

WELLESLEY MUNICIPAL LIGHT PLANT
*(An Enterprise Fund of the Town of Wellesley,
Massachusetts)*

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2014 AND 2013

WELLESLEY MUNICIPAL LIGHT PLANT

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Independent Auditor's Report

To the Municipal Light Board
Wellesley Municipal Light Plant

Report on the Financial Statements

We have audited the accompanying financial statements of the Wellesley Municipal Light Plant (the Plant) of the Town of Wellesley, Massachusetts, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Wellesley Municipal Light Plant of the Town of Wellesley, Massachusetts, as of June 30, 2014 and 2013, 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 Wellesley Municipal Light Plant and do not purport to, and do not, present fairly the financial position of the Town of Wellesley, Massachusetts, as of June 30, 2014 and 2013, 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, located on the following pages, 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, located after the notes to the financial statements, be presented to supplement the basic financial statements. Such information, although not a part of the basic financials statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Wellesley Municipal Light Plant's financial statements. The Schedules of Kilowatt Hours Sold and Number of Customers and Utility Plant in Service, 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 State of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2014, on our consideration of the Wellesley Municipal Light Plants' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 Wellesley Municipal Light Plant's internal control over financial reporting and compliance.



August 28, 2014

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Wellesley Municipal Light Plant, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the years ended June 30, 2014 and 2013. The Plant's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements

The 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. This report also contains other supplementary information in addition to the basic financial statements.

The statement of net position is designed to indicate the Plant's financial position as of a specific point in time. At June 30, 2014, it shows the Plant's net position of \$66,825,000, which is comprised of 58,144,000 (87%) net investment of capital assets, \$2,000,000 (3%) restricted for depreciation, and \$6,681,000 (10%) which is unrestricted.

The statements of revenues, expenses and changes in net position summarize the Plant's operating results and reveals how net position changed for the year. Net position increased for the year ended June 30, 2014 by \$505,000 and increased for the year ended June 30, 2013 by \$1,964,000. The change is mainly related to increased purchase power and transmission costs.

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.

Condensed Statement of Net Position

	2014	2013
Assets:		
Current assets.....	\$ 11,786,495	\$ 11,992,138
Noncurrent assets (excluding capital).....	362,601	359,152
Capital assets, non depreciable.....	137,770	407,251
Capital assets, net of accumulated depreciation.....	58,005,733	57,449,814
Total assets.....	70,292,599	70,208,355
Liabilities:		
Current liabilities (excluding debt).....	2,639,765	3,037,391
Noncurrent liabilities (excluding debt).....	827,917	850,674
Total liabilities.....	3,467,682	3,888,065
Net Position:		
Net investment in capital assets.....	58,143,503	57,857,065
Restricted for depreciation.....	2,000,000	2,000,000
Unrestricted.....	6,681,414	6,463,225
Total net position.....	\$ 66,824,917	\$ 66,320,290

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

	2014		2013
Operating revenue.....	\$ 33,747,559	\$	33,775,820
Operating expenses.....	32,844,363		31,251,875
Operating income.....	903,196		2,523,945
Interest paid on customer security deposits.....	(1,240)		(1,247)
Excess before contributions and transfers.....	901,956		2,522,698
Capital contributions.....	602,671		441,013
Transfers out- payment in lieu of taxes.....	(1,000,000)		(1,000,000)
Change in net position.....	\$ 504,627	\$	1,963,711
Net position at beginning of year.....	66,320,290		64,356,579
Net position at end of year.....	66,824,917	\$	66,320,290

Financial Highlights

Operating revenues were \$33,748,000 in 2014, a decrease of less than .5% from 2013. Kilowatt hours sold decreased to 247,815,724 in 2014 compared to 248,169,479 in 2013.

Operating expenses were \$32,844,000 in 2014 compared to \$31,252,000 in 2013. The \$1.6 million increase is mainly due to purchase power and transmission costs.

Transfers out consists of a payment in lieu of taxes of \$1,000,000 to the Town of Wellesley in both 2014 and 2013.

Utility Plant

Utility Plant

The Plant had total acquisitions of approximately \$3.4 million in 2014. The Plant expended approximately \$5,500 for transmission plant, \$3 million for distribution plant and \$432,000 for vehicles and other equipment.

Requests for Information

This financial report is designed to provide a general overview of the Wellesley Municipal Light Plant's finances for all those with an interest in the Plant's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Light Plant Director, 4 Municipal Way, Wellesley, Massachusetts 02481.

Financial Statements

STATEMENTS OF NET POSITION

JUNE 30,

	2014	2013
ASSETS		
CURRENT:		
Unrestricted cash and cash equivalents.....	\$ 4,374,205	\$ 4,636,100
Restricted cash and cash equivalents.....	2,000,000	2,000,000
Receivables, net of allowance for uncollectibles:		
Purchased power advance deposits.....	1,524,039	1,587,389
Inventory.....	664,323	670,676
Other assets.....	108,738	96,505
Total current assets.....	<u>11,786,495</u>	<u>11,992,138</u>
NONCURRENT:		
Investment in Energy New England, LLC.....	150,000	150,000
Other postemployment benefits asset.....	212,601	209,152
Capital assets, nondepreciable.....	137,770	407,251
Capital assets, net of accumulated depreciation.....	<u>58,005,733</u>	<u>57,449,814</u>
Total noncurrent assets.....	<u>58,506,104</u>	<u>58,216,217</u>
TOTAL ASSETS.....	<u>70,292,599</u>	<u>70,208,355</u>
LIABILITIES		
CURRENT LIABILITIES:		
Warrants payable.....	2,271,378	2,585,758
Refunds due customers.....	-	19,277
Accrued payroll.....	48,939	128,433
Customer advances for construction.....	302,148	296,023
Compensated absences.....	<u>17,300</u>	<u>7,900</u>
Total current liabilities.....	<u>2,639,765</u>	<u>3,037,391</u>
NONCURRENT LIABILITIES:		
Compensated absences.....	11,578	5,274
Customer deposits.....	<u>816,339</u>	<u>845,400</u>
Total noncurrent liabilities.....	<u>827,917</u>	<u>850,674</u>
TOTAL LIABILITIES.....	<u>3,467,682</u>	<u>3,888,065</u>
NET POSITION		
Net investment in capital assets.....	58,143,503	57,857,065
Restricted for depreciation.....	2,000,000	2,000,000
Unrestricted.....	<u>6,681,414</u>	<u>6,463,225</u>
TOTAL NET POSITION.....	<u>\$ 66,824,917</u>	<u>\$ 66,320,290</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30,

	2014	2013
OPERATING REVENUES:		
Distribution wheeling.....	\$ 17,059	\$ 16,477
Residential.....	14,608,362	14,590,170
Commercial.....	8,940,558	9,054,311
Municipal.....	1,413,676	1,379,402
Street lighting.....	219,649	222,536
Industrial.....	6,244,733	6,284,947
Partial industrial.....	662,006	722,682
Customer discounts.....	<u>(816,785)</u>	<u>(810,370)</u>
Net customer sales.....	31,289,259	31,460,155
Contracted services.....	1,411,479	1,340,490
Other operating revenue.....	<u>1,046,821</u>	<u>975,175</u>
TOTAL OPERATING REVENUES	<u>33,747,559</u>	<u>33,775,820</u>
OPERATING EXPENSES:		
Purchase power.....	18,699,364	17,776,736
Transmission.....	4,559,890	4,102,803
Forward capacity market charge.....	3,134,153	3,248,371
Cost of contracted services.....	770,912	753,697
Cost associated with other revenue.....	399,919	475,442
Distribution.....	1,100,032	1,005,114
Customer accounts.....	583,062	520,244
Administration and general.....	484,999	415,018
Depreciation.....	<u>3,112,032</u>	<u>2,954,450</u>
TOTAL OPERATING EXPENSES	<u>32,844,363</u>	<u>31,251,875</u>
OPERATING INCOME.....	<u>903,196</u>	<u>2,523,945</u>
NONOPERATING REVENUES (EXPENSES):		
Interest expense.....	<u>(1,240)</u>	<u>(1,247)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS.....	901,956	2,522,698
CONTRIBUTIONS IN AID OF CONSTRUCTION.....	602,671	441,013
TRANSFERS:		
Payment in lieu of taxes, Town of Wellesley.....	<u>(1,000,000)</u>	<u>(1,000,000)</u>
CHANGE IN NET POSITION.....	504,627	1,963,711
NET POSITION AT BEGINNING OF YEAR.....	<u>66,320,290</u>	<u>64,356,579</u>
NET POSITION AT END OF YEAR.....	<u>\$ 66,824,917</u>	<u>\$ 66,320,290</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	2014	2013
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customer and users.....	\$ 33,591,624	\$ 33,744,003
Payments to vendors.....	(29,095,392)	(27,234,462)
Cash paid to employees.....	(957,639)	(855,257)
NET CASH FROM OPERATING ACTIVITIES.....	3,538,593	5,654,284
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Payment in lieu of taxes, Town of Wellesley.....	(1,000,000)	(1,000,000)
Prefunding transfer for other postemployment benefits.....	(3,449)	(22,651)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,003,449)	(1,022,651)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Capital contributions.....	602,671	441,013
Acquisition and construction of capital assets.....	(3,398,470)	(5,958,416)
Interest expense.....	(1,240)	(1,247)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(2,797,039)	(5,518,650)
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(261,895)	(887,017)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	6,636,100	7,523,117
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 6,374,205	\$ 6,636,100
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u>		
<u>FROM OPERATING ACTIVITIES:</u>		
Operating Income.....	\$ 903,196	\$ 2,523,945
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation.....	3,112,032	2,954,450
Changes in assets and liabilities:		
Accounts receivable.....	(113,722)	41,473
Purchased power advance deposits.....	63,350	(130,687)
Inventory.....	6,353	110,427
Other assets.....	(12,233)	(312)
Warrants payable.....	(314,380)	189,686
Refunds due customers.....	(19,277)	(161,632)
Accrued payroll.....	(79,494)	51,585
Customer advances for construction.....	6,125	94,640
Compensated absences.....	15,704	(12,993)
Customer deposits.....	(29,061)	(6,298)
Total adjustments.....	2,635,397	3,130,339
NET CASH FROM OPERATING ACTIVITIES.....	\$ 3,538,593	\$ 5,654,284

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESReporting Entity

The financial statements present only the Wellesley Municipal Light Plant (the Plant or WMLP), an Enterprise Fund of the Town of Wellesley, Massachusetts. These statements are not intended to present fairly the financial position of the Town of Wellesley, Massachusetts and the results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

The WMLP purchases power from various sources and distributes it to consumers within the Town of Wellesley. The WMLP operates under the provisions of Chapter 164 of the Massachusetts General Laws. The Board of Electric Commissioners (Board) is comprised of 5 members; 3 of the members are elected and 2 members are appointed by the Town's Board of Selectmen. 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 WMLP.

Regulation and Basis of Accounting

The WMLP complies with Generally Accepted Accounting Principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The WMLP adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, in 2003.

The WMLP 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 Plant. The rates are approved by Wellesley's Board of Electric Commissioners. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Plant, 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.

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 Plant, which are applied to customers' consumption of electricity.

Cash and Investments

For purpose of the statement of cash flows, the WMLP considers all unrestricted and restricted cash on deposit with the Town Treasurer as cash or cash equivalents. For purposes of the statements of net position, investments with original maturities of three months or less are considered to be cash equivalents. Investments are carried at fair value based on quoted market prices for those or similar investments.

Inventories

Material and supplies inventory consists of parts and accessories purchased for use in the utility business for construction, operation, and maintenance purposes and are stated at the lower of cost or market using the average cost method. Meters and transformers are capitalized when purchased.

Utility Plant

Capital assets, which include property, plant, equipment, and infrastructure, are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Generally all purchases and construction costs in excess of \$500 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

The estimated useful lives of capital assets being depreciated are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Transmission plant.....	25-33
Distribution plant.....	10-40
Vehicles and other equipment.....	3-10

Compensated Absences

In accordance with the negotiated labor settlement with the AFSCME, Local 335, employees are allowed to accumulate personal days up to a maximum of 8 days. Upon retirement or separation from the department, the employees will be paid one days' pay for each of the accumulated personal days up to the maximum of 8 days.

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.

Taxes

The WMLP is exempt from federal income taxes. Although also exempt from property taxes, the WMLP pays amounts in lieu of taxes to the Town of Wellesley. A sales and use tax is assessed by the Commonwealth on a portion of the sale of electricity. Taxes are remitted to the Commonwealth monthly.

NOTE 2 – CASH AND INVESTMENTS

Cash of the WMLP 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 Plant. Separate accounts are maintained for the Plant’s Operating cash fund, Depreciation fund and Escrow fund.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Plant’s deposits may not be returned to it. Responsibility for enforcing policies addressing custodial credit risk of Plant deposits vests with the Town Treasurer. The Town policy for mitigating custodial credit risk is that the Town will not have on deposits amounts exceeding 10% of capital and surplus and 10% of net equity, unless those deposits carry full FDIC insurance or are collateralized. In addition, it is the Town’s policy that at no time shall any single bank or bank holding company hold an excess of 25% of the cash balance under the control of the Treasurer for more than three consecutive days. At year-end, the carrying amount of deposits, including the escrow fund, totaled \$6,374,205 for 2014 and \$6,636,100 for 2013.

NOTE 3 – RESTRICTED CASH

Restricted cash consists of the following at June 30,

	2014	2013
Depreciation Fund.....	\$ 2,000,000	\$ 2,000,000

The depreciation fund is a statutory reserve where the department maintains a \$2,000,000 balance for future capital improvements.

NOTE 4 – ESCROW FUND

The WMLP has setup an escrow fund which is to be used to offset the possible future payment of an unresolved issue with NSTAR. The monies were maintained in a certificate of deposit with Wellesley Bank in the amounts of approximately \$236,000 during years 2014 and 2013.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30,

	<u>2014</u>	<u>2013</u>
Receivables, net of allowance for uncollectibles:		
User charges.....	\$ 2,742,741	\$ 2,776,446
Utility liens.....	24,209	19,461
Other services.....	<u>348,240</u>	<u>205,561</u>
Total.....	<u>\$ 3,115,190</u>	<u>\$ 3,001,468</u>

Accounts receivable are net of an allowance for doubtful accounts in the amounts of \$13,100 and \$21,400 at June 30, 2014 and 2013 respectively.

NOTE 6 – PURCHASED POWER ADVANCE DEPOSITS

Purchased power advance deposits consist of advance payments for monthly purchases of power. As of June 30, 2014 and 2013, these advances totaled \$1,524,039 and \$1,587,389, respectively.

NOTE 7 – INVENTORY

Inventories are comprised of the following as of June 30,

	<u>2014</u>	<u>2013</u>
Street light materials.....	\$ 99,056	\$ 93,905
Wire and cable.....	277,605	275,803
Overhead materials.....	116,061	120,133
Underground materials.....	<u>171,601</u>	<u>180,835</u>
Total.....	<u>\$ 664,323</u>	<u>\$ 670,676</u>

NOTE 8 – INVESTMENT IN ENERGY NEW ENGLAND, LLC

In May 2007 the WMLP invested in a capital subscription for 5% ownership interest in Energy New England, LLC in the amount of \$150,000. The investment is carried at cost.

The WMLP purchases approximately 90% of its energy through its affiliation with Energy New England, LLC. The WMLP has entered into tradable hedging contracts with Energy New England, LLC through 2019.

The following are the WMLP's future purchase commitments at June 30, 2014:

Energy Purchase Commitments
Megawatt-Hour (MWH)

Fiscal Year	Projected MWH's	Committed MWH's	Average Cost Per MWH	Total Commitments
2015	253,179	216,943	\$ 56.34	\$ 12,222,569
2016	255,686	208,486	55.84	11,641,858
2017	258,224	206,518	52.81	10,906,216
2018	260,787	119,001	57.10	6,794,957
2019	<u>263,376</u>	<u>41,989</u>	65.92	<u>2,767,915</u>
	<u>1,291,252</u>	<u>792,937</u>		<u>\$ 44,333,515</u>

Based on Energy New England's analysis through December 2017 of the Plant's firm commitment with respect to future energy purchases, the WMLP has locked-in energy prices through this period that are currently approximately \$4.1 million below market prices as of June 30, 2014.

NOTE 9 – UTILITY PLANT ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land and land rights.....	\$ 137,770	\$ -	\$ -	\$ 137,770
Construction in progress.....	<u>269,481</u>	<u>-</u>	<u>(269,481)</u>	<u>-</u>
Total capital assets not being depreciated.....	<u>407,251</u>	<u>-</u>	<u>(269,481)</u>	<u>137,770</u>
<u>Capital assets being depreciated:</u>				
Transmission plant.....	12,806,093	5,483	-	12,811,576
Distribution plant.....	78,217,121	3,230,421	(160,623)	81,286,919
Vehicles and other equipment.....	<u>4,173,954</u>	<u>432,047</u>	<u>(297,342)</u>	<u>4,308,659</u>
Total capital assets being depreciated.....	<u>95,197,168</u>	<u>3,667,951</u>	<u>(457,965)</u>	<u>98,407,154</u>
<u>Less accumulated depreciation for:</u>				
Transmission plant.....	(7,826,484)	(436,892)	-	(8,263,376)
Distribution plant.....	(27,361,885)	(2,381,397)	160,623	(29,582,659)
Vehicles and other equipment.....	<u>(2,558,985)</u>	<u>(293,743)</u>	<u>297,342</u>	<u>(2,555,386)</u>
Total accumulated depreciation.....	<u>(37,747,354)</u>	<u>(3,112,032)</u>	<u>457,965</u>	<u>(40,401,421)</u>
Total capital assets being depreciated, net.....	<u>57,449,814</u>	<u>555,919</u>	<u>-</u>	<u>58,005,733</u>
Total business-type activities capital assets, net.....	<u>\$ 57,857,065</u>	<u>\$ 555,919</u>	<u>\$ (269,481)</u>	<u>\$ 58,143,503</u>

Depreciation expense amounted to \$3,112,032 and \$2,954,450 for the years ended June 30, 2014 and 2013, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

The WMLP provides electric service to the Town for all schools, municipal buildings, and street lighting at discounted rates. During 2014 the Plant's kilowatt-hour (kWh) charges were 12.17 cents/kwh and 11.69 cents/kwh for school & municipal building and street lights, respectively.

Revenues from billings to the Town for the years ending June 30 were as follows:

	<u>2014</u>	<u>2013</u>
Schools & Municipal buildings.....\$	1,413,676	\$ 1,379,402
Street lighting.....	<u>219,649</u>	<u>222,536</u>
Total.....	<u>\$ 1,633,325</u>	<u>\$ 1,601,938</u>

The WMLP made payments in lieu of property taxes to the Town of Wellesley, Massachusetts in the amount of \$1,000,000 for years 2014 and 2013, respectively.

In 2014 the Plant also contributed \$134,000 for the network and information systems function and \$87,000 in support of the sustainable energy committee.

NOTE 11 – PENSION PLAN

The WMLP contributes to the Town of Wellesley Contributory Retirement System (the System), a cost-sharing, multiple-employer defined benefit pension plan administered by the Wellesley Retirement Board. 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.

Plan members are required to contribute to the Systems at rates ranging from 5% to 11% of annual covered compensation. The Plant is required to pay into the System its share of the system-wide actuarial determined contribution plus administrative costs, which are apportioned among the employers based on active current payroll. The contributions of plan members and the Plant are governed by Chapter 32 of the MGL.

The Plant's contributions to the System for the years ended June 30, 2014, 2013 and 2012 were \$659,709, \$502,352 and \$397,257, respectively, which equaled its required contribution for each year. The required contribution was determined as part of the January 1, 2013 actuarial valuation using the individual entry-age-normal actuarial cost method. The actuarial assumptions included a 7.0% investment rate of return and projected salary increases based on years of service. The actuarial value of the System's assets is determined by projecting the market value of assets as of the beginning of the prior plan year using the assumed rate of return during that year and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return

over a five-year period. The System’s unfunded actuarial accrued liability is being amortized over 28 years from July 1, 2014 in level installments.

The System’s separately issued financial statements can be obtained by contacting the Town of Wellesley Contributory Retirement Board at 525 Washington Street, Wellesley, MA 02482.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

June 30, 2008 was the initial year that the Plant implemented GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension* (GASB 45). As allowed by GASB 45, the Plant initially established the net Other Postemployment Benefit (OPEB) obligation at zero at the beginning of the transition year and has applied the measurement and recognition requirements of GASB 45 on a prospective basis.

Plan Description – The Town of Wellesley administers a single-employer defined benefit healthcare plan (“The Other Postemployment Benefit Plan”), which the WMLP participates in. The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Plant and the unions representing Plant employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

The Town adopted MGL, Chapter 32B, Section 18 in April 2006, requiring all Medicare-eligible retirees to enroll in a Medicare supplement plan. The effects of this adoption have been included in the determination of OPEB liabilities by the Town’s actuary.

At June 30, 2012 the Plant’s membership consisted of the following:

Current retirees, beneficiaries, and dependents.....	40
Current active members.....	<u>28</u>
Total.....	<u><u>68</u></u>

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. Retired plan members and beneficiaries currently receiving benefits are required to contribute between 17.7% and 50% of the cost of benefits provided depending on the plan they choose. The Town is required to contribute the balance of the current premiums and may contribute additional amounts to pre-fund benefits. The Plant contributed \$629,000 during the current year towards these benefits including the pre-funding amount discussed below. Administrative costs of the Plan are assumed to be included in the fully insured premium rates.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish the Postemployment Benefit Trust Fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities. During 2014, the Plant pre-funded future OPEB liabilities in the amount of \$305,000.

Annual OPEB Cost and Net OPEB Obligation – The Plant’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed ten years.

The components of the Plant’s annual OPEB cost 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:

Annual required contribution.....	\$ 628,828
Interest on net OPEB obligation/(asset).....	(19,282)
Adjustments to annual required contribution.....	<u>15,833</u>
Annual OPEB cost.....	625,379
Contributions made.....	<u>(628,828)</u>
Increase/(Decrease) in net OPEB obligation.....	(3,449)
Net OPEB obligation/(asset) - beginning of year.....	<u>(209,152)</u>
Net OPEB obligation/(asset) - end of year.....	<u>\$ (212,601)</u>

The Plant’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years 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>
6/30/2014	\$ 625,379	101%	\$ (212,601)
6/30/2013	603,254	101%	(209,152)
6/30/2012	673,784	101%	(186,501)

Funded Status and Funding Progress – The funded status of the Plan as of the most recent actuarial valuation date is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
06/30/12	\$ 1,881,358	\$ 6,229,027	\$ 4,347,669	30.20%	\$ 5,615,464	77.4%

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 as 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 included 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.

In the June 30, 2012 actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 7.5 percent investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 8 percent initially, graded to 5 percent over 6 years. The UAAL is being amortized over a 10 year period, with amortization payments increasing at 4 percent per year.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The WMLP is involved in legal proceedings and claims arising in the normal course of business. In the opinion of management and legal counsel, Wellesley Municipal Light Plant's liability, if any, would not materially affect its financial condition or results of operations.

See Note 8 regarding energy purchase commitments with Energy New England, LLC.

Required Supplementary Information

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

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)
06/30/12	\$ 1,881,358	\$ 6,229,027	\$ 4,347,669	30.20%	\$ 5,615,464	77.4%
06/30/10	1,006,559	7,066,080	6,059,521	14.24%	4,325,330	140.1%
06/30/08	483,790	6,346,687	5,862,897	7.62%	4,055,488	144.6%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution (ARC)	Actual Contributions Made	Net OPEB Obligation
6/30/2014	\$ 628,828	\$ 628,828	100.0%
6/30/2013	606,372	625,906	103.2%
6/30/2012	680,500	680,520	100.0%
6/30/2011	482,071	497,618	103.2%
6/30/2010	429,736	499,770	116.3%
6/30/2009	412,199	550,706	133.6%

The Plant 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

Actuarial Methods:

Valuation date.....	June 30, 2012
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4%
Remaining amortization period.....	10 years as of July 1, 2012, closed
Actuarial Assumptions:	
Investment rate of return.....	7.5% pre-funding scenario
Medical/drug cost trend rate.....	8.0% decreasing by 0.50% for 6 years to an ultimate level of 5.0% per year

Plan Membership:

Current retirees, beneficiaries, and dependents.....	40
Current active members.....	<u>28</u>
Total.....	<u><u>68</u></u>

See notes to required supplementary information.

NOTE A – OTHER POSTEMPLOYMENT BENEFITS

The Town administers a single-employer defined benefit healthcare plan (“The Other Postemployment Benefit Plan”), which WMLP participates in. The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members.

The Town currently finances its other postemployment benefits (OPEB) on combined pre-funded and a pay-as-you-go basis whereby the funding schedule is designed to pay the normal cost currently and amortize the unfunded liability over a period of 30 years. As a result, the overall Town-wide funded ratio (actuarial value of assets expressed as a percentage of the actuarially accrued liability) as of the most recent valuation was 16.70%. In accordance with Governmental Accounting Standards, the Town 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 actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions present multi-year trend of contributions related to the plan.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time each valuation and the historical pattern of sharing 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

SCHEDULE OF KILOWATT HOURS SOLD AND NUMBER OF CUSTOMERS

FOR THE YEARS ENDED JUNE 30,

Class of Customer	Kilowatt Hours Sold		Percentage Increase/ (Decrease)
	2014	2013	
Distribution wheeling.....	568,706	549,402	3.5%
Residential.....	107,739,508	106,027,557	1.6%
Commercial.....	67,362,144	67,752,240	-0.6%
Municipal.....	11,617,297	11,214,680	3.6%
Street lighting.....	1,879,380	1,879,056	0.0%
Primary.....	51,823,621	51,563,242	0.5%
Partial primary.....	6,825,068	9,183,302	-25.7%
Total KWH's Sold.....	<u>247,815,724</u>	<u>248,169,479</u>	<u>-0.1%</u>

Class of Customer	Number of Customers		Percentage Increase/ (Decrease)
	2014	2013	
Distribution wheeling.....	1	1	0.0%
Residential.....	8,896	8,899	0.0%
Commercial.....	1,072	1,067	0.5%
Municipal.....	87	85	2.4%
Street lighting.....	1	1	0.0%
Primary.....	4	4	0.0%
Partial primary.....	1	1	0.0%
Total Customer Accounts.....	<u>10,062</u>	<u>10,058</u>	<u>0.0%</u>

SCHEDULE OF UTILITY PLANT IN SERVICE

AS OF JUNE 30, 2014

FERC Account	Description of the Asset Class	Original Cost	Accumulated Depreciation	Net Book Value
353	Station Equipment - Use Rights	\$ 6,386,646	\$ 4,337,872	\$ 2,048,774
357	Underground Conduits	2,256,256	1,160,850	1,095,406
358	Underground Conductors & Devices	4,168,673	2,764,654	1,404,019
360	Land	137,770	-	137,770
361	Structures & Improvements	12,402,591	2,162,299	10,240,292
362	Station Equipment	6,232,001	2,640,364	3,591,637
364	Poles, Towers and Fixtures	5,599,601	2,372,727	3,226,874
365	Overhead Conductors & Devices	11,217,410	2,772,924	8,444,486
366	Underground Conduit	5,551,145	2,998,341	2,552,804
367	Underground Conductors & Devices	17,833,453	6,008,505	11,824,948
368	Line Transformers	5,822,068	3,039,184	2,782,884
369	Services	10,187,786	3,533,657	6,654,129
370	Meters	2,038,920	890,550	1,148,370
373	Street Lighting & Signal Systems	4,401,943	3,164,106	1,237,837
391	Office Furniture & Equipment	445,204	312,931	132,273
392	Transportation Equipment	2,072,609	1,271,766	800,843
393	Stores Equipment	124,355	81,935	42,420
394	Tools, Shop & Garage Equipment	189,783	126,961	62,822
395	Laboratory Equipment	91,156	58,470	32,686
396	Power Operated Equipment	80,632	47,194	33,438
397	Communication Equipment	1,284,134	637,897	646,237
398	Miscellaneous Equipment	20,788	18,234	2,554
Totals.....		<u>\$ 98,544,924</u>	<u>\$ 40,401,421</u>	<u>\$ 58,143,503</u>

Report on Internal Control Over Financial Reporting and on Compliance



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

To the Municipal Light Board
Wellesley Municipal Light 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 Wellesley Municipal Light Plant (the Plant); an enterprise fund of the Town of Wellesley, Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated August 28, 2014.

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 auditing 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 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 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 a 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 the 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 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 statements 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.

Powers + Juliani, LLC

August 28, 2014