

BELMONT MUNICIPAL LIGHT DEPARTMENT
Financial Statements
December 31, 2012 and 2011

BELMONT MUNICIPAL LIGHT DEPARTMENT
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DECEMBER 31, 2012 AND 2011

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Goulet, Salvidio & Associates, P.C.

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Belmont Municipal Light Department
Belmont, Massachusetts 02478

Report on the Financial Statements

We have audited the accompanying financial statements of Belmont Municipal Light Department of Belmont, Massachusetts, as of and for the years ended December 31, 2012 and 2011, 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 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Belmont Municipal Light Department as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1, the financial statements present only the Belmont Municipal Light Department and do not purport to, and do not, present fairly the financial position of the Town of Belmont, Massachusetts, as of December 31, 2012 and 2011, and the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages three through seven is not a required part of the basic financial statements but is supplementary information. We have applied certain limited procedures to the 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 evidence sufficient to express an opinion or provide any assurance.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
June 4, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the Town of Belmont Municipal Light Department's (BMLD) financial activities for the fiscal years ended December 31, 2012 and 2011.

BMLD purchases and distributes electricity to the residents, businesses and the Town of Belmont. Because BMLD is owned by the town and not by investors, our net profit is returned to our customers in the way of stable rates, better service and increased assets. As management of the Town of Belmont Municipal Light Department (BMLD), we offer readers of the basic financial statements this narrative overview and analysis of the financial activities of BMLD.

Overview of the Financial Statements

The basic financial statements include (1) The Statements of Net Position (2) The Statements of Revenues, Expenses and Changes In Net Position (3) The Cash Flow Statements and (4) Notes to The Financial Statements. The Statements of Net Position are designed to indicate our financial position as of a specific point in time. At December 31, 2012, it shows our net worth increased 5.6% compared to the year ended December 31, 2011. Increases and decreases in net position may serve as a useful indicator of whether the financial position of BMLD is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position summarize our operating results. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. As discussed in more detail below, our net income for December 31, 2012 and 2011 was \$1,390,153 and \$1,104,327, respectively.

The Statements of Cash Flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financing activities for the same period. A review of our Statements of Cash Flows indicates that cash receipts from operating activities, (that is, electricity sales and related services) adequately cover our operating expenses.

Summary of Net Position

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 16,695,889	\$ 7,231,625
Non-Current Assets	<u>16,970,656</u>	<u>11,050,301</u>
Total Assets	<u>\$ 33,666,545</u>	<u>\$ 18,281,926</u>
Current Liabilities	\$ 16,002,812	\$ 1,732,034
Non-Current Liabilities	<u>3,692,051</u>	<u>3,318,363</u>
Total Liabilities	<u>19,694,863</u>	<u>5,050,397</u>
Net Position:		
Net Investment in Capital Assets	7,910,309	9,209,429
Unrestricted	<u>6,061,373</u>	<u>4,022,100</u>
Total Net Position	<u>13,971,682</u>	<u>13,231,529</u>
Total Liabilities and Net Position	<u>\$ 33,666,545</u>	<u>\$ 18,281,926</u>

Summary of Changes in Net Position

	2012	2011
Operating Revenues	\$ 20,656,446	\$ 20,969,753
Operating Expenses	19,270,545	19,868,553
Operating Income	1,385,901	1,101,200
Nonoperating Revenues	4,252	3,127
Income Before Contributions and Transfers	1,390,153	1,104,327
Transfers Out - Payment in Lieu of Taxes	(650,000)	(650,000)
Beginning Net Position	13,231,529	12,777,202
Ending Net Position	\$ 13,971,682	\$ 13,231,529

The Belmont Municipal Light Department is a community-owned utility committed to providing economical and reliable energy with superior customer service.

In order to fulfill our mission, BMLD commits to maintain rate savings while providing reliable service for its customers. It intends to maintain local control and access to the wholesale power market. BMLD acknowledges the obligation to look at alternative sources of renewable energy in order to preserve the integrity of the environment for future generations. BMLD will employ its resources effectively and efficiently to achieve its strategic priorities. Public Power must be accountable to the communities it serves in order to survive. BMLD's value is measured by its lower rates over surrounding communities and local control of its distribution system. Customer expectations are high in Belmont because it is locally owned and operated.

Overview of Service

BMLD is responsible for acquiring and delivering electricity to the residents, businesses and the Town of Belmont. The Department has two main divisions: Operations and Business/Customer Services. The Operations Division plans, designs, constructs, operates and maintains the distribution system to deliver reliable electricity to customers. The Business/Customer Services Division provides managerial, public relations, financial, ratemaking and legislative services, public benefits programs, including energy efficiency and renewable energy to all BMLD customers. The Division also ensures generating and transmission energy resources are available to meet the needs of the Belmont community.

BMLD Highlights

Compared to industry standards BMLD continues to provide a high level of system reliability as evidenced by the Department's performance during Hurricane Sandy with the longest customer outage lasting 26 hours.

- \$300,000 was transferred to the Rate Stabilization Fund.
- Due to the very mild winter KHW sales decreased 1,654,000.
- A perpetual easement was purchased from the MBTA for our new 115kV transmission line.
- Land was purchased for our new 115 kV Substation.

Operating Overview

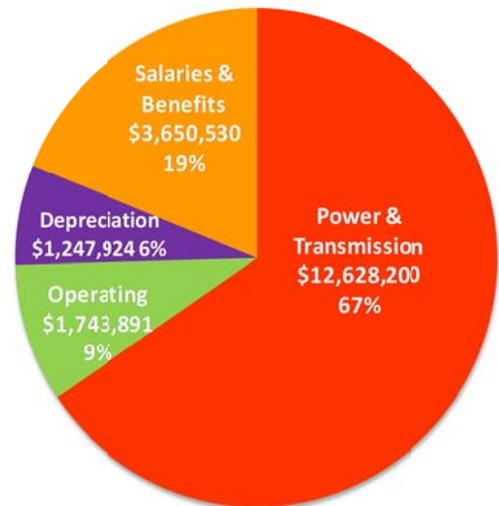
2012 Revenue

Revenue from the sale of electricity decreased \$286,000 due to a decrease in KWH sales of 1,654,000 which was attributed to a very mild winter. Other Operating Income decreased \$26,000 primarily due to the receipt of a non reoccurring item in 2011.



2012 Expenses vs. 2011 Expenses

Excluding the \$300,000 transfer to the Rate Stabilization Fund, Power costs reflect a \$725,000 decrease due to drop in per KWH costs of \$.0042 and the reduction in KWH sales. Overhead Line Expense increased \$95,000 due to Hurricane Sandy. Underground Line Expense increased \$208,000 due to the volume of secondary line replacement work performed. Bad Debt write off's increased \$85,000. Employee Benefits decreased \$593,000 primarily due to a change in the OPEB valuation assumptions.



Utility Plant and Continuing Projects

The general laws of the Commonwealth of Massachusetts under Chapter 164 require “utility plant in service” to be depreciated using a 3% rate. Approval was given by the Department of Public Utilities to increase the rate up to the maximum 5% allowable in order to infuse additional funds into capital projects and system improvements. Rates used in depreciating “utility plant in service” are based on financial factors relating to cash flow for plant expansion, rather than engineering factors relating to estimates of useful life.

Net electric utility plant in service is \$14.4 million (\$3.5 million for Distribution Plant and \$3.5 million for General Plant and \$7.4 million for Construction Work In Progress). The \$5.6 million increase in Construction Work In Progress was attributed to the new 115KV substation project (\$2.6 million for the Site Purchase, \$1.6 million for Development Costs and \$1.4 million for a Perpetual Easement for the 115KV Transmission Line) funded by \$14,000,000 from a short term Bond Anticipation Note.

Debt Administration

On April 26, 2012 the Town issued a Bond Anticipation Note (BAN) in the aggregate amount of \$14,000,000, which included a bond premium, bearing interest at 1.83% and maturing April 25, 2013. This BAN was refinanced and is now maturing on April 25, 2014. The proceeds are to be used to finance the 115KV Transmission Service Upgrade Project. Accrued interest relating to the Light Department's share of the BAN amounted to \$17,067 as of December 31, 2012.

Power Supply

BMLD is an active market participant in purchasing electricity from the ISO-NE market place. The Department has built a diversified power supply portfolio. The Department's objectives are to obtain competitively priced generation services using multiple contracts with staggered durations. During 2012 BMLD had contracted out roughly 80% of the community's energy needs to maximize our cost savings without sacrificing cost stability. The flexibility in our portfolio allowed the Department to capture savings in 2012.

BMLD is investigating several opportunities to acquire contract rights to proposed renewable energy projects around the New England states. The Belmont Municipal Light Department is committed to purchasing renewable energy that provides value to our energy portfolio.

We expect general increases in transmission costs over the next few years. This increase reflects the value of transmission projects which will come on-line (and onto the rate base). Transmission costs are payments for the energy delivered to Belmont from outside entities.

Rates

The Department conducted a Cost of Service Study in 2012 in anticipation of a rate increase in June 2013 to address the debt service of the 115 kV Transmission Project. The projected rate increase is estimated at 6% and applicable thorough 2017.

Demand Side Management

As a result of the BMLD's 2012 reorganization and restructuring, management reviewed its commitment to energy efficiency and conservation. Management identified the need for and hired a full-time Energy Analyst to research, develop and implement measureable demand side management programs.

Community Outreach

BMLD staff provided the Town's elementary schools with electrical safety demonstrations, materials, and conservation tips. Also, BMLD staff attended community events at the Senior Center, the annual Tree Lighting Ceremony, Meet Belmont, and the Belmont Farmers' Market.

BMLD Staff worked closely with Town committees to identify outreach opportunities and collaborate on energy, sustainability, and community initiatives.

2012 Activities

On February 8, 2012, at a Special Town Meeting, the Town of Belmont approved Warrant Article 2, BMLD proposed \$53.7 million Transmission and Substation Project. The approval allowed BMLD to bond the project and purchase the 20 Flanders Road parcel for the substation site. BMLD also procured an underground transmission line easement from the MBTA.

BMLD implemented online bill payment and electronic billing services for its customers.

2012 Activities (continued)

Residential and commercial customers installed more than 250 kW of solar photovoltaic generation capacity under the BMLD's Emission Free Renewable Distributed Generation policy.

In November, BMLD implemented a 5 month home energy assessment pilot program to identify best practices for residential energy audits.

BMLD continued to develop its advanced metering infrastructure with the installation of hardware, software, and communication network necessary to implement advanced metering processes. By December 31, 2012, 2934 smart meters had been installed throughout the Town.

BMLD's line distribution activities included the addition of 6.97 miles of 13.8 kV distribution cable and the retirement of 11.08 miles of cable.

BELMONT MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011

OPERATING FUND

ASSETS

	2012	2011
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 5,422,451	\$ 3,742,652
General Bond Fund	7,542,369	0
Accounts Receivable - Customers, Net	1,595,042	1,330,334
Accounts Receivable - Other	165,770	197,341
Materials and Supplies	282,246	285,946
Prepaid Insurance	35,693	23,284
Purchased Power Prepayments	1,652,318	1,652,068
TOTAL CURRENT ASSETS	16,695,889	7,231,625
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	1,178,580	727,704
Customer Deposits	118,080	110,014
Rate Stabilization Reserve Fund	912,349	612,650
Rate Stabilization Reserve Fund - MMWEC	393,707	390,504
Utility Plant Assets, Net	14,367,940	9,209,429
TOTAL NONCURRENT ASSETS	16,970,656	11,050,301
TOTAL ASSETS	\$ 33,666,545	\$ 18,281,926

See Accompanying Notes to Financial Statements

BELMONT MUNICIPAL LIGHT DEPARTMENT
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2012 AND 2011

OPERATING FUND

LIABILITIES

	2012	2011
CURRENT LIABILITIES:		
Short-term Debt Expected to be Refinanced:		
Bond Anticipation Note	\$ 14,000,000	\$ 0
Accounts Payable	1,692,091	1,506,425
Accrued Expenses	297,446	212,334
Customer Advance for Construction	13,275	13,275
 TOTAL CURRENT LIABILITIES	 16,002,812	 1,732,034
 NONCURRENT LIABILITIES:		
Customer Deposits	118,080	110,014
Rate Stabilization Reserve	1,306,056	1,003,154
Other Postemployment Benefits Obligation	2,267,915	2,205,195
 TOTAL NONCURRENT LIABILITIES	 3,692,051	 3,318,363
 TOTAL LIABILITIES	 19,694,863	 5,050,397
NET POSITION		
Net Investment in Capital Assets	7,910,309	9,209,429
Unrestricted	6,061,373	4,022,100
 TOTAL NET POSITION	 13,971,682	 13,231,529
 TOTAL LIABILITIES AND NET POSITION	 \$ 33,666,545	 \$ 18,281,926

See Accompanying Notes to Financial Statements

BELMONT MUNICIPAL LIGHT DEPARTMENT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	2012	2011
OPERATING REVENUES:		
Sales of Electricity	\$ 20,235,029	\$ 20,520,776
Other Operating Revenues	421,417	448,977
TOTAL OPERATING REVENUES	20,656,446	20,969,753
OPERATING EXPENSES:		
Operations and Maintenance	18,022,621	18,648,802
Depreciation	1,247,924	1,219,751
TOTAL OPERATING EXPENSES	19,270,545	19,868,553
OPERATING INCOME	1,385,901	1,101,200
NONOPERATING REVENUES (EXPENSES):		
Investment Income	4,257	4,855
Interest Expense	(5)	(1,728)
TOTAL NONOPERATING REVENUES (EXPENSES)	4,252	3,127
Income Before Contributions and Transfers	1,390,153	1,104,327
NET POSITION - JANUARY 1	13,231,529	12,777,202
Transfers Out - Payment in Lieu of Taxes	(650,000)	(650,000)
NET POSITION - DECEMBER 31	\$ 13,971,682	\$ 13,231,529

See Accompanying Notes to Financial Statements

BELMONT MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 20,431,375	\$ 21,511,003
Cash Paid to Suppliers	(14,267,679)	(14,194,766)
Cash Paid to Employees	(2,325,901)	(2,219,267)
Cash Paid for Benefits	(1,104,502)	(1,697,596)
Payments in Lieu of Taxes	(650,000)	(650,000)
	2,083,293	2,749,374
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Interest Expense	(5)	(811)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Advance on Bond Anticipation Note	14,000,000	0
Additions to Plant Assets	(797,899)	(867,233)
Additions to Construction in Progress	(5,608,536)	(744,267)
Principal Repayments on Bond Payable	0	(60,000)
Interest Expense	0	(2,750)
	7,593,565	(1,674,250)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Income	4,412	4,855
Purchase of Investments	(730,018)	0
Rate Stabilization Reserve	302,902	3,918
	(422,704)	8,773
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,254,149	1,083,086
CASH AND CASH EQUIVALENTS - BEGINNING	5,583,524	4,500,438
CASH AND CASH EQUIVALENTS - ENDING	\$ 14,837,673	\$ 5,583,524

See Accompanying Notes to Financial Statements

BELMONT MUNICIPAL LIGHT DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPERATING FUND

	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 1,385,901	\$ 1,101,200
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,247,924	1,219,751
Allowance for Doubtful Accounts	29,412	(59,626)
Payment in Lieu of Taxes	(650,000)	(650,000)
(Increase) Decrease in Assets:		
Accounts Receivable - Customers, Net	(294,120)	596,261
Accounts Receivable - Other	31,571	(37,707)
Materials and Supplies	3,700	42,263
Prepaid Insurance	(12,409)	(374)
Purchased Power Prepayments	(250)	(644)
Increase (Decrease) in Liabilities:		
Accounts Payable	185,666	(144,646)
Customer Deposits	8,066	2,447
Accrued Expenses	85,112	(11,583)
Other Postemployment Benefits Obligation	62,720	692,032
Net Cash Provided by Operating Activities	\$ 2,083,293	\$ 2,749,374

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

The following accounts are considered to be cash or cash equivalents for the statements of cash flows:

	2012	2011
Depreciation Fund	\$ 938,376	\$ 727,704
Operating Cash	5,422,451	3,742,652
General Bond Fund	7,542,369	0
Customer Deposits	118,080	110,014
Rate Stabilization Fund	816,397	1,003,154
	\$ 14,837,673	\$ 5,583,524

Cash paid for interest in 2012 and 2011 was \$5 and \$3,561, respectively.

See Accompanying Notes to Financial Statements

BELMONT MUNICIPAL LIGHT DEPARTMENT
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2012 AND 2011

OPEB TRUST FUND

ASSETS

	2012	2011
ASSETS:		
Funds on Deposit with Town Treasurer		
Cash and Cash Equivalents	\$ 139,992	\$ 138,814

NET POSITION

Restricted for OPEB	\$ 139,992	\$ 138,814
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BELMONT MUNICIPAL LIGHT DEPARTMENT
 STATEMENTS OF CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

OPEB TRUST FUND

	2012	2011
ADDITIONS:		
Interest Earned	\$ 1,178	\$ 359
CHANGES IN NET POSITION	1,178	359
NET POSITION - JANUARY 1	138,814	138,455
NET POSITION - DECEMBER 31	\$ 139,992	\$ 138,814

See Accompanying Notes to Financial Statements

BELMONT MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of Belmont Municipal Light Department are as follows:

Reporting Entity

The Belmont Municipal Light Department is a component unit of the Town of Belmont, Massachusetts. The Light Department purchases power from various sources and sells it to the ultimate customer at rates submitted to the Massachusetts Department of Public Utilities (DPU). The Municipal Light Department appoints a manager of municipal lighting who shall, under the direction and control of the municipal light board, have full charge of the operation and management of the plant.

Regulation and Basis of Accounting

The Department's financial statements are reported using the flow of 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.

Under Massachusetts law, electric rates of the Light Department are set by the Municipal Light Board and may be changed not more than once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Light Department, the Light Department's rates are not subject to DPU approval.

Depreciation

The general laws of Massachusetts allow utility plant in service to be depreciated at an annual rate of 3% of cost of Plant in service at the beginning of the year. In order to change this rate, approval must be obtained from the Department of Public Utilities (DPU). The Light Department's depreciation rate for 2012 and 2011 was 5%.

The Department charges maintenance to expense when incurred. Replacements and betterments are charged to utility plant.

Revenues

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

The Department's rates contain an adjustable component pursuant to which increased power costs (power costs in excess of amounts recovered through base rates) are billable to customers.

Operating revenue includes revenues and expenses related to the continuing operations of the Department. Principal operating revenues are charges to customers for sales of electricity or services. Operating expenses are the costs of providing electricity and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Taxes

The Department is exempt from federal income taxes. Although also exempt from property taxes, the Department pays amounts in lieu of taxes to the Town of Belmont.

BELMONT MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Reclassification

Certain prior year amounts have been reclassified to conform to 2012 financial statement presentation with no effect on previously stated net income.

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.

Accounts Receivable

The Light Department carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Department evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions.

The Light Department's policy on collections is to consider any receivable past due if payments have not been received within 45 days of receipt of invoice. Interest is charged on all accounts when a payment has not been received within 46 days. A delinquent notice is sent for past due amounts. If payment is not received within 10 days a second request is made and the customer is given another 5 days to pay. If the delinquent amount is still not paid a letter is hand delivered and the customer's meter is shutoff.

Materials and Supplies

Materials and supplies are valued using the average cost method.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Department considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Compensated Absences

In accordance with Department policies, employees are allowed to accumulate sick days, up to a maximum of 200 days. Upon termination of employment with the Department, the employee will not be paid for accumulated sick time.

Employees are also permitted to carryover vacation time from one year to the next at a maximum of twice their annual earned vacation. Upon termination of employment with the Department, the employee will be paid for unused vacation time based on the employee's base rate of pay at the time of termination. In accordance with generally accepted accounting principles, provisions for these termination liabilities have been accrued in the accompanying financial statements.

Sales Tax

The Department collects sales tax. The amount received is credited to a liability account and as payments are made, this account is charged. At any point in time, this account represents the net amount owed to the taxing authority for amounts collected but not yet remitted.

BELMONT MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 2 - ACCOUNTS RECEIVABLE - CUSTOMERS, NET:

	2012	2011
Accounts Receivables – Customers	\$ 1,772,269	\$ 1,478,149
Allowance for Doubtful Accounts	(177,227)	(147,815)
Net Accounts Receivable - Customers	\$ 1,595,042	\$ 1,330,334

NOTE 3 - RATE STABILIZATION FUND:

The Rate Stabilization Fund was created as an aftermath of the Massachusetts Electricity Restructuring Act of 1997. These funds are for unexpected escalation in costs, such as the decommissioning of nuclear power plants before the end of their operating license, unusual price spikes in fuel prices and transmission cost increases. The Rate Stabilization Fund balance at December 31, 2012 and 2011 was \$1,306,056 and \$1,003,154, respectively.

NOTE 4 - DEPRECIATION FUND:

Pursuant to provisions of the Commonwealth’s General Laws, cash in an amount equivalent to the annual depreciation expense is transferred from unrestricted funds to the depreciation fund. Interest earned on the balance of the fund must also remain in the fund. Such cash may be used for the cost of plant, nuclear decommissioning costs, costs of contractual commitments, and deferred costs related to such commitments which the municipal light board determines are above market value. The balance at December 31, 2012 and 2011 was \$1,178,580 and \$727,704, respectively.

NOTE 5 - CONCENTRATION OF CREDIT RISK:

The Belmont Municipal Light Departments’ deposits with the Town Treasurer are commingled and invested with deposits from other Town funds. Accordingly it is not practical to disclose the related bank balance and credit risk of such cash deposits for the Light Department. 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 Light Department deposits is not determinable because the limits of insurance are computed on a Town-Wide basis.

NOTE 6 - UNBILLED REVENUE:

No recognition is given to the amount of sales to customers which are unbilled at the end of the accounting period.

BELMONT MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 7 - UTILITY PLANT ASSETS:

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012
Capital Assets Not Being Depreciated:				
Land	\$ 9,349	\$ 0	\$ 0	\$ 9,349
Construction in Progress	1,742,685	5,608,536	0	7,351,221
Total Capital Assets Not Being Depreciated	1,752,034	5,608,536	0	7,360,570
Capital Assets Being Depreciated:				
Distribution Plant	16,990,121	532,283	(493,861)	17,028,543
General Plant	7,982,383	265,616	0	8,247,999
Total Capital Assets Being Depreciated	24,972,504	797,899	(493,861)	25,276,542
Less Accumulated Depreciation For:				
Distribution Plant	(13,164,694)	(849,506)	493,861	(13,520,339)
General Plant	(4,350,415)	(398,418)	0	(4,748,833)
Total Accumulated Depreciation	(17,515,109)	(1,247,924)	493,861	(18,269,172)
Capital Assets Being Depreciated, Net	7,457,395	(450,025)	0	7,007,370
Utility Plant Assets, Net	\$ 9,209,429	\$ 5,158,511	\$ 0	\$ 14,367,940

NOTE 8 - CONSTRUCTION IN PROGRESS:

The Department had invested \$1,796,000 in a transmission service upgrade to 115kv through December 31, 2010. Due to the change in the scope of the project certain aspects of the project costs were abandoned during 2010 resulting in a reduction in the carrying value of the construction work in progress account to \$998,418 as of December 31, 2010. In 2012 and 2011, the Department invested an additional \$5,418,069 and \$653,638, respectively, in the 115kv transmission service upgrade. The total amount invested in the 115kv Project as of December 31, 2012 and 2011 was \$7,070,124 and \$1,652,055.

In 2011, the Department began the L370 Smart Meter Project investing \$90,630 for the implementation of smart meters. The Department invested an additional \$190,467 in 2012. The total amount invested in the L370 Smart Meter Project as of December 31, 2012 and 2011 was \$281,097 and \$90,630, respectively.

NOTE 9 - BONDS PAYABLE:

On April 26, 2012, the Town issued a Bond Anticipation Note (BAN) in the aggregate amount of \$14,000,000, which included a bond premium, bearing interest at 1.83% and maturing April 25, 2013. The proceeds are to be used to finance the 115kv Transmission Service Upgrade Project. Accrued interest relating to the Light Department's share of this BAN amounted to \$17,067 as of December 31, 2012.

BELMONT MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 9 - BONDS PAYABLE (Continued):

On April 25, 2013, the BAN matured and was renewed in the aggregate amount of \$14,000,000, which included a bond premium, bearing interest at 1.77% and maturing April 25, 2014.

NOTE 10 - INVESTMENT CUSTODIAL CREDIT RISK:

Investment custodial risk is the risk that, in the event of a failure by the counterparty, the Department will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the Department's investments in Certificate of Deposits, the Department has no custodial risk exposure. The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2012, the Department's investments were all Certificate of Deposits with maturities of less than one year. The fair value of these debt securities as of December 31, 2012 was \$729,863.

Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Banco Bilboa Argentaria P R	\$ 240,204	32%
Bank Baroda New York NY	\$ 244,968	34%
SAFRA NATL BK New York	\$ 244,691	34%

NOTE 11 – NET INVESTMENT IN CAPITAL ASSETS:

	<u>2012</u>	<u>2011</u>
Cost of Capital Assets Acquired	\$ 32,637,112	\$ 26,724,538
Less: Accumulated Depreciation	18,269,172	17,515,109
Less: Outstanding Debt Related to Capital Assets	<u>6,457,631</u>	<u>0</u>
Net Investment in Capital Assets	<u>\$ 7,910,309</u>	<u>\$ 9,209,429</u>

NOTE 12 - MISCELLANEOUS DEFERRED LIABILITIES:

The Department's rates included a Purchased Power Transmission Adjustment (PPTA) which allows for an adjustment of rates charged to customers in order to recover all changes in capacity and fuel costs from stipulated base costs. The PPTA provides for monthly reconciliations of total power costs billed with actual cost of power incurred. Any excess or deficiency in amounts collected as compared to costs incurred is deferred and either credited or billed to customers over subsequent periods. For the years ending December 31, 2012 and 2011, there was an undercollection which the Department has chosen not to collect in the future.

BELMONT MUNICIPAL LIGHT DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

Belmont Municipal Light Department has entered into various power contracts through Energy New England (ENE), as their acting agent. These power contracts began in 2009 and go through to the year 2026.

BMLD's annual energy costs related to its long-term power purchase commitments as of 2012 are approximately as follows:

For Years Ending December 31,	2013	\$	5,968,368
	2014		4,010,266
	2015		3,123,512
	2016		1,839,034
	2017		872,988
	2018-2022		4,367,367
	2023-2026		<u>1,791,067</u>
		\$	<u>21,972,602</u>

NOTE 14 - RELATED PARTY TRANSACTIONS:

In 2012 and 2011, the Light Department received payments from the town in the amount of \$1,228,007 and \$1,280,538 respectively and paid payments to the town in the amount of \$1,837,856 and \$1,853,500, respectively. At December 31, 2012 and 2011, the outstanding receivable balance was \$17,476 and \$74,852, respectively, and there were no outstanding payable balances.

NOTE 15 - PAYMENT IN LIEU OF TAXES:

The Municipal Light Board, which is also the Board of Selectmen, is responsible for determining the amount that the Light Department pays to the Town in lieu of taxes. The payment in lieu of taxes was \$650,000 for the years ended December 31, 2012 and 2011.

NOTE 16 - RISK MANAGEMENT:

The Light Department participates in and shares in the cost of the Town's risk management programs with regards to health, workers compensation and automobile insurance.

The Light Department carries its own property, general liability and public official liability coverage through a premium-based plan. Limits on this insurance coverage vary from \$5,000 to \$2,000,000 per occurrence.

BELMONT MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 17 - PENSION PLAN:

The Light Department, through the Town of Belmont, is a member of the Belmont Contributory Retirement System, which, in turn, is a member of the Massachusetts Contributory Retirement System, which 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 county employees and employees of participating towns and districts except those employees who are covered by teacher's retirement board.

Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

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

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

Active members contribute either 5, 7, 8 or 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired after 1978 contribute an additional 2% of annual pay above \$30,000. These contributions are deposited in the Annuity Savings Fund and earn interest at a rate determined by The Public Employees' Retirement Administration's (*PERA's) Actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Cost-of-living adjustments (COLA) for retirees prior to 1997 were borne by the state. All COLA after that have been borne by the local retirement system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors: including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status, and group classification. Employees who resign from state service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those contributions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

BELMONT MUNICIPAL LIGHT DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011

NOTE 17 - PENSION PLAN (Continued):

The Department's contribution to the Retirement Plan is determined by an allocation of the total Town contribution, which is based upon projected benefits to be paid during the applicable year. The Department then reimburses the Town for the Department's share of the assessment.

The amount of pension expense charged to operations for the years ended December 31, 2012, 2011 and 2010 was approximately \$575,504, \$517,712, and \$462,448, respectively.

The Plan's separately issued financial statements can be obtained by contacting the Town of Belmont Retirement Office at 455 Concord Avenue, Belmont, Massachusetts 02478.

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

December 31, 2008 was the initial year that Belmont Municipal Light Department (BMLD) implemented GASB Statement 45, *Accounting for Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. As allowed by GASB 45, the Department has established the net OPEB obligation at zero at the beginning of the transition year and has applied the measurement recognition requirements of GASB 45 on a prospective basis.

Plan Description. BMLD participates in the town sponsored single employer defined benefit health plan. BMLD provides certain health care and life insurance benefits for eligible retirees and their spouses. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan.

As of July 1, 2012 BMLD's membership consisted of the following:

Current retirees beneficiaries	23
Current active members	28
Total	51

Funding Policy. BMLD recognizes the cost of providing these benefits, in accordance with government accounting standards, on a pay-as-you-go basis, by expensing the annual insurance premiums charged BMLD by the Town, which aggregated approximately \$462,632 and \$470,031 for the years ended December 31, 2012 and 2011, respectively. The cost of providing these benefits for retirees is about 50% of the premium. Retired plan members and beneficiaries currently receiving benefits are required to contribute 20% for HMO and 50% for PPO plans (that are not participating in medicare plans) and 50% for the Medicare Enhanced Supplement and the First Seniority Plans of the cost of benefits provided depending on the plan they choose. A surviving spouse may continue coverage for lifetime by paying 50% of the medical plan premium rate. Retirees are required to pay \$28 annually for a \$2,000 life insurance benefit, if elected.

BELMONT MUNICIPAL LIGHT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

Annual OPEB Costs. BMLD'S annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following shows the components of the Department's annual OPEB cost for the years ending December 31, 2012 and 2011, the amount actually contributed to the plan, and changes in the department's net OPEB obligation based on an actuarial valuation as of July 1, 2012:

	2012	2011
Normal cost	\$ 230,169	\$ 167,477
Amortization of unfunded actuarial accrued liability	498,782	540,463
Interest	32,803	35,397
Annual required contribution	761,754	743,337
Interest on net OPEB obligation	86,128	0
Adjustment to annual required contribution	(112,073)	0
Expected benefit payments	(190,452)	(51,305)
 Increase in net OPEB obligation	 545,357	 692,032
 Net OPEB obligation – Beginning of Year	 2,205,195	 1,513,163
Change in Actuarial Assumptions	(482,637)	0
 Net OPEB obligation – End of Year	 \$ 2,267,915	 \$ 2,205,195

The Departments' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Year ended	Annual OPEB costs	Percentage of OPEB cost contributed	Net OPEB obligation
2010	\$ 709,739	18%	\$ 1,513,163
2011	\$ 743,337	7%	\$ 2,205,195
2012	\$ 761,754	25%	\$ 2,267,915

Funded Status and Funding Progress. 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 revisions as actual results are compared with past expectations and new estimates are made about the future.

BELMONT MUNICIPAL LIGHT DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

The funded status is as follows:

Actuarial accrued liability (AAL)	\$	8,627,779
Value of plan assets		<u>(139,992)</u>
Unfunded actuarial accrued liability	\$	8,487,787
Funded ratio (actuarial value of plan assets/AAL)		1.62%
Covered payroll (active plan members)	\$	2,325,901
UAAL as a percentage of covered payroll		364.927%

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the department 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 the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2012, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5% after 5 years. The health care cost trend rate differs between the master medical and other healthcare plans. The actuarial value of assets was determined using the market value of investments. The department's unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis.

Goulet, Salvidio & Associates, P.C.
Certified Public Accountants

James F. Goulet, CPA, MST
Catherine A. Kuzmeskus, CPA

Michael A. Salvidio, CPA
James R. Dube, CPA

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

The Board of Commissioners
Belmont Municipal Light Department
Belmont, Massachusetts 02478

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information presented on pages 25 and 26 is presented for purposes of additional analysis and is 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
June 4, 2013

BELMONT MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF SALES OF ELECTRICITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
SALES OF ELECTRICITY:		
Residential	\$ 12,270,182	\$ 12,393,168
Commercial	3,202,137	3,356,260
Industrial	3,596,530	3,670,623
Municipal	855,655	805,917
Private Lighting	51,029	49,789
Street Lights	<u>259,496</u>	<u>245,019</u>
 TOTAL SALES OF ELECTRICITY	 <u><u>\$ 20,235,029</u></u>	 <u><u>\$ 20,520,776</u></u>

BELMONT MUNICIPAL LIGHT DEPARTMENT
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
POWER PRODUCTION EXPENSES:		
Purchased Power Expense	\$ 8,629,923	\$ 9,017,501
Transmission Expense	3,998,277	4,035,918
Total Power Production Expenses	12,628,200	13,053,419
DISTRIBUTION EXPENSES:		
Miscellaneous Distribution Expenses	104,201	118,378
Line Expenses	1,332,911	1,018,302
Operation Supplies and Expenses	420,300	408,321
Maintenance of Meters	123,493	127,471
Customer Installations Expense	116,878	96,288
Stores Expense	60,378	63,000
Total Distribution Expenses	2,158,161	1,831,760
CUSTOMER ACCOUNT EXPENSES:		
Customer Accounting and Collection Expense	357,969	369,899
Meter Reading Expense	79,515	98,479
Uncollectible Accounts	140,144	56,418
Total Customer Accounts	577,628	524,796
GENERAL AND ADMINISTRATIVE EXPENSES:		
Administrative and General Salaries	425,853	383,324
Office Supplies and Expenses	212,866	198,083
Outside Services Employed	378,355	440,672
Insurance, Injuries and Damages	128,185	99,260
Employees' Pension and Benefits	1,104,502	1,697,596
Dues, Meetings, and Other General Expenses	40,677	103,508
Transportation Expenses	51,903	65,095
Advertising Expenses	48,638	22,356
Total General and Administrative Expenses	2,390,979	3,009,894
MAINTENANCE EXPENSES:		
Maintenance - Other	267,653	228,933
TOTAL OPERATION AND MAINTENANCE EXPENSES	\$ 18,022,621	\$ 18,648,802

See Independent Auditors' Report on Supplemental Information