

Reading Municipal Light Department Board of Commissioners
RMLD Board of Commissioners' Audit Committee
RMLD Cafeteria
September 28, 2011

Start Time of Regular Session: 6:30 p.m.

End Time of Regular Session: 7:25 p.m.

Attendees:

RMLD Audit Committee Members: Messrs. Pacino and Soli
RMLD Board; Ms. O'Neill
RMLD Staff: Messrs. Cameron and Fournier

Town of Reading Audit Committee: Messrs. Greenfield, Herrick, and Pacino
Mses. Anthony and West

Melanson Heath & Company, PC: Mr. Biron and Ms. Snow

Ms. West called the Town of Reading Audit Committee meeting to order at 7:30 pm. Mr. Pacino called the RMLD Board of Commissioners Audit Committee ("RMLD Audit Committee") to order simultaneously.

Mr. Cameron introduced Mr. Frank Biron and Ms. Karen Snow of Melanson Heath who worked on the RMLD audit and will present the audit findings to the Audit Committee.

Presentation of Fiscal Year 2011 Audit

Melanson Heath & Company, PC Audit Review – Mr. Frank Biron

Mr. Cameron introduced Mr. Frank Biron and Ms. Karen Snow of Melanson Heath who worked on the RMLD audit and will present the audit findings to the Audit Committee.

Mr. Biron explained that the report is in draft form until it is officially accepted by the Board; however, there is the potential that there may be a couple of adjustments. The audit was completed in the last month and the financial statements will not be ready for a couple of weeks. Mr. Biron reported that there was a recent development that occurred which is found in a new footnote number 20 which appears on page twenty-eight which deals with an NSTAR situation. Mr. Biron said that the footnote was drafted late yesterday and revised today; it is hot off the press. As a result of this, there may be adjustments made to the financial statements.

Mr. Biron reported that if not for the NSTAR situation, the rest of the audit went pretty smoothly as in prior years. The books were closed and reconciled. The financial statement reflects that the Department had a very good year which is reflected in the cash balances being strong, balances have been where they have been in the past; there is neither debt nor bonds payable on the books. Mr. Biron pointed out that the Department started to fund the Other Post Employment Benefit (OPEB) liability which is an unusual thing to fund because most municipalities do not fund this. It was a good bottom line for the year with a profit of \$2.7 to \$2.8 million which is consistent for the prior year.

Mr. Soli asked about the bottom line numbers. Mr. Biron reported that this is found on page seven, in FY11 the profit is \$2,783,718 and in FY10 it was \$2,780,148 which is pretty consistent. Mr. Biron said that the revenues are up because more kilowatt hours were sold during the year by 3.5% and the revenue is up 3.5%. The cost of power was down during the year which contributed to the profit however, an additional \$800,000 was paid into the retirement system. The reason behind this payment is due to the poor investment results based on the economy over the past few years that impacted the retirement system. The actuaries performed a valuation and determined that more money had to be paid into the retirement system. The Department took \$1 million of its current year's revenue and put it into the retirement system.

Mr. Biron explained that a year earlier it was only \$200,000. The depreciation expense for the year \$3,452,000, 3% rate in FY 11 where in FY 10, it was \$2,240,000, 2% depreciation rate. The Department can change the depreciation rate from year to year. The overall bottom line is consistent rounded to \$2.8 million profit.

Mr. Biron said that he will do his best to explain this as he understands it in simplest terms, foot note 20 on page twenty-eight. Mr. Biron stated that in 1979, the Department entered into an agreement with Boston Edison (BECo) for the transmission of power coming into the system. At that time, it was called the radial transmission lines. Part of that agreement required that the Department would pay BECo now known as NSTAR. The requirement was for the Department to pay \$12,000 monthly for operating and maintenance expenses relating to those lines. Every month the Department would get a monthly billing of \$12,000 which would be paid. In 2003, this line was reclassified from a radial transmission line to a looped transmission line. Mr. Biron explained that the difference is once it becomes a looped transmission line the costs associated with that instead of the Department being responsible for paying that it should have been shared with all utilities in New England. When that happened in 2003, apparently the Department was not made aware of that, the bills continued to come in from NSTAR and was continued to be paid monthly. The ultimate funding source for this should have been all of New England power companies. The Department could have sought reimbursement through the ISO New England pool, but did not. It took until May of this year that the Department discovered what had happened, looked into it and concluded that they should have not been billed on a monthly basis from NSTAR or they could have recouped the cost they had paid through ISO New England. Our understanding is that the agreement was effective in 1979, which was terminated on June 1, 2011 and the payments stopped at that point. The original contract with BECo had a clause that the Department could not go back and farther then twelve months to contest a bill. However, these bills go back to 2003 to current on a monthly basis. Under the ISO-NE for Regional Network Service the Department was able to obtain eighteen months of rebates for the Radial Line Support bills... ISO-NE would credit the Department's transmission costs to make up for that eighteen month period over the next two years, which equates to approximately \$220,000 of credits over the next couple of years through the transmission costs. However, what is lost is the rest of those months from 2003 to 2009 for \$1,072,000. This issue is included in the foot note and they may have to book a receivable for \$220,000, but Melanson Heath will look into this in more detail.

Mr. Pacino stated that on page 7 of the audited financial statements it shows that the Return to the Town of Reading decreased \$14,790 between FY10 and FY11. Mr. Pacino said that he believes that the Town Payment to the Town of Reading should not decrease according to the formula approved by the RMLD Board.

Mr. Cameron said that the Town Payment to Reading is adjusted by the Boston-Brockton-Nashua Consumer Price Index and could decrease. Mr. Cameron said he would send the RMLD paperwork on the formula for the Reading Town Payment to the members of the Audit Committee.

The Town of Reading Audit Committee moved, seconded and voted to recommend that the Fiscal Year June 30, 2011 Audit be accepted by the RMLD Board of Commissioners.

Mr. Soli made a motion seconded by Mr. Pacino that the RMLD Audit Committee recommend to the RMLD Board of Commissioners that they accept the Fiscal Year June 30, 2010 Audited Financial Statements as presented by Melanson Heath.

Motion passed 2:0:0.

Mr. Soli made a motion seconded by Mr. Pacino that the RMLD Audit Committee recommend to the RMLD Board of Commissioners that they accept the Fiscal Year June 30, 2010 Employee's Retirement Trust Audited Financial Statements as presented by Melanson Heath.

Motion passed 2:0:0.

Motion to Adjourn

At 7:25 p.m. Mr. Soli made a motion seconded by Mr. Pacino to adjourn.

Motion carried by a show of hands 2:0:0.

The Town of Reading Audit committee moved, seconded and voted to adjourn simultaneously.