

CITY OF WESTFIELD
GAS AND ELECTRIC LIGHT DEPARTMENT
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2020 AND 2019

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

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MeyersBrothersKalicka , P.C.

CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS STRATEGISTS

INDEPENDENT AUDITORS' REPORT

To the Municipal Light Board and General 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, 2020 and 2019, 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, 2020 and 2019 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, 2020 and 2019, 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 basic consolidated financial statements. Such missing information, although not a part of the basic consolidated financial statements, is required by the *Governmental Accounting Standards Board* ("GASB") who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic 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 (pages 46 – 48) be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the GASB, 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 September 8, 2021 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 solely 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 the effectiveness of the Department and the Cooperative's 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.

Massel Brothers Kalicka, P.C.

Holyoke, Massachusetts
September 8, 2021

PROPRIETARY FUND

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**PROPRIETARY FUND
CONSOLIDATED STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019**

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets		
Cash	\$ 19,230,868	\$ 14,749,360
Accounts receivable, less reserve of approximately \$1,291,000 in 2020 and \$575,000 in 2019	6,093,561	4,742,325
Inventory - materials and supplies	7,202,969	7,819,309
Prepaid expenses	185,276	73,345
Cooperative investments, current	<u>-</u>	<u>250,000</u>
Total current assets	<u>32,712,674</u>	<u>27,634,339</u>
 Restricted and designated assets		
Cash in escrow	554,520	575,794
Cash for rate stabilization	3,180,426	5,883,428
MMWEC Reserve Trust	36,513,172	31,825,153
Cash - Connect America Fund	937,654	-
Deferred charges, current	<u>2,974,008</u>	<u>2,946,873</u>
Total restricted and designated assets	<u>44,159,780</u>	<u>41,231,248</u>
 Noncurrent assets		
Regulatory asset, net	1,060,973	1,127,059
Cooperative investments, noncurrent	616,822	399,032
Other investments	299,589	299,589
Deferred charges, noncurrent	29,210	2,879
Deferred debt service costs	<u>16,909</u>	<u>18,843</u>
Total noncurrent assets	<u>2,023,503</u>	<u>1,847,402</u>
 Plant investment		
Land	1,191,091	1,191,091
Electric	89,836,657	87,424,227
Gas	66,607,830	64,453,169
Telecommunications	<u>23,555,350</u>	<u>20,811,294</u>
	181,190,928	173,879,781
Less: accumulated depreciation	<u>(74,106,857)</u>	<u>(68,664,608)</u>
Total plant investment, net	<u>107,084,071</u>	<u>105,215,173</u>
 Deferred outflows of resources		
Deferred outflows related to other post-employment benefits	1,740,516	1,881,191
Deferred outflows related to pensions	<u>2,666,970</u>	<u>2,398,511</u>
Total deferred outflows of resources	<u>4,407,486</u>	<u>4,279,702</u>
 Total assets	<u>\$ 190,387,514</u>	<u>\$ 180,207,864</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2020	2019
Current liabilities		
Accounts payable	\$ 6,794,590	\$ 6,743,106
Accrued expenses, current	433,195	502,984
Payable to municipality	283,032	344,550
Current portion of general obligation bonds	1,516,204	1,517,454
Current portion of accrued compensated absences	452,783	386,867
Total current liabilities	9,479,804	9,494,961
 Noncurrent liabilities		
Accrued expenses, noncurrent	1,059,789	1,128,382
General obligation bonds	18,567,958	20,084,162
Accrued compensated absences	2,660,532	2,557,972
Connect America Fund liability	937,654	-
Net other post-employment benefit liability	10,012,703	10,075,000
Net pension liability	12,465,533	14,013,171
Total noncurrent liabilities	45,704,169	47,858,687
Total liabilities	55,183,973	57,353,648
 Deferred inflows of resources		
Deferred inflows related to other post-employment benefits	1,930,018	2,980,073
Deferred inflows related to pensions	3,612,345	1,700,602
Reserve for rate stabilization	48,283,108	45,245,088
Reserve for energy conservation	1,255,921	1,041,716
Total deferred inflows of resources	55,081,392	50,967,479
 Net position		
Net investments in capital assets	87,016,818	83,632,400
Restricted	554,520	575,794
Unrestricted	(7,449,189)	(12,321,457)
Total net position	80,122,149	71,886,737
 Total liabilities, deferred inflows of resources and net position	\$ 190,387,514	\$ 180,207,864

The accompanying notes are an integral part of these consolidated 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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Operating revenues		
Residential	\$ 31,720,391	\$ 30,620,765
Commercial	23,743,202	25,109,602
Industrial	15,056,100	14,873,727
Municipal	3,094,317	3,138,886
Off-street lighting	170,781	171,642
Other operating income	8,717,875	4,922,197
ISP revenue	1,180,903	377,621
Service income and finance charges	134,317	205,872
Rate stabilization fund transfers	<u>(3,038,020)</u>	<u>(3,629,093)</u>
Total operating revenues	<u>80,779,866</u>	<u>75,791,219</u>
Operating expenses		
Purchased power and gas	35,147,665	37,675,163
Distribution expenses	4,047,437	3,718,048
Maintenance	4,892,816	4,627,422
General and administrative	10,880,525	8,669,590
Pension and benefits	3,457,318	4,627,351
Environmental response expense	18,001	77,342
Other operating expense	8,696,157	4,905,299
Depreciation and amortization	<u>5,592,299</u>	<u>5,078,160</u>
Total operating expenses	<u>72,732,218</u>	<u>69,378,375</u>
Operating income	<u>8,047,648</u>	<u>6,412,844</u>
Non-operating revenues (expenses)		
Miscellaneous income	278,426	240,615
Investment income	523,622	739,034
Interest expense	<u>(748,939)</u>	<u>(880,996)</u>
Total non-operating revenues, net	<u>53,109</u>	<u>98,653</u>
Income before transfers and contributions	8,100,757	6,511,497
Transfers out - in lieu of tax payments to City	(569,371)	(692,333)
Contributions in aid of construction	<u>704,026</u>	<u>714,342</u>
Change in net position	8,235,412	6,533,506
Net position, beginning of year	<u>71,886,737</u>	<u>65,353,231</u>
Net position, end of year	<u>\$ 80,122,149</u>	<u>\$ 71,886,737</u>

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**PROPRIETARY FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Cash received for services	\$ 79,428,630	\$ 74,853,580
Cash paid to power suppliers	(32,058,161)	(34,438,387)
Cash paid to employees for services	(13,651,188)	(14,863,540)
Cash paid for other operations	<u>(18,492,786)</u>	<u>(13,727,645)</u>
Net cash provided by operating activities	<u>15,226,495</u>	<u>11,824,008</u>
Cash flows from capital and related financing activities		
Cash received from contributions in aid of construction	704,026	714,342
Cash paid for capital expenditures	(7,395,111)	(7,237,082)
Cash paid for principal on general obligation bonds incurred for capital purposes	(1,517,454)	(1,503,454)
Cash paid for interest on general obligation bonds incurred for capital purposes	<u>(748,939)</u>	<u>(880,996)</u>
Net cash used in capital financing activities	<u>(8,957,478)</u>	<u>(8,907,190)</u>
Cash flows from non-capital financing activities		
Cash paid for in lieu of tax payments	(630,889)	(627,527)
Cash received for Connect America Fund	937,654	-
Cash received from non-operating revenues	<u>278,426</u>	<u>240,615</u>
Net cash used in non-capital financing activities	<u>585,191</u>	<u>(386,912)</u>
Cash flows from investing activities		
Cash paid for purchases of investments	(1,060,754)	(3,113,685)
Cash received from investment earnings	<u>405,623</u>	<u>568,615</u>
Net cash used in investing activities	<u>(655,131)</u>	<u>(2,545,070)</u>
Net increase (decrease) in cash	6,199,077	(15,164)
Cash, beginning of year	<u>24,076,088</u>	<u>24,091,252</u>
Cash, end of year	<u>\$ 30,275,165</u>	<u>\$ 24,076,088</u>
Cash included in:		
Unrestricted cash	\$ 19,230,868	\$ 14,749,360
Restricted and designated cash	<u>11,044,297</u>	<u>9,326,728</u>
Cash, end of year	<u>\$ 30,275,165</u>	<u>\$ 24,076,088</u>

(Continued)

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**PROPRIETARY FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Operating income	\$ 8,047,648	\$ 6,412,844
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	5,592,299	5,078,160
Deferred outflows related to other post-employment benefits	140,675	(1,551,164)
Deferred outflows related to pensions	(268,459)	3,323,872
Deferred inflows related to other post-employment benefits	(1,050,055)	168,028
Deferred inflows related to pensions	1,911,743	(119,735)
Allowance for uncollectible accounts	715,998	(118,997)
Net changes in operating assets and liabilities:		
Accounts receivable	(2,067,234)	(818,642)
Inventory - materials and supplies	616,340	(2,399,659)
Prepaid expenses	(111,931)	(11,604)
Deferred charges and debt service costs	(24,397)	(945)
Accounts payable	51,484	(392,317)
Accrued expenses	(138,382)	(58,322)
Net other post-employment benefit liability	(62,297)	425,209
Net pension liability	(1,547,638)	(1,742,702)
Accrued compensated absences	168,476	(141,928)
Reserve for energy conservation	214,205	142,817
Reserve for rate stabilization	<u>3,038,020</u>	<u>3,629,093</u>
Net cash provided by operating activities	<u>\$ 15,226,495</u>	<u>\$ 11,824,008</u>

The accompanying notes are an integral part of these consolidated 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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash & cash equivalents	\$ 83,196	\$ 67,072
Investments - U.S. governments & agencies	849,455	752,142
Investments - corporate bonds	480,101	323,058
Investments - equities	2,593,350	2,050,209
Investments - mutual funds	<u>624,541</u>	<u>539,080</u>
Total assets	<u>4,630,643</u>	<u>3,731,561</u>
Net position		
Held in trust for other post-employment benefits	<u>\$ 4,630,643</u>	<u>\$ 3,731,561</u>

The accompanying notes are an integral part of these consolidated 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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Additions		
Contributions	\$ 500,000	\$ 500,000
Investment income (expense):		
Realized gain	56,604	27,102
Unrealized gain	253,250	413,040
Other income	105,788	94,852
Management fees	<u>(16,560)</u>	<u>(13,875)</u>
Investment income, net	<u>399,082</u>	<u>521,119</u>
Total additions	<u>899,082</u>	<u>1,021,119</u>
Increase in net position	899,082	1,021,119
Net position , beginning of year	<u>3,731,561</u>	<u>2,710,442</u>
Net position , end of year	<u>\$ 4,630,643</u>	<u>\$ 3,731,561</u>

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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's - see below) transactions. The Department grants credit to its customers, substantially all of whom are local residents and commercial and industrial businesses. Approximately 60% and 63% of the Department's operating revenues were derived from its electric division during 2020 and 2019, 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 maintains an Other Post-Employment Benefits Trust, as further described in Note 2. This Trust is classified under the fiduciary fund category.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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 Department's Municipal Light Board ("MLB") 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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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 some assets. The Cooperative utilizes MMWEC for accounting related management services.

Fiduciary fund - Other Post-Employment Benefits Trust

The other post-employment benefit trust fund ("OPEB Trust") was established in 2014 by the MLB 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 MLB to fund the Department's actuarially determined OPEB liability.

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 Department's programs.

Revenues and expenses

Gas and electric revenues are based on authorized rates applied to each customer's use of energy. Rate changes are approved by the Department's MLB 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, on the non-energy portion of their bill, up to five percent (5%) based on payment method and services purchased. Discounts for the years ended December 31, 2020 and 2019 were \$1,074,802 and \$1,007,576, respectively. These discounts are recorded net against revenues.

Fiber and telecommunication revenues are based on fixed monthly rates, which are established by Management. These operating revenues are recognized on the basis of monthly billings.

Cooperative revenues are set at a fixed monthly rate as agreed upon by the Cooperative and the Department.

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

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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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.

Restricted and designated assets

Cash, cash equivalents and investments, which are restricted under terms of legislation, certain agreements for payments to third parties or MLB 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 consolidated statements of revenues, expenses and changes in 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 consolidated statements 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 16), 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 a lease agreement. Interest earned on this account must remain in the account and be used to offset future lease payments.

Deferred charges

Under the terms of the Department's member agreement with 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.

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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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.

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 their 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.

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 2020 and 2019 with the exception of various fixed assets of the telecommunications division, for which management may estimate alternative useful lives. Depreciation expense for the years ended December 31, 2020 and 2019 was \$5,526,213 and \$5,012,074, respectively.

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. There were no amounts in construction in progress as of December 31, 2020 and 2019.

Deferred outflows and inflows related to other post-employment benefits

Deferred outflows and inflows related to other post-employment benefits as of December 31, 2020 were determined using actuarial assumptions as of January 1, 2019 for December 31, 2020. Deferred outflows and inflows related to other post-employment benefits as of December 31, 2019 were determined using actuarial assumptions as of January 1, 2019 for December 31, 2019.

Deferred outflows and inflows related to pensions

Deferred outflows and inflows related to pensions as of December 31, 2020 were determined using actuarial assumptions as of January 1, 2021 for December 31, 2020. Deferred outflows and inflows related to pensions as of December 31, 2019 were determined using actuarial assumptions as of January 1, 2019 for December 31, 2019.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Accrued 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 20 personal days up to 40 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 15 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 for active and long retired employees as of December 31, 2020 and 2019 was \$2,795,651 and \$2,499,325, respectively. Accrued vacation and sick leave for recently retired employees as of December 31, 2020 and 2019 was \$317,664 and \$445,514, respectively, and may be paid over five years from date of retirement.

Net other post-employment benefit liability

Under GASB No. 75, the net OPEB liability ("NOL") is the difference between the actuarial present value of projected OPEB benefit payments attributable to employees' past service and the OPEB plan's fiduciary net position. At December 31, 2020 and 2019, the NOL was \$10,012,703 and \$10,075,000, respectively (see Note 12).

Net pension liability

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, 2020 and 2019, the NPL was \$12,465,533, and \$14,013,171, respectively (see Note 11).

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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Net position (continued)

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”.

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 (“the State”) imposes a sales tax of 6.25% as of December 31, 2020 and 2019 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 consolidated 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Recent accounting pronouncements

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 scheduled to be effective for the Department and the Cooperative in 2022.

In January 2020, GASB issued SGAS No. 92, "*Omnibus 2020*" ("GASB No. 92"). GASB No. 92 addresses a variety of topics including issues related to the effective date of GASB No. 87, the applicability of certain GASB statements to reporting assets accumulated for pensions and OPEB, and the applicability of certain requirements of GASB No. 84, *Fiduciary Activities*, to pension and OPEB arrangements. This statement is effective for the Department in 2021, aside from the portion related to GASB No. 87 which is effective in 2022. 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, 2020 AND 2019**

3. 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, 2020 and 2019, consist of the following:

2020	Cash and cash equivalents	Investments	Total
Segregated cash:			
Escrow	\$ 554,520	\$ -	\$ 554,520
Rate stabilization	3,180,426	-	3,180,426
Connect America fund	937,654	-	937,654
	<u>4,672,600</u>	<u>-</u>	<u>4,672,600</u>
MMWEC Reserve Trust:			
Electric	2,894,025	24,212,297	27,106,322
Gas	1,019,822	8,387,028	9,406,850
	<u>3,913,847</u>	<u>32,599,325</u>	<u>36,513,172</u>
Deferred charges:			
Purchase power	382,339	353,470	735,809
Prepaid Energy New England	2,055,260	-	2,055,260
Prepaid PASNY fund	20,251	162,688	182,939
	<u>2,457,850</u>	<u>516,158</u>	<u>2,947,008</u>
Total	<u>\$ 11,044,297</u>	<u>\$ 33,115,483</u>	<u>\$ 44,159,780</u>

2019	Cash and cash equivalents	Investments	Total
Segregated cash:			
Escrow	\$ 575,794	\$ -	\$ 575,794
Rate stabilization	5,883,428	-	5,883,428
	<u>6,459,222</u>	<u>-</u>	<u>6,459,222</u>
MMWEC Reserve Trust:			
Electric	246,296	24,352,545	24,598,841
Gas	359,022	6,867,290	7,226,312
	<u>605,318</u>	<u>31,219,835</u>	<u>31,825,153</u>
Deferred charges:			
Purchase power	226,993	503,436	730,429
Prepaid Energy New England	2,035,195	-	2,035,195
Prepaid PASNY fund	-	181,249	181,249
	<u>2,262,188</u>	<u>684,685</u>	<u>2,946,873</u>
Total	<u>\$ 9,326,728</u>	<u>\$ 31,904,520</u>	<u>\$ 41,231,248</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

Investments included in restricted and designated assets at December 31, 2020 and 2019 consist of:

2020	Cost	Fair value	Unrealized Gain
U.S. treasury securities	\$ 7,341,628	\$ 7,349,297	\$ 7,669
U.S. agency securities	17,869,022	17,873,948	4,926
Municipal bonds	7,749,503	7,892,238	142,735
Total	\$ 32,960,153	\$ 33,115,483	\$ 155,330

2019	Cost	Fair value	Unrealized Gain
U.S. treasury securities	\$ 6,404,682	\$ 6,416,382	\$ 11,700
U.S. agency securities	25,161,689	25,187,320	25,631
Municipal bonds	300,818	300,818	-
Total	\$ 31,867,189	\$ 31,904,520	\$ 37,331

At December 31, 2020 and 2019, the Department's bond investments were as follows:

		Maturity			
		Less than 1 year	1 - 5 years	6 - 10 years	Over 10 years
2020	Fair value				
U.S. treasury securities	\$ 7,349,297	\$ 3,460,399	\$ 2,075,012	\$ 1,813,886	\$ -
U.S. agency securities	17,873,948	2,842,493	15,031,455	-	-
Municipal bonds	7,892,238	824,090	3,601,867	3,466,281	-
	\$ 33,115,483	\$ 7,126,982	\$ 20,708,334	\$ 5,280,167	\$ -

		Maturity			
		Less than 1 year	1 - 5 years	6 - 10 years	Over 10 years
2019	Fair value				
U.S. treasury securities	\$ 6,416,382	\$ 6,416,382	\$ -	\$ -	\$ -
U.S. agency securities	25,187,320	10,140,805	13,458,952	1,344,603	242,960
Municipal bonds	300,818	-	300,818	-	-
	\$ 31,904,520	\$ 16,557,187	\$ 13,759,770	\$ 1,344,603	\$ 242,960

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

At December 31, 2020 and 2019, the Department's bond investments were rated as follows:

	2020		2019	
	Standard & Poor's	Moody's Investment	Standard & Poor's	Moody's Investment
U.S. treasury securities	AA+	AAA	AA+	AAA
U.S. agency securities	AAA to AA+	AAA	AA+	AAA
Municipal bonds	AAA to A+	AA1 to A2	AA to AA-	AA3

Cooperative investments at December 31, 2020 consisted of:

2020	Cost	Fair value	Unrealized gain
Municipal bonds	\$ 364,700	\$ 365,992	\$ 1,292
Certificates of deposit	249,625	250,830	1,205
Total	\$ 614,325	\$ 616,822	\$ 2,497

Cooperative investments at December 31, 2019 consisted of:

2019	Cost	Fair value	Unrealized (loss) gain
U.S. agency securities	\$ 199,000	\$ 198,798	\$ (202)
Certificates of deposit	449,615	450,234	619
Total	\$ 648,615	\$ 649,032	\$ 417

At December 31, 2020, the Cooperative's investments were as follows:

2020	Fair value	Maturity		
		Less than 1 year	1 - 5 years	6 - 10 years
Municipal bonds	\$ 365,992	\$ -	\$ 265,563	\$ 100,429
Certificates of deposit	250,830	-	250,830	-
Total	\$ 616,822	\$ -	\$ 516,393	\$ 100,429

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

At December 31, 2019 the Cooperative's investments were as follow:

2019	Fair value	Maturity		
		Less than 1 year	1 - 5 years	6 - 10 years
U.S. agency securities	\$ 198,798	\$ -	\$ -	\$ 198,798
Certificates of deposit	450,234	250,000	200,234	-
	<u>\$ 649,032</u>	<u>\$ 250,000</u>	<u>\$ 200,234</u>	<u>\$ 198,798</u>

At December 31, 2020 and 2019, the Cooperative's bond investments were rated as follows:

	2020		2019	
	Standard & Poor's	Moody's Investment	Standard & Poor's	Moody's Investment
Municipal bonds	A+ to AA-	AA3	N/A	N/A
U.S. agency securities	N/A	N/A	AA+	AAA

The total return on invested assets consisted of the following components reported on the consolidated statements of revenues, expenses and changes in net position at December 31, 2020 and 2019:

	2020	2019
Interest income	\$ 405,623	\$ 568,615
Unrealized gain	117,999	170,419
Total investment income	<u>\$ 523,622</u>	<u>\$ 739,034</u>

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 and Cooperative do not have a formal investment policy that limits investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates.

Credit risk

The Department and Cooperative limit 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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

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:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
U.S. agency securities:		
Federal National Mortgage	-	12%
Federal Farm Credit Bank	31%	17%
Federal Home Loan Bank	-	28%
Federal Home Loan Mortgage	17%	20%

The Cooperative places no limit on the amount it may invest in one issuer. The following are the concentrations of risk greater than five percent of the total investment balance at December 31:

	<u>2020</u>	<u>2019</u>
Certificates of Deposit:		
BMW Bank	41%	-
Washington Trust Co	-	40%
JPMorgan Chase Bank	-	15%
Texas Exchange Bank	-	15%
Municipal Bonds:		
Rutgers State University	16%	-
Erie County NY	16%	-
Greater Latrobe	27%	-
U.S. agency securities		
Federal Home Loan Bank	-	15%
Federal Home Loan Mortgage	-	15%

Custodial credit risk – cash

Custodial credit risk is the risk that in the event of a bank failure, the Department and Cooperative's deposits may not be returned. The Department and Cooperative do not have a deposit policy for custodial credit risk. The Department and Cooperative maintain 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, 2020 and 2019, the Department's uninsured balance could be as high as \$26,388,641 and \$20,521,764, respectively. Based on cash balances at December 31, 2020 and 2019, the Cooperative's uninsured balance could be as high as \$677,480 and \$540,942, respectively. The Department and Cooperative have 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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

Custodial credit risk - investments

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty the Department or Cooperative 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 \$33,115,483 (2020) and \$31,904,520 (2019) 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. Of the Cooperative's \$616,822 (2020) and \$649,032 (2019) 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 Cooperative's name. The Department and Cooperative have 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.

4. OTHER INVESTMENTS:

Other investments consist of the following at December 31, 2020 and 2019:

	2020	2019
Hydro-Quebec Phase II	\$ 33,589	\$ 33,589
Public Utility Mutual Insurance Company	266,000	266,000
	\$ 299,589	\$ 299,589

5. FAIR VALUE MEASUREMENTS:

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.

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 or Cooperative's own assumptions about factors that market participants would use in pricing the asset or liability.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

5. FAIR VALUE MEASUREMENTS: (CONTINUED)

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.
- Certificates of deposit - based on the initial investment amount.

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, 2020 and 2019. 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, 2020 and 2019:

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments, excluding cash and cash equivalents:			
U.S. treasury securities	\$ 7,349,297	\$ -	\$ 7,349,297
U.S. agency securities	-	17,873,948	17,873,948
Municipal bonds	-	7,892,238	7,892,238
	<u>\$ 7,349,297</u>	<u>\$ 25,766,186</u>	<u>\$ 33,115,483</u>
<u>2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments, excluding cash and cash equivalents:			
U.S. treasury securities	\$ 6,416,382	\$ -	\$ 6,416,382
U.S. agency securities	-	25,187,320	25,187,320
Municipal bonds	-	300,818	300,818
	<u>\$ 6,416,382</u>	<u>\$ 25,488,138</u>	<u>\$ 31,904,520</u>

The following table identifies the level within the fair value hierarchy that the Cooperative's financial assets were accounted for on a recurring basis as of December 31, 2020 and 2019. 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 Cooperative'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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

5. FAIR VALUE MEASUREMENTS: (CONTINUED)

Cooperative recurring fair value measurements as of December 31, 2020 and 2019:

<u>2020</u>	<u>Level 1</u>
Investments:	
Municipal bonds	\$ 365,992
Certificates of deposit	250,830
Total	<u>\$ 616,822</u>
<u>2019</u>	<u>Level 1</u>
Investments:	
U.S. agency securities	\$ 198,798
Certificates of deposit	450,234
Total	<u>\$ 649,032</u>

6. FIDUCIARY FUND:

The assets and net position of this Trust are reported in the Department's statements of fiduciary net position on Page 7. Investments (at fair value) of the OPEB Trust consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash & cash equivalents	\$ 83,196	\$ 67,072
U.S. governments & agencies	849,455	752,142
Corporate bonds	480,101	323,058
Fixed income mutual funds	624,541	539,080
Equities:		
Diversifying funds	721,759	570,090
Materials	132,805	115,081
Communications	142,246	115,791
Consumer discretionary	146,402	109,653
Consumer staples	131,497	102,628
Healthcare	142,145	121,629
Energy	117,225	110,821
Financials	154,854	123,616
Industrials	138,737	114,677
Information technology	196,496	129,479
International	427,766	324,385
Utilities	141,418	112,359
Total equities	<u>2,593,350</u>	<u>2,050,209</u>
Total assets	<u>\$ 4,630,643</u>	<u>\$ 3,731,561</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

7. 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.

Amortization expense on the regulatory assets was \$66,086 for the years ended December 31, 2020 and 2019, respectively, and is estimated to be \$66,086 for each of the next five years.

	2020	2019
Regulatory assets - cost		
Union Street	\$ 856,641	\$ 856,641
Twiss Street	692,146	692,146
	1,548,787	1,548,787
Less: accumulated amortization	(487,814)	(421,728)
	\$ 1,060,973	\$ 1,127,059

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

8. PLANT INVESTMENT:

A summary of plant investment at December 31, 2020 is as follows:

	<u>Balance December 31, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2020</u>
<i>Plant investment not being depreciated:</i>				
Land	\$ 1,191,091	\$ -	\$ -	\$ 1,191,091
<i>Total plant investment not being depreciated</i>	<u>1,191,091</u>	<u>-</u>	<u>-</u>	<u>1,191,091</u>
<i>Plant investment being depreciated:</i>				
Plant investment	146,461,534	5,911,749	(109,843)	152,263,440
Office and computer equipment	6,509,650	491,053	(21,093)	6,979,610
Transportation equipment	4,872,884	789,031	-	5,661,915
Equipment	<u>14,844,622</u>	<u>250,250</u>	<u>-</u>	<u>15,094,872</u>
<i>Total plant investment being depreciated</i>	<u>172,688,690</u>	<u>7,442,083</u>	<u>(130,936)</u>	<u>179,999,837</u>
<i>Less accumulated depreciation for:</i>				
Plant investment	(56,360,981)	(4,762,652)	83,964	(61,039,669)
Office and computer equipment	(2,866,343)	(195,288)	-	(3,061,631)
Transportation equipment	(3,149,256)	(146,186)	-	(3,295,442)
Equipment	<u>(6,288,028)</u>	<u>(422,087)</u>	<u>-</u>	<u>(6,710,115)</u>
<i>Total accumulated depreciation</i>	<u>(68,664,608)</u>	<u>(5,526,213)</u>	<u>83,964</u>	<u>(74,106,857)</u>
<i>Total plant investment being depreciated, net</i>	<u>104,024,082</u>	<u>1,915,870</u>	<u>(46,972)</u>	<u>105,892,980</u>
Total plant investment, net	\$ <u>105,215,173</u>	\$ <u>1,915,870</u>	\$ <u>(46,972)</u>	\$ <u>107,084,071</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

8. PLANT INVESTMENT: (CONTINUED)

A summary of plant investment at December 31, 2019 is as follows:

	<u>Balance December 31, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2019</u>
<i>Plant investment not being depreciated:</i>				
Land				
Construction in process	\$ 1,191,091	\$ -	\$ -	\$ 1,191,091
<i>Total plant investment not being depreciated</i>	<u>1,191,091</u>	<u>-</u>	<u>-</u>	<u>1,191,091</u>
<i>Plant investment being depreciated:</i>				
Plant investment	140,611,558	5,972,200	(122,224)	146,461,534
Office and computer equipment	6,659,978	461,154	(611,482)	6,509,650
Transportation equipment	4,545,136	683,051	(355,303)	4,872,884
Equipment	<u>14,995,629</u>	<u>120,677</u>	<u>(271,684)</u>	<u>14,844,622</u>
<i>Total plant investment being depreciated</i>	<u>166,812,301</u>	<u>7,237,082</u>	<u>(1,360,693)</u>	<u>172,688,690</u>
<i>Less accumulated depreciation for:</i>				
Plant investment	(52,230,901)	(4,252,304)	122,224	(56,360,981)
Office and computer equipment	(3,278,026)	(199,799)	611,482	(2,866,343)
Transportation equipment	(3,368,207)	(136,352)	355,303	(3,149,256)
Equipment	<u>(6,136,093)</u>	<u>(423,619)</u>	<u>271,684</u>	<u>(6,288,028)</u>
<i>Total accumulated depreciation</i>	<u>(65,013,227)</u>	<u>(5,012,074)</u>	<u>1,360,693</u>	<u>(68,664,608)</u>
<i>Total plant investment being depreciated, net</i>	<u>101,799,074</u>	<u>2,225,008</u>	<u>-</u>	<u>104,024,082</u>
Total plant investment, net	\$ <u>102,990,165</u>	\$ <u>2,225,008</u>	\$ <u>-</u>	\$ <u>105,215,173</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

9. DEBT:

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 2020</u>	<u>Outstanding Balance 2019</u>
02/01/06	08/01/24	4.00%	\$ 2,100,000	\$ 433,333	\$ 541,667
04/01/08	12/31/28	2.10%	6,000,000	2,287,000	2,588,500
04/04/14	03/01/32	1.29%	6,233,950	4,122,634	4,474,519
10/31/17	10/15/37	4.13%	5,000,000	4,249,595	4,501,630
08/10/18	12/31/38	2.97%	10,000,000	8,991,600	9,495,300
				20,084,162	21,601,616
				(1,516,204)	(1,517,454)
Less current portion of bonds					
General obligation bonds, long-term portion				\$ 18,567,958	\$ 20,084,162

The bond issued on April 4, 2014 was refinanced during 2020, and the maturity date and interest rate have been updated to reflect the terms of the refinancing.

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>
2021	\$ 1,516,204	\$ 680,011	\$ 2,196,215
2022	1,538,205	614,984	2,153,189
2023	1,533,204	545,022	2,078,226
2024	1,525,205	475,258	2,000,463
2025	1,420,872	412,083	1,832,955
2026 – 2030	6,223,356	1,361,800	7,585,156
2031 – 2035	4,336,947	608,226	4,945,173
2036 – 2038	1,990,169	92,851	2,083,020
Total	\$ 20,084,162	\$ 4,790,235	\$ 24,874,397

Interest maturities were calculated based on the interest rates in effect as of December 31, 2020.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

10. NONCURRENT LIABILITIES:

A summary of the changes in noncurrent liabilities as of December 31, 2020 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
Accrued compensated absences	\$ 2,944,839	\$ 522,839	\$ (354,363)	\$ 3,113,315	\$ 452,783
Connect America Fund liability	-	937,654	-	937,654	-
Net other post-employment benefit liability	10,075,000	-	(62,297)	10,012,703	-
Net pension liability	14,013,171	-	(1,547,638)	12,465,533	-
General obligation bonds	21,601,616	387,000	(1,904,454)	20,084,162	1,516,204
Total	\$ 48,634,626	\$ 1,847,493	\$ (3,868,752)	\$ 46,613,367	\$ 1,968,987

A summary of the changes in noncurrent liabilities as of December 31, 2019 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
Accrued compensated absences	\$ 3,086,767	\$ 264,000	\$ (405,928)	\$ 2,944,839	\$ 386,867
Net other post-employment benefit liability	9,649,791	425,209	-	10,075,000	-
Net pension liability	15,755,873	-	(1,742,702)	14,013,171	-
General obligation bonds	23,105,070	-	(1,503,454)	21,601,616	1,517,454
Total	\$ 51,597,501	\$ 689,209	\$ (3,652,084)	\$ 48,634,626	\$ 1,904,321

11. 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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

11. PENSION PLANS: (CONTINUED)

Benefits provided (continued)

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, 2021 (December 31, 2020), the plan covered 831 active employees, 260 inactive employees, and 719 retired employees.

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, 2020 and 2019 was \$1,962,761 and \$1,769,472, respectively, representing 24.83% and 24.29% 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, 2020 and 2019, a reported liability of \$12,465,533 and \$14,013,171 was the Department's proportionate share of the city-wide net pension liability measured as of December 31, 2020 and 2019. The net pension liability as of December 31, 2020 was determined using the total pension liability and the actuarial assumptions as of January 1, 2021 for December 31, 2020. The net pension liability as of December 31, 2019 was determined using the total pension liability and the actuarial assumptions as of January 1, 2019, updated to the measurement date of December 31, 2019. This net pension liability is based on the Department's proportional percentage of 17.57% and 16.92% at December 31, 2020 and 2019, respectively.

Expense, deferred outflows of resources, and deferred inflows of resources related to pensions

For the years ended December 31, 2020 and 2019, the Department recognized pension expense of \$1,609,527 and \$2,752,880, respectively, and reported deferred outflows related to pensions of \$2,666,970 and \$2,398,511, respectively, and deferred inflows related to pensions of \$3,612,345 and \$1,700,602, respectively.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

11. PENSION PLANS: (CONTINUED)

Expense, deferred outflows of resources, and deferred inflows of resources related to pensions (continued)

Deferred outflows of resources related to pensions at December 31, consists of the following:

	2020	2019
Difference between projected and actual experience	\$ 118,392	\$ 139,277
Change of assumptions	2,548,578	2,259,234
Total	\$ 2,666,970	\$ 2,398,511

Deferred inflows of resources related to pensions at December 31, consists of the following:

	2020	2019
Differences between projected and actual investment earnings on pension plan investments	\$ 3,612,345	\$ 1,700,602

The Department's deferred outflows of resources related to pensions will be recognized in the pension expense as follows:

For years ended December 31,	
2021	\$ 1,144,824
2022	1,008,794
2023	366,938
2024	146,414
	\$ 2,666,970

The Department's deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

For years ended December 31,	
2021	\$ 1,068,194
2022	1,068,194
2023	1,068,072
2024	407,885
	\$ 3,612,345

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

11. PENSION PLANS: (CONTINUED)

Actuarial assumptions

The total pension liability as of December 31, 2020 was determined by an actuarial valuation as of January 1, 2021, using the following actuarial assumptions, for December 31, 2020:

Valuation date:	January 1, 2021 (December 31, 2020)
Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Total payments increase 4.96% each year until FY35, with a final amortization payment in FY36
Remaining amortization period:	15 years from July 1, 2021
Asset valuation method:	Market value for GASB 67/68. For funding purposes, gains and losses each year are recognized over 5 years.
Investment rate of return:	7.00% net of pension plan investment expense, including inflation.
Projected salary increase:	Select and ultimate by job group; ultimate rates of 4.25% for Group 1 and 4.75% for Group 4.
Cost of living adjustments:	3% of first \$13,000.
Mortality rates:	Pre-retirement: the RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2020 (gender distinct). Post-retirement: the RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2020 (gender distinct). For disabled retirees: the RP-2014 Blue Collar Healthy Annuitant Table set forward 1 year projected generationally with Scale MP-2020 (gender distinct).

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

11. PENSION PLANS: (CONTINUED)

Actuarial assumptions (continued)

The total pension liability as of December 31, 2019 was determined by an actuarial valuation as of January 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement that was updated at December 31, 2019:

Valuation date:	January 1, 2019
Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Total payments increase 5.8% each year until FY35, with a final amortization payment in FY36
Remaining amortization period:	16 years from July 1, 2020
Asset valuation method:	Market value for GASB 67/68. For funding purposes, gains and losses each year are recognized over 5 years.
Investment rate of return:	7.25% net of pension plan investment expense, including inflation.
Projected salary increase:	Select and ultimate by job group; ultimate rates of 4.25% for Group 1 and 4.75% for Group 4.
Cost of living adjustments:	3% of first \$13,000.
Mortality rates:	Pre-retirement: the RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2018 (gender distinct). Post-retirement: the RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2018 (gender distinct). For disabled retirees: the RP-2014 Blue Collar Healthy Annuitant Table set forward 1 year projected generationally with Scale MP-2018 (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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

11. PENSION PLANS: (CONTINUED)

Long-term expected rate of return (continued)

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, 2020 and 2019 are summarized in the following table:

<u>Asset Class</u>	<u>2020</u>		<u>2019</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	13%	6.40%	13%	7.60%
Internationally Developed Equity	16%	6.60%	16%	7.80%
Real Estate	13%	6.00%	13%	6.70%
Private Equity	13%	10.20%	13%	11.00%
Core Fixed Income	16%	2.70%	16%	4.00%
Emerging Markets Equity	7%	8.40%	7%	9.30%
Domestic Middle Capital Equity	5%	6.40%	5%	7.75%
Domestic Small Capital Equity	7%	6.40%	7%	7.75%
Other Alternatives	10%	5.70%	10%	6.50%
Total	<u>100%</u>		<u>100%</u>	

Rate of return

As of December 31, 2020 and 2019, the annual money-weighted rate of return, net of investment expense was 15.26% and 21.26%, 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, 2020 and 2019, the discount rate used to measure the total pension liability was 7.00% and 7.25%, 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, 2020 calculated using the discount rate of 7.00%, as well as discount rates 1-percentage-point lower (6.00%) and 1-percentage-point higher (8.00%):

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Department's net pension liability	\$ 19,247,408	\$ 12,465,533	\$ 6,722,282

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

11. PENSION PLANS: (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate (continued)

The following presents the Department's proportionate share of the net pension liability as of December 31, 2019 calculated using the discount rate of 7.25%, as well as discount rates 1-percentage-point lower (6.25%) and 1-percentage-point higher (8.25%):

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Department's net pension liability	\$ 20,271,683	\$ 14,013,171	\$ 8,691,804

12. OTHER POST-EMPLOYMENT BENEFITS ("OPEB"):

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. The System is a defined benefit cost-sharing single-employer public employee retirement system administered by the Board. The Department obtains an individual actuarial valuation which shows their proportionate share of the NOL. Premiums are calculated based on prior year claim experiences and amounts needed to fund the plan operations.

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

Plan membership

The OPEB valuations dated January 1, 2019 cover the years ended December 31, 2020 and 2019. The number of participants as of the valuation dates are as follows:

	<u>2020</u>	<u>2019</u>
Current active members	95	95
Current retirees, beneficiaries and dependents receiving benefits	103	103
Total	<u>198</u>	<u>198</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

12. OTHER POST-EMPLOYMENT BENEFITS (“OPEB”): (CONTINUED)

Actuarial assumptions and methods

The total OPEB liability was determined by an actuarial valuation as of January 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement that was updated for the reporting date of December 31, 2020, unless otherwise specified:

Valuation date:	January 1, 2019
Actuarial cost method:	Entry age normal
Discount rate:	5.25% annually, net of investment expenses
Participant salary increases:	3.00% annually
Healthcare cost trend rates:	Current rate of 4.50%
Mortality rates:	Pre-retirement: RP-2014 Mortality Table, sex-distinct, for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females. Post-retirement: RP-2014 Mortality Table, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females. Disabled: RP-2014 Mortality Table, sex-distinct, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016, set forward 1 year for females.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement that was updated for the reporting date of December 31, 2019, unless otherwise specified:

Valuation date:	January 1, 2019
Actuarial cost method:	Entry age normal
Discount rate:	5.50% annually, net of investment expenses
Participant salary increases:	3.00% annually
Healthcare cost trend rates:	Current rate of 4.50%
Mortality rates:	Pre-retirement: RP-2014 Mortality Table, sex-distinct, for Blue Collar Employees projected generationally with scale MP-2016. Post-retirement: RP-2014 Mortality Table, sex-distinct, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016. Disabled: RP-2014 Mortality Table, sex-distinct, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016, set forward 1 year.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

12. OTHER POST-EMPLOYMENT BENEFITS (“OPEB”): (CONTINUED)

Actuarial assumptions and methods (continued)

The actuarial assumptions which used the January 1, 2019 actuarial valuation and market value of assets as of the measurement dates of December 31, 2020 and 2019 were reflective of published municipal bond indices. The S&P Municipal Bond 20-Year High Grade Index with a rate of 1.93% and 3.26% was used at December 31, 2020 and 2019, respectively.

Long-term expected rate of return

The long-term expected real rate of return reflects the expected rate of return on plan assets adjusted for the expected rate of inflation. Note that the discount rate includes the effect of inflation. The long-term real rate of return removes the effect of inflation on the return amounts. It is a long-term assumption and is meant to reflect a best estimate of future experience, based on the expected asset allocation. The allocation percentages are based on information provided by the Department and the asset consultant. The real rates of return below are based on long-term nominal return estimates.

<u>Asset Class</u>	<u>2020</u>		<u>2019</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	23.00%	4.90%	23.00%	4.80%
Internationally Developed Equity	5.00%	5.32%	5.00%	5.45%
Real Estate	0.00%	6.25%	0.00%	6.25%
Alternatives	0.00%	6.32%	0.00%	6.50%
International Fixed Income	5.00%	1.30%	5.00%	3.00%
Internationally Emerging Equity	5.00%	6.26%	5.00%	6.42%
Domestic Fixed Income	55.00%	1.40%	55.00%	2.05%
Domestic Small/Mid Capital Equity	5.00%	5.40%	5.00%	5.29%
Cash & Cash Equivalents	2.00 %	0.00%	2.00 %	0.00%
Total	<u>100.0%</u>		<u>100.0%</u>	

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

12. OTHER POST-EMPLOYMENT BENEFITS (“OPEB”): (CONTINUED)

	Changes in net OPEB liability (“NOL”)		
	Increase (decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	NOL (a) – (b)
Balances at January 1, 2019*	\$ 12,360,233	\$ 2,710,442	\$ 9,649,791
Service cost	289,351	-	289,351
Interest on total OPEB liability	771,563	-	771,563
Changes in assumptions	2,021,462	-	2,021,462
Difference between projected and actual experience	(1,017,528)	-	(1,017,528)
Net investment loss	-	521,119	(521,119)
Contributions – employer	-	1,118,520	(1,118,520)
Benefit payments, including implicit cost	(618,520)	(618,520)	-
Net changes	1,446,328	1,021,119	425,209
Balances at December 31, 2019	13,806,561	3,731,561	10,075,000
Service cost	322,713	-	322,713
Interest on total OPEB liability	759,278	-	759,278
Changes in assumptions	412,029	-	412,029
Net investment income	-	399,082	(399,082)
Contributions – employer	-	1,157,235	(1,157,235)
Benefit payments, including implicit cost	(657,235)	(657,235)	-
Net changes	836,785	899,082	(62,297)
Balances at December 31, 2020	\$ 14,643,346	\$ 4,630,643	\$ 10,012,703

*These balances include the effects of the prior period adjustment to the NOL related to GASB No. 75.

Discount rate

The discount rate used to measure the total OPEB liability as of December 31, 2020 and 2019 was 5.25% and 5.50%, 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 Massachusetts General Law Chapter 32. Based on those assumptions, the OPEB plan 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

12. OTHER POST-EMPLOYMENT BENEFITS (“OPEB”): (CONTINUED)

Sensitivity of the NOL to changes in the discount rate

The following table presents the Department’s net OPEB liability in each year as of December 31 calculated at the valuation discount rates of 5.25% (2020) and 5.50% (2019) as well as at discount rates 1-percentage-point lower and 1-percentage-point higher:

		1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
<u>2020</u>				
Department’s net OPEB liability	\$	\$ 12,063,205	\$ 10,012,703	\$ 8,347,632
		1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
<u>2019</u>				
Department’s net OPEB liability	\$	\$ 11,969,270	\$ 10,075,000	\$ 8,535,977

Sensitivity of the NOL to changes in the healthcare trend rates

The actuarial assumptions included 4.50% (2020 and 2019) healthcare cost trend rates. The following table presents the effect of a 1-percentage-point decrease and 1-percentage-point increase in the assumed rates of healthcare cost trends in each year as of December 31:

		1% Decrease (3.50%)	Current Discount Rate (4.50%)	1% Increase (5.50%)
<u>2020</u>				
Department's net OPEB liability	\$	\$ 8,221,426	\$ 10,012,703	\$ 12,229,399
		1% Decrease (3.50%)	Current Discount Rate (4.50%)	1% Increase (5.50%)
<u>2019</u>				
Department's net OPEB liability	\$	\$ 8,415,572	\$ 10,075,000	\$ 12,122,202

Expense, deferred outflows of resources, and deferred inflows of resources related to OPEB

For the years ended December 31, 2020 and 2019, the Department recognized OPEB income of \$233,698 and \$90,916, respectively, and reported deferred inflows related to OPEB of \$1,930,018 and \$2,980,073, respectively. For the years ended December 31, 2020 and 2019 deferred outflows related to OPEB were \$1,740,516 and \$1,881,191, respectively.

Deferred outflows of resources related to OPEB at December 31 consists of the following:

	<u>2020</u>	<u>2019</u>
Differences between expected and actual experience	\$ 25,260	\$ 33,680
Changes in assumptions	1,542,499	1,617,169
Net difference between projected and actual earnings on investments	172,757	230,342
Total	<u>\$ 1,740,516</u>	<u>\$ 1,881,191</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

12. OTHER POST-EMPLOYMENT BENEFITS (“OPEB”): (CONTINUED)

Expense, deferred outflows of resources, and deferred inflows of resources related to OPEB (continued)

The Department’s deferred outflows of resources related to OPEB will be recognized in the OPEB expense as follows:

For years ended December 31,		
2021	\$	552,704
2022		552,704
2023		552,703
2024		82,405
	\$	<u>1,740,516</u>

Deferred inflows of resources related to OPEB at December 31 consists of the following:

	<u>2020</u>	<u>2019</u>
Differences between expected and actual experience	\$ 1,551,922	\$ 2,683,825
Net differences between projected and actual earnings on investments	378,096	296,248
Total	\$ <u>1,930,018</u>	\$ <u>2,980,073</u>

The Department’s deferred inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

For years ended December 31,		
2021	\$	1,247,826
2022		327,823
2023		314,814
2024		39,555
	\$	<u>1,930,018</u>

Contributions

There is no statutory actuarially determined contribution. OPEB contributions are elective and not required. For the years ended December 31, 2020 and 2019, contributions totaled \$1,157,235 and \$1,118,520, respectively.

13. RESERVE FOR RATE STABILIZATION:

The MLB, 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.

During 2020 and 2019, the Department used \$2,100,000 and \$1,646,395, respectively, to offset the cost of power. The Department increased the reserve liability by \$5,138,020 and \$5,275,488 during 2020 and 2019, respectively. The balance available to offset future costs is \$48,283,108 and \$45,245,088, respectively, at December 31, 2020 and 2019.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

14. RELATED PARTY TRANSACTIONS:

The Department provides electric sales and service to the City. Total electric sales were \$2,117,816 and \$2,144,087, respectively, for the years ended December 31, 2020 and 2019. Amounts due from the City for electric sales and service totaled \$143,459 and \$67,202, respectively at December 31, 2020 and 2019.

In lieu of tax payments made to the City for their fiscal years ended June 30, 2020 and 2019 were \$566,074 and \$689,115, 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 \$283,032 and \$344,550 for the years ended December 31, 2020 and 2019, respectively. The Cooperative paid \$3,297 and \$3,218, respectively, for the in lieu of tax payments as of December 31, 2020 and 2019.

The Cooperative has an Agency Contract with 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, 2020 and 2019, the Cooperative incurred charges related to accounting and administrative expense of \$6,658 and \$5,168, respectively. As of December 31, 2020 and 2019, the Cooperative had a balance due to MMWEC of \$1,605 and \$1,485, respectively.

The Cooperative utilized legal services provided by a member of its Board of Directors. The Cooperative paid \$2,130 and \$2,628, respectively, in 2020 and 2019 for those services of which \$1,729 and \$1,260 was due as of December 31, 2020 and 2019, respectively.

15. COMMITMENTS AND CONTINGENCIES:

Commitments

The Department purchases power through agreements with various public and investor owned utilities. At December 31, 2020, 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 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.

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).

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

15. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Commitments (continued)

As of December 31, 2020, total capital expenditures and annual capacity, fuel and transmission costs (which include operations and maintenance costs, debt service, and decommissioning expenses) by participants and MMWEC toward capital projects amounted to \$845,301,634, of which approximately \$102,845,591 represents the amount associated with the Department's Project Capability of the projects in which it participates. As of December 31, 2019, total capital expenditures and annual capacity, fuel and transmission costs (which include operations and maintenance costs, debt service, and decommissioning expenses) by participants and MMWEC toward capital projects amounted to \$837,840,231, of which approximately \$101,805,240 represents the amount associated with the Department's Project Capability of the projects in which it participates.

Capacity, fuel and transmission costs billed to the Department by MMWEC were \$7,096,780 and \$7,120,653 for the years ended December 31, 2020 and 2019, respectively.

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 \$149,654 and \$131,516, respectively, for the years ended December 31, 2020 and 2019. 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 Holiday Hill Community Winds, LLC. The agreement provides for an estimated annual production of 3,188 MWh at a fixed price ranging from \$60/MWh to \$66.90/MWh purchased over the term of the contract from January 2020 to December 2045.

The Department has an electric supply agreement with Nextera Energy Marketing, LLC. The agreement provides for an estimated annual production of 17,520 MWh at a fixed price at \$43.05/MWh purchased over the term of the contract from January 2025 to December 2034.

The Department has an electric supply agreement with FirstLight Power Management, LLC. The agreement provides for an estimated annual production of 4,216 MWh at a fixed price ranging from \$38.08/MWh to \$49.31/MWh purchased over the term of the contract from January 2022 to December 2030.

The Department has a gas supply agreement with Direct Energy Business Marketing, LLC. The agreement provides for a fixed gas price ranging from \$2.39/MMBtu to \$10.69/MMBtu for 5,211 to 7,000 MMBtu purchased per day from November 2017 through March 2024.

The Department has a solar energy supply agreement with Twiss Street Solar LLC. The agreement provides for an estimated total of 44,422,947 kWh at a fixed price ranging from \$0.075/kWh to \$0.0995/kWh purchased over the term of the contract from February 2016 through January 2036.

The Department has a solar energy supply agreement with CED Westfield Solar. The agreement provides for an estimated total of 62,845,896 kWh at a fixed price ranging from \$0.06/kWh to \$0.06915/kWh purchased over the term of the contract from September 2016 through August 2036.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

15. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Commitments (continued)

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.

The Department has an electric supply agreement with Granite Reliable Power LLC. The agreement provides for an estimated annual production of 4,700 MWh at a fixed price ranging from \$66.00/MWh to \$96.15/MWh purchased over the term of the contract from January 2018 through December 2037.

The Department has an electric supply agreement with Sunfarm Westfield LLC. The agreement provides for an estimated annual production of 2,885,000 kWh to 3,173,000 kWh at a fixed price ranging from \$0.055/kWh to \$0.06646/kWh purchased over the term of the contract from a commercial operation date of no later than June 2018 through June 2038.

The Department has an electric supply agreement with Firstlight Power Resources Management, LLC. The agreement provides for an estimated annual production of 2,515 MWh to 3,773 MWh at a fixed price ranging from \$25.46/MWh to \$102.01/MWh purchased over the term of the contract from January 2019 through December 2023.

The Department has an electric supply agreement with GSPP Terawatt. The agreement provides for an estimated annual production of 6,105,370 kWh to 5,550,399 kWh at a fixed price ranging from \$0.045/kWh to \$0.05697/kWh purchased over the term of the contract from February 2019 to February 2039.

During the general course of business, the Department enters into long term contracts with energy suppliers who are in the early stages of developing a facility to generate electricity. These agreements commit the Department to purchasing set amounts of energy at predetermined prices. However, the commitment arising from these contracts only exists when and if the energy producing facilities are completed and begin transmitting energy. No commitment exists for the Department if a project is not completed.

In September 2020 the Municipal Light Board established a program to assist its ratepayers impacted by the current economic conditions brought on by the COVID-19 pandemic. This program provides relief to residential, small commercial (including non-profit) gas, electric and whip city fiber ratepayers, including but not limited to the forgiveness of up to three months billings not to exceed \$500,000 in total for the program. As of December 31, 2020, 948 customers received a bill credit totaling approximately \$311,000. Subsequent to year end all funds were expended.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

15. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

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 2020 and 2019. The amount of expense incurred for workers compensation for the years ended December 31, 2020 and 2019 was \$233,107 and \$265,003, respectively.

		<u>2020</u>		<u>2019</u>
Unpaid claims, beginning of year	\$	51,143	\$	24,359
Incurred claims (including IBNR's)		313,431		83,608
Claim payments		(181,974)		(56,824)
Unpaid claims, end of year	\$	<u>182,600</u>	\$	<u>51,143</u>

Connect America Fund

The Department is one of one hundred and three providers in the United States to receive a portion of \$1.488 billion in Connect America Fund II ("CAF II") money from the Federal Communications Commission which is intended to support expansion of broadband internet availability in rural areas which are currently considered unserved communities. The Department's portion of this funding is for \$10,325,401 and is planned to reach 20 communities and over 12,400 households. The Department received their first payment of this funding for approximately \$85,000 on February 27, 2020 and has continued to receive an additional \$85,000 each month thereafter. This money will be received over 10 years and each payment is to be transferred directly into an escrow account with a third-party financial institution and is not available for use to the Department. The Department serves as a pass through "trustee" and will hold this money until the recipient communities have met all the necessary requirements in order for the funding to be released and used as designated.

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, 2020 and 2019. The Department has had no amount of settlements exceeding insurance coverage for each of the past three years.

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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

15. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

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 \$10,918,000 for 2021. As of December 31, 2020, approximately \$10,697 has been committed. The Department anticipates funding these expenditures through operations or 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.

Coronavirus

The COVID-19 outbreak in the United States has caused significant business disruption. In response to this outbreak the Department received an order from the Massachusetts Department of Public Utilities (the "DPU") stating that, until the state of emergency related to the Coronavirus is lifted, or the Department receives further communication from the DPU, the Department shall not shut off utility service to any customer for failure to pay. While the disruption caused by this outbreak is expected to be temporary, there is considerable uncertainty surrounding the duration, timing, and overall impact of this situation. Management is currently working to assess the overall impact on the Department's business operations. Any related financial impact to the Department cannot be reasonably estimated at this time.

16. 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, 2020 AND 2019**

16. OPERATING LEASES: (CONTINUED)

Future minimum commitments due are as follows at December 31:

2021	\$	22,628
2022		23,759
2023		24,947
2024		26,195
2025		27,504
2026 – 2030		159,577
2031 – 2035		202,599
2036 – 2040		235,631
2041 – 2045		266,595
2046 – 2050		301,628
2051 – 2055		341,265
2056 – 2057		148,749
	\$	<u>1,781,077</u>

Cooperative lease expense was \$21,550 and \$20,524 for the years ended December 31, 2020 and 2019, respectively.

The Department leases various office and transportation equipment under non-cancelable operating leases with monthly payments ranging from \$165 to \$2,781 due through June 2025. Rent expense totaled approximately \$98,293 and \$73,419, respectively, for the years ended December 31, 2020 and 2019. The following is a schedule of future minimum lease payments required under operating lease at December 31:

2021	\$	85,281
2022		69,131
2023		64,123
2024		38,916
2025		8,334
Total	\$	<u>265,785</u>

17. 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 30% of the work force and expires February 28, 2023. The other contract with I.B.E.W. covers the remaining 70% of the work force and expires March 31, 2022.

18. SUBSEQUENT EVENTS:

In January 2021, the Department sold 3.75 acres of property to an unrelated party for the amount of \$400,000.

Management has evaluated subsequent events through September 8, 2021, the date on which the consolidated financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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, 2020 AND 2019**

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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Department's share of the net pension liability	17.57%	16.92%	15.97%	15.29%	14.79%	15.33%
Department's proportionate share of the net pension liability	\$ 12,465,533	\$ 14,013,171	\$ 15,755,873	\$ 10,882,173	\$ 11,761,813	\$ 12,128,814
Department's share of covered payroll**	\$ 7,699,701	\$ 7,153,776	\$ 6,507,454	\$ 6,232,694	\$ 5,598,990	\$ 5,850,103
Net pension liability percentage of covered payroll	161.9%	195.8%	242.1%	174.6%	210.1%	207.3%
Plan fiduciary net position as a percentage of the total pension liability	80.1%	75.6%	69.1%	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.

(Continued)

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
PENSION PLAN SCHEDULES (Continued)
WESTFIELD CONTRIBUTORY RETIREMENT SYSTEM
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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:

	2020	2019	2018	2017	2016	2015
Actuarially determined contribution *	\$ 1,911,819	\$ 1,737,838	\$ 1,670,042	\$ 1,511,712	\$ 1,392,236	\$ 1,374,643
Less: Contributions in relation to the actuarially determined contribution	<u>1,911,819</u>	<u>1,737,838</u>	<u>1,670,042</u>	<u>1,511,712</u>	<u>1,392,236</u>	<u>1,374,643</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Department's share of covered payroll**	\$ 7,699,701	\$ 7,153,776	\$ 6,507,454	\$ 6,232,694	\$ 5,598,990	\$ 5,850,103
Contributions percentage of covered payroll	24.8%	24.3%	25.7%	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
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

OPEB liability:

	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Total OPEB liability	\$ 14,643,346	\$ 13,806,561	\$ 12,360,233	\$ 11,818,418
Less: Plan fiduciary net position	4,630,643	3,731,561	2,710,442	2,218,980
Department's net OPEB liability	<u>\$ 10,012,703</u>	<u>\$ 10,075,000</u>	<u>\$ 9,649,791</u>	<u>\$ 9,599,438</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 31.6%	 27.0%	 21.9%	 18.8%
 Department's share of covered payroll	 \$ 7,910,353	 \$ 7,679,954	 \$ 8,110,383	 \$ 7,874,158
 Participating employer net OPEB liability as a percentage of covered payroll	 126.6%	 131.2%	 119.0%	 121.9%

Actuarial assumptions and methods:

Valuation dates	January 1, 2019 for the measurement date December 31, 2020 January 1, 2019 for the measurement date December 31, 2019 January 1, 2017 for the measurement date December 31, 2018 December 31, 2016 for the measurement date December 31, 2017
Actuarial cost method	Individual Entry Age Normal
Discount rate	5.25% annually, net of investment expenses (2020) 5.50% annually, net of investment expenses (2019) 6.25% annually, net of investment expenses (2018 & 2017)
Participant salary increases	3.00% annually
Healthcare cost trend rates	Current rate of 4.50% (2020 & 2019) Current rate of 5.00% (2018 & 2017)
Mortality rates (2020)	Pre-retirement: RP-2014 Mortality Table, for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females. Post-retirement: RP-2014 Mortality Table, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females. Disabled: RP-2014 Mortality Table, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females.
Mortality rates (2019)	Pre-retirement: RP-2014 Mortality Table, sex-distinct, for Blue Collar Employees projected generationally with scale MP-2016. Post-retirement: RP-2014 Mortality Table, sex-distinct, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016. Disabled: RP-2014 Mortality Table, sex-distinct, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016, set forward 1 year.
Mortality rates (2018 & 2017)	Pre-retirement: RP-2000 Mortality Tables, sex-distinct, for Employees projected generationally with scale BB and a base year 2009. Post-retirement: RP-2000 Mortality Tables, sex-distinct, for Healthy Annuitants projected generationally with scale BB and a base year 2009. Disabled: RP-2000 Mortality Tables, sex-distinct, for Healthy Annuitants projected generationally with scale BB and a base year 2012.

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 the information is available.



MeyersBrothersKalicka , P.C.

CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS STRATEGISTS

INDEPENDENT AUDITORS' 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 General 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, 2020, 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, 2020 and the related fiduciary fund statement of changes in fiduciary net position for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated September 8, 2021.

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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Maquet Brothers Kalicka, P.C.

Holyoke, Massachusetts
September 8, 2021