

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT**

**REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS**

YEARS ENDED JUNE 30, 2013 AND 2012

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Commissioners
Mansfield Municipal Electric Department
Mansfield, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Mansfield Municipal Electric Department, Town of Mansfield, Massachusetts as of and for the years ended June 30, 2013 and June 30, 2012, and the related notes to the financial statements, which collectively comprise the Mansfield Municipal Electric Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the aggregate remaining fund information of the Mansfield Municipal Electric Department, as of June 30, 2013 and June 30, 2012, and the respective changes in financial position and cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Other Postemployment Benefits on pages 26 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of the financial reporting for placing the basic financial statements in 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 inquires of management about the methods or 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mansfield Municipal Electric Department's basic financial statements. The schedule of operations and maintenance expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Operations and Maintenance expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operations and Maintenance Expenses is fairly stated, in all material respects, in relation to the basic 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 September 26, 2013, on our consideration of the Mansfield Municipal Electric Department's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mansfield Municipal Electric Department's internal control over financial reporting and compliance.

R. E. Brown & Company

September 26, 2013

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**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**

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Commissioners
Mansfield Municipal Electric Department
Mansfield, Massachusetts

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 business-type activities and the aggregate remaining fund information of the Mansfield Municipal Electric Department, Town of Mansfield Massachusetts, as of and for the years ended June 30, 2013 and June 30, 2012, and related notes to the financial statements, which collectively comprise Mansfield Municipal Electric Department's basic financial statements, and have issued our report thereon dated September 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Mansfield Municipal Electric Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mansfield Municipal Electric Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mansfield Municipal Electric Departments' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Mansfield Municipal Electric Department'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 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 Mansfield Municipal 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 noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

R. E. Brown & Company

September 26, 2013

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
PROPRIETARY FUND
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012**

| | 2013 | 2012 |
|--|---------------|---------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| CASH - OPERATING | \$ 8,667,097 | \$ 8,356,936 |
| CASH - RATE STABILIZATION | 1,651,859 | 1,640,865 |
| TOTAL UNRESTRICTED CASH | 10,318,956 | 9,997,801 |
| RECEIVABLES, NET OF UNCOLLECTIBLES | 4,191,708 | 4,450,937 |
| MATERIALS AND SUPPLIES | 580,524 | 630,633 |
| PREPAID POST EMPLOYMENT BENEFITS | 19,238 | - |
| PREPAYMENTS | 2,262,204 | 2,234,510 |
| TOTAL CURRENT ASSETS | 17,372,630 | 17,313,881 |
| NONCURRENT ASSETS: | | |
| RESTRICTED ASSETS: | | |
| INVESTMENTS | 12,637 | 21,580 |
| RESTRICTED CASH, CUSTOMER DEPOSITS | 901,214 | 849,774 |
| RESTRICTED CASH - DEPRECIATION FUND | 2,578,406 | 2,722,688 |
| TOTAL RESTRICTED ASSETS | 3,492,257 | 3,594,042 |
| CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION) | 30,872,488 | 29,742,887 |
| TOTAL NONCURRENT ASSETS | 34,364,745 | 33,336,929 |
| TOTAL ASSETS | 51,737,375 | 50,650,810 |
| <u>LIABILITIES</u> | | |
| CURRENT LIABILITIES: | | |
| ACCOUNTS PAYABLE | 1,994,904 | 3,019,351 |
| ACCRUED EXPENSES | 58,372 | 87,902 |
| OTHER LIABILITIES | 61,341 | 160,910 |
| COMPENSATED ABSENCES | 122,955 | 131,556 |
| TOTAL CURRENT LIABILITIES | 2,237,572 | 3,399,719 |
| NONCURRENT LIABILITIES: | | |
| COMPENSATED ABSENCES | 78,144 | 86,376 |
| POSTEMPLOYMENT BENEFITS | - | 140,162 |
| CUSTOMER DEPOSITS | 900,861 | 850,472 |
| TOTAL NONCURRENT LIABILITIES | 979,005 | 1,077,010 |
| TOTAL LIABILITIES | 3,216,577 | 4,476,729 |
| <u>NET POSITION</u> | | |
| NET INVESTMENT IN CAPITAL ASSETS | 30,872,488 | 29,742,887 |
| RESTRICTED FOR: | | |
| DEPRECIATION FUND | 2,578,406 | 2,722,688 |
| UNRESTRICTED | 15,069,904 | 13,708,506 |
| TOTAL NET POSITION | \$ 48,520,798 | \$ 46,174,081 |

See accompanying notes to the basic financial statements

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
PROPRIETARY FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

| | 2013 | 2012 |
|---|----------------------|----------------------|
| <u>OPERATING REVENUES:</u> | | |
| SALE OF ELECTRICITY | \$ 28,101,526 | \$ 26,983,939 |
| OTHER OPERATING REVENUE | 193,233 | 18,076 |
| TOTAL OPERATING REVENUES | 28,294,759 | 27,002,015 |
| <u>OPERATING EXPENSES:</u> | | |
| OPERATIONS AND MAINTENANCE | 24,710,892 | 24,993,995 |
| DEPRECIATION | 1,266,864 | 1,230,809 |
| TOTAL OPERATING EXPENSES | 25,977,756 | 26,224,804 |
| OPERATING INCOME (LOSS) | 2,317,003 | 777,211 |
| <u>NONOPERATING REVENUES (EXPENSES):</u> | | |
| INVESTMENT EARNINGS | 30,881 | 47,137 |
| INTEREST EXPENSE | (1,167) | (1,947) |
| TOTAL NONOPERATING REVENUES (EXPENSES) - NET | 29,714 | 45,190 |
| CHANGE IN NET POSITION | 2,346,717 | 822,401 |
| NET POSITION - BEGINNING OF YEAR | 46,174,081 | 45,351,680 |
| NET POSITION - END OF YEAR | \$ 48,520,798 | \$ 46,174,081 |

See accompanying notes to the basic financial statements

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
PROPRIETARY FUND
STATEMENTS OF CASH FLOWS
FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

| | 2013 | 2012 |
|---|---------------|---------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u> | | |
| RECEIPTS FROM CUSTOMERS | \$ 28,553,987 | \$ 27,576,634 |
| PAYMENTS TO SUPPLIERS AND EMPLOYEES | (26,018,255) | (24,317,910) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 2,535,732 | 3,258,724 |
| <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u> | | |
| CUSTOMER DEPOSITS AND OTHER ESCROW | (1,051) | (182,274) |
| INTEREST EXPENSE | (1,167) | (1,947) |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | (2,218) | (184,221) |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u> | | |
| ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS | (2,396,464) | (6,981,742) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | (2,396,464) | (6,981,742) |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u> | | |
| INVESTMENT INCOME | 30,881 | 47,137 |
| PROCEEDS FROM THE SALE OF INVESTMENTS | 8,942 | 3,832 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | 39,823 | 50,969 |
| NET INCREASE (DECREASE) IN CASH | 176,873 | (3,856,270) |
| CASH AT BEGINNING OF YEAR | 12,720,489 | 16,576,759 |
| CASH AT END OF YEAR | \$ 12,897,362 | \$ 12,720,489 |
| <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u> | | |
| OPERATING INCOME (LOSS) | \$ 2,317,003 | \$ 777,211 |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| DEPRECIATION EXPENSE | 1,266,864 | 1,230,809 |
| (INCREASE) DECREASE IN ACCOUNTS RECEIVABLE | 259,229 | 574,619 |
| (INCREASE) DECREASE IN MATERIALS AND SUPPLIES | 50,109 | (36,694) |
| (INCREASE) DECREASE IN PREPAYMENTS | (46,932) | 43,955 |
| INCREASE (DECREASE) IN ACCOUNTS PAYABLE | (1,024,447) | 873,421 |
| INCREASE (DECREASE) IN ACCRUED EXPENSES | (29,530) | (3,715) |
| INCREASE (DECREASE) IN OTHER LIABILITIES | (99,569) | (13,074) |
| INCREASE (DECREASE) IN COMPENSATED ABSENCE PAYABLE | (16,833) | 16,196 |
| INCREASE (DECREASE) IN POST EMPLOYMENT BENEFITS PAYABLE | (140,162) | (204,004) |
| TOTAL ADJUSTMENTS | 218,729 | 2,481,513 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ 2,535,732 | \$ 3,258,724 |
| <u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u> | | |
| The following accounts are considered to be cash for the purpose of the statement of cash flows: | | |
| TOTAL UNRESTRICTED CASH - DEPRECIATION FUND | \$ 10,318,956 | \$ 9,997,801 |
| RESTRICTED CASH | 2,578,406 | 2,722,688 |
| | \$ 12,897,362 | \$ 12,720,489 |

See accompanying notes to the basic financial statements

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Mansfield Municipal Electric Department (the Department) for the years ended June 30, 2013 and 2012 have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant Department's accounting policies:

A. Reporting Entity

The Department operates as an enterprise/proprietary fund type within the Town of Mansfield, Massachusetts. The Department purchases power from various sources and sells to its customers at rates submitted to the Department of Public Utilities (DPU).

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Department's proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and delivering these services in connection with the proprietary funds principal ongoing operations (electricity). All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the *Governmental Accounting Standards Board*. Municipal Electric Department's also have the *option* of following subsequent private-sector guidance for the proprietary fund, subject to this same limitation. The Department has elected not to follow subsequent private-sector guidance.

C. Regulation, Rates and Industry

Under Massachusetts law, electric rates of the Department are set by the Department's Commissioners and may be changed not more than once every three months. Rate schedules are filed with the Massachusetts DPU. Pursuant to DPU Regulations, rates must be set such that the resulting net earnings, less certain other provisions, do not exceed 8% of the cost of the Plant. While the DPU exercises general supervisory authority over the Electric Department, the Electric Department's rates are not subject to DPU approval.

The Department operates within an industry that has undergone a transition to a deregulated business environment, although municipal electric utilities are exempt from the provisions of the Restructuring Act. Rate schedules must be filed with the Massachusetts DPU and while the DPU exercises general supervisory authority over the Electric Department, the Department's filed rates are not subject to DPU approval.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

It should also be noted that in FY 12 the Board of Commissioners authorized a \$2.2 million rebate to Departmental customers. This rebate came directly from net earnings and had the impact of reducing income for the year by that amount.

The Department has seen an influx of solar energy installations over the last few years, which total approximately 1.2 MW, or 2% of the Department's peak demand. Generous state and federal tax credits, rebates and energy credits have jump-started this industry. To protect revenues due to loss of energy sales, the Department has instituted a Net Metering Recovery Surcharge within its tariff to collect revenues that will recoup the fixed costs of electric service to a commercial customer that has a solar energy installation.

D. Cash and Investments

Cash and short term investments are considered to be cash on hand, time deposits, customer deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

E. Accounts Receivable

The recognition of revenue related to accounts receivable reported in the Department's financial statements are reported under the accrual basis of accounting.

Electricity

The Department carries its accounts receivable at invoiced amounts less an allowance for doubtful accounts of \$194,211 and \$199,099 at June 30, 2013 and 2012 respectively. An account is considered past due if payment is not received within 30 days. At that time, the service termination process begins with a series of delinquency notices. For past due accounts, customers must enter into a payment plan or risk termination of service. For accounts that have been closed with an outstanding balance, the Department makes every effort at collection and once every reasonable attempt to collect has been exhausted, the account is turned over to collection. Additionally, the Department can place a lien against property if the account is in the name of the property owner and payment is not made.

Effective July 15, 2005, customer deposits were collected from residential renters who rent the premises they inhabit and the electric account will be in their name. The amount of the deposit will approximate 3 months of charges on the particular account based on an analysis of the account history. The Department has the right to shut off all of its customers for non-payment. Based on DPU regulations, the Department may not shut off residential customers between November 15 and March 15. Also, the Department cannot shut off protected customers as defined by the DPU. The residential shut off moratorium period may also be modified by the DPU.

Effective July 16, 2008, a consumer deposit policy was also implemented for all commercial customers who open businesses in Mansfield. The amount of any required deposit will approximate 3 months of projected billing based on the build out of the facility. Compliance with the policy is required from new commercial customers regardless of whether they own the building or not.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

To encourage customers to pay their bills in a timely fashion, the Department has a “Prompt Payment Discount” policy. This policy provides a 20% discount on the Distribution Charge or Distribution Demand Charge (whichever is applicable to the class of customer) if the bill is paid within 15 days from the date on the statement. This policy applies to both commercial and residential customers. In addition, senior citizens are always given a prompt payment discount. The Department also charges residential customers a \$4 monthly Customer Charge, which is waived for senior citizens.

The Department has budget plans available for their customers. Customers must sign up for the budget plan no later than August of each year to obtain the benefits of the plan.

Other

Other receivables consist primarily of jobbing accounts receivable, which are recorded as receivables in the fiscal year the services are performed.

F. Materials and Supplies

Materials and supplies are valued using the average cost method.

G. Capital Assets – Electric Utility Plant

Capital assets within the electric distribution plant include land and land rights, structures and improvements, station equipment, poles, towers and fixtures, overhead conductors and devices, underground conduits, conductors and devices, line transformers, services, meters, street lighting and signal systems, and other various asset categories. Capital assets within the electric general plant include structures and improvements, office furniture and equipment, transportation equipment, tools, shop and garage equipment, computer equipment, and other various asset categories. These assets are reported in the financial statements as electric utility plant.

Capital assets and improvements are recorded at cost, or at estimated historical cost, if actual historical cost is not available.

All purchases and construction costs of capital assets are capitalized at the date of acquisition or construction.

Capital assets (excluding land and land rights and construction in progress) are depreciated and recorded in the accompanying financial statements on a straight-line GAAP basis. The statutory provision for regulatory depreciation is 3% computed on the straight-line basis. Massachusetts General Law (MGL) stipulates that the Department may change from the statutory depreciation rate up to 5% only with the approval of the DPU. The Department has been granted such approval and has used the rate of 5% for regulatory accounting and filings with the DPU.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

The estimated useful lives of the capital assets, GAAP basis, are as follows:

| Asset Class | Estimated Useful Life (in years) |
|--|--|
| <u>Distribution Plant</u> | |
| Structures & Improvements, Station equipment, Overhead conductors & devices, Underground conduits, Conductors & devices, Line transformers, and services | 33 |
| Street lighting, Poles, Towers and Fixtures | 20 |
| Meters | 15 |
| Security lighting & equipment | 20 |
| Various tools and equipment | 10 |
| <u>General Plant</u> | |
| Structures and improvements | 33 |
| Office furniture and equipment | 10 |
| Shop and garage equipment | 20 |
| Tools | 10 |
| Computer equipment | 5 |
| Various equipment | 10 |

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred.

H. Revenues

Revenues are billed on approximately the same working day of each month. At year end, unbilled revenue is recorded for those readings that would be included in the July billing cycle

Other operating revenue consists primarily of stores, merchandising and jobbing charges to customers for services related to the distribution of electricity.

Effective January 1, 2008, the Department implemented a new “unbundled” rate structure for its customers. The major feature of this rate design was the implementation of a Generation Charge. The Generation Charge reflects the actual cost the Department pays for electricity and is calculated on a quarterly basis. Reconciliation for over or under collection of the Generation Charge in a quarter is performed in subsequent quarters once actual costs are compared with estimated costs. The Generation Charge eliminated the Purchased Power Charge Adjustment (PPCA) rate that previously existed.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

I. Payment in Lieu of Taxes

The Department does not pay taxes to the Town of Mansfield. Instead, a payment in lieu of taxes is authorized by the Board of Commissioners. The cash payment to the Town of Mansfield of \$480,000 was included in the operating expenses for the years ended June 30, 2013 and 2012.

J. Compensated Absences

In accordance with Town of Mansfield and Department policies, employees are allowed to accumulate sick days, up to a maximum of 173 days. Upon termination of employment with the Department, the employee will not be paid for accumulated sick days. Upon retirement, the Department will "buy back" 20% of all accumulated sick time at the employees current rate. Accrued sick pay "buy back" as of June 30, 2013 and 2012 was \$78,144 and \$86,376, respectively.

Employees are allowed to carryover up to 30 days of vacation time from one year to the next. 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. Accrued vacation as of June 30, 2013 and 2012 was \$122,955 and \$131,556, respectively.

K. Net Position

Net position are classified into three components:

- a. *Net Investment in Capital Assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. For Fiscal Year 2013 and 2012, there was no debt related to capital assets.
- b. *Restricted net position* – Consists of net position with constraints placed on the use either by (1) laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
 - Net position have been "restricted" for depreciation, which represents available resources (cash) that may be used for replacements, enlargements, and additions to the utility plant.
- c. *Unrestricted net position* – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

L. Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, 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 vary from estimates that were used.

NOTE 2 – DEPOSITS AND INVESTMENTS – CUSTODIAL CREDIT RISK

Custodial Credit Risk – Deposits

The Department’s operating cash deposits are deposited with the Treasurer of the Town of Mansfield who commingles these funds with deposits from other Town departments. In addition to the operating cash held by the Town Treasurer, the Treasurer also has custody of the Depreciation Fund account, which is required by Massachusetts General Law (MGL) to be maintained in a separate, interest-bearing account, and the Customer Deposits which is also held in a separate, interest-bearing account.

Funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC). The amount of insurance coverage for the Department’s deposits is not determinable because the limits are computed on a Town-wide and aggregate account balance basis.

Investments

Under agreements with the New England Hydro-Transmission Electric Company, Inc. (“NEH”) and the New England Hydro-Transmission Corporation (“NHH”), the Department made advances to fund its equity requirements for the Hydro-Quebec Phase II Interconnection. The shares are not readily marketable, and the Department’s investment is stated at cost. The following is a listing of the Department’s investments:

| Investment Type | Cost | |
|------------------|------------------------|------------------------|
| | As of June 30, 2013 | As of June 30, 2012 |
| NEH & NHH shares | \$ 12,637 | \$ 21,580 |

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013 and 2012, including the applicable allowances for uncollectible accounts, are as follows:

| <u>Receivables:</u> | <u>2013</u> | <u>2012</u> |
|------------------------------|---------------------|---------------------|
| User fees - billed | \$ 2,821,964 | \$ 3,036,392 |
| User fees - unbilled | 1,535,099 | 1,577,088 |
| Other | <u>28,856</u> | <u>36,556</u> |
| | 4,385,919 | 4,650,036 |
| Allowance for uncollectibles | <u>(194,211)</u> | <u>(199,099)</u> |
| | <u>\$ 4,191,708</u> | <u>\$ 4,450,937</u> |

**TOWN OF MANSFIELD, MASSACHUSETTS
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 4 – CAPITAL ASSETS OF THE ELECTRIC UTILITY PLANT

Capital asset activity for the Electric Utility Plant as of June 30, 2013, was as follows:

| <u>Electric Utility Plant</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Reclassifications & Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|--|-----------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land and land rights | \$ 313,205 | \$ - | \$ - | \$ 313,205 |
| Construction in progress | 5,176,711 | - | (5,176,711) | - |
| Total capital assets not being depreciated | 5,489,916 | - | (5,176,711) | 313,205 |
| <i>Capital assets being depreciated:</i> | | | | |
| Distribution Plant | 36,961,654 | 2,333,181 | 4,934,022 | 44,228,857 |
| General Plant | 4,419,914 | 63,284 | - | 4,483,198 |
| Total capital assets being depreciated | 41,381,568 | 2,396,465 | 4,934,022 | 48,712,055 |
| <i>Less accumulated depreciation for:</i> | | | | |
| Distribution Plant | (14,306,747) | (1,095,919) | 242,689 | (15,159,977) |
| General Plant | (2,821,850) | (170,945) | - | (2,992,795) |
| Total accumulated depreciation | (17,128,597) | (1,266,864) | 242,689 | (18,152,772) |
| Total capital assets being depreciated, net | 24,252,971 | 1,129,601 | 5,176,711 | 30,559,283 |
| Total electric utility plant capital assets, net | \$ 29,742,887 | \$ 1,129,601 | \$ - | \$ 30,872,488 |

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

Capital asset activity for the Electric Utility Plant as of June 30, 2012, was as follows:

| <u>Electric Utility Plant</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Reclassifications & Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|--|-----------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land and land rights | \$ 313,205 | \$ - | \$ - | \$ 313,205 |
| Construction in progress | 316,148 | 4,860,563 | - | 5,176,711 |
| Total capital assets not being depreciated | 629,353 | 4,860,563 | - | 5,489,916 |
| <i>Capital assets being depreciated:</i> | | | | |
| Distribution Plant | 34,982,111 | 2,043,121 | (63,578) | 36,961,654 |
| General Plant | 4,341,856 | 78,058 | - | 4,419,914 |
| Total capital assets being depreciated | 39,323,967 | 2,121,179 | (63,578) | 41,381,568 |
| <i>Less accumulated depreciation for:</i> | | | | |
| Distribution Plant | (13,331,583) | (1,038,742) | 63,578 | (14,306,747) |
| General Plant | (2,629,783) | (192,067) | - | (2,821,850) |
| Total accumulated depreciation | (15,961,366) | (1,230,809) | 63,578 | (17,128,597) |
| Total capital assets being depreciated, net | 23,362,601 | 890,370 | - | 24,252,971 |
| Total electric utility plant capital assets, net | <u>\$ 23,991,954</u> | <u>\$ 5,750,933</u> | <u>\$ -</u> | <u>\$ 29,742,887</u> |

NOTE 5 – PURCHASED POWER WORKING CAPITAL

The purchased power working capital is an amount held by Massachusetts Municipal Wholesale Electric Company (MMWEC), our power supply agent. The implementation of the Working Capital Program began August 1, 1985. MMWEC requires that they hold a set amount of capital from which it may pay MMED power obligations when they are due. They replenish the fund as needed from MMED monthly invoice payments. The income earned on the account will be applied as a credit to MMWEC power billings. The balance in the Fund as of June 30, 2013 and 2012 was \$2,129,106 and \$2,129,106, respectively.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 6 – CASH - RATE STABILIZATION

In order to mitigate possible future rate increases, the Department has elected to establish a stabilization reserve. Each year the Department determines a rate stabilization amount to be charged or credited to revenues. For 2013 and 2012, interest of \$10,994, and \$13,782, respectively, was earned and is reflected as an increase in rate stabilization in the accompanying statement of net position. The rate stabilization amounts are approved by the Board of Commissioners and are held by MMWEC in a reserve trust. The balance in the “cash – rate stabilization” as of June 30, 2013 and 2012 was \$1,651,859, and \$1,640,865, respectively.

NOTE 7 - CHANGES IN LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2013:

| <u>Business-type Activities:</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|---|------------------------------|-------------------|---------------------|---------------------------|----------------------------|
| Compensated absences | \$ 217,932 | \$ - | \$ (16,833) | \$ 201,099 | \$ 122,955 |
| OPEB (Note 8) | <u>140,162</u> | <u>272,230</u> | <u>(412,392)</u> | <u>-</u> | <u>-</u> |
| Total business-type activities long-term liabilities | <u>\$ 358,094</u> | <u>\$ 272,230</u> | <u>\$ (429,225)</u> | <u>\$ 201,099</u> | <u>\$ 122,955</u> |

The following is a summary of changes in long-term liabilities for the year ended June 30, 2012:

| <u>Business-type Activities:</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|---|------------------------------|-------------------|---------------------|---------------------------|----------------------------|
| Compensated absences | \$ 201,736 | \$ 16,196 | \$ - | \$ 217,932 | \$ 131,556 |
| OPEB (Note 8) | <u>344,166</u> | <u>237,232</u> | <u>(441,236)</u> | <u>140,162</u> | <u>-</u> |
| Total business-type activities long-term liabilities | <u>\$ 545,902</u> | <u>\$ 253,428</u> | <u>\$ (441,236)</u> | <u>\$ 358,094</u> | <u>\$ 131,556</u> |

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

Loans Authorized and Unissued

As of June 30, 2013 and 2012, the Department has loans authorized and unissued as follows:

| <u>Description</u> | <u>Date Authorized</u> | <u>2013 Amount</u> | <u>2012 Amount</u> |
|---------------------------|----------------------------|------------------------|------------------------|
| East Mansfield Substation | #4 5/4/2010 | <u>\$ -</u> | <u>\$ 8,000,000</u> |

Per the May 7, 2013 Annual Town Meeting ART#14, The Town voted to rescind the East Mansfield Substation borrowing authorization.

NOTE 8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires the following disclosures with regard to the retiree medical, dental, and life insurance benefits:

Plan Description. The Department participates in the Other Post-Employment Benefits Plan of the Town of Mansfield (The Plan) which is a single-employer defined benefit healthcare plan administered by the Town of Mansfield. Under the provisions of M.G.L. Chapter 32B, Section 20, the Light Commission voted on June 8, 2009 to establish a light plant funded Other Postemployment Benefits Trust (OPEB) account to cover future health care liability costs for all Departmental employees, active and retired. This Trust is funded separately from the Town's OPEB Trust. The Town Treasurer serves as Trustee for the funds contributed by the Department. The Plan provides medical, dental and life insurance benefits to eligible retirees and their spouses. Town meeting vote is the authority to establish and amend benefit provisions to the Town. The Town has accepted various sections of Massachusetts General laws Chapter 32B to provide ½ of the premium cost of retirees' health and life insurance costs.

Funding Policy. The contribution requirements of plan members and the Town are established and may be amended by local by-law. The required contribution is based on projected pay-as-you-go financing requirements. For Fiscal Year 2013 and 2012, the total Department premiums plus implicit costs for the retiree medical program was \$431,630 and \$441,236, respectively. For Fiscal Year 2013 and 2012, in addition to the pay-as-you-go contribution, the Department contributed \$319,597 and \$360,532 respectively to the Departments' post employment benefits trust.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

Annual OPEB Cost and Net OPEB Obligation. The Department's share of the Town'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 GASBS No. 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 following table shows the components of the Department's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the Department's net OPEB obligation to the plan:

| | <u>2013</u> | <u>2012</u> |
|--|---------------------------|--------------------------|
| Annual Required Contribution (ARC) | \$ 255,949 | \$ 245,442 |
| Interest on net OPEB obligation | 5,606 | 20,693 |
| Adjustment to annual required contribution | (7,794) | (28,903) |
| Amortization of Actuarial Losses | <u>18,469</u> | <u>-</u> |
| Annual OPEB cost (expense) | 272,230 | 237,232 |
| Contributions made | <u>(431,630)</u> | <u>(441,236)</u> |
| Increase (decrease) in net OPEB obligation | (159,400) | (204,004) |
| Net OPEB obligation - beginning of year | <u>140,162</u> | <u>344,166</u> |
| Net OPEB obligation - end of year | <u><u>\$ (19,238)</u></u> | <u><u>\$ 140,162</u></u> |

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the four preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Increase (Decrease) in Net OPEB Obligation | Net OPEB Obligation |
|----------------------|---------------------|---|---|------------------------|
| 6/30/2009 | \$ 247,957 | 21.7% | \$ 194,149 | \$ 194,149 |
| 6/30/2010 | \$ 238,551 | 106.2% | \$ (14,769) | \$ 179,380 |
| 6/30/2011 | \$ 235,711 | 30.1% | \$ 164,786 | \$ 344,166 |
| 6/30/2012 | \$ 237,232 | 186.0% | \$ (204,004) | \$ 140,162 |
| 6/30/2013 | \$ 272,230 | 158.6% | \$ (159,400) | \$ (19,238) |

Funded Status and Funding Progress. As of July 1, 2012, the most recent actuarial valuation date, the plan was 18.7% funded. The actuarial accrued liability for benefits was \$2.961 million, and the actuarial value of assets was \$0.553 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.408 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.165 million, and the ratio of the UAAL to the covered payroll was 111.2%.

Actuarial 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 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 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.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

In the July 1, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. Under this method, the normal cost and actuarial accrued liability are both based on an accrual of projected benefits over the period for which benefits are accrued. The normal cost is the actuarial present value of one year's benefit accrual on this basis. The actuarial accrued liability is the actuarial present value of the projected benefit times the ratio of past service to total service. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.0% percent graded down to 5.00% over two years. The actuarial value of assets was determined using market value. The UAAL is being amortized as a level dollar amount over 30 years at transition. The remaining amortization period at July 1, 2013, was 25 years.

NOTE 9 – PENSION PLANS

A. Plan Description

The Town of Mansfield (which includes the Department) contributes to the Bristol County Contributory Retirement System (the "System"), a cost sharing, multiple-employer, defined benefit pension plan administered by the Bristol County Retirement Board. Substantially all employees are members of the "System", except for public school teachers and certain school administrators who are members of the Massachusetts Teachers' Retirement System (MTRS).

The "System" is a contributory, defined benefit plan and membership in the "System" is mandatory upon commencement of employment for all permanent, full-time employees. The "System" provides retirement, disability and death benefits to plan members and beneficiaries.

Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The "System" issues a publicly available financial report, which can be obtained through the Commonwealth of Massachusetts, Public Employee Retirement Administration Commission ("PERAC"), One Ashburton Place, Boston, Massachusetts 02108.

B. Funding Policy

Bristol County Contributory Retirement System

Plan members are required to contribute to the "System" at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the "System", its share of the remaining system-wide, actuarially determined, contribution plus administration costs, which are apportioned among the employers, based on active covered payroll. The Commonwealth of Massachusetts reimburses the "system" for a portion of the benefit payments for the cost of living increases.

The Department's contribution to the Retirement Plan is determined by an allocation of the Town of Mansfield's contribution, which is based upon projected benefits to be paid during the applicable year. The Town of Mansfield is assessed annually for their share of system costs. The Department then reimburses the Town of Mansfield for its share of the assessment. The Department and Town are currently on a schedule to fund the unfunded pension liability by 2027.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

The amount of pension expense charged to operations for the years ended June 30, 2013 and 2012 was approximately \$314,800 and \$310,424, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. The amount of liability, if any, at June 30, 2013, cannot be ascertained. Management believes any resulting liability should not materially affect the financial position at June 30, 2013.

NOTE 11 – MMWEC PARTICIPATION

The Town of Mansfield, acting through its Light 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 entities 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 that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

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 Restated 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.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No.4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources 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. 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 (NextEra Seabrook) the majority owner and an indirect subsidiary of NextEra Energy Resources 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 (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.

Mansfield Municipal 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 all 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).

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 company.

Total capital expenditures for MMWEC's Projects amounted to \$1,599,051,000, of which \$101,079,000 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 Project Revenue Bonds totaling \$284,005,000, of which \$17,451,000 is 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. After the July 1, 2013 principal payment, MMWEC's total future debt service requirement on outstanding bonds issued for the projects is \$253,040,000 of which \$15,723,000 is anticipated to be billed to the Department in the future.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

The estimated aggregate amount of Mansfield Municipal Electric Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at June 30, 2013 and estimated for future years is shown below.

| <u>For years ended June 30,</u> | <u>Annual Costs</u> |
|-------------------------------------|-------------------------|
| 2014 | \$ 4,133,000 |
| 2015 | 3,795,000 |
| 2016 | 3,670,000 |
| 2017 | 3,383,000 |
| 2018 | 109,000 |
| 2019 to 2022 | <u>633,000</u> |
| Total | <u>\$ 15,723,000</u> |

In addition, under the PSAs, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs were \$9,912,000 and \$10,365,000 for the years ended June 30, 2013 and 2012, respectively.

NOTE 12 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2013, the following GASB pronouncements were implemented:

The GASB issued **Statement #60**, *Accounting and Financial Reporting for Service Concession Arrangements*, was implemented in fiscal year 2013. Management believes that this pronouncement requires no additional disclosure and will not impact the basic financial statements.

The GASB issued **Statement #61**, *The Financial Reporting Entity: Omnibus*, was implemented in fiscal year 2013. Management believes that this pronouncement requires no additional disclosure and will not impact the basic financial statements.

The GASB issued **Statement #62**, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was implemented in fiscal year 2013. Management believes that this pronouncement requires no additional disclosure and will not impact the basic financial statements.

The GASB issued **Statement #63**, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was implemented in fiscal year 2013. Management believes that this pronouncement requires no additional disclosure and will not impact the basic financial statements.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

Future GASB Pronouncements:

The GASB issued **Statement #65**, *Items previously reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.

The GASB issued **Statement #66**, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2014. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.

The GASB issued **Statement #67**, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2014. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.

The GASB issued **Statement #68**, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2013 AND 2012**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b - a)/c] |
|--------------------------------|--|---|-----------------------------------|--------------------------|---------------------------|--|
| 7/1/2008 | \$ - | \$ 2,416,297 | \$ 2,416,297 | 0.0% | \$ 1,912,000 | 126.4% |
| 7/1/2010 | \$ 161,846 | \$ 2,833,645 | \$ 2,671,799 | 5.7% | \$ 1,908,000 | 140.0% |
| 7/1/2012 | \$ 553,019 | \$ 2,960,584 | \$ 2,407,565 | 18.7% | \$ 2,165,216 | 111.2% |

| Year Ended June 30 | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed * | Increase (Decrease) In Net OPEB Obligation | Net OPEB Obligation |
|-----------------------|---------------------|---|---|------------------------|
| 2009 | \$ 247,957 | 21.7% | \$ 194,149 | \$ 194,149 |
| 2010 | \$ 238,551 | 106.2% | \$ (14,769) | \$ 179,380 |
| 2011 | \$ 235,711 | 30.1% | \$ 164,786 | \$ 344,166 |
| 2012 | \$ 237,232 | 186.0% | \$ (204,004) | \$ 140,162 |
| 2013 | \$ 272,230 | 158.6% | \$ (159,400) | \$ (19,238) |

* Based on expected premium payments.

The required information presented above was determined as part of the actuarial valuations at the dates indicated.

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2013 AND 2012**

Additional information as of the latest actuarial valuation follows:

Actuarial Methods:

| | |
|-------------------------------|---|
| Valuation date | July 1, 2012 |
| Actuarial cost method | Projected Unit credit |
| Amortization method | Level dollar amount over 30 years at transition |
| Remaining amortization period | 25 years as of July 1, 2013 |

Actuarial Assumptions:

| | |
|---------------------------|--------------------------------|
| Investment rate of return | 4.0% |
| Medical/drug trend rate | 7% graded to 5% over two years |

Plan Membership:

| | |
|--|---------------|
| Current retirees, beneficiaries, and dependents | 12 |
| Current active members | 21 |
| Total | <u>33</u> |

**TOWN OF MANSFIELD, MASSACHUSETTS
MUNICIPAL ELECTRIC DEPARTMENT
SUPPLEMENTARY INFORMATION
SCHEDULE OF OPERATIONS AND MAINTENANCE EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012**

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|----------------------|
| POWER PRODUCTION EXPENSES: | | |
| CAPACITY | \$ 17,565,012 | \$ 17,967,135 |
| TRANSMISSION AND OTHER PURCHASED POWER CHARGES | <u>3,159,235</u> | <u>3,114,919</u> |
| TOTAL POWER PRODUCTION EXPENSES: | <u>20,724,247</u> | <u>21,082,054</u> |
| DISTRIBUTION EXPENSES: | | |
| OPERATION LABOR | 584,798 | 555,567 |
| OPERATIONS EXPENSES | 111,434 | 95,627 |
| MAINTENANCE LABOR | 663,357 | 691,479 |
| MAINTENANCE EXPENSES | <u>339,487</u> | <u>277,149</u> |
| TOTAL DISTRIBUTION EXPENSES: | <u>1,699,076</u> | <u>1,619,822</u> |
| CUSTOMER ACCOUNTS: | | |
| CUSTOMER ACCOUNT LABOR | 635,868 | 629,791 |
| CUSTOMER RECORDS AND COLLECTION EXPENSES | 169,030 | 153,715 |
| BAD DEBT EXPENSE | 90,000 | 120,000 |
| MISCELLANEOUS CUSTOMER ACCOUNT EXPENSES | <u>36,858</u> | <u>31,988</u> |
| TOTAL CUSTOMER ACCOUNTS: | <u>931,756</u> | <u>935,494</u> |
| GENERAL AND ADMINISTRATIVE EXPENSES: | | |
| ADMINISTRATIVE AND GENERAL SALARIES | 334,923 | 337,620 |
| OFFICE SUPPLIES & EXPENSE | 98,311 | 103,469 |
| OUTSIDE SERVICES EMPLOYED | 183,659 | 116,496 |
| PROPERTY INSURANCE | 23,671 | 34,535 |
| TRANSPORTATION EXPENSE | 119,721 | 115,186 |
| PAYMENTS IN LIEU OF TAXES | 480,000 | 480,000 |
| DUES, MEETINGS, AND OTHER GENERAL EXPENSES | <u>115,528</u> | <u>169,319</u> |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES: | <u>1,355,813</u> | <u>1,356,625</u> |
| TOTAL OPERATIONS AND MAINTENANCE EXPENSES | <u>\$ 24,710,892</u> | <u>\$ 24,993,995</u> |