

CITY OF WESTFIELD
GAS AND ELECTRIC LIGHT DEPARTMENT
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017 AND 2016

**CITY OF WESTFIELD
GAS AND ELECTRIC LIGHT DEPARTMENT
CONSOLIDATED FINANCIAL STATEMENTS**

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INDEPENDENT AUDITORS' REPORT

To the Municipal Light Board and Manager of the
City of Westfield Gas and Electric Light Department

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the City of Westfield Gas and Electric Light Department (the "Department") and the Southwest Cooperative (the "Cooperative"), which comprise the proprietary fund consolidated statements of net position as of December 31, 2017 and 2016, and the related proprietary fund consolidated statements of revenues, expenses and changes in net position and cash flows for the years then ended, the fiduciary fund statements of fiduciary net position as of December 31, 2017 and 2016 and the related fiduciary fund statements of changes in fiduciary net position for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department and the Cooperative's preparation and fair presentation of the consolidated 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 Department and the Cooperative'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department and the Cooperative as of December 31, 2017 and 2016, and the respective changes in financial position and its 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

Management has omitted *Management's Discussion and Analysis and Budget Comparison Information* that accounting principles generally accepted in the United States of America require to be presented to supplement the consolidated financial statements. Such missing information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. Our opinion on the consolidated financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that pension plan and other post-employment benefit plan schedules as listed on the table of contents be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2018 on our consideration of the Department and the Cooperative's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department and the Cooperative's internal control over financial reporting and compliance.

Mayer Beckett Kalicka, P.C.

Holyoke, Massachusetts
July 11, 2018

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**PROPRIETARY FUND
CONSOLIDATED STATEMENTS OF NET POSITION**

DECEMBER 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets		
Cash	\$ 11,948,418	\$ 13,618,078
Accounts receivable, less reserve of \$652,000 in 2017 and \$608,000 in 2016	3,400,808	3,455,955
Inventory - materials and supplies	6,959,628	3,832,905
Prepaid expenses	<u>63,618</u>	<u>60,221</u>
Total current assets	<u>22,372,472</u>	<u>20,967,159</u>
 Restricted and designated assets		
Cash in escrow	614,673	632,665
Cash for rate stabilization	5,258,112	3,341,579
Cash from BAN/bond issuance	3,900,000	-
MMWEC Reserve Trust	25,905,021	25,656,113
Deferred charges	<u>2,335,056</u>	<u>2,330,464</u>
Total restricted and designated assets	<u>38,012,862</u>	<u>31,960,821</u>
 Noncurrent assets		
Regulatory asset, net	1,259,231	1,325,317
Other investments	299,589	299,589
Deferred charges	-	100,537
Deferred debt service costs	<u>22,711</u>	<u>24,645</u>
Total noncurrent assets	<u>1,581,531</u>	<u>1,750,088</u>
 Plant investment		
Land	1,191,091	1,008,891
Electric	82,657,092	76,815,855
Gas	60,808,091	58,907,106
Telecommunications	<u>10,959,503</u>	<u>2,512,640</u>
	155,615,777	139,244,492
Less: accumulated depreciation	(60,451,761)	(57,208,865)
Construction in process	<u>56,500</u>	<u>464,633</u>
Total plant investment, net	<u>95,220,516</u>	<u>82,500,260</u>
 Deferred outflows of resources		
Deferred outflows related to pensions	<u>1,982,650</u>	<u>1,792,197</u>
 Total assets	<u>\$ 159,170,031</u>	<u>\$ 138,970,525</u>

LIABILITIES, DEFERRED INFLOWS AND RESOURCES AND NET POSITION

	2017	2016
Current liabilities		
Accounts payable	\$ 7,037,257	\$ 5,472,703
Accrued expenses	674,440	556,374
Payable to municipality	280,746	220,002
BAN payable	7,000,000	-
Current portion of general obligation bonds	1,054,810	824,638
Current portion of accrued compensated absences	283,132	245,064
Total current liabilities	<u>16,330,385</u>	<u>7,318,781</u>
Noncurrent liabilities		
Accrued expenses	1,202,765	1,161,887
General obligation bonds	13,105,071	9,159,882
Accrued compensated absences	2,736,661	2,718,770
Other post-employment benefit obligation	6,469,898	6,520,353
Net pension liability	10,882,173	11,761,813
Total noncurrent liabilities	<u>34,396,568</u>	<u>31,322,705</u>
Total liabilities	<u>50,726,953</u>	<u>38,641,486</u>
Deferred inflows of resources		
Deferred inflows related to pensions	1,567,770	-
Reserve for rate stabilization	39,530,187	37,626,048
Reserve for energy conservation	546,275	496,515
Total deferred inflows of resources	<u>41,644,232</u>	<u>38,122,563</u>
Net position		
Net investments in capital assets	74,083,346	72,540,385
Restricted	4,514,673	632,665
Unrestricted	(11,799,173)	(10,966,574)
Total net position	<u>66,798,846</u>	<u>62,206,476</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 159,170,031</u>	<u>\$ 138,970,525</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

PROPRIETARY FUND

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues		
Residential	\$ 26,487,694	\$25,237,979
Commercial	23,930,275	22,759,280
Industrial	14,746,050	15,200,095
Municipal	3,102,024	2,970,940
Off-street lighting	166,307	157,915
Other operating income	479,943	-
Service income and finance charges	82,543	88,029
Rate stabilization fund transfers	<u>(1,904,138)</u>	<u>(72,537)</u>
Total operating revenues	<u>67,090,698</u>	<u>66,341,701</u>
 Operating expenses		
Purchased power and gas	37,916,119	39,553,178
Distribution expenses	3,283,141	3,474,177
Maintenance	4,163,686	3,582,112
General and administrative	9,439,815	8,157,374
Pension and benefits	3,495,823	3,532,872
Environmental response expense	78,629	75,440
Other operating expense	479,943	-
Depreciation and amortization	<u>4,213,154</u>	<u>3,971,542</u>
Total operating expenses	<u>63,070,310</u>	<u>62,346,695</u>
 Operating income	<u>4,020,388</u>	<u>3,995,006</u>
 Non-operating revenues (expenses)		
Miscellaneous income	493,980	557,068
Investment income	224,148	126,252
Interest expense	<u>(459,709)</u>	<u>(406,453)</u>
Total non-operating revenues, net	<u>258,419</u>	<u>276,867</u>
 Income before transfers and contributions	4,278,807	4,271,873
 Transfers out - in lieu of tax payments to City	(564,610)	(443,001)
 Contributions in aid of construction	<u>878,173</u>	<u>909,119</u>
 Change in net position	4,592,370	4,737,991
 Net position, beginning of year	<u>62,206,476</u>	<u>57,468,485</u>
 Net position, end of year	<u>\$ 66,798,846</u>	<u>\$ 62,206,476</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**PROPRIETARY FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Cash received for services	\$ 67,145,845	\$ 66,372,757
Cash paid to power suppliers	(34,447,426)	(38,563,482)
Cash paid to employees for services	(10,953,936)	(11,180,774)
Cash paid for other operations	<u>(12,299,628)</u>	<u>(9,123,123)</u>
Net cash provided by operating activities	<u>9,444,855</u>	<u>7,505,378</u>
Cash flows from capital and related financing activities		
Cash received from contributions in aid of construction	878,173	909,119
Cash paid for capital expenditures	(4,870,561)	(8,214,607)
Cash paid for principal on general obligation bonds incurred for capital purposes	(824,638)	(990,220)
Cash paid for interest on general obligation bonds incurred for capital purposes	<u>(459,709)</u>	<u>(404,647)</u>
Net cash (used in) capital financing activities	<u>(5,276,735)</u>	<u>(8,700,355)</u>
Cash flows from non-capital financing activities		
Cash paid for in lieu of tax payments	(503,866)	(443,001)
Cash received from non-operating revenues	<u>493,980</u>	<u>557,068</u>
Net cash (used in) provided by non-capital financing activities	<u>(9,886)</u>	<u>114,067</u>
Cash flows from investing activities		
Cash paid for purchases of investments	(140,931)	(411,928)
Cash received from investment earnings	<u>257,321</u>	<u>209,562</u>
Net cash provided by (used in) investing activities	<u>116,390</u>	<u>(202,366)</u>
Net increase (decrease) in cash	4,274,624	(1,283,276)
Cash, beginning of year	<u>19,191,395</u>	<u>20,474,671</u>
Cash, end of year	<u>\$ 23,466,019</u>	<u>\$ 19,191,395</u>
Cash included in:		
Unrestricted cash	\$ 11,948,418	\$ 13,618,078
Restricted and designated cash	<u>11,517,601</u>	<u>5,573,317</u>
Cash, end of the year	<u>\$ 23,466,019</u>	<u>\$ 19,191,395</u>

(Continued)

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**PROPRIETARY FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Operating income	\$ 4,020,388	\$ 3,995,006
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,213,154	3,971,542
Deferred outflows/inflows related to pension	1,377,317	439,324
Allowance for uncollectible accounts	44,000	(9,999)
Loss on disposal of plant investment	3,237	-
Net changes in operating assets and liabilities:		
Accounts receivable	11,147	41,055
Inventory - materials and supplies	(3,126,723)	(1,393,961)
Prepaid expenses	(3,397)	9,759
Deferred charges and debt service costs	102,471	377,750
Accounts payable	1,564,554	917,159
Accrued expenses	158,944	(493,210)
Other post-employment benefit obligation	(50,455)	(83,237)
Net pension liability	(879,640)	(367,001)
Accrued compensated absences	55,959	25,542
Reserve for energy conservation	49,760	3,112
Reserve for rate stabilization	<u>1,904,139</u>	<u>72,537</u>
Net cash provided by operating activities	<u>\$ 9,444,855</u>	<u>\$ 7,505,378</u>
 Supplemental disclosure of non-cash information		
Plant investment transferred to regulatory asset	\$ -	\$ 692,146

The accompanying notes are an integral part of these financial statements.

FIDUCIARY FUND

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**FIDUCIARY FUND
STATEMENTS OF FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT BENEFIT TRUST FUND
DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Assets		
Cash	\$ 32,260	\$ 26,776
Investments - mutual funds	<u>2,188,155</u>	<u>1,639,091</u>
Total assets	<u>2,220,415</u>	<u>1,665,867</u>
Liabilities		
Other	<u>1,435</u>	<u>-</u>
Net position		
Held in trust for other post-employment benefits	<u>\$ 2,218,980</u>	<u>\$ 1,665,867</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**FIDUCIARY FUND
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT BENEFIT TRUST FUND
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Contributions	\$ 375,000	\$ 524,465
Investment income (expense):		
Realized gain	35,322	5,123
Unrealized gain	111,414	51,460
Other income	36,693	25,826
Management fees	<u>(5,316)</u>	<u>(3,814)</u>
Investment income, net	<u>178,113</u>	<u>78,595</u>
Total additions	553,113	603,060
Net position, beginning of year	<u>1,665,867</u>	<u>1,062,807</u>
Net position, end of year	<u>\$ 2,218,980</u>	<u>\$ 1,665,867</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. REPORTING ENTITY:

The City of Westfield Gas and Electric Light Department (the "Department") provides electric, gas, fiber and telecommunication services to its customers. Some of these services are marketed under the name of "Whip City Fiber". The Department is classified under the proprietary fund category and enterprise fund type of the City of Westfield, Massachusetts (the "City"). These consolidated financial statements report only that portion of the financial reporting entity of the City that is attributable to the Department's (and Cooperative - see below) transactions. The Department grants credit to its customers, substantially all of whom are local residents, and commercial and industrial businesses. Approximately 70% and 74% of the Department's operating revenues were derived from its electric division during 2017 and 2016, respectively.

Included in these financial statements (consolidated), are the Department and its blended component unit the Southwest Cooperative (the "Cooperative"). The Cooperative was formed in October 2006 for the sole purpose of constructing gas transmission facilities and pipelines to connect the supplier's source, located in Southwick, Massachusetts, to the gas distribution system currently operated by the Department. In accordance with the by-laws of the Cooperative, a majority of its members, officers and directors will consist of members of the Department's management. The entire capacity provided by this project is utilized by the Department. All significant intercompany accounts and transactions have been eliminated as part of the consolidation.

The Department has established an Other Post-Employment Benefits Trust, as further described in Note 2. This Trust is classified as a fiduciary fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Recent accounting pronouncements

In June 2015, GASB issued SGAS No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* (GASB No. 75). The primary objective of GASB No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This statement replaces the requirements of SGAS No. 45 *"Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions"*, as amended, and SGAS No. 57 *"OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans"*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources, and expenses. For defined benefit OPEB, GASB No. 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria. This statement is effective for the Department in 2018. The Department is currently assessing the financial statement impact of adopting this statement.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Recent accounting pronouncements (continued)

In January 2017, GASB issued SGAS No. 84, "*Fiduciary Activities*" (GASB No. 84). The objective of GASB No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement is effective for the Department in 2019. The Department is currently assessing the financial statement impact of adopting this statement.

In March 2017, GASB issued SGAS No. 85, "*Omnibus 2017*" (GASB No. 85). GASB No. 85 addresses a variety of topics including issues related to blending component units, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This statement is effective for the Department in 2018. The Department is currently assessing the financial statement impact of adopting this statement but does not expect it to be material.

In June 2017, GASB issued SGAS No. 87, "*Leases*" (GASB No. 87). The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The lease liability should be measured at the present value of payments expected to be made during the lease term. As payments are made the lease liability is reduced and an outflow of resources (interest expense) is recognized for the interest on the liability. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The lease receivable should be measured at the present value of the lease payments expected to be received during the lease term. Any payments received are first allocated to accrued interest receivable and then to lease receivable. The deferred inflow of resources should be recognized as inflows of resources (revenue) in a systematic and rational manner over the term of the lease. The lessor should not derecognize the asset underlying the lease. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this statement. The lease term is defined as the period during which a lessee has a non-cancellable right to use an underlying asset, plus the following periods, if applicable. A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources (expenses) or inflows of resources (revenues), respectively, based on the payment provisions of the lease contract. This statement is effective for the Department in 2020. The Department is currently assessing the financial statement impact of adopting this statement.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Recent accounting pronouncements (continued)

In March 2018, GASB issued SGAS No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*" (GASB No. 88). The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This statement is effective for the Department in 2019. The Department is currently assessing the financial statement impact of adopting this statement.

Measurement focus and basis of accounting

The Department's accounting records are maintained in accordance with Generally Accepted Accounting Principles ("GAAP") for proprietary fund category (enterprise fund type) as promulgated by the Governmental Accounting Standards Board ("GASB"). The Department's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the U.S. Federal Energy Regulatory Commission ("FERC"), except as it relates to the accounting for contributions of utility property in aid of construction. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred (subject to adjustments resulting from rate stabilization changes), regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Public utility regulation

Arrangements among the Department, outside agencies and other utilities covering interconnections, interchange of electric power, and sales of utility property are subject to regulation by FERC. The Department is subject to further regulation by the Massachusetts Department of Public Utilities ("DPU"). The Department, where appropriate, follows accounting treatment prescribed by these regulatory agencies.

Under Massachusetts Law, the rates of the 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 DPU. While the DPU exercises general supervisory authority over the Department, the rates are not subject to DPU approval. Rates must be set such that net earnings from operations do not exceed 8% of the cost of the utility plant.

Massachusetts Municipal Wholesale Electric Company ("MMWEC")

MMWEC is a non-profit, public corporation and political subdivision of the Commonwealth of Massachusetts. They offer services ranging from power supply planning and resource development to risk management and regulatory support. The Department utilizes MMWEC for the investment of assets. The Cooperative utilizes MMWEC for accounting related management services.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fiduciary fund - Other Post-Employment Benefits Trust

The other post-employment benefit trust fund ("OPEB Trust") was established in 2014 by the Municipal Light Board pursuant to Chapter 32B, Section 20 of the General Laws of the Commonwealth of Massachusetts. The OPEB Trust constitutes the principal instrument of a plan established by the Municipal Light Board to fund the Department's annual actuarially determined OPEB contribution for retirees.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others and cannot be used to support the Departments' programs.

Revenues and expenses

Utility revenues are based on authorized rates applied to each customer's use of energy. Rate changes are approved by the Department's Municipal Light Board and are filed with the DPU. These operating revenues are recognized on the basis of cycle billings rendered monthly. A five percent (5%) discount is offered to residential customers who pay within 15 days of being billed. Discounts are also offered to commercial and industrial customers up to five percent based on payment method and services purchased. Discounts for the years ended December 31, 2017 and 2016 were \$949,077 and \$898,885, respectively. These discounts are recorded net against revenues.

The Department and the Cooperative distinguish operating revenue and expenses from non-operating items. Operating revenues generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the above definitions are reported as non-operating revenues and expenses.

Cash and cash equivalents

Cash includes cash on hand and on deposit with the City, which is in the custody of and managed by the City Treasurer.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Management is required to comply with billing and termination procedures mandated by the DPU. These procedures require certain extended terms for payment prior to termination of services for heating customers. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable. No interest is charged on residential accounts. The Department obtains security interests for accounts where deemed appropriate.

Inventory – materials and supplies

Inventory is valued at the lower of cost (weighted average method) or market. Materials and supplies consist primarily of pipe, valves, utility poles, wire, meters, transformers and cable.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Restricted and designated assets

Cash, cash equivalents and investments, which are restricted under terms of legislation, certain agreements for payments to third parties or Municipal Light Board actions limiting the use of such funds, are included as restricted or designated assets. When the Department restricts funds for a specific purpose, and both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources where required, then unrestricted resources as they are needed.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the statement of revenue, expenses, and net position as increases or decreases in investment income. Dividend and interest income is recorded when declared.

Investment securities are exposed to various risks, such as interest rate, market rate, and credit risks. Due to the level of risk associated with certain investment securities and the uncertainty related to changes in the value of the investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position. Massachusetts General Laws also place limitations on the nature of deposits and investments available to the Department.

Cash in escrow

As a requirement of the related ground lease (Note 17), the Cooperative has an escrow agreement with the Town of Southwick, Massachusetts. The interest bearing escrow account is considered security for the Cooperative's lease payments and compliance with all of the terms, conditions, provisions, and obligations of the lease agreement. Interest earned on this account must remain in the account and be used to offset future lease payments.

Other investments

This consists of the Department's equity in New England Hydro-Transmission Electric Company ("Hydro-Quebec"). The Department has joined with other utilities on committing to equity sponsorship of a project known as Hydro-Quebec Phase II. The Department owns .2554% of the outstanding common stock. The Department uses the equity method of accounting for the investment because the investment is under common control with other municipal utilities. Under the equity method, investments are recorded at cost and increased or decreased by the Department's pro-rata share of earnings or losses and distributions. Investment income is recorded as earned.

In addition, the Department joined with other utilities to invest in Public Utility Mutual Insurance Company ("PUMIC"). PUMIC provides general insurance to members of the Public Utilities Risk Management Association. The Department invested \$266,000 in 1999 and is a founding member.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Deferred charges

Under the terms of the Department's member agreement with Massachusetts Municipal Wholesale Electric Company ("MMWEC"), the Department is required to prepay various operating expenses, working capital requirements, and/or research expenditures for various projects that are operational, under construction, or in the planning stages. The Department charges these items to expense when MMWEC indicates that the project expense has been incurred.

Plant investment

The utility plant is stated at cost which includes material and labor. Maintenance and repairs are charged to operating expense as incurred, and significant renewals and betterments are capitalized. As assets are retired or otherwise disposed of, the Department and the Cooperative calculate or estimate the related cost and accumulated depreciation which are removed from the accounts. Any profit or loss on disposition is credited or charged to income in the year retired. The Department and the Cooperative evaluated the fair value of its assets and no adjustment for impairment was deemed necessary by management. The Department and Cooperative capitalize additions to plant with an original cost of \$1,000 or more.

Deferred outflows and inflows related to pensions

Deferred outflows and inflows related to pensions as of December 31, 2017 were determined using actuarial assumptions as of January 1, 2017 for December 31, 2017. Deferred outflows and inflows related to pensions as of December 31, 2016 were determined using actuarial assumptions as of January 1, 2015 for December 31, 2015 which was then rolled forward to December 31, 2016.

Depreciation

Depreciation is computed using the straight-line method at a composite rate as prescribed by DPU. Depreciation was calculated using a composite rate of 3% for 2017 and 2016. Depreciation expense for the years ended December 31, 2017 and 2016 was \$4,147,067 and \$3,934,297, respectively.

Amortization

The Union Street regulatory asset is being amortized on a straight-line basis over 276 months. The Twiss Street regulatory asset is being amortized on a straight-line basis over 288 months

Construction in progress

Construction in progress consists principally of the costs related to direct materials, direct labor, direct purchased services, and indirect costs, including general and administrative costs, related to any utility plant assets under construction. Construction in progress is stated at cost. Any internal costs that were capitalized were limited to those costs that can be directly identified with the design, engineering, or construction of a specific project.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified to conform with the current year presentation. The reclassification allocates telecommunication income by customer type. These reclassifications had no effect on operating income or change in net position.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Compensated absences

The Department recognizes vacation and sick leave costs (including related employee benefits) as they are earned under the following plans. Management personnel are given from 17.5 personal days up to 48 personal days. Earned days not taken are accumulated indefinitely. Employees approaching retirement are entitled, under certain conditions, to be compensated at their daily rate. The compensation is capped between 50 and 175 days based on date of hire. At retirement, those employees eligible for the 175 days may also be compensated one day for each four days of accumulated personal days in excess of 175 days.

Employees under the labor agreement are granted up to 18 days of sick leave, from one to six weeks of vacation and one personal day each year, and additionally one personal day shall be earned for each calendar quarter of perfect attendance. Earned days not taken for sick leave are accumulated indefinitely. Earned days not taken for vacation may be accumulated up to 10 days. Employees approaching retirement are entitled, under certain conditions, to use up to 140 days of accumulated sick time prior to the end of their service. If the time is not taken it will be paid in a lump sum at \$50 per day up to a maximum of 50 additional days. All other time is paid based upon the full number of days earned.

Accrued vacation and sick leave as of December 31, 2017 and 2016 was \$2,625,560 and \$2,503,294, respectively. Accrued vacation and sick leave for recently retired employees as of December 31, 2017 and 2016 was \$394,233 and \$460,540, respectively, and may be paid over five years from date of retirement.

Net pension liability

The Department implemented SGAS No. 68 "Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27" (GASB No. 68) in 2015. Under GASB No. 68, the net pension liability ("NPL") is the difference between the actuarial present value of projected pension benefit payments attributable to employees' past service and the Plan's fiduciary net position. At December 31, 2017 and 2016, the NPL was \$10,882,173 and \$11,761,813, respectively (see Note 13).

Net position

The Department and the Cooperative classify net position into three components as follows:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding debt balances. Deferred inflows and outflows of resources that are attributable to the acquisition, construction or improvement of those assets are also included.

Restricted – This component of net position consists of assets with constraints placed on their use, either externally or internally. Constraints include those imposed by grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation or by the Board. These restricted assets are reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of "Net investment in capital assets" or "Restricted".

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Contributions in aid of construction

The Department records contributions in aid of construction from customer contributions, primarily relating to expansion of the Department's distribution facilities, on the consolidated statements of revenues, expenses, and changes in net position. Such contributions are valued at estimated market cost. For rate-making purposes, the Department does not recognize such revenues when received; rather contributions in aid of construction are included in plant as such costs are amortized over the estimated useful lives of the related distribution facilities.

Presentation of sales taxes

The Commonwealth of Massachusetts imposes a sales tax of 6.25% as of December 31, 2017 and 2016 on all of the Department's sales except to exempt and residential use customers. The Department collects that sales tax from customers and remits the entire amount to the State. The Department's accounting policy is to exclude the tax collected and remitted to the State from revenues and operating expenses.

Taxes

The Department is exempt from income tax, tax on real property and various other taxes. However, the Department pays an amount to the City in lieu of taxes.

Use of estimates

The preparation of 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 disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. ACCOUNTING CHANGES:

In March 2016, GASB issued SGAS No. 82, "*Pension Issues - An amendment of GASB Statements No. 67, No. 68, and No. 73*" (GASB No. 82). The objective of GASB No. 82 is to address certain issues that have been raised with respect to GASB No. 67, No. 68, and No. 73 regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB No. 82 changed the required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through a pension plan, to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based. This measure is used in ratios in the schedules of required supplementary information. GASB No. 82 clarifies that payments made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB No. 67 and as employee contributions for purposes of GASB No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The Department implemented GASB No. 82 in 2017. The implementation changed the classification of payments made by the Lighting Plant to satisfy employee (plan member) contribution requirements. The Department has updated the required presentation of payroll-related measures to use covered payroll, instead of covered-employee payroll, in ratios in the schedules of required supplementary information.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

4. RESTRICTED AND DESIGNATED ASSETS:

Restricted and designated assets include accounts deposited with various third parties. These funds are segregated by management for specific outlays and contingencies and are recorded at fair value. Balances at December 31, 2017 and 2016, consist of the following:

2017	Cash and cash equivalents	Investments	Total
Segregated cash:			
Escrow	\$ 614,673	\$ -	\$ 614,673
Rate stabilization	5,258,112	-	5,258,112
BAN/bond issuance	3,900,000	-	3,900,000
	<u>9,772,785</u>	<u>-</u>	<u>9,772,785</u>
MMWEC Reserve Trust:			
Electric	132,107	22,799,845	22,931,952
Gas	17,799	2,955,270	2,973,069
	<u>149,906</u>	<u>25,755,115</u>	<u>25,905,021</u>
Deferred charges:			
Purchase power	109,583	597,958	707,541
Prepaid Energy New England	1,485,327	-	1,485,327
Prepaid PASNY fund	-	142,188	142,188
	<u>1,549,910</u>	<u>740,146</u>	<u>2,335,056</u>
Total	\$ <u>11,517,601</u>	\$ <u>26,495,261</u>	\$ <u>38,012,862</u>
2016	Cash and cash equivalents	Investments	Total
Segregated cash:			
Escrow	\$ 632,665	\$ -	\$ 632,665
Rate stabilization	3,341,579	-	3,341,579
	<u>3,974,244</u>	<u>-</u>	<u>3,974,244</u>
MMWEC Reserve Trust:			
Electric	93,204	22,623,932	22,717,136
Gas	13,307	2,925,670	2,938,977
	<u>106,511</u>	<u>25,549,602</u>	<u>25,656,113</u>
Deferred charges:			
Purchase power	4,699	695,714	700,413
Prepaid Energy New England	1,487,863	-	1,487,863
Prepaid PASNY fund	-	142,188	142,188
	<u>1,492,562</u>	<u>837,902</u>	<u>2,330,464</u>
Total	\$ <u>5,573,317</u>	\$ <u>26,387,504</u>	\$ <u>31,960,821</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

4. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

Investments included in restricted and designated assets at December 31, 2017 and 2016 consist of:

2017	Cost	Fair value	Unrealized loss
Cash and cash equivalents	\$ 1,873,594	\$ 1,873,594	\$ -
U.S. treasury securities	2,025,194	2,008,411	(16,783)
U.S. agency securities	19,320,718	19,234,693	(86,025)
Municipal bonds	3,397,281	3,378,563	(18,718)
Total	\$ 26,616,787	\$ 26,495,261	\$ (121,526)

2016	Cost	Fair value	Unrealized loss
Cash and cash equivalents	\$ 3,879,830	\$ 3,879,830	\$ -
U.S. treasury securities	4,032,713	4,021,966	(10,747)
U.S. agency securities	14,940,109	14,882,452	(57,657)
Municipal bonds	3,623,205	3,603,256	(19,949)
Total	\$ 26,475,857	\$ 26,387,504	\$ (88,353)

The total return on invested assets consisted of the following components reported on the statements of revenues, expenses and changes in net position at December 31, 2017 and 2016:

	2017	2016
Interest income	\$ 257,321	\$ 211,368
Unrealized loss	(33,173)	(85,116)
Total investment income	\$ 224,148	\$ 126,252

At December 31, 2017 and 2016, the Department's bond investments were as follows:

2017	Fair value	Maturity			
		Less than 1 year	1 - 5 years	6 - 10 years	Over 10 years
U.S. treasury securities	\$ 2,008,411	\$ 915,587	\$ 1,092,824	\$ -	\$ -
U.S. agency securities	19,234,693	5,582,882	12,350,472	1,009,950	291,389
Municipal bonds	3,378,563	2,012,807	1,365,756	-	-
	\$ 24,621,667	\$ 8,511,276	\$ 14,809,052	\$ 1,009,950	\$ 291,389

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

4. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

2016	Fair value	Maturity			
		Less than 1 year	1 - 5 years	6 - 10 years	Over 10 years
U.S. treasury securities	\$ 4,021,966	\$ 3,162,135	\$ 859,831	\$ -	\$ -
U.S. agency securities	14,882,452	309,213	13,202,022	1,065,501	305,716
Municipal bonds	3,603,256	665,657	2,937,599	-	-
	<u>\$ 22,507,674</u>	<u>\$ 4,137,005</u>	<u>\$ 16,999,452</u>	<u>\$ 1,065,501</u>	<u>\$ 305,716</u>

At December 31, 2017 and 2016, the Department's bond investments were rated as follows:

	2017		2016	
	Standard & Poor's	Moody's Investment	Standard & Poor's	Moody's Investment
U.S. treasury securities	AA+	AAA	AA+	AAA
U.S. agency securities	AA+	AAA	AA+	AAA
Municipal bonds	AAA to AA-	AAA to AA3	AAA to AA-	AAA to AA3

The following risk policies are in accordance with those used by the City of Westfield and administered by the City Treasurer's Office:

Interest rate risk

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.

Credit risk

The Department limits investments in bonds with a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent as rated by one or more recognized bond rating services.

Concentration of credit risk

The Department places no limit on the amount it may invest in one issuer. The following are the concentrations of risk greater than five percent:

	December 31, 2017	December 31, 2016
U.S. agency securities:		
Federal National Mortgage	6%	11%
Federal Farm Credit Bank	9%	*
Federal Home Loan Bank	45%	30%
Federal Home Loan Mortgage	13%	13%

*Concentration did not exceed 5% at December 31

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

4. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

Custodial credit risk – cash

Custodial credit risk is the risk that in the event of a bank failure, the Department’s deposits may not be returned. The Department does not have a deposit policy for custodial credit risk. The Department maintains cash balances at various financial institutions located in Massachusetts. These balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At certain times during the year, the cash balances may exceed the insurance limit. Based on cash balances at December 31, 2017 and 2016 as reflected in the consolidated financial statements, the uninsured balance could be as high as \$20,176,468 and \$16,206,553, respectively. The Department has not experienced any loss on such accounts and management monitors the credit worthiness of these financial institutions through the City of Westfield Treasurer's Office.

Custodial credit risk - investments

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Department’s \$26,495,261 (2017) and \$26,387,504 (2016) in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department, but not in the Department’s name. The Department has not experienced any loss on such accounts and management monitors the credit worthiness of these financial institutions through the City of Westfield Treasurer's Office.

5. OTHER INVESTMENTS:

Other investments consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Hydro-Quebec Phase II	\$ 33,589	\$ 33,589
Public Utility Mutual Insurance Company	266,000	266,000
	<u>\$ 299,589</u>	<u>\$ 299,589</u>

6. FAIR VALUE MEASUREMENTS:

The Department has adopted GASB No. 72 as discussed in Note 3. GASB No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The Department utilizes market data or assumption that market participants would use in pricing the asset or liability, including assumption about risk and the risks inherent in the inputs to the valuation technique.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

6. FAIR VALUE MEASUREMENTS: (CONTINUED)

GASB No. 72 establishes a fair value hierarchy that prioritizes the input used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by GASB No. 72 are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs that reflect the Department's own assumptions about factors that market participants would use in pricing the asset or liability.

The valuation methods of the fair value measurements are disclosed below.

- U.S. treasury securities - use a market based approach. Evaluations are based on various market and industry inputs.
- U.S. agency securities - use a market based approach which considers yield, price of comparable securities, coupon rate, maturity, credit quality and dealer-provided prices.
- Municipal bonds - use a market based approach based on institutional bond quotes. Evaluations are based on various market and industry inputs.

The following table identifies the level within the fair value hierarchy that the Department's financial assets were accounted for on a recurring basis as of December 31, 2017 and 2016. As required by GASB No. 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Department's assessment of the significance of the particular input to the fair value measurement requires judgement, and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

Recurring fair value measurements as of December 31, 2017 and 2016:

<u>2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments, excluding cash and cash equivalents:			
U.S. treasury securities	\$ 2,008,411	\$ -	\$ 2,008,411
U.S. agency securities	-	19,234,693	19,234,693
Municipal bonds	-	3,378,563	3,378,563
	<u>\$ 2,008,411</u>	<u>\$ 22,613,256</u>	<u>\$ 24,621,667</u>
<u>2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments, excluding cash and cash equivalents:			
U.S. treasury securities	\$ -	\$ 4,021,966	\$ 4,021,966
U.S. agency securities	2,869,864	12,012,588	14,882,452
Municipal bonds	-	3,603,256	3,603,256
	<u>\$ 2,869,864</u>	<u>\$ 19,637,810</u>	<u>\$ 22,507,674</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

7. FIDUCIARY FUND:

The assets and net position of this Trust are reported in the Department's Statement of Fiduciary Net Position as shown on Page 7.

Investments (at fair value) of the OPEB Trust consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash	\$ 32,260	26,776
Fixed income mutual funds	973,716	748,685
Equity mutual funds:		
Futures strategy fund	43,959	32,987
Mid cap growth fund	68,239	47,632
Large cap fund	680,610	494,306
Real estate equity fund	63,890	50,386
Emerging markets	66,840	47,351
Diversified international fund	109,224	83,859
Mid cap value fund	67,075	48,794
Energy infrastructure fund	70,256	48,558
Special equity fund	44,346	36,533
Total equity mutual funds	<u>1,214,439</u>	<u>890,406</u>
 Total	 \$ <u>2,220,415</u>	 \$ <u>1,665,867</u>

8. REGULATORY ASSETS:

The accounting policies of the Department conform to accounting principles generally accepted in the United States of America applicable to rate-regulated enterprises and historically reflect the effects of the rate-making process. In 2010, the Union Street LNG peaking facility was abandoned. In 2016, the Twiss Street methane plant was also abandoned. The Commissioners of the Department (with approval by the Massachusetts Department of Public Utilities) voted to include the unrecovered cost of its investment, with a full return on investment, in future rates as amortization of a regulatory asset. Management believes it is probable that the Department will recover their investment in these regulatory assets.

	<u>2017</u>	<u>2016</u>
Regulatory assets - cost		
Union Street	\$ 856,641	\$ 856,641
Twiss Street	692,146	692,146
	<u>1,548,787</u>	<u>1,548,787</u>
Less: accumulated amortization	<u>(289,556)</u>	<u>(223,470)</u>
	\$ <u>1,259,231</u>	\$ <u>1,325,317</u>

Amortization expense on the regulatory assets was \$66,086 and \$37,245 for the years ended December 31, 2017 and 2016 and is estimated at the \$66,086 for each of the next five years.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

9. PLANT INVESTMENT:

A summary of plant investment at December 31, 2017 is as follows:

	<u>Balance December 31, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2017</u>
<i>Plant investment not being depreciated:</i>				
Land	\$ 1,008,891	\$ 182,200	\$ -	\$ 1,191,091
Construction in process	464,633	-	(408,133)	56,500
<i>Total plant investment not being depreciated</i>	<u>1,473,524</u>	<u>182,200</u>	<u>(408,133)</u>	<u>1,247,591</u>
<i>Plant investment being depreciated:</i>				
Plant investment	116,490,299	14,629,636	(70,510)	131,049,425
Office and computer equipment	5,493,245	904,943	(292,347)	6,105,841
Transportation equipment	4,451,525	148,161	(344,061)	4,255,625
Equipment	11,800,532	1,413,753	(200,490)	13,013,795
<i>Total plant investment being depreciated</i>	<u>138,235,601</u>	<u>17,096,493</u>	<u>(907,408)</u>	<u>154,424,686</u>
<i>Less accumulated depreciation for:</i>				
Plant investment	(45,181,518)	(3,269,196)	67,274	(48,383,440)
Office and computer equipment	(3,125,655)	(261,540)	292,347	(3,094,848)
Transportation equipment	(3,318,300)	(266,301)	344,060	(3,240,541)
Equipment	(5,583,392)	(350,030)	200,490	(5,732,932)
<i>Total accumulated depreciation</i>	<u>(57,208,865)</u>	<u>(4,147,067)</u>	<u>904,171</u>	<u>(60,451,761)</u>
<i>Total plant investment being depreciated, net</i>	<u>81,026,736</u>	<u>12,949,426</u>	<u>(3,237)</u>	<u>93,972,925</u>
Total plant investment, net	<u>\$ 82,500,260</u>	<u>\$ 13,131,626</u>	<u>\$ (411,370)</u>	<u>\$ 95,220,516</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

9. PLANT INVESTMENT: (CONTINUED)

A summary of plant investment at December 31, 2016 is as follows:

	Balance December 31, 2015	Increases	Decreases	Balance December 31, 2016
<i>Plant investment not being depreciated:</i>				
Land	\$ 1,008,891	\$ -	\$ -	\$ 1,008,891
Construction in process	-	464,633	-	464,633
<i>Total plant investment not being depreciated</i>	1,008,891	464,633	-	1,473,524
 <i>Plant investment being depreciated:</i>				
Plant investment	111,112,071	6,477,241	(1,099,013)	116,490,299
Office and computer equipment	5,340,995	152,250	-	5,493,245
Transportation equipment	4,231,208	220,317	-	4,451,525
Equipment	10,887,893	912,639	-	11,800,532
<i>Total plant investment being depreciated</i>	131,572,167	7,762,447	(1,099,013)	138,235,601
 <i>Less accumulated depreciation for:</i>				
Plant investment	(42,586,670)	(2,989,242)	394,394	(45,181,518)
Office and computer equipment	(2,859,657)	(265,998)	-	(3,125,655)
Transportation equipment	(3,054,998)	(263,302)	-	(3,318,300)
Equipment	(5,167,637)	(415,755)	-	(5,583,392)
<i>Total accumulated depreciation</i>	(53,668,962)	(3,934,297)	394,394	(57,208,865)
 <i>Total plant investment being depreciated, net</i>	 77,903,205	 3,828,150	 (704,619)	 81,026,736
 Total plant investment, net	 \$ 78,912,096	 \$ 4,292,783	 \$ (704,619)	 \$ 82,500,260

10. DEFERRED OUTFLOWS OF RESOURCES:

Deferred outflows of resources related to pension at December 31, 2017 and 2016, consists of the following:

	2017	2016
Differences between projected and actual investment earnings on pension plan investments	\$ -	\$ 1,085,669
Difference between projected and actual experience	587,072	57,226
Change of assumptions	1,395,578	649,302
Total	\$ 1,982,650	\$ 1,792,197

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

11. DEBT:

Bond anticipation notes

In August and October 2017, the Department received three bond anticipation notes (BAN) payable of \$7,000,000. They required monthly interest only payments at the annual rate of 1.30%, 1.35%, and 2.25% at December 31, 2017. The BAN's mature in June 2018 and October 2018.

General obligation bonds

The following bonds were issued by the Department, through the City, for the financing of plant investment. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

<u>Date of Issue</u>	<u>Maturity Dates</u>	<u>Interest Rate</u>	<u>Amount of Original Issue</u>	<u>Outstanding Balance 2017</u>	<u>Outstanding Balance 2016</u>
02/01/06	08/01/24	4.00%	\$ 2,100,000	\$ 758,333	\$ 871,667
02/01/08	02/01/18	3.08%	520,155	48,256	97,675
04/01/08	04/01/28	4.34%	6,000,000	3,175,000	3,485,000
04/04/14	03/01/32	4.30%	6,233,950	5,178,292	5,530,178
10/31/17	10/15/37	4.13%	5,000,000	5,000,000	-
				<u>14,159,881</u>	<u>9,984,520</u>
				<u>(1,054,810)</u>	<u>(824,638)</u>
Less current portion of bonds					
General obligation bonds, long-term portion				<u>\$ 13,105,071</u>	<u>\$ 9,159,882</u>

Annual principal and interest payments due for each of the next five years and thereafter for the years ended December 31 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,054,810	\$ 565,514	\$ 1,620,324
2019	1,012,254	529,944	1,542,198
2020	1,012,254	485,006	1,497,260
2021	1,007,254	438,694	1,445,948
2022	1,007,254	391,194	1,398,448
2023 – 2027	4,686,272	1,284,472	5,970,744
2028 – 2032	3,144,606	443,775	3,588,381
2033 – 2037	1,235,177	101,249	1,336,426
Total	<u>\$ 14,159,881</u>	<u>\$ 4,239,848</u>	<u>\$ 18,399,729</u>

12. NONCURRENT LIABILITIES:

A summary of the changes in noncurrent liabilities as of December 31, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts due within one year</u>
Accrued compensated absences	\$ 2,963,834	\$ 355,341	\$ (299,382)	\$ 3,019,793	\$ 283,132
Other post-employment benefit obligation	6,520,353	820,742	(871,197)	6,469,898	-
Net pension liability	11,761,813	-	(879,640)	10,882,173	-
General obligation bonds	9,984,520	5,000,000	(824,639)	14,159,881	1,054,810
Total	<u>\$ 31,230,520</u>	<u>\$ 6,176,083</u>	<u>\$ (2,874,858)</u>	<u>\$ 34,531,745</u>	<u>\$ 1,337,942</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

12. NONCURRENT LIABILITIES: (CONTINUED)

A summary of the changes in noncurrent liabilities as of December 31, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
Accrued compensated absences	\$ 2,938,292	\$ 660,200	\$ (634,658)	\$ 2,963,834	\$ 245,064
Other post-employment benefit obligation	6,603,590	1,072,451	(1,155,688)	6,520,353	-
Net pension liability	12,128,814	-	(367,001)	11,761,813	-
General obligation bonds	10,974,740	-	(990,220)	9,984,520	824,638
Total	<u>\$ 32,645,436</u>	<u>\$ 1,732,651</u>	<u>\$ (3,147,567)</u>	<u>\$ 31,230,520</u>	<u>\$ 1,069,702</u>

13. PENSION PLANS:

Plan description

Qualifying employees of the Department are members of the City of Westfield Contributory Retirement System (the System). The System is a cost-sharing multiple-employer public employee retirement system administered by the Westfield Retirement Board (the Board). Massachusetts General Laws (MGL), Chapter 32, assigns authority to establish the System and amend benefit provisions of the plan; which is regulated by the Public Employees Retirement Administration Commission (PERAC). The System is a defined benefit pension plan that covers substantially all employees of its member employers except for school teachers and school administrators who participant in a separate plan. The System issues a publicly available financial report in accordance with guidelines established by the Massachusetts PERAC. That report may be obtained by contacting the System at 59 Court Street, Westfield, Massachusetts.

Benefits provided

The System provides retirement, disability, and death benefits to plan members and their beneficiaries. Members become vested after 10 years of creditable service and are eligible for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Retirement benefits are determined as a percentage of the member's final three-year (five-year for members hired on or after April 2, 2012) average compensation multiplied by (1) the number of years and full months of creditable service at the time of retirement and (2) a percentage based on age at retirement in accordance with a schedule provided by state law. The authority for amending these provisions rests with the Massachusetts Legislature.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost of living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's State law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

As of January 1, 2017, the plan covered 895 active employees, 202 inactive employees, and 663 retired employees. As of January 1, 2015, the plan covered 897 active employees, 156 inactive employees, and 626 retired employees.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

13. PENSION PLANS: (CONTINUED)

Contributions

MGL Chapter 32 governs the contributions of plan members and the Department. Plan members are required to contribute to the System at rates ranging from 5% to 9% based upon their membership date of gross regular compensation with an additional 2% contribution after exceeding \$30,000 in annual covered compensation. The Department is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The Department's proportionate share of the required contribution to the System for the years ended December 31, 2017 and 2016 was \$1,511,712 and \$1,392,236, respectively, representing 24.25% and 24.87% of the covered payroll, an actuarially determined amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year and an additional amount to finance any unfunded accrued liability.

Pension liability

As of December 31, 2017 and 2016, a reported liability of \$10,882,173 and \$11,761,813, respectively, is the Department's proportionate share of the city-wide net pension liability measured as of December 31, 2017 and 2016. The net pension liability as of December 31, 2017 was determined using the total pension liability and the actuarial assumptions as of January 1, 2017 and updated to the measurement dates of December 31, 2017. The net pension liability as of December 31, 2016 was determined using the total pension liability and the actuarial assumptions as of January 1, 2015 and updated to the measurement dates of December 31, 2016. This net pension liability is based on the Department's proportional percentage of 15.29% and 14.79% at December 31, 2017 and 2016, respectively. Prior year changes in net pension liability are amortized on a straight-line basis over 5 years.

Pension expense

For the years ended December 31, 2017 and 2016, the Department recognized pension costs of \$1,674,663 and \$1,818,814, respectively, and reported deferred outflows related to pension of \$1,982,650 and \$1,792,197, respectively. Deferred inflows related to pension was \$1,567,770 from the differences between projected and actual investment earnings on pension plan investments for the year ended December 31, 2017.

The Department's deferred outflows and inflows related to pension will be recognized in the pension expense as follows:

For years ended December 31,	
2018	\$ 329,397
2019	313,951
2020	(100,776)
2021	(245,289)
2022	117,597
	<u>\$ 414,880</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

13. PENSION PLANS: (CONTINUED)

Actuarial assumptions

The total pension liability as of December 31, 2017 was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement that was updated at December 31, 2017:

Valuation date	January 1, 2017
Actuarial cost method	Individual Entry Age Normal
Amortization method	Total payments increase 5.8% per year.
Remaining amortization period	16 years from July 1, 2018
Asset valuation method	Market value for GASB 67/68 adjusted to phase in over 5 years investment gains and losses above or below the expected rate of investment
Investment rate of return	7.50% per year.
Projected salary increase	Service based table with ultimate rates of 4.25% and 4.75% for Groups 1 and 4, respectively.
Cost of living adjustments	3% of first \$13,000.
Mortality rates	Pre-retirement: the RP-2000 Employee Table projected with a Scale BB and a base year of 2009 (gender distinct). Post-retirement: the RP-2000 Healthy Annuitant Table projected with a Scale BB and a base year of 2009 (gender distinct). For disabled retirees: the RP-2000 Healthy Annuitant Table projected with a Scale BB and a base year of 2012 (gender distinct).

The total pension liability as of December 31, 2016 was determined by an actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement that was updated at December 31, 2016:

Valuation date	January 1, 2015
Actuarial cost method	Individual Entry Age Normal
Amortization method	Total payments increase 5.0% per year.
Remaining amortization period	17 years from July 1, 2017

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

13. PENSION PLANS: (CONTINUED)

Actuarial assumptions (continued)

Asset valuation method	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains and losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 100% of the adjusted market value.
Investment rate of return	7.75% per year.
Projected salary increase	Service based table with ultimate rates of 4.25% and 4.75% for Groups 1 and 4, respectively.
Cost of living adjustments	3% of first \$13,000.
Mortality rates	Pre-retirement: the RP-2000 Employee Table projected with a Scale BB and a base year of 2009 (gender distinct). Post-retirement: the RP-2000 Healthy Annuitant Table projected with a Scale BB and a base year of 2009 (gender distinct). For disabled retirees: the RP-2000 Healthy Annuitant Table projected with a Scale BB and a base year of 2012 (gender distinct).

Long-term expected rate of return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 3 percent. Best estimates of arithmetic real rates of return for each major class included in the pension plan's target asset allocation as of December 31, 2017 and 2016 are summarized in the following table:

<u>Asset Class</u>	<u>2017</u>		<u>2016</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Large Capital Equity	22%	7.50%	26%	7.50%
Internationally Developed Equity	18%	7.80%	18%	7.80%
Real Estate	10%	6.70%	12%	6.50%
Private Equity	12%	9.50%	12%	9.50%
Core Fixed Income	19%	3.75%	13%	3.80%
Emerging Markets Equity	7%	9.30%	6%	9.60%
Domestic Middle Capital Equity	6%	7.75%	6%	7.80%
Domestic Small Capital Equity	6%	7.75%	6%	7.80%
Other Alternatives	-	-	1%	6.50%
Total	<u>100.0%</u>		<u>100%</u>	

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

13. PENSION PLANS: (CONTINUED)

Rate of return

For the years ended December 31, 2017 and 2016, the annual money-weighted rate of return, net of investment expense was 17.85% and 8.14%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

For the years ended December 31, 2017 and 2016, the discount rate used to measure the total pension liability was 7.50% and 7.75% respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that member employer contributions will be made in accordance with Sections 22D and 22F of Chapter 32 of the Massachusetts General Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the Department's proportionate share of the net pension liability as of December 31, 2017 calculated using the discount rate of 7.50%, as well as discount rates 1-percentage-point lower (6.50%) and 1-percentage-point higher (8.50%):

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Department's net pension liability	\$ 16,058,323	\$ 10,882,173	\$ 6,493,663

The following presents the Department's proportionate share of the net pension liability as of December 31, 2016 calculated using the discount rate of 7.75%, as well as discount rates 1-percentage-point lower (6.75%) and 1-percentage-point higher (8.75%):

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Department's net pension liability	\$ 16,260,866	\$ 11,761,813	\$ 7,877,154

Other post-employment benefit obligation ("OPEB")

The Department has previously adopted the provisions of GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions". GASB 45 requires the Department to attribute the cost of post-employment benefits to the time during which the employee is working for the employer.

Plan Description: The Department offers medical insurance benefits to eligible retirees, their dependents, or their survivors via participation in plans offered by the City and the Westfield Retirement system with benefits provided by Blue Cross Blue Shield of Massachusetts and Health New England. Premiums are calculated based on prior year claim experiences and amounts needed to fund the plan operations.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

13. PENSION PLANS: (CONTINUED)

Other post-employment benefit obligation (“OPEB”) (continued)

The number of participants as of January 1, 2017 and 2016, the effective dates of the OPEB valuations are as follows:

	2017	2016
Active members	87	76
Retirees	102	96
Total	189	172

Funding Policy: The contribution requirements of plan members and the Department are established and may be amended through City policy and member contracts. Participants contribute 35% of the premiums for their selected benefit.

Annual OPEB Cost and Net OPEB Obligation (“NOO”): The Department’s annual OPEB cost is calculated based on the annual required contribution of the employer (“ARC”), an amount actuarially determined in accordance with the parameters of GASB 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 over a period not to exceed thirty years. The following table shows the components of the Department’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Department’s net OPEB obligation to the plan:

Year Ended December 31,	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a)+(b)+(c) (d)	Annual Contribution Amount (e)	Net Increase in NOO (d) - (e) (f)	NOO as of Year End (g)
2017	\$ 1,100,451	\$ 407,522	\$ (687,231)	\$ 820,742	\$ 871,197	\$ (50,455)	\$ 6,469,898
2016	\$ 1,063,129	\$ 422,630	\$ (413,308)	\$ 1,072,451	\$ 1,155,688	\$ (83,237)	\$ 6,520,353

The Department’s 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 Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 820,742	106.10%	\$ 6,469,898
2016	1,072,451	107.76%	6,520,353
2015	1,166,154	102.67%	6,603,590
2014	1,137,460	104.90%	6,634,688

Funded Status and Funding Progress: Actuarial valuations of an ongoing plan involve estimates of the value 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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

13. PENSION PLANS: (CONTINUED)

Other post-employment benefit obligation (“OPEB”) (continued)

The schedule of funding progress below presents multi-year 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 Valuation Date	Actuarial Accrued Liability	Value of Assets	Required Supplementary Information				
			Unfunded Actuarial Accrued Liability (UAAL)	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll	Interest Rate
1/1/2017	\$11,321,260	\$1,665,867	\$ 9,655,393	14.7%	\$7,874,158	122.6%	6.25%
1/1/2016	\$13,016,301	\$ 993,687	\$12,022,614	7.6%	\$5,598,990	214.7%	6.40%

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effects of legal or contractual funding limitation. 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 long-term perspective of the calculations.

In the January 1, 2017 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included a 6.25% investment rate of return and an annual medical cost trend rate of 5%. The unfunded actuarial accrued liability (“UAAL”) is being amortized over a closed 30 year amortization with payments increasing at 3.25% per year. Differences between the expected and actual UAAL in future years will be amortized over 25 years.

In the January 1, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 6.40% investment rate of return and an annual medical cost trend rate of 8% to 10%, reduced by decrements to an ultimate rate of 5% after 7 years. The unfunded actuarial accrued liability (“UAAL”) is being amortized over a closed 22 year amortization with payments increasing at 3% per year. Differences between the expected and actual UAAL in future years will be amortized over 22 years.

Plan information

These plans issue publicly available financial reports that include financial statements and required supplementary information. The reports may be obtained by contacting:

Westfield Contributory Retirement System
59 Court Street, PO Box 106
Westfield, Massachusetts 01086

14. RESERVE FOR RATE STABILIZATION:

The Municipal Light Board, in their capacity as the governing body for the Department, have taken various regulatory actions that result in differences between the recognition of revenues and expenses for rate-making purposes and their treatment under generally accepted accounting principles. Rate stabilization is intended to defer the need for future rate increases when costs exceed existing rates. Amounts may be either transferred into this fund (which reduces revenues), or amounts are transferred out of this fund (which increases revenues). Management utilizes rate stabilization funds on an event driven basis.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

14. RESERVE FOR RATE STABILIZATION: (CONTINUED)

During 2017 and 2016, the Department used \$708,230 and \$1,949,253, respectively, to offset the cost of power. The Department increased the reserve liability by \$2,612,368 and \$2,021,790 during 2017 and 2016, respectively. The balance available to offset future costs is \$39,530,187 and \$37,626,048, respectively, at December 31, 2017 and 2016.

15. RELATED PARTY TRANSACTIONS:

The Department provides electric sales and service to the City. Total electric sales were \$2,149,806 and \$2,160,460, respectively, for the years ended December 31, 2017 and 2016. Amounts due from the City for electric sales and service totaled \$182,694 and \$341,511, respectively at December 31, 2017 and 2016.

In lieu of tax payments required by the City for their fiscal years ended June 30, 2017 and 2016 were \$561,498 and \$440,000, respectively. These amounts are paid in equal monthly payments. The Department also accrued the remaining contributions for the in lieu of tax payments to the City of \$280,746 and \$220,002 for the years ended December 31, 2017 and 2016, respectively. The Cooperative paid \$3,112 and \$3,001, respectively, for taxes as of December 31, 2017 and 2016.

The Cooperative has an Agency Contract with Massachusetts Municipal Wholesale Electric Company ("MMWEC") whereby MMWEC is to serve as the Cooperative's agent in all matters with respect to financing the transmission facilities and pipelines and the performance of the Cooperative's administrative obligations under what is known as the Transportation Contract. On behalf of the Cooperative, MMWEC records and accounts for bills received and paid. During the years ended December 31, 2017 and 2016, the Cooperative incurred charges related to accounting and administrative expense of \$4,763 and \$4,018, respectively. As of December 31, 2017 and 2016, the Cooperative had a balance due to MMWEC of \$662 and \$168, respectively.

The Cooperative utilized legal services provided by a member of its Board of Directors. The Cooperative paid \$3,127 and \$2,549, respectively, in 2017 and 2016 for those services. \$1,478 was due as of December 31, 2017. No amounts were due as of December 31, 2016.

16. COMMITMENTS AND CONTINGENCIES:

Commitments

The Department purchases power through agreements with various public and investor owned utilities. At December 31, 2017, the Department was committed under various short and long-term agreements for the purchase of power from generating units currently operating, under construction, and planned for construction. The objective of these commitments is to obtain sufficient power at the lowest energy cost available to meet the current and long-term needs of the Department's customers.

The Department is a participant in certain projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC), 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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

16. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Commitments (continued)

The 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, the Department 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).

As of December 31, 2017, total capital expenditures by participants and MMWEC toward capital projects amounted to \$1,583,481,000, of which approximately \$110,493,000 represents the amount attributable to the Department's Project capability. MMWEC's debt outstanding for the Projects from Power Supply Project Revenue Bonds totals \$10,680,000 of which \$1,005,000 is attributable to the Department's share of Project capability, although such amount is not allocated to the Department's statement of net position. As of December 31, 2017, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$11,425,000, of which \$1,041,000 is anticipated to be billed to the Department in the future.

The aggregate amount of the Department's required payments to MMWEC under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, estimated for future years is shown below:

Annual costs for years ended December 31, 2018	\$ <u>1,041,000</u>
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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 \$9,252,000 and \$13,452,000 for the year ended December 31, 2017 and 2016.

Under the Hydro-Quebec support agreement, the Department provides support payments to Hydro-Quebec to cover its pro rata share of costs relating to the Phase II facilities. Support payments were \$110,949 and \$86,379, respectively, for the years ended December 31, 2017 and 2016. The Project agreement includes requirements that the participant make equity contributions, provide credit support and furnish certain guarantees. In addition, the Project contains a step-up-mechanism which requires participants to assume obligations of other participants who are in default, subject to certain limitations. The Department's potential liability cannot be reasonably estimated at this time.

The Department has an electric supply agreement with Nextera Energy. The agreement provides for a total of 328,166 MWH at a fixed price ranging from \$41.35/MWH of \$58.80/MWH purchased over the term of the contract from January 2016 through December 2019.

The Department has a gas supply agreement with Direct Energy Business Marketing, LLC. The agreement provides for a fixed gas price ranging from \$2.83/MMBtu to \$13.385/MMBtu for 5,211 to 7,000 MMBtu purchased per day from November 2017 through October 2020.

The Department has a solar energy supply agreement with Twiss Street Solar LLC. The agreement provides for an estimated total of 27,452,411 kWh at a fixed price ranging from \$0.075/kWh to \$0.0995/kWh purchased over the term of the contract from June 1, 2015 through May 2035.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

16. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Commitments (continued)

The Department has a solar energy supply agreement with CED Westfield Solar. The agreement provides for an estimated total of 3,294,172 kWh at a fixed price ranging from \$0.06/kWH to \$0.06915/kWH purchased over the term of the contract from September 1, 2016 through August 2036.

The Department had a gas supply agreement with Respol Energy NA Corp. The agreement provided for a fixed gas price of \$0.715/MMBtu for a daily maximum quantity of 6,000 MMBtu purchased per day from December 1, 2016 through March 2017.

The Department has an electric supply agreement with Shell Energy North America, L.P. The agreement provides for a total of 110,272 MWH at a fixed price of \$42.60/MWH purchased over the term of the contract from January 2018 through December 2022.

Workers' compensation

The Department participates in the City's self-insurance program covering workers compensation risks. Coverage for risks in excess of predetermined limits is placed with a commercial carrier. The Department is assessed and recognizes an amount equal to claims paid by the City for the Department's employees, administrative costs, and insurance premiums. The Department is responsible for administering their portion of the workers compensation program. The City only assesses the Department for insurance premiums because the Department pays all claims for their employees and has contracted with a third party to administer the plan. There was no accrued liability for self-insurance costs for 2017 and 2016. The amount of expense incurred for workers compensation for the years ended December 31, 2017 and 2016 was \$175,526 and \$220,903.

		<u>2017</u>		<u>2016</u>
Unpaid claims, beginning of year	\$	198,311	\$	108,646
Incurred claims (including IBNR's)		32,872		124,869
Claim payments		(159,232)		(198,311)
Unpaid claims, end of year	\$	<u>71,951</u>	\$	<u>35,204</u>

General liability

The Department is self-insured for general liability insurance for the first \$500,000 per occurrence with a maximum of \$2,000,000 in the aggregate. There were no general liability claims paid for the years ended December 31, 2017 and 2016. The Department has had no amount of settlements exceeding insurance coverage for each of the past three years.

Sackett Street facility

The Department's Sackett Street facility has been owned and operated by the Department since 1899 and, until 1953, was the site of a coal gasification plant. On November 21, 1991, the Massachusetts Department of Environmental Protection (MDEP) notified the Department of a potential imminent hazard associated with the former coal gasification plant site. The MDEP mandated that further testing be performed to determine if hazardous materials were present. As a result of testing, MDEP concluded that hazardous materials are present and that an imminent hazard does exist. The Department has commenced assessment action and implementation of a contingency plan as required by Chapter 21E of the Massachusetts General Laws. During 2017 and 2016, the Department incurred costs of \$78,629 and \$75,440, respectively relating to this project.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

16. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Environmental matters

The Department is subject to regulation by federal, state and local authorities with respect to air and water quality, handling and disposal of toxic substances and hazardous and solid wastes, and handling and use of chemical products. The Department could incur significant additional environmental costs associated with the operation of its own system, through ownership interests in joint ventures or through long-term contractual arrangements with other electric generating and transmitting entities. The Department could also encounter significant costs to remedy the environmental effects of prior waste handling activities. The extent of future environmental cleanup costs including environmental remediation costs is not estimable due to factors such as the unknown magnitude of possible contamination, the appropriate remediation methods, the possible effects of future legislation or regulation, and the possible effects of technological changes related to future cleanup and the difficulty of determining future liability, if any, for cleanup of sites at which the Department has or may designated a potentially responsible party by the Environmental Protection Agency or other agencies. However, considering known facts, existing laws, regulatory practices, and possible insurance and rate treatment, management does not believe such matters will have a material adverse effect on the Department's financial position.

Litigation

The Department is also involved in various legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation will not materially affect the Department's financial position.

Construction programs

The Department has budgeted construction expenditures of approximately \$11,978,500 for 2018. As of December 31, 2017, approximately \$14,225 has been committed. The Department anticipates funding these expenditures through operations and bond proceeds.

Deregulation

The Department maintains the exclusive rights to supply electricity in the City of Westfield. If the Department were to open its geographic borders and allow competition from other providers, the potential impact on the Department's revenue cannot be reasonably estimated.

17. OPERATING LEASES:

The Cooperative has a 50 year ground lease agreement with the Town of Southwick. The lease expires in 2057 with ten renewal options for five years each. The lease grants the Cooperative certain rights to use land for the purpose of constructing, installing, and operating a natural gas pipeline facility and conduits for telecommunication lines and other purposes from the Tennessee Gas Transmission Line to the Town line with the City of Westfield and further on to the point of distribution in the City of Westfield.

Lease payments are due on an annual basis per a payment schedule, which covers the initial 26 years. For the remainder of the lease, the annual lease payments are adjusted based on the Consumer Price Index.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

17. OPERATING LEASES: (CONTINUED)

Future minimum commitments due are as follows at December 31:

2018	\$	19,547
2019		20,524
2020		21,550
2021		22,628
2022		23,759
2023-2057		<u>1,734,690</u>
	\$	<u>1,842,698</u>

Lease expense was \$18,616 and \$17,729, respectively, for the years ended December 31, 2017 and 2016.

The Department leases various office and transportation equipment under non-cancelable operating leases with monthly payments ranging from \$165 to \$1,219 due through December 2020. Rent expense totaled approximately \$39,237 and \$140,000, respectively, for the years ended December 31, 2017 and 2016. The following is a schedule of future minimum lease payments required under operating lease at December 31:

2018	\$	52,147
2019		37,771
2020		<u>25,346</u>
Total	\$	<u>115,264</u>

18. COLLECTIVE BARGAINING AGREEMENTS:

The entire work force of the Department is covered by two collective bargaining agreements. One of these agreements, the Management Guild, covers approximately 25% of the work force and expires on February 29, 2020. The other contract with I.B.E.W. covers the remaining 75% of the work force and is in place through March 31, 2019.

19. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through July 11, 2018, the date on which the consolidated financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
PENSION PLAN SCHEDULES
WESTFIELD CONTRIBUTORY RETIREMENT SYSTEM
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

The Schedule of Proportionate Share of Net Pension Liability presents multiyear trend information relating to the Department's proportion of the net pension liability and related ratios.

Schedule of the Department's proportionate share of the net pension liability:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Department's share of the net pension liability	15.29%	14.79%	15.33%
Department's proportionate share net pension liability	\$ 10,882,173	\$ 11,761,813	\$ 12,128,814
Department's share of covered payroll**	\$ 6,232,694	\$ 5,598,990	\$ 5,850,103
Net pension liability percentage of covered payroll	174.6%	210.1%	207.3%
Plan fiduciary net position as a percentage of the total pension liability	76.9%	72.3%	71.4%

Note: these schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years of which the information is available. GASB No. 68 does not require this schedule to be restated with historical information.

**Indicates covered payroll as reported in the retirement system valuation report.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
PENSION PLAN SCHEDULES
WESTFIELD CONTRIBUTORY RETIREMENT SYSTEM
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

The Schedule of Employer Contributions presents multiyear trend information relating to the Department's required and actual payments to the pension plan and related ratios.

Schedule of the Department's contributions:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution *	\$ 1,511,712	\$ 1,392,236	\$ 1,374,643
Less: Contributions in relation to the actuarially determined contribution	<u>1,511,712</u>	<u>1,392,236</u>	<u>1,374,643</u>
Contribution deficiency (excess)	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>
Department's share of covered payroll**	\$ 6,232,694	\$ 5,598,990	\$ 5,850,103
Contributions percentage of covered payroll	24.3%	24.9%	23.5%

Note: these schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years of which the information is available. GASB No. 68 does not require this schedule to be restated with historical information.

* Based on the results of the actuarial valuation (including assumptions and methods) as reported for the City's fiscal year ended June 30.

**Indicates covered payroll as reported in the retirement system valuation report.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
OTHER POST-EMPLOYMENT BENEFIT PLAN SCHEDULE
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Schedule of funding progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Percentage of Covered Payroll ((B-A)/C)	Interest Rate
1/1/2016	\$ 993,687	\$ 13,016,301	\$ 12,022,614	8%	\$ 5,598,990	214.7%	6.40%
1/1/2014	\$ -	\$ 12,596,639	\$ 12,596,639	0%	\$ 6,846,000	184.0%	7.00%
1/1/2012	\$ -	\$ 19,800,938	\$ 19,800,938	0%	\$ 6,961,000	284.5%	4.00%

Schedule of employer contributions

Year Ended	Actual		Percentage Contributed
	Annual OPEB Cost	Contributions Made	
12/31/2016	\$ 1,072,451	\$ 1,155,688	107.8%
12/31/2015	\$ 1,166,154	\$ 1,197,252	102.7%
12/31/2014	\$ 1,137,460	\$ 1,193,167	104.9%
12/31/2013	\$ 1,637,520	\$ 510,590	31.2%

2013 was the first year of implementation of GASB Statement No. 45 and the Department has elected to implement prospectively. Therefore, comparative data is only available from that date.

The information presented in the above Schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation can be found in the notes to basic financial statements.

(Continued)

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
OTHER POST-EMPLOYMENT BENEFIT PLAN SCHEDULE
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

2017

Actuarial methods:

Valuation date	January 1, 2017 rolled forward to December 31, 2017
Actuarial cost method	Individual entry age normal actuarial cost method
Amortization method	Closed amortization over 30 years

Actuarial assumptions:

Investment rate of return	6.25% per year
Medical/drug cost trend rate	5.0%

Plan membership:

Current active members	87
Current retirees, beneficiaries and dependents	<u>102</u>
Total	<u><u>189</u></u>

2016

Actuarial methods:

Valuation date	January 1, 2015 rolled forward to December 31, 2016
Actuarial cost method	Projected unit credit cost method
Amortization method	Closed amortization over 22 years

Actuarial assumptions:

Investment rate of return	6.40% per year
Medical/drug cost trend rate	8.0% to 10.0% trending down to an ultimate rate of 5.0% per year after 7 years

Plan membership:

Current active members	76
Current retirees, beneficiaries and dependents	<u>96</u>
Total	<u><u>172</u></u>



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

To the Municipal Light Board and Manager of the
City of Westfield Gas and Electric Light Department

We have audited, 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, the consolidated financial statements of the City of Westfield Gas and Electric Light Department (the "Department") and the Southwest Cooperative (the "Cooperative"), which comprise the proprietary fund consolidated statement of net position as of December 31, 2017, and the related proprietary fund consolidated statements of revenues, expenses and changes in net position and cash flows for the year then ended, the fiduciary fund statement of fiduciary net position as of December 31, 2017 and the related fiduciary fund statement of changes in fiduciary net position for the year ended and the related notes to the consolidated financial statements, and have issued our report thereon dated July 11, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Department and the Cooperative'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 opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department and the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department and the Cooperative's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department and the Cooperative's consolidated 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 Department and the Cooperative's consolidated financial statements are free from 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*.

We noted certain matters that we reported to management of the Department in a separate letter dated July 11, 2018.

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 Department and the Cooperative'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 Department and the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maureen Beuther Kalicka, P.C.

Holyoke, Massachusetts
July 11, 2018