

**CITY OF TAUNTON, MASSACHUSETTS**

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

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2015  
(WITH SUMMARIZED COMPARATIVE INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014)**

# 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 related statement of net position as of December 31, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Taunton, Massachusetts, Municipal Lighting Plant, an enterprise fund of the City of Taunton, Massachusetts, as of December 31, 2015, 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 Matters***

#### **Presentation**

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, 2015, 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.

#### **Change in Method of Accounting for Net Pension Liability**

As discussed in Note G to the financial statements, the City of Taunton, Massachusetts, Municipal Lighting Plant implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No.27* and *GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB No. 68*.

#### **Prior Period Financial Statements**

As discussed in Note M to the financial statements, management analyzed the requirements of GASB No. 68 and 71, and determined that the beginning net position should be restated. The beginning net position has been reduced by \$16,304,450 to reflect the Plant's net pension liability as of December 31, 2014. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Report on Summarized Comparative Information***

We have previously audited the City of Taunton, Massachusetts, Municipal Lighting Plant's 2014 financial statements, and we have expressed an unmodified audit opinion on those audited financial statements in our report dated April 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and Schedulers of Other Post-Employment Benefits information, and Plant's Changes in the Net Pension Liability and Related Ratios, Plant's Contributions, and Investment Returns on Pages 4-7 and 35-38 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 June 17, 2016 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  
June 17, 2016

**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 years ended December 31, 2015 and 2014. 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 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, 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. At December 31, 2014 it shows our net position of \$88,818,461 which is comprised of \$83,947,736 net investment in capital assets, \$2,308,818 restricted for depreciation, \$8,610,519 restricted for pensions and \$6,048,612 unrestricted net position deficit.

Our net position totaled \$95.2 million at December 31, 2015, an increase of \$6.3 million from December 31, 2014. The increase is due to net operating income of \$9.3 million and payment of \$2.9 million in lieu of taxes.

Our net position totaled \$88.8 million at December 31, 2014, a decrease of \$16 million from December 31, 2013. The decrease is the result of recording the net pension liability of \$28 million and pension trust fund assets of \$8.6 million to reflect implementation of GASB Statement No. 68. Also, reflected in the change to our net position is net operating income of \$3 million, payment of \$2.9 million in lieu of taxes.

The Statement of Revenue, Expenses and Changes in Net Position summarizes our operating results for the years ended December 31, 2015 and 2014. As discussed in more detail below, the Plant's net income for 2015 and 2014, was \$9,284,635 and \$2,934,122, 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**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Current Assets	\$ 29,348,332	\$ 28,846,952	\$ 35,940,919
Noncurrent Assets	131,178,406	126,138,831	111,498,024
<b>Total Assets</b>	<b>160,526,738</b>	<b>154,985,783</b>	<b>147,438,943</b>
Deferred Outflows of Resources	4,974,752	3,856,196	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 165,501,490</b>	<b>\$ 158,841,979</b>	<b>\$ 147,438,943</b>
Current Liabilities	\$ 9,837,572	\$ 9,229,266	\$ 10,688,554
Noncurrent Liabilities	54,460,822	54,794,252	25,661,600
<b>Total Liabilities</b>	<b>64,298,394</b>	<b>64,023,518</b>	<b>36,350,154</b>
Deferred Inflows of Resources	6,000,000	6,000,000	6,000,000
Net Investment in Capital Assets	89,721,479	83,947,736	79,788,053
Restricted for Depreciation	2,597,455	2,308,818	2,308,818
Restricted for Pension	8,686,444	8,610,519	-
Unrestricted	(5,802,282)	(6,048,612)	22,991,918
<b>Total Net Position</b>	<b>95,203,096</b>	<b>88,818,461</b>	<b>105,088,789</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 165,501,490</b>	<b>\$ 158,841,979</b>	<b>\$ 147,438,943</b>

**Summary of Changes in Net Position**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Operating Revenues	\$ 99,532,435	\$ 93,274,479	\$ 94,765,862
Operating Expenses	90,345,088	91,440,158	93,619,501
Operating Income	9,187,347	1,834,321	1,146,361
Nonoperating Revenues Less Nonoperating Expense	97,288	1,099,801	1,709,709
Increase in Net Position before Transfers	9,284,635	2,934,122	2,856,070
Transfers Out - Payment in Lieu of Taxes	(2,900,000)	(2,900,000)	(2,900,000)
<b>Increase (decrease) in Net Position</b>	<b>\$ 6,384,635</b>	<b>\$ 34,122</b>	<b>\$ (43,930)</b>

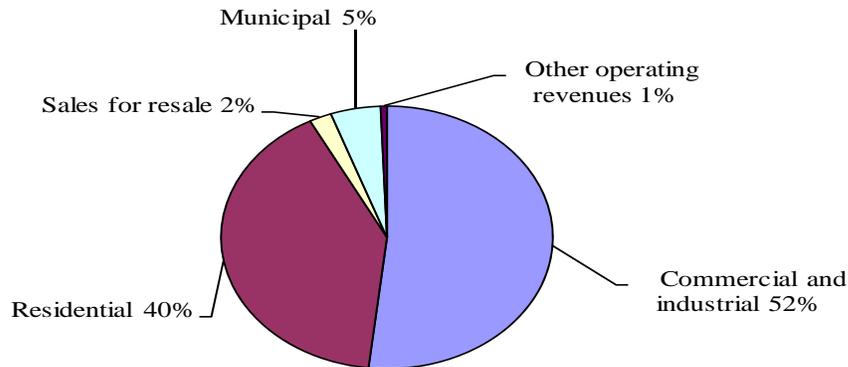
**CITY OF TAUNTON, MASSACHUSETTS  
MUNICIPAL LIGHTING PLANT  
(AN ENTERPRISE FUND)  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Financial Highlights:**

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 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 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. 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.

**Source of 2015 Operating Revenues**



**Utility Plant and Debt Administration:**

Utility Plant

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.

**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 \$15,367,000 for 2015. 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.

Debt Administration

The Plant issued \$1,425,000 of long-term serial general obligation bonds on May 22, 2014. 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 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 Trust.

Plant Employees' Retirement Fund

The employees of the Municipal Lighting 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 Municipal Lighting 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.

# MUNICIPAL LIGHTING PLANT

## STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015  
(WITH SUMMARIZED COMPARATIVE INFORMATION  
AS OF DECEMBER 31, 2014)

<b>Assets</b>	2015	2014
<b>Utility Plant - at Cost</b>		
Plant in service	\$ 238,705,090	\$ 230,610,064
Less: Accumulated depreciation	<u>150,810,238</u>	<u>144,241,435</u>
<b>Net Utility Plant in Service</b>	<u>87,894,852</u>	<u>86,368,629</u>
Investment in Seabrook	284,706	523,172
Construction work in progress	<u>8,246,921</u>	<u>4,855,935</u>
<b>Total Utility Plant</b>	<u>96,426,479</u>	<u>91,747,736</u>
<b>Other Assets</b>		
Depreciation - designated funds	2,597,455	2,308,818
Rate stabilization - designated funds	6,000,000	6,000,000
Sick leave fund	12,313,802	12,177,152
Sick leave annuities	4,150,205	4,325,675
Plant employees' retirement fund	8,686,444	8,610,519
Investment in Hydro Quebec Project	59,113	59,113
Investment in Energy New England LLC	<u>944,908</u>	<u>909,818</u>
<b>Total Other Assets</b>	<u>34,751,927</u>	<u>34,391,095</u>
<b>Current Assets</b>		
Cash	12,735,807	11,017,393
Customer deposits	1,609,130	1,502,397
Accounts receivable, less allowance for doubtful accounts of \$1,828,836 and \$1,393,286 in 2015 and 2014, respectively	7,226,537	7,986,144
Accounts receivable - internet services	100,078	109,490
Materials and supplies inventory	5,740,580	6,093,660
Prepaid expenses	<u>1,936,200</u>	<u>2,137,868</u>
<b>Total Current Assets</b>	<u>29,348,332</u>	<u>28,846,952</u>
<b>Total Assets</b>	<u>160,526,738</u>	<u>154,985,783</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows for pensions	<u>4,974,752</u>	<u>3,856,196</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 165,501,490</u>	<u>\$ 158,841,979</u>

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

# MUNICIPAL LIGHTING PLANT

## STATEMENT OF FINANCIAL POSITION (CONTINUED)

DECEMBER 31, 2015  
(WITH SUMMARIZED COMPARATIVE INFORMATION  
AS OF DECEMBER 31, 2014)

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

	2015	2014
<b>Net Position</b>		
Net Investment in capital assets	\$ 89,721,479	\$ 83,947,736
Restricted for depreciation	2,597,455	2,308,818
Restricted for pensions	8,686,444	8,610,519
Unrestricted net position	<u>(5,802,282)</u>	<u>(6,048,612)</u>
<b>Total Net Position</b>	<u>95,203,096</u>	<u>88,818,461</u>
<b>Non-Current Liabilities</b>		
Bonds payable - excluding current portion	5,610,000	6,705,000
Sick leave - excluding current portion	7,293,818	7,552,607
Sick leave annuities - obligation	4,150,205	4,325,675
Accrued vacation - excluding current portion	290,042	213,427
Other post - employment benefits obligation	8,856,870	7,818,401
Net pension liability	<u>28,259,887</u>	<u>28,179,142</u>
<b>Total Non-Current Liabilities</b>	<u>54,460,822</u>	<u>54,794,252</u>
<b>Current Liabilities</b>		
Bonds payable - current portion	1,095,000	1,095,000
Accounts payable	4,960,611	4,144,342
Customer deposits	2,077,954	1,971,271
Accrued liabilities:		
Vacation	1,084,634	1,205,781
Sick leave- current portion	233,792	485,315
Interest	39,445	44,304
Payroll	222,783	175,045
Other	<u>123,353</u>	<u>108,208</u>
<b>Total Current Liabilities</b>	<u>9,837,572</u>	<u>9,229,266</u>
<b>Total Liabilities</b>	<u>64,298,394</u>	<u>64,023,518</u>
<b>Deferred Inflows of Resources</b>		
Rate stabilization adjustment	<u>6,000,000</u>	<u>6,000,000</u>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 165,501,490</u>	<u>\$ 158,841,979</u>

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

# MUNICIPAL LIGHTING PLANT

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

**FOR THE YEAR ENDED DECEMBER 31, 2015  
(WITH SUMMARIZED COMPARATIVE INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014)**

	2015	2014
<b>Operating Revenues</b>		
Sales of Electricity		
Commercial and industrial	\$ 53,058,120	\$ 49,966,318
Residential	41,555,061	37,971,053
Sales for resale	2,230,792	2,808,677
Municipal	4,986,215	4,582,581
Discounts given	<u>(2,930,538)</u>	<u>(2,730,412)</u>
<b>Total Sales of Electricity</b>	98,899,650	92,598,217
Other Operating Revenues	<u>632,785</u>	<u>676,262</u>
<b>Total Operating Revenues</b>	<u>99,532,435</u>	<u>93,274,479</u>
<b>Operating Expenses</b>		
Power production and purchases	53,160,783	56,915,247
Transmission and distribution	17,932,560	16,135,967
Customer accounting	4,910,549	3,798,530
Administrative and general	7,066,394	7,936,962
Depreciation and amortization	6,897,225	6,253,637
Nuclear expense	<u>377,577</u>	<u>399,815</u>
<b>Total Operating Expenses</b>	<u>90,345,088</u>	<u>91,440,158</u>
<b>Earnings from Operations</b>	<u>9,187,347</u>	<u>1,834,321</u>
<b>Other Income (Expense)</b>		
Interest expense	(215,172)	(233,556)
Interest income	3,000	3,000
Internet income, net	67,334	530,665
Investment income-sick leave fund	136,650	732,947
Investment income-retirement fund	75,925	--
Other income (expenses)	<u>29,551</u>	<u>66,745</u>
<b>Total Other Income</b>	<u>97,288</u>	<u>1,099,801</u>
<b>Net Income</b>	<u>\$ 9,284,635</u>	<u>\$ 2,934,122</u>
<b>Net Position, Beginning</b>	88,818,461	105,088,789
<b>Prior Period Adjustment - See Note M</b>	<u>          --</u>	<u>(16,304,450)</u>
<b>Net Position, Beginning (as restated)</b>	88,818,461	88,784,339
<b>Net Income</b>	9,284,635	2,934,122
<b>Transfers Out</b>		
Payment in lieu of taxes	<u>(2,900,000)</u>	<u>(2,900,000)</u>
<b>Net Position, Ending</b>	<u>\$ 95,203,096</u>	<u>\$ 88,818,461</u>

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

# MUNICIPAL LIGHTING PLANT

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015  
(WITH SUMMARIZED COMPARATIVE INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014)

	2015	2014
<b>Cash Flows From Operating Activities</b>		
Cash received from customers	\$ 101,562,198	\$ 94,462,802
Cash payments to suppliers and employees	<u>(85,504,645)</u>	<u>(90,283,811)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>16,057,553</u>	<u>4,178,991</u>
<b>Cash Flows Used from Non-Capital Financing Activities:</b>		
Payment to City in lieu of taxes	<u>(2,900,000)</u>	<u>(2,900,000)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Additions to utility plant, including constriction in process	(11,819,974)	(11,042,365)
Proceeds from bond issuance	--	1,425,000
Principal paid on bonds	(1,095,000)	(951,000)
Interest paid on bonds	<u>(220,056)</u>	<u>(218,058)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(13,135,030)</u>	<u>(10,786,423)</u>
<b>Cash Flows from Investing Activities</b>		
Interest and dividend income	3,000	3,000
Investment income - sick leave fund	1,249,100	1,122,931
Investment income - retirement fund	<u>839,161</u>	<u>--</u>
<b>Net Cash Provided by Investing Activities</b>	<u>2,091,261</u>	<u>1,125,931</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,113,784	(8,381,501)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>20,828,608</u>	<u>29,210,109</u>
<b>Cash and Cash Equivalents - End of Year (Note D)</b>	<u>\$ 22,942,392</u>	<u>\$ 20,828,608</u>

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

# MUNICIPAL LIGHTING PLANT

## STATEMENT OF CASH FLOWS (CONTINUED)

**FOR THE YEAR ENDED DECEMBER 31, 2015  
(WITH SUMMARIZED COMPARATIVE INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014)**

	2015	2014
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 9,187,347	\$ 1,834,321
Adjustments to reconcile operating income to net cash provided by operating activities:		
Internet income, net	67,334	530,665
Investment income on investments in associated companies	238,465	155,052
Depreciation and amortization	6,897,225	6,253,637
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	769,019	(665,475)
Increase in sick leave fund	(1,249,100)	(1,122,931)
Increase in retirement fund	(839,161)	(55,096)
Decrease in prepaid expenses	201,668	245,573
Increase in deferred outflows of resources	(1,118,556)	--
(Increase) decrease in materials and supplies inventory	353,080	(1,404,559)
Increase in other postemployment benefits obligation	1,038,469	1,004,144
Increase in net pension liability	80,745	--
Increase (decrease) in accounts payable	816,269	(2,260,074)
Increase in customer deposits	106,683	375,781
Decrease in sick leave liability	(510,312)	(705,666)
Increase (decrease) in accrued liabilities	18,378	(6,381)
<b>Total Adjustments</b>	<b>6,870,206</b>	<b>2,344,670</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 16,057,553</b>	<b>\$ 4,178,991</b>
<b>Non-Cash Investing Activities:</b>		
Change in the fair value of investments-sick leave fund	\$ (1,112,450)	\$ 389,984
Change in the fair value of investments-retirement fund	\$ 333,051	\$ --

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

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**(WITH SUMMARIZED COMPARATIVE INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2014)**

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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 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.

***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).

***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.

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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, 2015 and 2014, there was \$4,974,752 and \$3,856,196 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, 2015 and 2014, there was \$6,000,000 in deferred inflows related to a rate stabilization adjustment.

***UTILITY PLANT***

The provision for depreciation of the utility plant was computed in 2015 and 2014 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.

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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.

The invested funds are reported at fair value in the statement of net position. 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.

***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 to be cash equivalents.

***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.

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

***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.

***SUMMARIZED COMPARATIVE INFORMATION***

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Plant's financial statements for the year ended December 31, 2014, from which the summarized information was derived. See Note M, for details relating to restatement of December 31, 2014 financial statements.

# MUNICIPAL LIGHTING PLANT

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2015 (WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014)

#### NOTE B – PLANT IN SERVICE

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>

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.

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

	Beginning Balance	Additions	Retirements & Adjustments	Ending Balance
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>

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

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.

**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 \$1,122,413 as of December 31, 2015 (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, 2015.

***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 \$35,000 and \$67,000 of gains for the years December 31, 2015 and 2014, respectively, representing the Plant's share of ENE's results of operations.

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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, 2015 and 2014, the Plant received no dividends from the two companies.

**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, 2015 and 2014:

	2015	2014
Cash - operating	\$ 10,853,884	\$ 9,135,470
Customer deposits	1,609,130	1,502,397
Decommissioning - designated funds	2,597,455	2,308,818
Rate stabilization - designated funds	6,000,000	6,000,000
Cash Deposited with City of Taunton	21,060,469	18,946,685
Cash Deposited with Energy New England LLC	1,881,923	1,881,923
	\$ 22,942,392	\$ 20,828,608

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**NOTE D – CASH AND CASH EQUIVALENTS (CONTINUED)**

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

	2015	2014
Cash	\$ 12,735,807	\$ 11,017,393
Customer deposits	1,609,130	1,502,397
Decommissioning - designated funds	2,597,455	2,308,818
Rate stabilization - designated funds	6,000,000	6,000,000
	\$ 22,942,392	\$ 20,828,608

**NOTE E – LONG-TERM DEBT**

Long-term debt consists of the following:

	2015	2014
\$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.	\$ 3,625,000	\$ 4,350,000
\$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.	1,800,000	2,025,000
\$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.	1,280,000	1,425,000
Balance of long-term debt, Ending	6,705,000	7,800,000
Less: current installments of long-term debt	(1,095,000)	(1,095,000)
Long-term debt, excluding current installments	\$ 5,610,000	\$ 6,705,000

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

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

Year	Principal	Interest	Total
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	1,090,000	52,301	1,142,301
2021-2024	<u>1,235,000</u>	<u>61,750</u>	<u>1,296,750</u>
Total	<u>\$ 6,705,000</u>	<u>\$ 662,601</u>	<u>\$ 7,367,601</u>

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

At December 31, 2015, the Plant's long-term debt outstanding and activity consisted of the following:

Description	Outstanding December 31, 2014	Additions	Retirements	Outstanding December 31, 2015	Due Within 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	<u>28,179,142</u>	<u>80,745</u>	<u>--</u>	<u>28,259,887</u>	<u>--</u>
Long-Term Liabilities	<u>\$ 53,254,673</u>	<u>\$ 1,882,796</u>	<u>\$ 2,413,426</u>	<u>\$ 52,724,043</u>	<u>\$ 2,413,426</u>

**MUNICIPAL LIGHTING PLANT**  
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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.

***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, 2015 and 2014.

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**  
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**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	2015 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.P.	Unspecified	5,000-10,000	2014-2019	15,109,000
Exelon Generation Company, LLC	Unspecified	5,000	2017	2,189,000
Macquarie Energy LLC	Unspecified	5,000	2016	75,000
Fortistar Methane Group-GRS Fall River	Methane	5,000	2020	2,465,000
EDF Trading North America, LLC	Unspecified	7,800	2018	3,858,000
MM Taunton Energy, LLC	Methane	1,630-1900	2019	2,032,000
Seabrook Nuclear Power Plant	Nuclear	1,170	2020	543,000
New York Power Authority	Hydro	4,845	2025	1,031,000
Braintree Electric Light Department	Methane	10,000	2029	3,398,000
Miller Hydro Group, Inc.	Unspecified	2,700	2016	1,356,000
Industrial Power Services Corporation	Unspecified	470	2017	210,000

**NOTE G – PENSION PLAN**

The City of Taunton has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No.27 and GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date* – an Amendment of GASB No. 68. These changes enhance the Plan’s accounting and disclosure for the pension and expand the Required Supplemental Information (RSI). These statements were issued to improve the financial reporting by state and local government pension plans. The following provides information required to be disclosed under GASB Statement No. 68.

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**NOTE G – PENSION PLAN (CONTINUED)**

***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.

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 2015, 2014 and 2013 were \$3,913,709, \$3,783,079 and \$3,468,249, 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 2031. The funding schedule has been approved by the Public Employees Retirement Association.

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**NOTE G – PENSION PLAN (CONTINUED)**

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

At December 31, 2015, pension plan membership consisted of the following:

Active plan members	146
Inactive plan members	7
Retirees and beneficiaries	138
Disabled retirees	<u>17</u>
Total	<u><u>308</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.

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 investments 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, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>
Large Cap	25%
Mid Cap	10%
Small Cap	10%
International Equity	15%
Private Equity/Venture Capital	5%
Real Assets	15%
Domestic/International Bonds	<u>20%</u>
Total	<u><u>100%</u></u>

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**NOTE G – PENSION PLAN (CONTINUED)**

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

For the year ended December 31, 2015 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 0.9 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, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

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

It is assumed that both pre-retirement and post retirement mortality are represented by the RP-2000 Mortality Table for males and females, adjusted to 2015 with Scale AA. Mortality for disabled members is represented by the RP-2000 Mortality Table set forward two years for all disabled members.

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, 2015 are summarized as follows:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap	6.9%
Mid Cap	9.1%
Small Cap	6.8%
International Equity	3.1%
Private Equity/Venture Capital	6.7%
Real Assets	8.5%
Domestic/International Bonds	1.7%

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**NOTE G – PENSION PLAN (CONTINUED)**

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

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.

***NET PENSION LIABILITY***

The Plant’s net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014.

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

Total pension liability	\$ 99,172,753
Plan fiduciary net position	<u>70,912,866</u>
Net pension liability	<u>\$ 28,259,887</u>
 Plan fiduciary net position as a percentage of the total pension liability	 71.5%

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**(WITH SUMMARIZED COMPARATIVE INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2014)**

**NOTE G – PENSION PLAN (CONTINUED)**

***NET PENSION LIABILITY (CONTINUED)***

Changes in the Plant's Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
<b>Balance at 12/31/14</b>	\$ 95,384,577	\$ 67,205,435	\$ 28,179,142
<b>Changes for the year:</b>			-
Service Cost	2,012,989		2,012,989
Interest	7,791,805		7,791,805
Contributions - employer	-	3,856,195	(3,856,195)
Contributions - employee	-	1,551,820	(1,551,820)
Other contributions	-	187,711	(187,711)
Investment income	-	4,036,554	(4,036,554)
Experience (gain) and loss	-	(135,355)	135,355
Benefit payments	(5,789,494)	(5,789,494)	-
Interest on benefit payments	(227,124)	-	(227,124)
<b>Net Changes</b>	<u>3,788,176</u>	<u>3,707,431</u>	<u>80,745</u>
<b>Balance at 12/31/2015</b>	<u>\$ 99,172,753</u>	<u>\$ 70,912,866</u>	<u>\$ 28,259,887</u>

***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:

	Current Discount		
	1% Decrease 7.00%	Rate 8.00%	1% Increase 9.00%
Net pension liability	\$ 38,791,739	\$ 28,259,887	\$ 19,725,638

**MUNICIPAL LIGHTING PLANT**  
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**NOTE G – PENSION PLAN (CONTINUED)**

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

For the year ended December 31, 2015, the Plant recognized pension expense of \$2,875,897. At December 31, 2015, the Plant reported deferred outflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>
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 related to pensions will be recognized in pension expense as follows:

**Year ended December 31:**

2016	\$ 4,178,972
2017	265,260
2018	265,260
2019	265,260
	\$ 4,974,752

***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, 2015 and 2014, was approximately \$8,686,000 and \$8,611,000, 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 2015 and 2014.

**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."

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE H – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

***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

***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.

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, 2015, the Plant contributed approximately \$983,000 to the Plan, and total member contributions were approximately \$328,000.

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE H – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

*FUNDING POLICY (CONTINUED)*

	2015	2014
Normal cost	\$ 892,849	\$ 892,849
Amortization of unfunded actuarial accrued liability	1,456,232	1,456,232
Annual OPEB cost/expense	2,349,081	2,349,081
Contributions made	(1,310,612)	(1,344,937)
Increase in Net OPEB Obligation	1,038,469	1,004,144
Net OPEB Obligation - Beginning of Year	7,818,401	6,814,257
Net OPEB Obligation - End of Year	\$ 8,856,870	\$ 7,818,401

*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:

Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	\$ 2,166,546	\$ 1,337,763	62%	\$ 6,814,257
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

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**(WITH SUMMARIZED COMPARATIVE INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2014)**

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

***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 \$17,416,747, and the ratio of the Unfunded Actuarial Accrued Liability ("UAAL") to the covered payroll was 251%.

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.

***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.

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**(WITH SUMMARIZED COMPARATIVE INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2014)**

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

*ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)*

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.

**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 \$1,154,000 and \$1,478,000 for the years ended December 31, 2015 and 2014, respectively. Expenses were approximately \$1,087,000 and \$947,000 for the same periods, respectively.

The business unit leases certain assets from the Plant. For the years ended December 31, 2015 and 2014, other operating revenue for the Plant and internet expense includes approximately \$133,000 and \$162,000, respectively, relating to this lease.

**NOTE J – SALE OF EMISSION ALLOWANCES**

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

**NOTE K – SICK LEAVE ANNUITIES**

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

**NOTE L – SUBSEQUENT EVENTS**

In March 2015 Taunton Municipal Lighting 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.

**MUNICIPAL LIGHTING PLANT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**(WITH SUMMARIZED COMPARATIVE INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2014)**

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**NOTE M – RESTATEMENT**

Based on the implementation of GASB No. 68, *Financial Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment to GASB Statement No. 68*. The opening net position was adjusted for the net pension liability as noted below.

Net position as reported, December 31, 2014	\$ 105,122,911
Net pension liability	(28,179,142)
Deferred outflows of resources	3,856,196
Plant employees' retirement fund	<u>8,018,496</u>
Net position as restated, December 31, 2014	<u>\$ 88,818,461</u>

## **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, 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**

**Actuarial Methods**

Valuation date	6/30/2014
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	<u>130</u>

Total	<u><u>350</u></u>
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# MUNICIPAL LIGHTING PLANT

## DEFINED BENEFIT PENSION PLAN

### SCHEDULE OF CHANGES IN THE PLANT'S NET PENSION LIABILITY AND RELATED RATIOS

	<u>2014</u>
<b>Total Pension Liability</b>	
Service cost	\$ 2,012,989
Interest	7,791,805
Benefit payments	(5,789,494)
Interest on benefit payments	<u>(227,124)</u>
<b>Net Change in Total Pension Liability</b>	3,788,176
<b>Total Pension Liability - Beginning</b>	<u>95,384,577</u>
<b>Total Pension Liability - Ending (a)</b>	<u><u>\$ 99,172,753</u></u>
<b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 3,856,195
Contributions - member	1,551,820
Net investment income	4,036,554
Benefit payments	(5,789,516)
Administrative expense	(135,355)
Other	<u>187,711</u>
<b>Not Change in Plan Fiduciary Net Position</b>	3,707,409
<b>Plan Fiduciary Net Position - Beginning</b>	<u>67,205,457</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ 70,912,866</u></u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u><u>\$ 28,259,887</u></u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	71.50%
<b>Covered Employee Payroll</b>	\$ 17,416,747
<b>Net Pension Liability as a Percentage of Covered-Employee Payroll</b>	162.26%

**Notes:**

1.) *The amounts presented for each fiscal year were determined as of a 12/31 measurement date prior to the fiscal year-end*

2.) *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 PLANT'S CONTRIBUTIONS

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	2014
Actuarially determined contribution	\$ 3,913,709
Contributions in relation to the actuarially determined contribution	3,913,709
Contribution deficiency (excess)	\$ --
Covered-employee payroll	\$ 17,416,747
Contributions as a percentage or covered-employee payroll	22.47%

#### Notes to Schedule

Valuation date: January 1, 2014

Actuarially determined contribution rates are calculated as of January 1, two years 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	17 years
Asset valuation method	Fair Value
Inflation	3.5%
Salary increases	3.5%
Investment rate of return	8.0%
Cost of living adjustments	3.0%
Retirement age	65
Mortality	It is assumed that both pre-retirement and post retirement mortality are represented by the RP-2000 Mortality Table for males and females, adjusted to 2015 with Scale AA. Mortality for disabled members is represented by the RP-2000 Mortality Table set forward two years for all disabled members

*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

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	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	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 statement of net position, as of December 31, 2015, and the statements of revenue, expenses, net position, cash flows and related notes to the financial statements, and have issued our report thereon dated June 17, 2016.

**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, RI  
June 17, 2016