INVESTMENTS  
(CONTINUED)***

Average ratings of the investments comprising the debt related securities above, as determined by Standards & Poor’s as of December 31, 2015 are as follows:

	Sick Leave Fund	Plant Employees’ Retirement Fund
	Fixed Income Securities	
United States Treasury	\$ 385,043	\$ 344,368
Government Agencies	680,919	534,336
AAA	298,316	246,337
AA	74,738	49,552
A	284,634	222,007
BBB	522,604	416,773
 Total	\$ 2,246,254	\$ 1,813,373

***Concentrations***

At December 31, 2016 and 2015, the Plant had a diversified portfolio in its Sick Leave and Plant Employees’ Retirement Funds were invested in various mutual funds and fixed income securities, as detailed above.

***Interest Rate Risk***

Certain of the Plant’s investments are held in mutual funds which do not bear specified interest rates. The rate of return on these investments is dependent on the operating results of the entities included in the portfolio of the mutual funds as well as overall economic conditions.

***Custodial Credit Risk***

The Plant does not have a formal policy with respect to custodial credit risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plant will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Plant does not believe that it has a significant custodial credit risk as all the investments are registered and held in the name of the Plant.

# MUNICIPAL LIGHTING PLANT

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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#### NOTE D – CASH AND CASH EQUIVALENTS

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 and cash equivalents consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash - operating	\$ 20,025,878	\$ 10,853,884
Customer deposits	1,707,735	1,609,130
Depreciation - designated funds	5,597,455	2,597,455
Rate stabilization - designated funds	<u>6,000,000</u>	<u>6,000,000</u>
Cash Deposited with City of Taunton	33,331,068	21,060,469
Cash Deposited with Energy New England LLC	<u>2,302,138</u>	<u>1,881,923</u>
	<u>\$ 35,633,206</u>	<u>\$ 22,942,392</u>

Cash, and cash equivalents at December 31 are reflected on the statements of net position as follows:

	<u>2016</u>	<u>2015</u>
Cash	\$ 22,328,016	\$ 12,735,807
Customer deposits	1,707,735	1,609,130
Depreciation - designated funds	5,597,455	2,597,455
Rate stabilization - designated funds	<u>6,000,000</u>	<u>6,000,000</u>
	<u>\$ 35,633,206</u>	<u>\$ 22,942,392</u>

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE E – SHORT -TERM AND LONG-TERM DEBT**

***GENERAL BOND ANTICIPATION NOTE***

At December 31, 2016 the Plant had a general obligation bond anticipation note (BAN) in the amount of \$1,200,000. The note was due on March 30, 2017 with interest at an annual rate of \$1.25%. Proceeds from this BAN were utilized for Distributed Generation Project.

***LONG-TERM DEBT OUTSTANDING AND ACTIVITY***

Long-term debt consists of the following:

	2016	2015
\$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.	\$ 2,900,000	\$ 3,625,000
\$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.	1,575,000	1,800,000
\$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.	1,135,000	1,280,000
Balance of long-term debt, Ending	5,610,000	6,705,000
Less: current installments of long-term debt	(1,095,000)	(1,095,000)
Long-term debt, excluding current installments	\$ 4,515,000	\$ 5,610,000

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE E – SHORT -TERM AND LONG-TERM DEBT (CONTINUED)**

***LONG-TERM DEBT OUTSTANDING AND ACTIVITY (CONTINUED)***

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

Year	Principal	Interest	Total
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	1,090,000	52,301	1,142,301
2021	365,000	31,300	396,300
2022-2024	<u>870,000</u>	<u>30,450</u>	<u>900,450</u>
Total	<u>\$ 5,610,000</u>	<u>\$ 478,692</u>	<u>\$ 6,088,692</u>

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

Long-term debt activity for the years ended December 31, 2016 and 2015 were as follows:

Description	2016				
	Outstanding			Outstanding	Due Within
	December 31, 2015	Additions	Retirements	December 31, 2016	One Year
General obligation bonds	\$ 6,705,000	\$ --	\$ (1,095,000)	\$ 5,610,000	\$ 1,095,000
Compensated absences	8,902,286	1,304,862	(1,345,205)	8,861,943	1,345,205
Other post - employment benefits obligation	8,856,870	762,012	--	9,618,882	--
Net pension liability	28,259,887	11,337,465	(16,176,953)	23,420,399	--
Sick leave annuities - obligation	<u>4,150,205</u>	<u>417,662</u>	<u>--</u>	<u>4,567,867</u>	<u>--</u>
Long-Term Liabilities	<u>\$ 56,874,248</u>	<u>\$ 13,822,001</u>	<u>\$ (18,617,158)</u>	<u>\$ 52,079,091</u>	<u>\$ 2,440,205</u>

Description	2015				
	Outstanding			Outstanding	Due Within
	December 31, 2014	Additions	Retirements	December 31, 2015	One Year
General obligation bonds	\$ 7,800,000	\$ --	\$ (1,095,000)	\$ 6,705,000	\$ 1,095,000
Compensated absences	9,457,130	763,582	(1,318,426)	8,902,286	1,318,426
Other post - employment benefits obligation	7,818,401	1,038,469	--	8,856,870	--
Net pension liability	28,179,142	80,745	--	28,259,887	--
Sick leave annuities - obligation	<u>4,325,675</u>	<u>--</u>	<u>(175,470)</u>	<u>4,150,205</u>	<u>--</u>
Long-Term Liabilities	<u>\$ 57,580,348</u>	<u>\$ 1,882,796</u>	<u>\$ (2,588,896)</u>	<u>\$ 56,874,248</u>	<u>\$ 2,413,426</u>

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**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. There have been no settlements exceeding the insurance coverage in the past three years.

***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 statement of net position with changes in fair value included in purchased power and transmission expense. No option contracts were open as of December 31, 2016 and 2015.

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.

# MUNICIPAL LIGHTING PLANT

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

#### NOTE F – COMMITMENTS AND CONTINGENCIES (CONTINUED)

##### *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.

The status of these contracts is as follows:

Counter Party	Fuel	2016 KW Entitlements	Contract End Date	Estimated Annual Minimum Payments
NextEra Energy Power Marketing, LLC	Unspecified	10,000	2018	\$ 4,326,000
Shell Energy of North America (US), L.F	Unspecified	5,000-10,000	2017-2023	5,402,000
Exelon Generation Company, LLC	Unspecified	5000-7,800	2017-2020	2,867,000
Fortistar Methane Group-GRS Fall River	Methane	5,000	2020	2,437,000
EDF Trading North America, LLC	Unspecified	7,800	2018	3,795,000
MM Taunton Energy, LLC	Methane	1,630-1,900	2019	2,049,000
Seabrook Nuclear Power Plant	Nuclear	1,170	2021	554,000
New York Power Authority	Hydro	4,845	2025	1,052,000
Braintree Electric Light Department	Methane	10,000	2029	3,466,000
Brown Bear II Hydro, Inc.	Unspecified	2,700	2021	1,191,000
Industrial Power Services Corporation	Unspecified	470	2017	210,000

#### NOTE G – PENSION PLAN

##### *DEFINED BENEFIT PLAN*

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.

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE G – PENSION PLAN (CONTINUED)**

***DEFINED BENEFIT PLAN (CONTINUED)***

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 2016, 2015 and 2014 were \$3,996,685, \$3,913,709 and \$3,783,079, respectively, and were equivalent to the required payments.

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 2027. The funding schedule has been approved by the Public Employees Retirement Association.

At December 31, 2016, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	167
Inactive members entitled to but not yet receiving benefits	4
Active plan members	<u>143</u>
Total	<u><u>314</u></u>

Copies of the System's audited financial statements can be obtained by writing to The City of Taunton Retirement System, 104 Dean Street, Suite 203, Taunton, MA 02780.



**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE G – PENSION PLAN (CONTINUED)**

***DEFINED BENEFIT PLAN (CONTINUED)***

The Plan’s investment policy in regard to the allocation of invested assets is established by the Retirement System Pension Board of Trustees. To diversify plan assets so as to minimize the risk associated with dependence of the success on one enterprise, the Board of Trustees decided to employ a multi-manager team approach to investing plan assets. Investment managers are employed to utilize individual expertise within their area of responsibility. Each manager is governed by individual investment guidelines. Separate manager guidelines for each investment manager shall serve as addenda to this Policy. Commingled funds will be governed by the guidelines adopted by said fund and reviewed during the contract negotiation process.

The following was the asset allocation as of December 31, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>
Large Cap	25%
Mid Cap	10%
Small Cap	10%
International Equity	15%
Alternative Assets	5%
Real Assets	15%
Fixed Income	<u>20%</u>
Total	<u>100%</u>

For the year ended December 31, 2016 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 0.8 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 Percent
Salary increases	3.5 Percent
Investment rate of return	8.0 Percent, net of pension plan investment expense

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE G – PENSION PLAN (CONTINUED)**

***DEFINED BENEFIT PLAN (CONTINUED)***

It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2014, fully generational. Mortality for retired members is represented by the RP-2014 Blue Collar Mortality Table set forward three years for males, and six years for females, fully generational. Mortality for disabled members is represented by the RP-2000 Mortality Table set forward two years. Generational adjusting is based on Scale MP-2014.

The long-term expected rate of return on Plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target allocation as of December 31, 2016 are summarized as follows:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap	6.4%
Mid Cap	8.9%
Small Cap	7.0%
International Equity	3.0%
Alternative Assets	6.5%
Real Assets	7.8%
Fixed Income	1.6%

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made as the current contribution rate and that the Plant's contributions will be made as the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE G – PENSION PLAN (CONTINUED)**

***NET PENSION LIABILITY***

The Plant's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016.

The components of the net pension liability at December 31, 2016 and 2015, were as follows:

	December 31, 2016	December 31, 2015
Total pension liability	\$ 93,669,104	\$ 99,172,753
Plan fiduciary net position	<u>70,248,705</u>	<u>70,912,866</u>
Net pension liability	<u>\$ 23,420,399</u>	<u>\$ 28,259,887</u>
Plan fiduciary net position as a percentage of the total pension liability	75.0%	71.5%

***SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN DISCOUNT RATE***

The following presents the net pension liability of the System calculated using the discount rate of 8 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	7.00%	8.00%	9.00%
Net pension liability	<u>\$ 33,469,469</u>	<u>\$ 23,420,399</u>	<u>\$ 14,821,827</u>

# MUNICIPAL LIGHTING PLANT

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

#### NOTE G – PENSION PLAN (CONTINUED)

***PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS***

For the years ended December 31, 2016 and 2015, the Plant recognized pension expenses of \$3,020,215 and \$2,875,897 respectively. At December 31, 2016 and 2015, the Plant reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to December 31, 2015	\$ 3,996,685	\$ --
Net difference between projected and actual earnings on pension plan investments	4,799,925	--
Changes in proportion and difference between employer contributions and proportionate share of contributions	206,153	--
Changes of assumptions	--	5,027,910
Difference between expected and actual experience	--	2,846,602
Total	\$ 9,002,763	\$ 7,874,512

	2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to December 31, 2014	\$ 3,913,709	\$ --
Earnings on pension plan investments	1,061,043	--
Total	\$ 4,974,752	\$ --

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

Year ended December 31:	
2017	\$ 3,587,664
2018	(605,594)
2019	(605,594)
2020	(873,249)
2021	(374,976)
	\$ 1,128,251

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE G – PENSION PLAN (CONTINUED)**

***RETIREMENT FUND***

The Plant has established a separate Plant Employees’ Retirement Fund for the financing of future pension plan contributions. Net position at December 31, 2016 and 2015, was approximately \$9,484,000 and \$8,686,000, 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 Plant Employees Retirement Fund in 2016 and 2015.

**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, 2016, the most recent actuarial valuation date, the Plant's membership consisted of the following:

Current retirees and beneficiaries	207
Current active members	<u>146</u>
Total	<u><u>353</u></u>

***FUNDING POLICY***

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.

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE H – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

*FUNDING POLICY (CONTINUED)*

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, 2016, the Plant contributed approximately \$1,039,000 to the Plan, and total member contributions were approximately \$347,000.

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:

	2016	2015
Normal cost	\$ 743,416	\$ 892,849
Amortization of unfunded actuarial accrued liability	1,404,284	1,456,232
Annual OPEB cost/expense	2,147,700	2,349,081
Contributions made	(1,385,688)	(1,310,612)
Increase in Net OPEB Obligation	762,012	1,038,469
Net OPEB Obligation - Beginning of Year	8,856,870	7,818,401
Net OPEB Obligation - End of Year	\$ 9,618,882	\$ 8,856,870

***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:

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE H – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

*ANNUAL OPEB COSTS AND NET OPEB OBLIGATION (CONTINUED)*

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
12/31/2014	\$ 2,349,081	\$ 1,344,937	57%	\$ 7,818,401
12/31/2015	\$ 2,349,081	\$ 1,310,612	56%	\$ 8,856,870
12/31/2016	\$ 2,147,700	\$ 1,385,688	65%	\$ 9,618,882

*FUNDING STATUS AND FUNDING PROGRESS*

As of June 30, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$42,128,522, all of which was unfunded. The covered payroll (annual payroll of the Department's active employees covered by the plan) was \$17,055,663, and the ratio of the Unfunded Actuarial Accrued Liability ("UAAL") to the covered payroll was 247%.

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 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.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**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, 2016, actuarial valuation, actuarial liabilities were determined using the projected unit credit Method. The actuarial methods and assumptions included a 4% investment rate of return and an annual health care cost rate trend of 5% 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, 2016, was 30 years.

The Schedule of Actuarial Methods and Assumptions, presented as required supplementary information following the notes to the financial statements, presents factors that significantly affect the identification of trends in the amounts reported.

***OPEB FUND***

In March 2015 the Plant established an OPEB Trust Fund for the purpose of accumulating assets to fund future payments of OPEB obligations. The initial funding of the Trust was \$500,000 made in February 2016. Net position at December 31, 2016 and 2015, was approximately \$507,000 and \$0, respectively.

**NOTE I – INTEREST 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 \$1,325,000 and \$1,154,000 for the years ended December 31, 2016 and 2015, respectively. Expenses were approximately \$1,184,000 and \$1,087,000 for the same periods, respectively.

The business unit utilizes certain assets of the Plant. For the years ended December 31, 2016 and 2015, other operating revenue for the Plant and internet expense includes approximately \$133,000, relating to this cost allocation.



**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**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 – SUBSEQUENT EVENTS**

On March 30, 2017 the Taunton Municipal Lighting Plant's \$1,200,000 general obligation bond anticipation note was purchased by a bank at a rate of 2.6%. Except as previously disclosed, there were no other events requiring recognition or disclosure in the financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**MUNICIPAL LIGHTING PLANT**  
**SCHEDULE OF FUNDING PROGRESS**  
**FOR OTHER POST-EMPLOYMENT BENEFITS PLAN**

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**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, 2016	\$ --	\$ 42,128,522	\$42,128,522	0.00%	\$17,055,663	247%
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%
June 30, 2008	\$ --	\$ 50,082,169	\$50,082,169	0.00%	\$13,794,910	363%

**SCHEDULE OF ACTUARIAL METHODS AND ASSUMPTIONS**

**Schedule of Actuarial Methods and Assumptions**

Actuarial Methods

Valuation date	6/30/2016
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount
Remaining amortization period	30 years as of June 30, 2016

Actuarial Assumptions

Investment rate of return	4.00%
Projected salary increases	4.50%
Medical/drug cost trend rate	5% decreasing to 4.5% in 2018

Plan Membership

Current retirees and beneficiaries	207
Current active members	<u>146</u>

Total	<u><u>353</u></u>
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# MUNICIPAL LIGHTING PLANT

## DEFINED BENEFIT PENSION PLAN

### SCHEDULE OF PLANT'S CONTRIBUTIONS

#### LAST TWO FISCAL YEARS

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	2016	2015
Actuarially determined contribution	\$ 3,996,685	\$ 3,913,709
Contributions in relation to the actuarially determined contribution	<u>3,996,685</u>	<u>3,913,709</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>
Covered-employee payroll	<u>\$ 17,055,663</u>	<u>\$ 17,416,747</u>
Contributions as a percentage or covered-employee payroll	23.43%	22.47%

#### Notes to Schedule

Valuation date: January 1, 2016

Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level % of payroll on an open basis
Remaining amortization period	12 years
Asset valuation method	Market Value
Inflation	3.0%
Salary increases	3.5%
Investment rate of return	7.75%
Cost of living adjustments	3% of the lesser of the pension amount and \$15,000 per year
Retirement age	65
Mortality	It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2014, fully generational. Mortality for retired members is represented by the RP-2014 Blue Collar Mortality Table set forward three years for males, and six years for females, fully generational. Mortality for disabled members is represented by the RP-2000 Mortality Table set forward two years. Generational adjusting is based on Scale MP-2014.

*1.) Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

**MUNICIPAL LIGHTING PLANT**  
**DEFINED BENEFIT PENSION PLAN**  
**SCHEDULE OF INVESTMENT RETURNS**  
**LAST TWO FISCAL YEARS**

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	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	6.41%	0.90%

*1.) Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

**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 statements of financial position, as of December 31, 2016 and 2015, and the statements of revenue, expenses and changes in net position and cash flows for the years then ended, and related notes to the financial statements, and have issued our report thereon dated May 24, 2017.

**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 opinions 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, RI  
May 24, 2017