

CITY OF WESTFIELD
GAS AND ELECTRIC LIGHT DEPARTMENT
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013 AND 2012

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

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INDEPENDENT AUDITORS' REPORT

To the Commissioners and Manager of the
City of Westfield Gas and Electric Light Department

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the City of Westfield Gas and Electric Light Department (the "Department") and the Southwest Cooperative (the "Cooperative"), which comprise the consolidated statements of net position as of December 31, 2013 and 2012, and the related consolidated statements of revenues, expenses and changes in net position and cash flows 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 controls. 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 respective financial position of the Department and the Cooperative as of December 31, 2013 and 2012, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of net position and consolidating statements of revenues, expenses, and changes in net position are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounts and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Matters

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

Emphasis of a Matter

As discussed in Note 1, the consolidated financial statements present only the Department and the Cooperative, and do not purport to, and do not, present fairly the financial position of the City of Westfield, Massachusetts, as of December 31, 2013 and 2012, and the consolidated changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 28, 2014 on our consideration of the Department and the Cooperative's internal controls over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 controls over financial reporting and compliance.

Maureen Beecher Kalicka, P.C.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

CONSOLIDATED STATEMENTS OF NET POSITION

DECEMBER 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current assets		
Cash	\$ 7,995,280	\$ 6,001,634
Accounts receivable, less reserve of \$668,000 in 2013 and \$698,127 in 2012	4,827,379	4,288,229
Inventory - materials and supplies	2,020,809	1,995,878
Prepaid expenses	<u>119,441</u>	<u>66,149</u>
Total current assets	<u>14,962,909</u>	<u>12,351,890</u>
Restricted and designated assets		
Cash in escrow	681,385	696,011
MMWEC Reserve Trust	23,368,735	23,348,093
Cash for rate stabilization	4,487,485	3,659,314
Cash for BAN/bonds	85,506	1,161,515
Deferred charges	<u>2,826,897</u>	<u>2,812,831</u>
Total restricted and designated assets	<u>31,450,008</u>	<u>31,677,764</u>
Noncurrent assets		
Regulatory asset, net	744,906	782,151
Other investments	299,750	297,963
Deferred charges	52,540	162,972
Deferred debt service costs	<u>30,446</u>	<u>32,380</u>
Total noncurrent assets	<u>1,127,642</u>	<u>1,275,466</u>
Plant investment		
Land	1,008,891	1,008,891
Electric	70,763,602	67,836,274
Gas	<u>54,367,804</u>	<u>52,298,456</u>
	126,140,297	121,143,621
Less: accumulated depreciation	<u>(49,673,744)</u>	<u>(47,067,352)</u>
Total plant investment, net	<u>76,466,553</u>	<u>74,076,269</u>
Total assets	<u>\$ 124,007,112</u>	<u>\$ 119,381,389</u>

LIABILITIES, DEFERRED INFLOWS AND RESOURCES AND NET POSITION

	<u>2013</u>	<u>2012</u>
Current liabilities		
Accounts payable	\$ 6,424,474	\$ 5,663,316
Accrued expenses	430,987	251,688
Payable to municipality	202,959	221,226
BAN payable	-	4,700,000
Current portion of general obligation bonds	626,163	806,294
Current portion of accrued compensated absences	315,742	317,579
Total current liabilities	<u>8,000,325</u>	<u>11,960,103</u>
Noncurrent liabilities		
General obligation bonds	11,368,257	6,244,419
Accrued compensated absences	2,615,112	2,565,428
Other post-employment benefits	6,690,395	-
Total noncurrent liabilities	<u>20,673,764</u>	<u>8,809,847</u>
 Total liabilities	 <u>28,674,089</u>	 <u>20,769,950</u>
Deferred inflows of resources		
Reserve for rate stabilization	35,706,971	35,248,539
Reserve for energy conservation	640,934	734,514
Total deferred inflows of resources	<u>36,347,905</u>	<u>35,983,053</u>
Net position		
Net investments in capital assets	64,502,579	62,357,936
Restricted		
Escrow	681,385	696,011
BAN/bonds	85,506	1,161,515
Unrestricted	<u>(6,284,352)</u>	<u>(1,587,076)</u>
Total net position	<u>58,985,118</u>	<u>62,628,386</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 124,007,112</u>	 <u>\$ 119,381,389</u>

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Residential	\$ 25,728,273	\$ 22,703,666
Commercial	19,515,173	17,186,609
Industrial	18,681,627	18,579,757
Municipal	3,255,695	2,795,584
Off-street lighting	146,841	133,673
Sales for resale	-	703,989
Rate stabilization fund transfers	(458,432)	(2,333,633)
Service income and finance charges	<u>54,393</u>	<u>78,983</u>
Total operating revenues	<u>66,923,570</u>	<u>59,848,628</u>
Operating expenses		
Purchased power and gas	44,339,377	37,168,140
Distribution expenses	3,186,429	3,329,316
Maintenance	3,019,996	3,870,353
General and administrative	7,071,854	6,729,010
Pension and benefits	2,415,279	2,356,440
Environmental response expense	206,618	187,968
Depreciation and amortization	<u>3,628,417</u>	<u>3,318,524</u>
Total operating expenses	<u>63,867,970</u>	<u>56,959,751</u>
Operating income	<u>3,055,600</u>	<u>2,888,877</u>
Non-operating revenues (expenses)		
Miscellaneous income	756,510	825,845
Investment (loss) income	(21,866)	78,018
Interest expense	<u>(381,838)</u>	<u>(383,661)</u>
Total non-operating revenue, net	<u>352,806</u>	<u>520,202</u>
Income before transfers and contributions	3,408,406	3,409,079
Transfers out - in lieu of tax payments to City	(408,571)	(444,443)
Transfer of other post-employment benefit obligations from the City	(6,690,395)	-
Contributions in aid of construction	<u>47,292</u>	<u>238,653</u>
Change in net position	(3,643,268)	3,203,289
Net position, beginning of year	<u>62,628,386</u>	<u>59,425,097</u>
Net position, end of year	<u>\$ 58,985,118</u>	<u>\$ 62,628,386</u>

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Cash received for services	\$ 66,384,420	\$ 63,411,009
Cash paid to power suppliers	(43,119,787)	(37,333,539)
Cash paid to employees for services	(9,135,711)	(9,372,515)
Cash paid for other operations	<u>(6,596,756)</u>	<u>(7,556,046)</u>
Net cash provided by operating activities	<u>7,532,166</u>	<u>9,148,909</u>
Cash flows from capital financing activities		
Cash received for borrowings on BAN payable incurred for capital purposes	-	4,700,000
Cash received for borrowings on general obligation bonds incurred for capital purposes	1,050,000	-
Cash received for contributions in aid of construction	47,292	238,653
Cash paid for capital expenditures	(5,981,456)	(10,527,720)
Cash paid for principal on general obligation bonds incurred for capital purposes	(806,293)	(817,126)
Cash paid for interest on general obligation bonds and BAN payable incurred for capital purposes	<u>(381,838)</u>	<u>(383,661)</u>
Net cash used by capital financing activities	<u>(6,072,295)</u>	<u>(6,789,854)</u>
Cash flows from non-capital financing activities		
Cash paid for in lieu of tax payments	(426,838)	(423,619)
Cash received from non-operating revenues	<u>756,510</u>	<u>825,845</u>
Net cash provided by non-capital financing activities	<u>329,672</u>	<u>402,226</u>
Cash flows from investing activities		
Cash received from investments	14,701	19,618
Cash paid for purchases of investments	(110,454)	(2,689,097)
Cash received from investment earnings	<u>59,386</u>	<u>102,703</u>
Net cash used by investing activities	<u>(36,367)</u>	<u>(2,566,776)</u>
Net increase in cash	1,753,176	194,505
Cash, beginning of year	<u>12,788,320</u>	<u>12,593,815</u>
Cash, end of year	<u>\$ 14,541,496</u>	<u>\$ 12,788,320</u>
Cash included in:		
Unrestricted cash	\$ 7,995,280	\$ 6,001,634
Restricted and designated cash	6,546,216	6,786,686
Cash, end of the year	<u>\$ 14,541,496</u>	<u>\$ 12,788,320</u>

(Continued)

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued) FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Operating income	\$ 3,055,600	\$ 2,888,877
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,628,417	3,318,524
Allowance for uncollectible accounts	(30,127)	(57,609)
Net changes in operating assets and liabilities:		
Accounts receivable	(509,023)	1,286,357
Inventory	(24,931)	(238,120)
Prepaid expenses	(53,292)	62,396
Deferred charges and debt service costs	112,366	(68,830)
Accounts payable	761,158	(165,399)
Accrued expenses	179,299	108,611
Accrued environmental response	-	(56,000)
Accrued compensated absences	47,847	(129,135)
Reserve for energy conservation	(93,580)	(134,396)
Reserve for rate stabilization	<u>458,432</u>	<u>2,333,633</u>
Net cash provided by operating activities	<u>\$ 7,532,166</u>	<u>\$ 9,148,909</u>

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

1. REPORTING ENTITY:

The City of Westfield Gas and Electric Light Department (the "Department") provides electric and gas services to its customers. 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 transactions. The Department grants credit to its customers, substantially all of whom are local residents, and commercial and industrial businesses. Approximately 72% and 75% of the Department's revenues were derived from its electric division during 2013 and 2012, 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. Normal operations for the Cooperative commenced on May 1, 2009. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Recent accounting changes

In June 2011, Governmental Accounting Standards Board ("GASB") issued SGAS No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" ("GASB No. 63"). GASB No. 63 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). GASB 63 provides guidance on reporting deferred inflows and outflows of resources and their effect on net position. The statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities, and to reflect the residual measure in the statement of financial position as net position, rather than net assets. This statement was effective for 2012. The impact of adopting the new statement was limited to account name changes on the financial statements.

In March 2012, GASB issued SGAS No. 65, "*Items Previously Reported as Assets and Liabilities*" ("GASB No. 65"). GASB No. 65 establishes accounting and financial reporting standards that reclassify certain items previously reported as assets and liabilities as deferred outflows or deferred inflows of resources. This statement also limits the use of the term deferred in financial statement presentations.

In June 2012, GASB issued SGAS No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*" ("GASB No. 68"). The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources, and expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions are also addressed. This statement is effective for 2015. 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, 2013 AND 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Recent accounting changes (continued)

In November 2013, GASB issued SGAS No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*" ("GASB No. 71"). GASB No. 71 addresses an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by an employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of its beginning net pension liability. GASB No. 71 amends paragraph 137 of GASB No. 68 to require that, at transition, a beginning deferred outflow of resources for its pension contributions is recognized, if any, made subsequent to the measurement date of the beginning net pension liability. This statement is effective for the Department in 2015, to be applied simultaneously with the provisions of GASB No. 68. The Department is currently assessing the financial statement impact of adopting this statement.

Measurement focus and basis of accounting

The Department's accounting records are maintained in accordance with Generally Accepted Accounting Principles ("GAAP") for proprietary funds as prescribed by 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, 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, electric rates of the Department are set by the Municipal Light Board and may be changed not more than once every three months. Rate schedules are filed with the DPU. While the DPU exercises general supervisory authority over the Department, the rates are not subject to DPU approval. Rates must be set such that net earnings from operations do not exceed 8% of the cost of the utility plant.

Revenues and expenses

Utility revenues are based on authorized rates applied to each customer's use of energy. Rate changes are approved by the Department's Commissioners 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. In 2013, discounts were offered to commercial and industrial customers up to five percent based on payment method and services purchased. Discounts for the years ended December 31, 2013 and 2012 were \$820,874 and \$899,110, respectively. These discounts are recorded against revenues.

The Department distinguishes operating from non-operating items. 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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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 valuation allowance 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 and 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 valuation allowance and a credit to accounts receivable. No interest is charged on residential accounts. The Department obtains security interests as it deems appropriate.

Inventory – materials and supplies

Inventory is valued at the lower of cost (weighted average method) or market. Materials and supplies consist primarily of pipe, valves, utility poles, wire 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 Board actions limiting the use of such funds, are included as restricted assets. When the Department restricts funds for a specific purpose, and both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources where required, then unrestricted resources as they are needed.

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

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

Cash in escrow

As a requirement of the related ground lease (Note 13), the Cooperative entered into an escrow agreement with the Town of Southwick. The interest bearing escrow account is considered security for the Cooperative's lease payments and compliance with all of the terms, conditions, provisions, and obligations of the lease agreement. Interest earned on this account must remain in the account and be used to offset future lease payments.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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 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. Fair market value approximates the cost of investments.

Also, the Department has invested in Public Utility Mutual Insurance Company. The investment is carried at cost, which approximates fair value.

Deferred charges

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

Plant investment

The utility plant is stated at cost which includes material and labor. Maintenance and repairs are charged to operating expense as incurred, and significant renewals and betterments are capitalized. As assets are retired or otherwise disposed of, the Department and the Cooperative calculate or estimate the related cost and accumulated depreciation which are removed from the accounts. Any profit or loss on disposition is credited or charged to income in the year retired. The Department and the Cooperative evaluated the fair value of its assets and no adjustment for impairment was deemed necessary by management. The Department capitalizes fixed asset additions 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 2013 and 2012. Depreciation expense for the years ended December 31, 2013 and 2012 was \$3,591,172 and \$3,281,279, respectively.

Amortization

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

Construction in progress

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Compensated absences

The Department recognizes vacation and sick leave costs (including related employee benefits) as they are earned under the following plans. Management personnel are given from 23 personal days up to 48 personal days. Earned days not taken are accumulated indefinitely. Employees approaching retirement are entitled, under certain conditions, to be compensated at their daily rate then in effect, for up to 175 days of accumulated personal time. At retirement, all accumulated personal days in excess of 175 days will be compensated one day for each four days of accumulated personal days. Accrued sick pay as of December 31, 2013 and 2012 was \$2,596,154 and \$2,509,781, respectively.

Employees under the labor agreement are granted 18 days of sick leave, from one to six weeks of vacation and up to three personal days each year and 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 time off with pay of sick time for up to 140 days. 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 as of December 31, 2013 and 2012 was \$87,590 and \$83,383, respectively.

Accrued vacation and sick leave for retired employees as of December 31, 2013 and 2012 was \$247,110 and \$289,843, respectively. These amounts are paid over two years from date of retirement.

Net position

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

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

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

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

Contributions in aid of construction

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Presentation of sales taxes

The Commonwealth of Massachusetts imposes a sales tax of 6.25% as of December 31, 2013 and 2012 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.

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 purchased power and investment of assets.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no effect on the reported change in net position.

3. RESTRICTED AND DESIGNATED ASSETS:

Restricted and designated assets include accounts deposited with Massachusetts Municipal Wholesale Electric Company ("MMWEC"). These funds are segregated by management for specific outlays and contingencies. Fair value is based on quoted market prices at December 31st.

Balances at December 31, 2013, consists of the following:

	Cash and cash equivalents	Investments	Total
MMWEC Reserve Trust:			
Electric	\$ 67,876	\$ 21,112,325	\$ 21,180,201
Gas	19,112	2,169,422	2,188,534
	<u>86,988</u>	<u>23,281,747</u>	<u>23,368,735</u>
Deferred charges (held by MMWEC):			
Purchase power	1,204,852	1,479,857	2,684,709
Prepaid PASNY fund	-	142,188	142,188
	<u>1,204,852</u>	<u>1,622,045</u>	<u>2,826,897</u>
Segregated cash (held by City Treasurer):			
Escrow	681,385	-	681,385
Rate stabilization	4,487,485	-	4,487,485
BAN/bonds	85,506	-	85,506
	<u>5,254,376</u>	<u>-</u>	<u>5,254,376</u>
Total	<u>\$ 6,546,216</u>	<u>\$ 24,903,792</u>	<u>\$ 31,450,008</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

Investments included in restricted and designated assets at December 31, 2013 consist of:

	Cost	Fair value	Unrealized Loss at 12/31/2013
Cash and cash equivalents	\$ 3,344,818	\$ 3,344,818	\$ -
U.S. treasury securities	6,168,502	6,153,089	(15,413)
U.S. agency securities	13,450,972	13,410,607	(40,365)
Municipal bonds	2,007,458	1,995,278	(12,180)
Total	<u>\$ 24,971,750</u>	<u>\$ 24,903,792</u>	<u>\$ (67,958)</u>

Balances at December 31, 2012, consists of the following:

	Cash and cash equivalents	Investments	Total
MMWEC Reserve Trust:			
Electric	\$ 7,284	\$ 20,735,358	\$ 20,742,642
Gas	1,442	2,604,009	2,605,451
	<u>8,726</u>	<u>23,339,367</u>	<u>23,348,093</u>
Deferred charges (held by MMWEC):			
Purchase power	1,261,120	1,409,523	2,670,643
Prepaid PASNY fund	-	142,188	142,188
	<u>1,261,120</u>	<u>1,551,711</u>	<u>2,812,831</u>
Segregated cash (held by City Treasurer)			
Escrow	696,011	-	696,011
Rate stabilization	3,659,314	-	3,659,314
BAN/bonds	1,161,515	-	1,161,515
	<u>5,516,840</u>	<u>-</u>	<u>5,516,840</u>
Total	<u>\$ 6,786,686</u>	<u>\$ 24,891,078</u>	<u>\$ 31,677,764</u>

Investments included in restricted and designated assets at December 31, 2012 consist of:

	Cost	Fair value	Unrealized Gain at 12/31/2012
Cash and cash equivalents	\$ 3,525,557	\$ 3,525,557	\$ -
U.S. treasury securities	4,968,999	4,976,301	7,302
U.S. agency securities	14,955,146	14,962,935	7,789
Municipal bonds	1,411,594	1,426,285	14,691
Total	<u>\$ 24,861,296</u>	<u>\$ 24,891,078</u>	<u>\$ 29,782</u>

The Department's total return on its invested assets consisted of the following components reported on the statement of revenues, expenses and changes in net position:

	2013	2012
Interest income	\$ 75,874	\$ 102,703
Unrealized loss	(97,740)	(24,685)
Investment (loss) income for the year ended	<u>\$ (21,866)</u>	<u>\$ 78,018</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

At December 31, 2013 and 2012, the Department's bond investments were as follows:

	Fair value	Maturity			
		Less than 1 year	1 - 5 years	6 - 10 years	Over 10 years
December 31, 2013					
U.S. treasury securities	\$ 6,153,089	\$ 5,036,552	\$ 1,116,537	\$ -	\$ -
U.S. agency securities	13,410,607	226,820	12,343,024	840,763	-
Municipal bonds	1,995,278	612,915	1,382,363	-	-
	<u>\$ 21,558,974</u>	<u>\$ 5,876,287</u>	<u>\$ 14,841,924</u>	<u>\$ 840,763</u>	<u>\$ -</u>

	Fair value	Maturity			
		Less than 1 year	1 - 5 years	6 - 10 years	Over 10 years
December 31, 2012					
U.S. treasury securities	\$ 4,976,301	\$ 4,976,301	\$ -	\$ -	\$ -
U.S. agency securities	14,962,935	-	14,962,935	-	-
Municipal bonds	1,426,285	1,426,285	-	-	-
	<u>\$ 21,365,521</u>	<u>\$ 6,402,586</u>	<u>\$ 14,962,935</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2013 and 2012, the Department's bond investments were rated as follows:

	2013		2012	
	Standard & Poor's	Moody's Investment	Standard & Poor's	Moody's Investment
U.S. treasury securities	AA+	AAA	AA+	AAA
U.S. agency securities	AA+	AAA	AA+	AAA
Municipal bonds	AAA to AA-	AA2 to AA3	AAA to AA	AA2

The following risk policies are in accordance with those used by the City of Westfield:

Interest rate risk

The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

The Department has no policy on credit risk.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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 in either year:

	December 31,	
	2013	2012
U.S Agency Securities:		
Federal National Mortgage	39%	44%
Federal Agricultural Mortgage	8%	7%
Federal Farm Credit Bank	26%	15%
Federal Home Loan Bank	15%	19%
Federal Home Loan Mortgage	12%	15%

Custodial credit risk – cash

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned. The Department does not have a deposit policy for custodial credit risk. The Department maintains cash balances at various financial institutions located in Massachusetts. These balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At certain times during the year, the cash balances may exceed the insurance limit. Based on cash balances at December 31, 2013 as reflected in the consolidated financial statements, the uninsured balance could be as high as approximately \$13,197,000. The Department has not experienced any loss on such accounts and management monitors the credit worthiness of these financial institutions through the City of Westfield Treasurer's Office.

Custodial credit risk - investments

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Department's \$24,903,792 in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department, but not in the Department's name. The Department has no policy on custodial credit risk.

4. OTHER INVESTMENTS:

Other investments consist of the following at December 31:

	2013	2012
Hydro-Quebec Phase II	\$ 33,750	\$ 31,963
Public Utility Mutual Insurance Company	266,000	266,000
	<u>\$ 299,750</u>	<u>\$ 297,963</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

4. OTHER INVESTMENTS: (CONTINUED)

The Department joined with other utilities on committing to equity sponsorship of a project known as Hydro-Quebec Phase II that consists of two companies operating certain electric transmission facilities in New Hampshire and Massachusetts. The Department owns .2554% of the Companies' outstanding common stock. The Department received dividend distributions of \$4,001 and \$5,041 in 2013 and 2012, respectively. The Department's pro-rata share of income from the investment was \$16,488 for the year ended December 31, 2013 and was immaterial for the year ended December 31, 2012. In 2013 and 2012, Hydro-Quebec also repurchased shares from the Department generating proceeds of \$10,700 and \$14,577, respectively.

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

5. REGULATORY ASSET:

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. 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 the regulatory asset.

	<u>2013</u>	<u>2012</u>
Regulatory asset - cost	\$ 856,641	\$ 856,641
Less: accumulated amortization	111,735	74,490
	<u>\$ 744,906</u>	<u>\$ 782,151</u>

Amortization expense on the regulatory asset was \$37,245 for the year ended December 31, 2013 and 2012 and is estimated at the same amount for each of the next five years.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

6. PLANT INVESTMENT:

A summary of plant investment at December 31, 2013 is as follows:

	Balance December 31, 2012	Increases	Decreases	Balance December 31, 2013
<i>Plant investment not being depreciated:</i>				
Land	\$ 1,008,891	\$ -	\$ -	\$ 1,008,891
<i>Total plant investment not being depreciated</i>	<u>1,008,891</u>	<u>-</u>	<u>-</u>	<u>1,008,891</u>
<i>Plant investment being depreciated:</i>				
Plant investment	100,485,077	4,728,180	(344,542)	104,868,715
Office and computer equipment	5,985,212	227,590	-	6,212,802
Transportation equipment	3,676,527	80,419	-	3,756,946
Equipment	<u>9,987,914</u>	<u>955,029</u>	<u>(650,000)</u>	<u>10,292,943</u>
<i>Total plant investment being depreciated</i>	<u>120,134,730</u>	<u>5,991,218</u>	<u>(994,542)</u>	<u>125,131,406</u>
<i>Less accumulated depreciation for:</i>				
Plant investment	(34,876,475)	(2,636,605)	334,780	(37,178,300)
Office and computer equipment	(4,047,712)	(337,059)	-	(4,384,771)
Transportation equipment	(2,311,048)	(239,292)	-	(2,550,340)
Equipment	<u>(5,832,117)</u>	<u>(378,216)</u>	<u>650,000</u>	<u>(5,560,333)</u>
<i>Total accumulated depreciation</i>	<u>(47,067,352)</u>	<u>(3,591,172)</u>	<u>984,780</u>	<u>(49,673,744)</u>
<i>Total plant investment being depreciated, net</i>	<u>73,067,378</u>	<u>2,400,046</u>	<u>(9,762)</u>	<u>75,457,662</u>
Total plant investment, net	\$ <u>74,076,269</u>	\$ <u>2,400,046</u>	\$ <u>(9,762)</u>	\$ <u>76,466,553</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

6. PLANT INVESTMENT: (CONTINUED)

A summary of plant investment at December 31, 2012 is as follows:

	Balance December 31, 2011	Increases	Decreases	Balance December 31, 2012
<i>Plant investment not being depreciated:</i>				
Land	\$ 1,008,891	\$ -	\$ -	\$ 1,008,891
Construction in process	445,014	-	(445,014)	-
<i>Total plant investment not being depreciated</i>	<u>1,453,905</u>	<u>-</u>	<u>(445,014)</u>	<u>1,008,891</u>
<i>Plant investment being depreciated:</i>				
Plant investment	91,224,946	14,649,451	(5,389,320)	100,485,077
Office and computer equipment	5,345,911	639,301	-	5,985,212
Transportation equipment	3,649,864	152,188	(125,525)	3,676,527
Equipment	9,584,201	444,227	(40,514)	9,987,914
<i>Total plant investment being depreciated</i>	<u>109,804,922</u>	<u>15,885,167</u>	<u>(5,555,359)</u>	<u>120,134,730</u>
<i>Less accumulated depreciation for:</i>				
Plant investment	(32,498,285)	(2,450,580)	72,390	(34,876,475)
Office and computer equipment	(3,792,768)	(254,944)	-	(4,047,712)
Transportation equipment	(2,210,026)	(226,547)	125,525	(2,311,048)
Equipment	(5,482,906)	(349,211)	-	(5,832,117)
<i>Total accumulated depreciation</i>	<u>(43,983,985)</u>	<u>(3,281,282)</u>	<u>197,915</u>	<u>(47,067,352)</u>
<i>Total plant investment being depreciated, net</i>	<u>65,820,937</u>	<u>12,603,885</u>	<u>(5,357,444)</u>	<u>73,067,378</u>
Total plant investment, net	\$ <u>67,274,842</u>	\$ <u>12,603,885</u>	\$ <u>(5,802,458)</u>	\$ <u>74,076,269</u>

7. LONG-TERM DEBT:

BAN payable

In April 2013, the Department received a BAN payable of \$1,050,000. It required monthly interest only payments at the annual rate of 1.5% at December 31, 2013. In April 2012, the Department received a BAN payable of \$4,700,000. It required monthly interest only payments at the annual rate of 1.5% and 1.25% at December 31, 2013 and 2012, respectively. In April 2014, total BAN's of \$5,750,000 were converted to a general obligation bond and, as a result, are included under the terms and conditions of the general obligation bonds payable at December 31, 2013.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

7. LONG-TERM DEBT:

General obligation bonds

The following bonds were issued by the Department through the City for the financing of plant investment.

Date of Issue	Maturity Dates	Interest Rate	Amount of Original Issue	Outstanding Balance	
				2013	2012
11/15/96	11/15/16	4.95%	\$ 1,000,000	\$ 150,000	\$ 200,000
04/15/03	04/15/13	3.01%	1,928,850	-	179,550
07/15/04	07/15/14	3.51%	1,000,000	100,000	200,000
02/01/06	02/01/25	4.21%	2,100,000	1,320,000	1,430,000
02/01/08	02/01/18	3.08%	520,155	249,420	301,163
04/01/08	04/01/18	4.34%	6,000,000	4,425,000	4,740,000
04/04/14	03/01/32	4.30%	5,750,000	5,750,000	-
				11,994,420	7,050,713
				(626,163)	(806,294)
Less current portion of bonds					
General obligation bonds, long-term portion				\$ 11,368,257	\$ 6,244,419

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

	Principal	Interest	Total
2014	\$ 626,163	\$ 374,839	\$ 1,001,002
2015	850,581	490,397	1,340,978
2016	845,000	458,421	1,303,421
2017	794,419	424,571	1,218,990
2018	783,257	391,759	1,175,016
2019 – 2023	3,655,000	1,434,527	5,089,527
2024 – 2028	3,200,000	579,146	3,779,146
2029 – 2032	1,240,000	99,200	1,339,200
Total	\$ 11,994,420	\$ 4,252,860	\$ 16,247,280

8. NONCURRENT LIABILITIES:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
December 31, 2013					
Accrued compensated absences	\$ 2,883,007	\$ 558,279	\$ (510,432)	\$ 2,930,854	\$ 315,742
Other post-employment benefit obligation	-	6,690,395	-	6,690,395	-
BAN *	4,700,000	-	(4,700,000)	-	-
General obligation bonds	7,050,713	5,750,000	(806,293)	11,994,420	626,163
Total	\$ 14,633,720	\$ 12,998,674	\$ (6,016,725)	\$ 21,615,669	\$ 941,905

* Balance converted to general obligation bonds.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

8. NONCURRENT LIABILITIES: (CONTINUED)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
December 31, 2012					
Accrued compensated absences	\$ 3,012,142	\$ 835,615	\$ (964,750)	\$ 2,883,007	\$ 317,579
BAN	-	4,700,000	-	4,700,000	4,700,000
General obligation bonds	7,867,839	5,750,000	(6,567,126)	7,050,713	806,294
	<u>\$ 10,879,981</u>	<u>\$ 11,285,615</u>	<u>\$ (7,531,876)</u>	<u>\$ 14,633,720</u>	<u>\$ 5,823,873</u>

9. RETIREMENT PLANS:

Contributory retirement

Employees of the Department participate in the City of Westfield Contributory Retirement System as established under Chapter 32 of the General Laws of the Commonwealth of Massachusetts. Participants contribute 5% to 11% of compensation annually depending on their date of employment. This is a cost-sharing multiple employer public employee retirement system ("PERS"), which is a component of the City.

The plan provides pension benefits, deferred allowances and death and disability benefits. A member may retire after reaching age 55 with 10 years of credited service, or with no age requirement after 20 years of service. Members become vested after ten full years of credited service.

Benefit payments are based on the following factors: age, length of creditable service, level of compensation, and group classification. Age at retirement and group classification determine a benefit rate. This rate, multiplied by the length of creditable service, is multiplied by the average of the three highest (consecutive) years' compensation. Percentages are specified in Chapter 32 of the Massachusetts General Laws. Participants may elect to receive their retirement in one of three forms of payment, which are a life annuity; modified cash refund annuity or a joint and survivor annuity. The amount determined by the benefit formula cannot exceed 80% of the participant's average salary as described above.

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

The amount of pension expense charged to operations for the years ended December 31, 2013, 2012, and 2011 was \$1,217,998, \$1,152,625 and \$1,063,903, respectively

The plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by contacting:

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

9. RETIREMENT PLANS: (CONTINUED)

Other post-employment benefit obligation ("OPEB")

During 2013, the Department adopted the provisions of GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions" following a mayoral decision to shift this liability to the appropriate City department based on where the participants are or were employed for the City's fiscal year end June 30, 2013. The major change under GASB 45 is to attribute the cost of post-employment benefits to the time during which the employee is working for the employer.

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

The number of participants as of January 1, 2012, the effective date of the OPEB valuation, follows:

Active members	78
Retirees	67
Total	<u>145</u>

Funding Policy: The contribution requirements of plan members and the Department are established and may be amended through City policy and member contracts. The required contribution is based on the projected pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation ("NOO"): The Department's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Department's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Department's net OPEB obligation to the plan:

Year Ended December 31,	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a)+(b)+(c) (d)	Annual Contribution Amount (e)	Net Increase in NOO (d) - (e) (f)	NOO as of Year End (g)
2013	\$ 1,657,382	\$ 222,539	\$ (242,401)	\$ 1,637,520	\$ 510,590	\$ 1,126,930	\$ 6,690,395

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

9. RETIREMENT PLANS: (CONTINUED)

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

Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
2013	\$	1,637,520	31.18%	\$	6,690,395

Funded Status and Funding Progress: Actuarial valuations of an ongoing plan involve estimates of the value reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress below presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Required Supplementary Information

Actuarial Valuation Date	Actuarial Accrued Liability	Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll	Interest Rate
1/1/2012	\$19,800,938	-	\$19,800,938	0%	\$6,961,000	284%	4.00%

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effects of legal or contractual funding limitation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

In the January 1, 2012 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return and an annual medical cost trend rate of 9%, reduced by decrements to an ultimate rate of 5% after 7 years. The unfunded actuarial accrued liability ("UAAL") is being amortized over a closed 26 year amortization with payments increasing at 3.25% per year. Differences between the expected and actual UAAL in future years will be amortized over 30 years.

Plan information

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

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

10. RESERVE FOR RATE STABILIZATION:

The Commissioners, 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). The Commissioners authorize rate stabilization fund transfers on an event driven basis.

During 2013 and 2012, the Department used \$1,820,164 and \$1,124,233, respectively to offset the cost of power. The Department increased the reserve by \$2,278,596 and \$3,457,866 during 2013 and 2012, respectively. The balance remaining to offset future costs is \$35,706,971 at December 31, 2013.

11. RELATED PARTY TRANSACTIONS:

The Department provides electric sales and service to the City. Total electric sales were \$2,084,198 and \$1,959,297 for the years ended December 31, 2013 and 2012, respectively. Amounts due from the City for electric sales and service totaled \$173,280 and \$166,880 at December 31, 2013 and 2012, respectively.

In lieu of tax payments required by the City for their fiscal years ended June 30, 2013 and 2012 were \$ 405,919 and \$442,444, 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 \$202,959 and \$221,226 for the years ended December 31, 2013 and 2012, respectively. The Cooperative paid \$2,652 and \$1,999 for taxes as of December 31, 2013 and 2012, respectively.

On behalf of the Cooperative, Massachusetts Municipal Wholesale Electric Company (MMWEC) records and accounts for bills received and paid. The Cooperative has an Agency Contract with MMWEC in which MMWEC is to serve as the Cooperative's agent in all matters with respect to financing the construction of the transmission facilities and pipelines and the performance of the Cooperative's administrative obligations under the Transportation Contract. During the years ended December 31, 2013 and 2012, the Cooperative incurred charges related to accounting and administrative expense of \$15,076 and \$9,437, respectively. As of December 31, 2013 and 2012, the Cooperative had balances due to MMWEC of \$1,297 and \$3,006, respectively.

12. COMMITMENTS AND CONTINGENCIES:

Commitments

The Department purchases power through agreements with various public and investor owned utilities. At December 31, 2013, 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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

12. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Commitments (continued)

At December 31, 2013, the Department was obligated under power purchase and transmission agreements with Northeast Utilities and MMWEC, for participation rights in the capacity and net electrical output of various gas, fossil fuel and nuclear generation units. These contracts expire at various dates through 2045. The Department is obligated to pay its share of plant costs, including a return on equity investment, irrespective of the volume of power actually purchased. These costs are reflected in monthly capacity or demand charges. The total of these plant costs, including a return on equity investment, for 2013 based on contracts in effect at December 31, 2013, was \$28,921,845.

The Department is a participant in certain projects of 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 sells the capability of each of its Projects to its members and other utilities (Project Participants) under Power Sales Agreements. The Power Sales Agreements require each Project Participant to pay its share of MMWEC's costs related to the Project, which include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of debt service to be paid into a Reserve and Contingency Fund.

As of December 31, 2013, total capital expenditures for MMWEC related projects amounted to \$1,607,269,000 of which approximately \$111,395,000 represents the amount attributable to the Department. MMWEC's debt outstanding for the projects included Power Supply Project Revenue Bonds totaling \$225,280,000 of which \$18,012,000 is attributable to the Department, although such amount is not allocated to the Department. As of December 31, 2013, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$218,518,000, of which \$17,022,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of the Department's required payments to MMWEC under the Power Sales Agreements, exclusive of the Reserve and Contingency Fund billings is shown below:

		<u>Annual costs</u>
For years ended December 31, 2014	\$	5,697,000
2015		5,547,000
2016		3,788,000
2017		1,463,000
2018		526,000
2019		1,000
	\$	<u>17,022,000</u>

In addition, the Department is required to pay its share of the operation and maintenance costs of the Projects in which they participate. The Department's total payments including debt service under the agreements was \$14,702,000 for the year ended December 31, 2013.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

12. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Commitments (continued)

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 totaled \$123,869 for the year ended December 31, 2013. 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.

Effective November 1, 2011, the Westfield Gas and Electric Department has a gas supply agreement with Hess Corporation. The agreement which expires October 31, 2014, consists of a fixed gas price ranging from \$3.965/MMBtu to \$4.514/MMBtu for 300 to 1,500 MMBtu purchased per day from November 2011 to October 2012 and \$3.00/MMBtu to \$4.21/MMBtu for 300 to 4,000 MMBtu purchased per day from November 2012 to June 2014.

Effective August 21, 2008, the Westfield Gas and Electric Department has an electric supply agreement with Nextera Energy formerly FPL Energy. The agreement provides for a total of 140,256 MWH at a fixed price of \$48.65/MWH purchased over the term of the contract from January 2013 through December 2016.

Workers' compensation

The Department participates in the City's self insured workers' compensation program. The third party plan administrator estimated the Department's self insurance cost based upon claims reported. The total accrued liability for self insurance costs was \$32,351 for 2013 and 2012.

General liability

The City maintains a 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. The amount of expense incurred for workers compensation for the years ended December 31, 2013 and 2012 was \$252,440 and \$41,371, respectively.

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 year ended December 31, 2013. The Department has had no amount of settlements exceeding insurance coverage for each of the past three years.

	2013	2012
Unpaid claims, beginning of year	\$ 20,220	\$ 32,361
Incurred claims (including IBNR's)	272,944	17,915
Claim payments	(236,792)	(30,056)
Unpaid claims, end of year	\$ 56,372	\$ 20,220

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

12. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Sackett Street facility

The Department's Sackett Street facility has been owned and operated by the Department since 1899 and, until 1953, was the site of a coal gasification plant. On November 21, 1991, the Massachusetts Department of Environmental Protection (MDEP) notified the Department of a potential imminent hazard associated with the former coal gasification plant site. The MDEP mandated that further testing be performed to determine if hazardous materials were present. As a result of testing, MDEP concluded that hazardous materials are present and that an imminent hazard does exist. The Department has commenced assessment action and implementation of a contingency plan as required by Chapter 21E of the Massachusetts General Laws. During 2013 and 2012, the Department incurred costs of approximately \$206,000 and \$188,000, respectively, relating to this project.

Environmental matters

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

Litigation

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

Construction programs

The Department has budgeted construction expenditures of approximately \$4,923,500 for 2014. As of December 2013, approximately \$227,000 has been committed. The Department will internally segregate cash of approximately \$6,639,000 for these expenditures in 2014.

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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

13. OPERATING LEASES:

The Cooperative has a 50 year ground lease agreement with the Town of Southwick. The lease expires in 2058 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.

Future minimum commitments due are as follows at December 31:

2014	\$	16,081
2015		16,885
2016		17,729
2017		18,616
2018		19,547
2019-2059		1,823,152
	\$	<u>1,912,010</u>

Lease expense was \$15,315 and \$14,586 for the years ended December 31, 2013 and 2012, respectively.

The Department lease various office and transportation equipment under non-cancelable operating leases with payments due through May 2016. Rent expense totaled approximately \$72,000 and \$79,000 for the years ended December 31, 2013 and 2012, respectively.

The following is a schedule of future minimum lease payments required under operating lease at December 31:

2014	\$	64,827
2015		57,224
2016		15,297
Total	\$	<u>137,348</u>

14. 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 26% of the work force and expired on February 28, 2014, but remains in effect from year to year thereafter until a successor agreement is signed. The other contract with I.B.E.W. covers the remaining 74% of the work force and expires on March 31, 2016.

15. SUBSEQUENT EVENTS:

In April 2014, the BAN's payable of \$5,750,000 was converted into a general obligation bond (Note 7).

Management has evaluated subsequent events through May 28, 2014, the date on which the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

CONSOLIDATING STATEMENT OF NET POSITION
DECEMBER 31, 2013

	<i>ASSETS</i>			
	<u>WG&E</u>	<u>Cooperative</u>	<u>Eliminations</u>	<u>Total</u>
Current assets				
Cash	7,607,240	\$ 388,040	\$ -	\$ 7,995,280
Accounts receivable, less reserve of \$668,000	4,865,544	67,000	(105,165)	4,827,379
Inventory - materials and supplies	2,020,809	-	-	2,020,809
Prepaid expenses	61,085	58,356	-	119,441
Total current assets	<u>14,554,678</u>	<u>513,396</u>	<u>(105,165)</u>	<u>14,962,909</u>
Restricted and designated assets				
Cash in escrow	-	681,385	-	681,385
MMWEC Reserve Trust	23,368,735	-	-	23,368,735
Cash for rate stabilization	4,487,485	-	-	4,487,485
Cash for BAN/bonds	85,506	-	-	85,506
Deferred charges	2,826,897	-	-	2,826,897
Total restricted and designated assets	<u>30,768,623</u>	<u>681,385</u>	<u>-</u>	<u>31,450,008</u>
Noncurrent assets				
Regulatory asset, net	744,906	-	-	744,906
Other investments	299,750	-	-	299,750
Deferred charges	52,540	-	-	52,540
Deferred debt service costs	30,446	-	-	30,446
Note receivable - Southwest Cooperative	5,932,361	-	(5,932,361)	-
Total noncurrent assets	<u>7,060,003</u>	<u>-</u>	<u>(5,932,361)</u>	<u>1,127,642</u>
Plant investment				
Land	559,305	449,586	-	1,008,891
Electric	70,763,602	-	-	70,763,602
Gas	48,715,491	5,652,313	-	54,367,804
	120,038,398	6,101,899	-	126,140,297
Less: accumulated depreciation	(48,931,370)	(742,374)	-	(49,673,744)
Total plant investment, net	<u>71,107,028</u>	<u>5,359,525</u>	<u>-</u>	<u>76,466,553</u>
Total assets	<u>\$123,490,332</u>	<u>\$ 6,554,306</u>	<u>\$ (6,037,526)</u>	<u>\$124,007,112</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>WG&E</u>	<u>Cooperative</u>	<u>Eliminations</u>	<u>Total</u>
Current liabilities				
Accounts payable	\$ 6,489,596	\$ 22,503	\$ (87,625)	\$ 6,424,474
Accrued expenses	430,987	17,540	(17,540)	430,987
Payable to municipality	202,959	-	-	202,959
BAN payable		-	-	-
Current portion of general obligation bonds	626,163		-	626,163
Current portion of accrued compensated absences	<u>315,742</u>	<u>-</u>	<u>-</u>	<u>315,742</u>
Total current liabilities	<u>8,065,447</u>	<u>40,043</u>	<u>(105,165)</u>	<u>8,000,325</u>
Noncurrent liabilities				
General obligation bonds	11,368,257	-	-	11,368,257
Accrued compensated absences	2,615,112	-	-	2,615,112
Other post-employment benefit obligation	6,690,395	-	-	6,690,395
Note payable - Westfield Gas and Electric Light Department	<u>-</u>	<u>5,932,361</u>	<u>(5,932,361)</u>	<u>-</u>
Total noncurrent liabilities	<u>20,673,764</u>	<u>5,932,361</u>	<u>(5,932,361)</u>	<u>20,673,764</u>
Total liabilities	<u>28,739,211</u>	<u>5,972,404</u>	<u>(6,037,526)</u>	<u>28,674,089</u>
Deferred inflows of resources				
Reserve for rate stabilization	35,706,971	-	-	35,706,971
Reserve for energy conservation	<u>640,934</u>	<u>-</u>	<u>-</u>	<u>640,934</u>
Total deferred inflows of resources	<u>36,347,905</u>	<u>-</u>	<u>-</u>	<u>36,347,905</u>
Net position				
Net investment in capital assets	59,143,054	(572,836)	5,932,361	64,502,579
Restricted				
Escrow	-	681,385	-	681,385
BAN/bonds	85,506	-	-	85,506
Unrestricted	<u>(825,344)</u>	<u>473,353</u>	<u>(5,932,361)</u>	<u>(6,284,352)</u>
Total net position	<u>58,403,216</u>	<u>581,902</u>	<u>-</u>	<u>58,985,118</u>
Total liabilities, deferred inflows of resources and net position	<u>\$123,490,332</u>	<u>\$ 6,554,306</u>	<u>\$ (6,037,526)</u>	<u>\$124,007,112</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

CONSOLIDATING STATEMENT OF NET POSITION
DECEMBER 31, 2012

	<i>ASSETS</i>			
	<u>WG&E</u>	<u>Cooperative</u>	<u>Eliminations</u>	<u>Total</u>
Current assets				
Cash	\$ 5,354,481	\$ 647,153	\$ -	\$ 6,001,634
Accounts receivable, less reserve of \$698,127	4,377,363	46,361	(135,495)	4,288,229
Inventory - materials and supplies	1,995,878	-	-	1,995,878
Prepaid expenses	11,814	54,335	-	66,149
Total current assets	<u>11,739,536</u>	<u>747,849</u>	<u>(135,495)</u>	<u>12,351,890</u>
Restricted and designated assets				
Cash in escrow	-	696,011	-	696,011
MMWEC Reserve Trust	23,348,093	-	-	23,348,093
Cash for rate stabilization	3,659,314	-	-	3,659,314
Cash for BAN/bonds	1,161,515	-	-	1,161,515
Deferred charges	2,812,831	-	-	2,812,831
Total restricted and designated assets	<u>30,981,753</u>	<u>696,011</u>	<u>-</u>	<u>31,677,764</u>
Noncurrent assets				
Regulatory asset, net	782,151	-	-	782,151
Other investments	297,963	-	-	297,963
Deferred charges	162,972	-	-	162,972
Deferred debt service costs	32,380	-	-	32,380
Note receivable - Southwest Cooperative	6,371,796	-	(6,371,796)	-
Total noncurrent assets	<u>7,647,262</u>	<u>-</u>	<u>(6,371,796)</u>	<u>1,275,466</u>
Plant investment				
Land	559,305	449,586	-	1,008,891
Electric	67,836,274	-	-	67,836,274
Gas	46,646,143	5,652,313	-	52,298,456
	115,041,722	6,101,899	-	121,143,621
Less: accumulated depreciation	(46,481,678)	(585,674)	-	(47,067,352)
Total plant investment, net	<u>68,560,044</u>	<u>5,516,225</u>	<u>-</u>	<u>74,076,269</u>
Total assets	<u>\$ 118,928,595</u>	<u>\$ 6,960,085</u>	<u>\$ (6,507,291)</u>	<u>\$ 119,381,389</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>WG&E</u>	<u>Cooperative</u>	<u>Eliminations</u>	<u>Total</u>
Current liabilities				
Accounts payable	\$ 5,704,814	\$ 41,051	\$ (82,549)	\$ 5,663,316
Accrued expenses	251,688	52,946	(52,946)	251,688
Payable to municipality	221,226	-	-	221,226
BAN payable	4,700,000	-	-	4,700,000
Current portion of general obligation bonds	806,294	-	-	806,294
Current portion of accrued compensated absences	317,579	-	-	317,579
Total current liabilities	<u>12,001,601</u>	<u>93,997</u>	<u>(135,495)</u>	<u>11,960,103</u>
Noncurrent liabilities				
General obligation bonds	6,244,419	-	-	6,244,419
Accrued compensated absences	2,565,428	-	-	2,565,428
Note Payable - Westfield Gas and Electric Light Department	-	6,371,796	(6,371,796)	-
Total noncurrent liabilities	<u>8,809,847</u>	<u>6,371,796</u>	<u>(6,371,796)</u>	<u>8,809,847</u>
Total liabilities	<u>20,811,448</u>	<u>6,465,793</u>	<u>(6,507,291)</u>	<u>20,769,950</u>
Deferred inflows of resources				
Reserve for rate stabilization	35,248,539	-	-	35,248,539
Reserve for energy conservation	734,514	-	-	734,514
Total deferred inflows of resources	<u>35,983,053</u>	<u>-</u>	<u>-</u>	<u>35,983,053</u>
Net position				
Net investment in capital assets	56,841,711	(855,571)	6,371,796	62,357,936
Restricted				
Escrow	-	696,011	-	696,011
BAN/bonds	1,161,515	-	-	1,161,515
Unrestricted	<u>4,130,868</u>	<u>653,852</u>	<u>(6,371,796)</u>	<u>(1,587,076)</u>
Total net position	<u>62,134,094</u>	<u>494,292</u>	<u>-</u>	<u>62,628,386</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 118,928,595</u>	<u>\$ 6,960,085</u>	<u>\$ (6,507,291)</u>	<u>\$ 119,381,389</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013**

	WG&E				
	Gas	Electric	Cooperative	Eliminations	Total
Operating revenues					
Residential	\$ 8,210,817	\$ 17,517,456	\$ -	\$ -	\$ 25,728,273
Commercial	5,419,754	14,095,419	417,381	(417,381)	19,515,173
Industrial	4,253,053	14,428,574	-	-	18,681,627
Municipal	432,962	2,822,733	-	-	3,255,695
Off-street lighting	-	146,841	-	-	146,841
Rate stabilization fund transfers	629,128	(1,087,560)	-	-	(458,432)
Service income and finance charges	32,636	21,757	-	-	54,393
Total operating revenues	<u>18,978,350</u>	<u>47,945,220</u>	<u>417,381</u>	<u>(417,381)</u>	<u>66,923,570</u>
Operating expenses					
Purchase power and gas	12,213,521	32,543,237	-	(417,381)	44,339,377
Distribution expenses	1,222,214	1,964,215	-	-	3,186,429
Maintenance	871,721	2,148,275	-	-	3,019,996
General and administrative	1,536,957	5,420,256	135,266	(20,625)	7,071,854
Pension and benefits	657,958	1,757,321	-	-	2,415,279
Environmental response expense	206,618	-	-	-	206,618
Depreciation and amortization	1,436,629	2,035,088	156,700	-	3,628,417
Total operating expenses	<u>18,145,618</u>	<u>45,868,392</u>	<u>291,966</u>	<u>(438,006)</u>	<u>63,867,970</u>
Operating income	<u>832,732</u>	<u>2,076,828</u>	<u>125,415</u>	<u>20,625</u>	<u>3,055,600</u>
Non-operating revenues (expenses)					
Miscellaneous income	150,926	626,209	-	(20,625)	756,510
Investment (loss) income	11,142	2,145	763	(35,916)	(21,866)
Interest expense	(127,888)	(253,950)	(35,916)	35,916	(381,838)
Total non-operating revenue (expense), net	<u>34,180</u>	<u>374,404</u>	<u>(35,153)</u>	<u>(20,625)</u>	<u>352,806</u>
Income before transfers and contributions	<u>\$ 866,912</u>	<u>\$ 2,451,232</u>	<u>\$ 90,262</u>	<u>\$ -</u>	<u>3,408,406</u>
Transfers out - in lieu of tax payments					(408,571)
Transfers of other post-employment benefit obligations from the City					(6,690,395)
Contributions in aid of construction					<u>47,292</u>
Change in net position					(3,643,268)
Net position, beginning of year					<u>62,628,386</u>
Net position, end of year					<u>\$ 58,985,118</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012**

	WG&E				
	<u>Gas</u>	<u>Electric</u>	<u>Cooperative</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues					
Residential	\$ 6,693,297	\$ 16,010,369	\$ -	\$ -	\$ 22,703,666
Commercial	4,050,833	13,135,776	279,872	(279,872)	17,186,609
Industrial	4,033,988	14,545,769	-	-	18,579,757
Municipal	326,550	2,469,034	-	-	2,795,584
Off-street lighting	-	133,673	-	-	133,673
Sales for resale	-	703,989	-	-	703,989
Rate stabilization fund transfers	48,419	(2,382,052)	-	-	(2,333,633)
Service income and finance charges	45,220	33,763	-	-	78,983
Total operating revenues	<u>15,198,307</u>	<u>44,650,321</u>	<u>279,872</u>	<u>(279,872)</u>	<u>59,848,628</u>
Operating expenses					
Purchase power and gas	8,169,781	29,278,231	-	(279,872)	37,168,140
Distribution expenses	1,216,315	2,113,001	-	-	3,329,316
Maintenance	1,162,234	2,708,119	-	-	3,870,353
General and administrative	1,371,561	5,237,096	156,541	(36,188)	6,729,010
Pension and benefits	694,752	1,661,688	-	-	2,356,440
Environmental response expense	187,968	-	-	-	187,968
Depreciation and amortization	<u>1,271,023</u>	<u>1,890,801</u>	<u>156,700</u>	<u>-</u>	<u>3,318,524</u>
Total operating expenses	<u>14,073,634</u>	<u>42,888,936</u>	<u>313,241</u>	<u>(316,060)</u>	<u>56,959,751</u>
Operating income	<u>1,124,673</u>	<u>1,761,385</u>	<u>(33,369)</u>	<u>36,188</u>	<u>2,888,877</u>
Non-operating revenues (expenses)					
Miscellaneous income	129,973	732,060	-	(36,188)	825,845
Investment income	16,795	113,233	936	(52,946)	78,018
Interest expense	<u>(128,767)</u>	<u>(254,894)</u>	<u>(52,946)</u>	<u>52,946</u>	<u>(383,661)</u>
Total non-operating revenue (expense), net	<u>18,001</u>	<u>590,399</u>	<u>(52,010)</u>	<u>(36,188)</u>	<u>520,202</u>
Income before transfers and contributions	<u>\$ 1,142,674</u>	<u>\$ 2,351,784</u>	<u>\$ (85,379)</u>	<u>\$ -</u>	3,409,079
Transfers out - in lieu of tax payments					(444,443)
Contributions in aid of construction					<u>238,653</u>
Change in net position					3,203,289
Net position, beginning of year					<u>59,425,097</u>
Net position, end of year					<u>\$62,628,386</u>



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

To the Commissioners and Manager of the
City of Westfield Gas and Electric Light Department

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of the City of Westfield Gas and Electric Light Department (the "Department") and the Southwest Cooperative (the "Cooperative"), which comprise the consolidated statement of net position as of December 31, 2013, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 28, 2014.

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 controls 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 controls. Accordingly, we do not express an opinion on the effectiveness of the Department and the Cooperative's internal controls.

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

We noted certain matters that we reported to management of the Department in a separate letter dated May 28, 2014.

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 controls 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 controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Maquet Brothers Kalicka, P.C.

Holyoke, Massachusetts
May 28, 2014