

***NORTH ATTLEBOROUGH ELECTRIC DEPARTMENT***

***FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION***

***YEARS ENDED DECEMBER 31, 2013 AND 2012***

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## Independent Auditor's Report

To the Board of Electric Commissioners  
North Attleborough Electric Department

## Report on the Financial Statements

We have audited the accompanying financial statements of the North Attleborough Electric Department, an enterprise fund of the Town of North Attleborough, Massachusetts, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

## Management's Responsibility for the Financial Statements

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

## Auditor's 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 *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 of 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 auditor's 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 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 North Attleborough Electric Department, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1, the financial statements present only the North Attleborough Electric Department and do not purport to, and do not, present fairly the financial position of the Town of North Attleborough, Massachusetts

as of December 31, 2013 and 2012, the changes in its financial position and cash flows thereof 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, the schedule of the other postemployment benefit plan funding progress and employer contributions, and the schedule of the other postemployment benefit plan actuarial methods and assumptions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the North Attleborough Electric Department's financial statements. The Schedules of Operation and Maintenance Expenses, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have issued our report dated June 13, 2014, on our consideration of the North Attleborough Electric Department's internal control over financial reporting and 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 North Attleborough Electric Department's internal control over financial reporting and compliance.



June 13, 2014

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the North Attleborough Electric Department, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the years ended December 31, 2013 and 2012. The Department'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 Statements of Net Position are designed to indicate our financial position as of a specific point in time. Our net position decreased by \$695,000 for the year ended December 31, 2013 as compared to an increase of \$799,000 in the prior year.

The Statements of Revenues, Expenses and Changes in Net Position summarize our operating results and reveals how net position changed for the year. Our income from operations for the years ended December 31, 2013 and 2012 was \$587,000 and \$904,000, respectively. Operating revenues and expenses increased by approximately 15% and 16%, respectively, from the prior year.

The Statements of Cash Flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the operating activities, non-capital and capital related financing activities, and investing activities for the same period. The statement shows a net increase in cash of \$410,000 provided by operating activities while our ending cash balance decreased by \$3.2 million during 2013, mainly from our pre-funding contribution to the Other Postemployment Benefit Trust fund (OPEB).

Condensed statements of net position and revenues, expenses and changes in net position appear on the following page.

**Condensed Statement of Net Position**

	<u>2013</u>	<u>2012</u>
<b>Assets:</b>		
Current assets.....	\$ 12,559,738	\$ 15,824,661
Noncurrent assets (excluding capital).....	26,316,995	24,332,878
Capital assets, net of accumulated depreciation.....	14,984,433	15,912,178
<b>Total assets.....</b>	<u>53,861,166</u>	<u>56,069,717</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	3,782,942	5,078,843
Noncurrent liabilities (excluding debt).....	655,050	608,677
Current debt.....	263,692	263,692
Noncurrent debt.....	1,153,167	1,416,859
<b>Total liabilities.....</b>	<u>5,854,851</u>	<u>7,368,071</u>
<b>Deferred Inflows of Resources:</b>		
Rate stabilization.....	3,098,396	3,098,323
<b>Net Position:</b>		
Net investment in capital assets.....	13,567,574	14,231,627
Restricted for:		
Depreciation fund.....	21,686,247	19,470,507
Insurance fund.....	1,776,206	1,772,963
MMWEC Trust fund.....	-	2,578,246
Unrestricted.....	7,877,892	7,549,980
<b>Total net position.....</b>	<u>\$ 44,907,919</u>	<u>\$ 45,603,323</u>

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	<u>2013</u>	<u>2012</u>
Operating revenue.....	\$ 30,807,152	\$ 26,884,021
Operating expenses.....	<u>(30,220,585)</u>	<u>(25,979,730)</u>
Operating income.....	586,567	904,291
Non-operating revenues (expenses), net.....	<u>(981,971)</u>	<u>194,419</u>
Excess before transfers.....	(395,404)	1,098,710
Transfers out - payments in lieu of taxes.....	<u>(300,000)</u>	<u>(300,000)</u>
Change in net position.....	<u>\$ (695,404)</u>	<u>\$ 798,710</u>

**Financial Highlights**

Operating revenues increased over the previous year by \$3.9 million or 15%, while operating expenses, including depreciation, also increased by \$4.2 million or 16%. The Department experienced an increase of approximately

1.08% in the kilowatt hour sales during 2013 as compared to 2012. Power acquisition expenses increased by \$4.1 million or 22%, distribution expenses increased by \$94,000 or 5%, customer account expenses decreased by \$103,000 or 12%, and administrative and general expenses increased by \$117,000 or 4%.

Other operating revenues decreased by \$224,000. These revenues primarily consist of customer related activities other than the sale of electricity and the decrease mainly relates to one time revenues that were received in the prior year.

Other non-operating revenues and expenses consist primarily of interest and dividend income, interest expense, and a decrease in the market value of investments.

### Power Supply

North Attleborough Electric Department provides power for its customers through both fixed contracts and open market power supply in an effort to stabilize power costs. Purchased Power costs are the costs associated with buying capacity, energy, and related ancillary power costs and having it delivered to the Town of North Attleborough. There are circumstances that will cause prices to fluctuate, such as extended periods of time when the region experiences abnormal (high or low) temperatures and when fuel (gas and/or oil) prices are affected by global issues. The Electric Department has tried to position its customers so that these situations will not have an overbearing burden on them.

North Attleborough Electric Department, subject to market conditions, continues to purchase more of its energy from the market as its load increases change. For example, peak demand shifts from afternoon to early evening hours, during the summer, as air conditioning load increases. As North Attleborough's peak becomes coincident with the region, power supply costs will be more dependent on market conditions.

### ***Utility Plant and Debt Administration***

#### Utility Plant

The Department had total plant acquisitions of approximately \$758,000 in 2013. The Department expended \$543,000 for the purchase and installation of poles and related distribution equipment, and \$215,000 for general plant equipment. The Operations Division undertook the installation of underground primary cable; secondary cable and pad mount transformers within various residential subdivisions. Reconstruction of overhead distribution lines to meet the needs of the system due to load growth was undertaken throughout the town.

#### Debt Administration

The Department has Power Sales Agreements (PSAs) with the Massachusetts Municipal Wholesale Electric Company (MMWEC) along with the other municipal electrical systems in New England that are financed with bonds through MMWEC. The collective debt service owed under these bonds stand today at approximately \$219 million, of which North Attleborough Electric Department's share is \$6.8 million. The PSA payments have been and will continue to be paid with revenues received from the sales of electricity.

Outstanding long-term debt for the Department, as of December 31, 2013, totaled \$1,460,000. The Department paid a total of \$275,000 of principal payments during the year.

## ***Significant Balances and Transactions***

### Purchased Power Working Capital

The continually developing market rules continue to place a fair amount of emphasis on financial assurance and financial guarantees required by ISO-NE. North Attleborough Electric Department continues to work through its ISO-NE agent to ensure the Department can continue to participate in NEPOOL and ISO-NE. During 2013, the Department relied on Energy New England to act in the capacity of the ISO-NE agent.

The purchased power working capital is an amount held by Energy New England in the amount of approximately \$2.5 million at December 31, 2013 and \$2 million at December 31, 2012. Energy New England requires that an amount of working capital (minimum of two months) be deposited and reserved at Energy New England so that NAED's ISO-NE obligations may be paid when due.

Energy New England replenishes the fund as needed from the Department's monthly invoice payments. Developments in the power market continue to create pressure on working capital requirements that secure North Attleborough Electric Department's financial guarantee to operate in ISO-NE.

### Depreciation Fund

North Attleborough Electric Department maintains a depreciation fund which consists of three components. One component is used to pay for large capital investments such as new vehicles, equipment, distribution system upgrades and new construction. This portion of the fund is required by state statute. In accordance with state statute, we annually set aside 3% to 5% of our gross cost-of-plant to be used for capital improvements and additions. The balance of this portion of the fund was \$6 million at December 31, 2013.

The second component of the Depreciation fund was created as an aftermath of deregulation. These funds are for unexpected escalation in power costs, such as the "decommissioning" (\*see below) of nuclear power plants before the end of their operating license, unusual spikes in fuel prices, transmission cost increases and other related power costs. The balance of this portion of the fund was \$13.3 million at December 31, 2013.

The third component of the Depreciation fund was voted on by the Board of Electric Commissioners in December of 2012 and identified as Rate Stabilization Funds. The funds have been designated to offset future powers costs. The balance of this portion of the fund was \$2.4 million at December 31, 2013.

All interest on the Depreciation Fund is added to the fund balance and remains in the account.

The Department maintained a reserve trust fund with MMWEC to ensure the Department would be able to contribute its necessary share of MMWEC capital expansion. During 2013, the Department closed the reserve trust fund account and transferred the remaining balance of \$2.6 million into the Town's OPEB trust fund.

These funds will also be used to maintain the department's competitive position when the investor-owned utilities will no longer be collecting their "stranded cost" (\*\*see below) several years down the line.

\* Decommissioning of a nuclear power plant means the complete removal of any trace of that power plant. The Department has decommissioning obligations associated with PSAs through MMWEC to purchase capacity and energy from Millstone III and Seabrook. Decommissioning costs are being collected as the plants operate so that at the scheduled end of term of operation there will be monies to decommission the plant. If for some reason the plant is shut down early additional funds might have to be made available to decommission at that time.

\*\* Stranded costs refer to long-term debt or contractual obligations previously incurred that are higher compared to neighboring utility cost. The investor-owned utilities were required to sell their generation assets as a condition of deregulation and were also allowed to recover any outstanding unit costs as stranded costs.

### Rate Stabilization

Under Financial Accounting Standards #71, if the Department determines that current rates will end up paying for costs that will be incurred in a future period, then the revenues collected from those rates are not recorded as revenue but as a liability that will be taken to income when the those future costs are incurred. At December 31, 2013, the Department identified \$3.1 million that will be used to offset future costs. In accordance with the provisions of GASB Statement No. 65 the Rate Stabilization reserve is classified as a deferred inflow of resources on the Statement of Net Position.

### ***Requests for Information***

This financial report is designed to provide a general overview of the North Attleborough Electric Department's finances for all those with an interest in the Department's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Division Manager, 275 Landry Avenue, North Attleborough, Massachusetts 02760.

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# ***Financial Statements***

STATEMENTS OF NET POSITION

DECEMBER 31,

	2013	2012
<b>ASSETS</b>		
<b>CURRENT:</b>		
Funds on deposit with Town Treasurer:		
Operating cash.....	\$ 7,222,191	\$ 11,075,280
Accounts receivable, net of allowance for uncollectibles.....	1,732,240	1,783,501
Materials and supplies inventory.....	696,804	603,381
Prepaid expenses.....	405,659	359,850
Purchased power working capital.....	2,502,844	2,002,649
Total current assets.....	12,559,738	15,824,661
<b>NONCURRENT:</b>		
Funds on deposit with Town Treasurer:		
Depreciation fund.....	21,686,247	19,470,507
Customer deposits.....	531,745	511,162
Insurance escrow fund.....	1,680,206	1,676,963
MMWEC reserve trust fund.....	-	2,578,246
Investments in Captive Insurance Trust.....	96,000	96,000
Other postemployment benefits asset.....	2,322,797	-
Capital assets, net of accumulated depreciation.....	14,984,433	15,912,178
Total noncurrent assets.....	41,301,428	40,245,056
<b>TOTAL ASSETS.....</b>	<b>53,861,166</b>	<b>56,069,717</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Bonds payable.....	263,692	263,692
Accounts payable and accrued expenses.....	3,516,945	1,969,031
Refunds due to customers.....	-	2,846,534
Accrued interest.....	29,422	35,362
Compensated absences.....	236,575	227,916
Total current liabilities.....	4,046,634	5,342,535
<b>NONCURRENT LIABILITIES:</b>		
Compensated absences.....	94,500	90,200
Bonds payable, net of current portion.....	1,153,167	1,416,859
Customer deposits.....	497,706	485,338
Customer advances for construction.....	62,844	33,139
Total noncurrent liabilities.....	1,808,217	2,025,536
<b>TOTAL LIABILITIES.....</b>	<b>5,854,851</b>	<b>7,368,071</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate Stabilization.....	3,098,396	3,098,323
<b>NET POSITION</b>		
Net investment in capital assets.....	13,567,574	14,231,627
Restricted for:		
Depreciation fund.....	21,686,247	19,470,507
Insurance fund.....	1,776,206	1,772,963
MMWEC Trust fund.....	-	2,578,246
Unrestricted.....	7,877,892	7,549,980
<b>TOTAL NET POSITION.....</b>	<b>\$ 44,907,919</b>	<b>\$ 45,603,323</b>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31,

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES:</u>		
Sales of electricity .....	\$ 30,419,206	\$ 26,272,424
Other operating revenues.....	<u>387,946</u>	<u>611,597</u>
TOTAL OPERATING REVENUES .....	<u>30,807,152</u>	<u>26,884,021</u>
<u>OPERATING EXPENSES:</u>		
Power acquisition expenses.....	22,536,562	18,437,319
Distribution expenses.....	1,833,778	1,739,459
Customer account expenses.....	776,156	878,763
Administrative and general expenses.....	3,388,323	3,271,118
Depreciation.....	<u>1,685,766</u>	<u>1,653,071</u>
TOTAL OPERATING EXPENSES .....	<u>30,220,585</u>	<u>25,979,730</u>
OPERATING INCOME.....	<u>586,567</u>	<u>904,291</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Interest and dividend income.....	432,783	480,018
Interest expense.....	(90,006)	(103,443)
Decrease in market value of investments.....	(1,337,394)	(270,167)
Other revenues.....	<u>12,646</u>	<u>88,011</u>
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>(981,971)</u>	<u>194,419</u>
INCOME BEFORE TRANSFERS.....	(395,404)	1,098,710
<u>TRANSFERS:</u>		
Transfers out - payment in lieu of taxes.....	<u>(300,000)</u>	<u>(300,000)</u>
CHANGE IN NET POSITION.....	(695,404)	798,710
NET POSITION AT BEGINNING OF YEAR.....	<u>45,603,323</u>	<u>44,804,613</u>
NET POSITION AT END OF YEAR.....	<u>\$ 44,907,919</u>	<u>\$ 45,603,323</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	2013	2012
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash received from customers.....	\$ 28,024,320	\$ 27,196,914
Cash paid to suppliers.....	(24,959,703)	(20,730,590)
Cash paid to employees.....	(2,653,670)	(2,520,137)
NET CASH FROM OPERATING ACTIVITIES.....	410,947	3,946,187
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Receipts from other non-operating revenues.....	12,646	88,011
Transfers out - payment in lieu of taxes.....	(300,000)	(300,000)
Prefunding transfer for other postemployment benefits.....	(2,322,797)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(2,610,151)	(211,989)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Acquisition and construction of capital assets.....	(758,021)	(1,001,758)
Principal payments on bonds.....	(275,000)	(275,000)
Customer advances for construction.....	29,705	(7,068)
Interest expense.....	(84,639)	(98,018)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(1,087,955)	(1,381,844)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Decrease in market value of investments.....	(1,337,394)	(270,167)
Purchase of investments.....	353,215	(820,512)
Interest and dividend income.....	432,783	480,018
Proceeds from sales and maturities of investments.....	680,275	516,444
NET CASH FROM INVESTING ACTIVITIES.....	128,879	(94,217)
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(3,158,280)	2,258,137
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	16,554,375	14,296,238
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 13,396,095	\$ 16,554,375
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u>		
<u>FROM OPERATING ACTIVITIES:</u>		
Operating Income (loss).....	\$ 586,567	\$ 904,291
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation.....	1,685,766	1,653,071
Changes in assets, liabilities, and deferred inflows of resources:		
Accounts receivable.....	51,261	(314,235)
Materials and supplies inventory.....	(93,423)	119,242
Prepaid expenses.....	(45,809)	8,461
Purchased power working capital.....	(500,195)	(163)
Accounts payable and accrued expenses.....	1,547,914	63,107
Refunds due to customers.....	(2,846,534)	870,161
Rate stabilization.....	73	613,414
Compensated absences.....	12,959	15,124
Customer deposits.....	12,368	13,714
Total adjustments.....	(175,620)	3,041,896
NET CASH FROM OPERATING ACTIVITIES.....	\$ 410,947	\$ 3,946,187

See notes to financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Reporting Entity

The financial statements present only the North Attleborough Electric Department (the “Department”), an Enterprise Fund of the Town of North Attleborough, Massachusetts. These statements are not intended to present fairly the financial position of the Town of North Attleborough, Massachusetts and the results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

The Department purchases power from various sources and distributes it to approximately 13,200 consumers within the Town of North Attleborough. The Department operates under the provisions of Chapter 164 of the Massachusetts General Laws with an elected Board of Electric Commissioners (Board). The Board appoints a manager of municipal lighting who shall, under the direction of the Board, have full charge of the operation and management of the Department.

Regulation and Basis of Accounting

The Department uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The electric rates are proposed by the Department. The rates are approved by North Attleborough’s Board of Electric Commissioners. The rates may be changed once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Department, rates are not subject to DPU approval. Rates must be set such that net earnings from operations do not exceed 8% of the cost of the utility plant.

Utility Plant

The statutory provision for depreciation of a utility plant is computed on the straight-line method at 3% of the cost of plant in service at the beginning of the year, exclusive of land and land rights. Massachusetts law stipulates that the Electric Department may change from the statutory depreciation rate only with the approval of the DPU. The Department has consistently used an overall depreciation rate of 4%, which approximates GAAP.

Cash and Investments

For purpose of the statement of cash flows, the Department considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents. Investments are carried at fair value based on quoted market prices for those or similar investments.

Ending cash and cash equivalents consist of the following amounts at December 31,

	<u>2013</u>	<u>2012</u>
Operating cash.....\$	7,222,191	\$ 11,075,280
Customer deposits.....	531,745	511,162
Depreciation fund.....	3,961,953	3,290,970
Insurance escrow fund.....	<u>1,680,206</u>	<u>1,676,963</u>
Total cash and cash equivalents..... \$	<u>13,396,095</u>	<u>\$ 16,554,375</u>

### Revenues

Revenues from the sale of electricity are recorded on the basis of bills rendered from monthly readings taken on a cycle basis. The revenues are based on rates established by the Department, which are applied to customers' consumption of electricity.

The Department'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 capacity and fuel costs from stipulated base cost.

### 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.

### Materials and Supplies Inventory

Materials and supplies are valued at the lower of cost or market using the average cost method.

### Compensated Absences

In accordance with the Electric Department's personnel plan and the negotiated labor settlement with IBEW, Local 104 (Group B), employees are allowed to accumulate sick days up to a maximum of 120 days. After 120 days of accrued time, employees are eligible to earn an additional half day of vacation time per month while their sick time balance exceeds the 120 days. Upon retirement from the Department, the employee will be paid one days pay for each 8 days of accumulated sick time.

Employees are permitted to carry over ten days of vacation. Upon termination of employment with the Department, the employee will be paid for unused vacation time based on the employee's base rate of pay at the time of termination.

### Rate Stabilization

Under Financial Accounting Standards #71, if the Department determines that current rates will end up paying for costs that will be incurred in a future period, then the revenues collected from those rates are not recorded as

revenue but as a liability that will be taken to income when those future costs are incurred. The Department identified \$3.1 million and \$3.1 million at December 31, 2013 and 2012 that will be used to offset future costs. In accordance with the provisions of GASB Statement No. 65 the Rate Stabilization reserve is classified as a deferred inflow of resources on the Statement of Net Position.

#### Accounts Receivable Policy

Accounts receivable are reported net of an allowance for doubtful accounts of approximately \$363,000 and \$314,000, respectively, at December 31, 2013 and 2012. A receivable is considered past due if payments have not been received by the Department within 25 days. The Department will send a past due letter for those accounts that are 45 days past due. Four days after the past due letter is sent the department will send a notice of termination to the account owner. The morning of the shut off a courtesy call is made as a last effort to collect the past due balance prior to the account actually being shut off.

Another class of customer accounts consists of those for which the owner of record is also the customer of record. Most of those accounts are protected from shut-off for non-payment of usage charges. The Department analyzes these accounts in November of each year to determine whether or not the accounts will be collectible within a reasonable period of time. If the accounts are deemed to be uncollectible, the Department will initiate procedures to transfer the unpaid balance to the Town Assessor so that the unpaid balance can be added onto the real estate bill. The Department will write off the customer account once it has been added to the real estate bill.

#### Taxes

The Electric Department is exempt from federal income taxes. Although also exempt from property taxes, the Electric Department pays amounts in lieu of taxes to the Town of North Attleborough. A sales and use tax is assessed by the Commonwealth, in accordance with Massachusetts General Law Chapter 64H, on a portion of the sale of electricity. Taxes are remitted to the Commonwealth monthly.

#### Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position will sometimes report separate sections for deferred inflows and outflows of resources. These separate financial statement elements, *deferred outflows and inflows of resources*, represent a consumption of net position that applies to a future period and so will *not* be recognized as an outflow or inflow of resources until then. The Department has classified the Rate Stabilization reserve as a deferred inflow of resources as of December 31, 2013 and 2012, respectively.

#### Net Position Flow Assumption

Sometimes the Department will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the components of net position as restricted or unrestricted a flow assumption must be made about the order in which the resources are considered to be applied. It is the Department's policy to consider the restricted position to have been depleted before the unrestricted position is applied.

### **NOTE 2 – CASH AND INVESTMENTS**

Cash of the Department is in the control of the Town Treasurer, as required by state law. State and local statutes place certain limitations on the nature of deposits and investments available to the Department. Separate accounts are maintained for the Department's Operating cash fund, Depreciation fund, Customer Deposit fund,

Insurance Escrow fund, and the MMWEC Reserve Trust fund. All amounts, except for the Reserve Trust fund held by MMWEC, are pooled with Town funds in various Town bank accounts.

#### Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. Responsibility for enforcing policies addressing custodial credit risk of Department deposits vests with the Town Treasurer. At December 31, 2013, the Town's custodial credit risk policy for deposits is as follows:

- Unlimited amounts of deposits may be assigned to bank accounts or Certificates of Deposit that mature in one year or less only if the accounts are fully collateralized through a third party agreement;
- Unsecured bank deposits may be held for no more than 30 days during times of heavy collections or an anticipation of large payments. In this circumstance no more than 5% of an institution's assets and no more than 25% of the Town's cash may be held in unsecured bank accounts.

At fiscal year-end, the carrying amount of deposits totaled \$11,400,125. Since these deposits are pooled with other Town funds, specific collateralization information is not available.

#### Investments

As of December 31, 2013 the Department had the following investments:

Investment Type	Fair Value	Maturity (in years)				Rating
		Under 1	1 - 5	6 - 10	Over 10	
<u>Debt Securities</u>						
U.S. Government Agencies.....	\$ 15,755,855	\$ 292,192	\$ 4,288,289	\$ 11,175,374	\$ -	AA+
Government National Mortgage Association.....	699,468	-	7,174	14,185	678,109	AAA
Corporate Bonds.....	1,268,971	-	887,945	253,275	127,751	AA+ - BBB+
Total Debt Securities.....	17,724,294	\$ <u>292,192</u>	\$ <u>5,183,408</u>	\$ <u>11,442,834</u>	\$ <u>805,860</u>	
<u>Other Investments</u>						
MMDT.....	1,995,970					
Total Investments.....	\$ <u>19,720,264</u>					

MMDT maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 45 to 55 days.

#### Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Department will not be able to recover the value of its investments or collateral security that are in the possession of an outside party.

The Town maintains a policy governing custodial credit risk of investments. The policy indicates that the Town will purchase investments listed on the State of Massachusetts' list of legal investments or investment grade securities with a high concentration in securities rated A or better, with no limitation in terms of amounts invested with MMDT.

At December 31, 2013, the Department had one investment whose rating dropped to BBB+.

Additionally, any investments not held directly by the Town will be held in the Town's name and tax identification number by a third party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. Since these deposits are pooled with other Town funds, specific collateralization information is not available.

#### Concentration of Credit Risk, Interest Rate Risk, and Credit Risk

The Department's investments are under the control and custody of the Town Treasurer. As a result, specific GASB #40 disclosures relating to these investments are not available.

### **NOTE 3 – INSURANCE ESCROW FUND**

The Department has set up an insurance fund which is to be used to reduce the future costs of insurance expenses. During 2013 and 2012, the monies were invested with the Massachusetts Municipal Depository Trust. Interest earned remains in the fund. The balance of this account was \$1,680,206 and \$1,676,963 at December 31, 2013 and 2012, respectively.

### **NOTE 4 – DEPRECIATION FUND**

The Department maintains a depreciation fund, which is managed by the Town of North Attleborough's Treasurer. Internally this fund consists of three components. One is used to pay for large capital investments such as new vehicles, equipment, distribution system upgrades and new construction. This portion of the fund is required by state statute. The Department sets aside annually 3% to 5% of gross cost-of-plant to be used for capital improvements and additions. The balance of this portion of the fund was \$6,015,393 and \$5,566,768 at December 31, 2013 and 2012, respectively.

The second portion of the Depreciation fund was created as an aftermath of deregulation. These funds are for unexpected escalation in power costs, such as the "decommissioning" of nuclear power plants before the end of their operating license, unusual price spikes in fuel prices, transmission cost increases and other related power costs. The balance of this portion of the fund was \$13,258,944 and \$13,903,739 at December 31, 2013 and 2012, respectively.

The third component of the Depreciation fund was voted on by the Board of Electric Commissioners in December of 2012 and identified as Rate Stabilization Funds. The funds have been designated to offset future powers costs. The balance of this portion of the fund was \$2,411,910 and \$0 at December 31, 2013 and 2012, respectively.

All interest on the Depreciation fund is added to the fund balance and remains in the account.

### **NOTE 5 – RESERVE TRUST FUND**

The Department designs its electric service rates to recover costs of providing power supply services. In order to minimize possible future rate increases, the Department established a reserve trust fund that was held by MMWEC. During 2013, the Department closed the reserve trust fund account and transferred the balance of approximately \$2.6 million to the Town's OPEB Trust fund as a pre-funding contribution.

**NOTE 6 – PURCHASED POWER WORKING CAPITAL**

The purchased power working capital is an amount held by Energy New England, our power supply agent. The implementation of the Working Capital Program began August 1, 1985 and was originally administered by MMWEC. Under the terms of the Working Capital Program the Department approved certain working capital amendments to various power purchase agreements which require the power supply agent to hold a set amount of capital from which it may pay our power obligations when they are due. The fund is replenished as needed from our monthly invoice payments. The income earned and allocated to the Electric Department will be applied as a credit to Power Sales Billing from Energy New England. The balance in the Fund as of December 31, 2013 and 2012 was \$2,502,844 and \$2,002,649, respectively.

**NOTE 7 – OTHER INVESTMENTS**

The Department is a founding member (9.6% interest) of Public Utility Mutual Insurance Company (“PUMIC”) which has been established to provide general insurance policies to other municipal electric utilities. The Department accounts for this investment at its original cost. As of December 31, 2013 and 2012, the investment in PUMIC was \$96,000.

**NOTE 8 – UTILITY PLANT ASSETS**

Capital asset activity for the fiscal year ended December 31, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 99,623	\$ -	\$ -	\$ 99,623
<u>Capital assets being depreciated:</u>				
Distribution Plant.....	31,804,173	542,835	(106,086)	32,240,922
General Plant.....	10,339,969	215,186	(182,944)	10,372,211
Total capital assets being depreciated.....	42,144,142	758,021	(289,030)	42,613,133
<u>Less accumulated depreciation for:</u>				
Distribution Plant.....	(18,998,979)	(1,306,060)	106,086	(20,198,953)
General Plant.....	(7,332,608)	(379,706)	182,944	(7,529,370)
Total accumulated depreciation.....	(26,331,587)	(1,685,766)	289,030	(27,728,323)
Total capital assets being depreciated, net.....	15,812,555	(927,745)	-	14,884,810
Total capital assets, net.....	\$ 15,912,178	\$ (927,745)	\$ -	\$ 14,984,433

**NOTE 9 – LONG TERM DEBT**

Details related to the outstanding indebtedness at December 31, 2013 and 2012 and the debt service requirements are as follows:

Project	Interest Rate %	Maturity Dates	Outstanding at December 31, 2012	Issued	Redeemed	Outstanding at December 31, 2013
2003 Muni-Net Bonds.....	3.0 - 5.0	2023	\$ 660,000	\$ -	\$ 60,000	\$ 600,000
2003 Plant Expansion Bonds.....	1.5 - 5.0	2017	1,075,000	-	215,000	860,000
Totals.....			\$ 1,735,000	\$ -	\$ 275,000	\$ 1,460,000

Debt service requirements for principal and interest for bonds payable in future years are as follows:

Years ending December 31,	Principal	Unamortized Bond Discount	Net Principal	Interest	Total
2014.....	\$ 275,000	\$ (11,308)	\$ 263,692	\$ 69,370	\$ 333,062
2015.....	275,000	(11,308)	263,692	56,100	319,792
2016.....	280,000	(11,308)	268,692	42,650	311,342
2017.....	270,000	(9,217)	260,783	28,950	289,733
2018.....	60,000	-	60,000	17,850	77,850
2019 -2023.....	300,000	-	300,000	44,700	344,700
Totals.....	\$ 1,460,000	\$ (43,141)	\$ 1,416,859	\$ 259,620	\$ 1,676,479

**NOTE 10 – RELATED PARTY TRANSACTIONS AND BALANCES**

The Department provides electrical service to the Town for all schools, municipal buildings and street lighting at average rates per kilowatt-hour, which approximates those billed to other customers. Revenues from billing to the Town were approximately \$1,689,000 and \$1,411,000 in 2013 and 2012, respectively. Included in the accompanying statements of net position are amounts due from the Town as of December 31, 2013 and 2012 of approximately \$133,000 and \$51,000, respectively.

The Town provides police details, insurance coverage and other items to the Department. These expenses amounted to approximately \$1,294,000 and \$1,287,000 in 2013 and 2012, respectively. At December 31, 2013 and 2012, the Department owed the Town approximately \$95,000 and \$46,000, respectively. These amounts are included in accounts payable and accrued expenses in the respective year end statements of net position.

The Department made payments in lieu of property taxes to the Town in the amounts of \$300,000 during 2013 and 2012, respectively.

**NOTE 11 – MMWEC PARTICIPATION**

The Town of North Attleborough, acting through its Electric department, is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other utilities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of the Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of the Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

North Attleborough Electric Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

#### **NOTE 12 – PENSION PLAN**

The Department is a member of the North Attleborough Contributory Retirement System administered by the North Attleborough Contributory Retirement Board (the Plan). The plan is governed by M.G.L. c.32 of the Massachusetts General Laws. Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The Plan is a contributory defined benefit plan for all employees of the Town except those employees who are covered by the Massachusetts Teachers Retirement Board.

The System provides retirement allowance benefits up to a maximum of the 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.

A \$30,000 salary cap, upon which members' benefits were calculated, was removed by the Retirement Board effective January 1, 1991. Members become vested after 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total contributions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Active members contribute 5%, 7%, 8%, or 9% of their gross regular compensation. The percentage rate contributed by each member is tied to the date upon which an employee's membership commences. Members hired after 1978 contribute an additional 2% of annual pay above \$30,000. These contributions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employees' Retirement

Administration’s Commission (PERAC’s) actuary. When a member’s retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including: whether or not the disability is work related, the member’s age, years of creditable service, level of compensation, veterans’ status, and group classification. Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of the accumulated total contributions.

In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those contributions.

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

The Department is assessed annually for its share of the current year pension expense relating to employees of the Department. The amount of pension expense charged to operations for the year ended December 31, 2013, 2012 and 2011 was \$321,969, \$305,338 and \$280,413, respectively.

The Plan’s separately issued financial statements can be obtained by contacting the Town of North Attleborough Contributory Retirement Board at 500 East Washington Street, North Attleborough, MA 02761.

**NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*Plan Description* – The Department administers a single-employer defined benefit healthcare plan, (“the Retiree Health Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their dependents through the Department’s health insurance plan, which covers both active and retired members, including teachers through various health plan benefit options. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Department and the unions represented Department employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

The Plan’s membership consists of the following:

Current retirees, beneficiaries, and dependents.....	34
Current active members.....	<u>32</u>
Total.....	<u><u>66</u></u>

The Department has accepted Chapter 32b, Section 20 of MGL which established an irrevocable trust that is under control of the Board of Commissioners of the Department; however, in accordance with provisions of the law, the Department remits the annual required contribution to the Treasurer of the Town of North Attleborough who, by a vote of the Board of Electric Commissioners, has been designated as the custodian of the OPEB Trust fund assets. Funds transferred to the Town Treasurer under the provisions of MGL Chapter 32b, Section 20 are invested and managed separately from any OPEB funds that have been reserved for the benefit of Town employees and retirees that are not employed by the North Attleborough Electric Department.

*Funding Policy* – The contribution requirements of the plan members and the Department are established and may be amended through collective bargaining. The Department contributes 75% of the cost of the current-year premiums for eligible retired plan members and their dependents that receive benefits under the MBS, PPO and Medex plan options. For retired plan members and dependents who are over age 65 and receive benefits under the HMO plan option, the Department contributes 88% of the cost of current-year premiums. The Department contributes 67% of the cost of current-year premiums for spouses of retired plan members receiving benefits under the HMO option and who are under the age of 65. Plan members receiving benefits contribute the remaining 12% to 33% of their premium costs.

In addition to the expected retiree benefit payments, the Department pre-funded future OPEB liabilities in the amount of \$2,580,797 in 2013.

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

Annual Required Contribution.....	\$	472,000
Contributions made.....		<u>(2,794,797)</u>
Increase/(Decrease) in net OPEB obligation.....		(2,322,797)
Net OPEB obligation (asset) - beginning of year.....		<u>-</u>
Net OPEB obligation (asset) - end of year.....	\$	<u><u>(2,322,797)</u></u>

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
12/31/2013	\$ 472,000	592%	\$ (2,322,797)
12/31/2012	458,000	100%	-
12/31/2011	443,000	100%	-

*Funding Status and Funding Progress* – The funding status of the Plan as of the most recent actuarial valuation date, January 1, 2012, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2012	\$ 649,000	\$ 5,637,000	\$ 4,988,000	11.51%	\$ 2,130,454	234.13%
1/1/2010	147,000	5,425,000	5,278,000	2.71%	2,541,000	207.71%
1/1/2008	-	3,084,000	3,084,000	0.00%	2,331,000	132.30%

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

*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 January 1, 2012 actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial methods and assumptions included a 6% investment rate of return and an annual health care cost rate trend of 5.6% initially, graded to 4.6% over fifty years. Both rates included a 4.6% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2013 was 14 years, after implementing a supplemental amortization schedule to the January 2012 valuation.

#### **NOTE 14 – RISK MANAGEMENT**

The Department has a program to self insure for general liability claims. The Department is responsible for the payment of the first \$500,000 for each claim incurred. Claims that exceed this amount are covered by an excess liability policy with a limit of \$25 million per occurrence. No accrual has been made in the accompanying financial statements as of December 31, 2013 and 2012, as no significant claims have been submitted.

#### **NOTE 15 – CONTINGENT LIABILITIES**

The Department is involved in legal proceedings and claims arising in the normal course of business. In the opinion of management and legal counsel, North Attleborough Electric Department's liability, if any, would not materially affect its financial condition or results of operations.

Through its membership in MMWEC, the Department is contingently liable on various projects in which they participated as detailed below.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restate General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has 3.7% interest in the W.F. Wyman Unit No. 4 plant, owned and operated by FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resource LLC (formerly FPL Energy LLC) and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. In addition to Millstone Unit 3, DNCI also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC, the majority owner and an indirect subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC). The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act. Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

North Attleborough Electric Department has entered into PSA's and Power Purchase Agreements (PPA's) with MMWEC. Under both the PSA's and PPA's, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSA's, each participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Projects are completed or operating, and notwithstanding the suspension or interruption of the output of the Projects.

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the Department.

As of December 31, 2013, total capital expenditures for MMWEC's Projects amounted to \$1,607,269,000 of which \$58,850,000 represents the amount associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds totaling \$225,280,000 of which \$7,088,000 is associated with the Department's share of Project Capability in which it participates, although such amount is not allocated to the Department. As of December 31, 2013, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$218,518,000 of which \$6,823,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of North Attleborough Electric Department’s required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2013 and estimated for future years is shown below:

<u>Years Ending December 31,</u>	<u>Estimated Annual Costs</u>
2014.....	\$ 2,112,000
2015.....	1,967,000
2016.....	1,703,000
2017.....	784,000
2018.....	166,000
2019.....	<u>91,000</u>
Total.....	\$ <u><u>6,823,000</u></u>

In addition, the Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Department’s total O&M costs including debt service under the PSAs was \$5,769,000 and \$5,730,000 for the years ended December 31, 2013 and 2012, respectively.

# ***Required Supplementary Information***

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

DECEMBER 31, 2013

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2012	\$ 649,000	\$ 5,637,000	\$ 4,988,000	11.51%	\$ 2,130,454	234.13%
1/1/2010	147,000	5,425,000	5,278,000	2.71%	2,541,000	207.71%
1/1/2008	-	3,084,000	3,084,000	0.00%	2,331,000	132.30%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
12/31/2013	\$ 472,000	\$ 2,794,797	592%
12/31/2012	458,000	458,000	100%
12/31/2011	443,000	443,000	100%
12/31/2010	421,000	421,000	100%
12/31/2009	262,000	262,000	100%
12/31/2008	248,000	248,000	100%

The Department implemented GASB Statement No. 45 for the year ended December 31, 2008.

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

DECEMBER 31, 2013

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Actuarial Methods:

Valuation date.....	1/1/2012
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.5%
Remaining amortization period.....	14 years as of December 31, 2013
Actuarial Assumptions:	
Investment rate of return.....	6%
Inflation rate.....	4.6%
Projected salary increases.....	4.5%
Medical/drug cost trend rate.....	5.6% decreasing to 4.6% over 50 years

Plan Membership:

Current retirees, beneficiaries, and dependents.....	34
Current active members.....	<u>32</u>
Total.....	<u><u>66</u></u>

See notes to required supplementary information.

**NOTE A – OTHER POSTEMPLOYMENT BENEFITS**

The Department administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Department’s health insurance plan, which covers both active and retired members, including teachers.

The Department currently finances its other postemployment benefits (OPEB) on a combined pre-funded and pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) as of the most recent valuation was 11.51%. In accordance with Governmental Accounting Standards, the Department has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

The Schedule of Employer Contributions compares, over time, the annual required contributions with the actual contributions made.

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

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

## ***Other Supplementary Information***

SUPPLEMENTARY SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES

FOR THE YEARS ENDED DECEMBER 31,

	2013	2012
Power acquisition expenses:		
Purchased power.....	\$ 18,233,712	\$ 14,786,959
Transmission expenses.....	3,933,178	3,280,646
Other power expenses.....	369,672	369,714
Total power acquisition expenses.....	22,536,562	18,437,319
Distribution expenses:		
Station expenses.....	117,010	107,366
Customer installation expenses.....	71,203	65,586
Other distribution expense.....	888,854	797,336
Maintenance of overhead and underground lines.....	754,954	748,312
Maintenance of structures.....	1,757	20,859
Total distribution expenses.....	1,833,778	1,739,459
Customer account expenses:		
Meter reading expense.....	35,822	34,485
Customer records and collection.....	607,900	705,303
Customer assistance expense.....	119,531	120,823
Informational & Instructional expense.....	12,903	18,152
Total customer account expenses .....	776,156	878,763
Administrative and general expenses:		
Administrative and general salaries.....	642,583	637,194
Office supplies and expenses.....	87,834	91,084
Outside services employed.....	219,503	475,417
Insurance, injuries and damages.....	116,689	127,435
Employees' pensions and benefits.....	1,642,636	1,329,159
Miscellaneous general expense.....	228,812	215,733
Maintenance of general plant.....	450,266	395,096
Total administrative and general expenses.....	3,388,323	3,271,118
Total operation and maintenance expenses.....	\$ 28,534,819	\$ 24,326,659

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***Report on Internal Control Over Financial  
Reporting and on Compliance***



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

To the Board of Electric Commissioners  
North Attleborough Electric Department

We have audited the financial statements of the North Attleborough Electric Department (Department), an enterprise fund of the Town of North Attleborough, Massachusetts, as of and for the year ended December 31, 2013 and have issued our report thereon dated June 13, 2014. 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.

**Internal Control Over Financial Reporting**

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

*A deficiency in internal control over financial reporting 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 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.*

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Attleborough Electric Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non compliance 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Powers + Juliani, LLC*

June 13, 2014