

CITY OF WESTFIELD
GAS AND ELECTRIC LIGHT DEPARTMENT
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2014 AND 2013

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

TABLE OF CONTENTS

Independent Auditors' Report	1 - 2
Financial Statements:	
Proprietary Fund:	
Consolidated Statements of Net Position	3
Consolidated Statements of Revenues, Expenses, and Changes in Net Position	4
Consolidated Statements of Cash Flows	5 - 6
Fiduciary Fund:	
Statement of Fiduciary Net Position	7
Statement of Changes in Fiduciary Net Position	8
Notes to Consolidated Financial Statements	9 - 29
Supplementary Information:	
Consolidating Statements of Net Position	30 - 31
Consolidating Statements of Revenues, Expenses and Changes in Net Position	32 - 33
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	34 - 35



INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the City of Westfield Gas and Electric Light Department (the "Department") and the Southwest Cooperative (the "Cooperative"), which comprise the proprietary fund consolidated statements of net position as of December 31, 2014 and 2013, 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 statement of fiduciary net position as of December 31, 2014 and statement of changes in fiduciary net position for the year 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 proprietary and fiduciary fund 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, 2014 and 2013, 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, 2014 and 2013, 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 6, 2015 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 Beothell Kalicka, P.C.

Holyoke, Massachusetts
May 6, 2015

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**PROPRIETARY FUND
CONSOLIDATED STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

ASSETS

	<u>2014</u>	<u>2013</u>
Current assets		
Cash	\$ 11,589,682	\$ 7,995,280
Accounts receivable, less reserve of \$751,373 in 2014 and \$668,000 in 2013	4,422,049	4,827,379
Inventory - materials and supplies	2,187,009	2,020,809
Prepaid expenses	<u>59,364</u>	<u>119,441</u>
Total current assets	<u>18,258,104</u>	<u>14,962,909</u>
Restricted and designated assets		
Cash in escrow	665,978	681,385
Cash for rate stabilization	4,229,872	4,487,485
Cash for BAN/bonds	-	85,506
MMWEC Reserve Trust	24,290,609	23,368,735
Deferred charges	<u>2,839,854</u>	<u>2,826,897</u>
Total restricted and designated assets	<u>32,026,313</u>	<u>31,450,008</u>
Noncurrent assets		
Regulatory asset, net	707,661	744,906
Other investments	299,750	299,750
Deferred charges	126,941	52,540
Deferred debt service costs	<u>28,512</u>	<u>30,446</u>
Total noncurrent assets	<u>1,162,864</u>	<u>1,127,642</u>
Plant investment		
Land	1,008,891	1,008,891
Electric	72,094,901	70,763,602
Gas	<u>55,949,355</u>	<u>54,367,804</u>
	129,053,147	126,140,297
Less: accumulated depreciation	<u>(52,076,175)</u>	<u>(49,673,744)</u>
Total plant investment, net	<u>76,976,972</u>	<u>76,466,553</u>
Total assets	<u>\$ 128,424,253</u>	<u>\$ 124,007,112</u>

LIABILITIES, DEFERRED INFLOWS AND RESOURCES AND NET POSITION

	2014	2013
Current liabilities		
Accounts payable	\$ 6,654,927	\$ 6,424,474
Accrued expenses	399,425	430,987
Payable to municipality	207,500	202,959
Current portion of general obligation bonds	877,467	626,163
Current portion of accrued compensated absences	308,348	315,742
Total current liabilities	<u>8,447,667</u>	<u>8,000,325</u>
Noncurrent liabilities		
General obligation bonds	10,974,739	11,368,257
Accrued compensated absences	2,670,912	2,615,112
Other post-employment benefit obligation	6,634,688	6,690,395
Total noncurrent liabilities	<u>20,280,339</u>	<u>20,673,764</u>
Total liabilities	<u>28,728,006</u>	<u>28,674,089</u>
Deferred inflows of resources		
Reserve for rate stabilization	36,576,769	35,706,971
Reserve for energy conservation	536,128	640,934
Total deferred inflows of resources	<u>37,112,897</u>	<u>36,347,905</u>
Net position		
Net investments in capital assets	65,153,278	64,502,579
Restricted		
Escrow	665,978	681,385
BAN/bonds	-	85,506
Unrestricted	<u>(3,235,906)</u>	<u>(6,284,352)</u>
Total net position	<u>62,583,350</u>	<u>58,985,118</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 128,424,253</u>	<u>\$ 124,007,112</u>

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

PROPRIETARY FUND

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Operating revenues		
Residential	\$ 28,657,621	\$ 25,728,273
Commercial	24,379,343	19,515,173
Industrial	18,134,046	18,681,627
Municipal	2,726,528	2,332,527
Off-street lighting	144,391	146,841
Service income and finance charges	65,322	54,393
Rate stabilization fund transfers	<u>(869,798)</u>	<u>(458,432)</u>
Total operating revenues	<u>73,237,453</u>	<u>66,000,402</u>
Operating expenses		
Purchased power and gas	49,540,733	44,339,377
Distribution expenses	3,485,022	3,203,429
Maintenance	3,611,340	3,019,996
General and administrative	7,257,203	7,071,854
Pension and benefits	3,114,765	2,415,279
Environmental response expense	74,939	206,618
Depreciation and amortization	<u>3,778,318</u>	<u>3,628,417</u>
Total operating expenses	<u>70,862,320</u>	<u>63,884,970</u>
Operating income	<u>2,375,133</u>	<u>2,115,432</u>
Non-operating revenues (expenses)		
Miscellaneous income	278,455	473,727
Telecommunication income	497,856	1,152,747
Investment income	257,596	48,338
Interest expense	<u>(469,364)</u>	<u>(381,838)</u>
Total non-operating revenue, net	<u>564,543</u>	<u>1,292,974</u>
Income before transfers and contributions	2,939,676	3,408,406
Transfers out - in lieu of tax payments to City	(417,922)	(408,571)
Transfer of other post-employment benefit obligations from the City	-	(6,690,395)
Contributions in aid of construction	<u>1,076,478</u>	<u>47,292</u>
Change in net position	3,598,232	(3,643,268)
Net position, beginning of year	<u>58,985,118</u>	<u>62,628,386</u>
Net position, end of year	<u>\$ 62,583,350</u>	<u>\$ 58,985,118</u>

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**PROPRIETARY FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Cash received for services	\$ 73,642,783	\$ 65,461,252
Cash paid to power suppliers	(48,440,482)	(43,119,787)
Cash paid to employees for services	(9,867,441)	(9,135,711)
Cash paid for other operations	<u>(7,998,087)</u>	<u>(6,613,756)</u>
Net cash provided by operating activities	<u>7,336,773</u>	<u>6,591,998</u>
Cash flows from capital and related financing activities		
Cash received from borrowings on general obligation bonds incurred for capital purposes	-	1,050,000
Cash received from contributions in aid of construction	1,076,478	47,292
Cash paid for capital expenditures	(4,251,492)	(5,981,456)
Cash paid for principal on general obligation bonds incurred for capital purposes	(626,164)	(806,293)
Cash received for premium on general obligation bonds incurred for capital purposes	483,950	-
Cash paid for interest on general obligation bonds and BAN payable incurred for capital purposes	<u>(469,364)</u>	<u>(381,838)</u>
Net cash used by capital financing activities	<u>(3,786,592)</u>	<u>(6,072,295)</u>
Cash flows from non-capital financing activities		
Cash paid for in lieu of tax payments	(413,381)	(426,838)
Cash received from non-operating revenues	<u>776,311</u>	<u>1,626,474</u>
Net cash provided by non-capital financing activities	<u>362,930</u>	<u>1,199,636</u>
Cash flows from investing activities		
Cash received from investments	-	14,701
Cash paid for purchases of investments	(843,370)	(110,454)
Cash received from investment earnings	<u>185,553</u>	<u>129,590</u>
Net cash (used) provided by investing activities	<u>(657,817)</u>	<u>33,837</u>
Net increase in cash	3,255,294	1,753,176
Cash, beginning of year	<u>14,541,496</u>	<u>12,788,320</u>
Cash, end of year	<u>\$ 17,796,790</u>	<u>\$ 14,541,496</u>
Cash included in:		
Unrestricted cash	\$ 11,589,682	\$ 7,995,280
Restricted and designated cash	<u>6,207,108</u>	<u>6,546,216</u>
Cash, end of the year	<u>\$ 17,796,790</u>	<u>\$ 14,541,496</u>

(Continued)

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**PROPRIETARY FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Operating income	\$ 2,375,133	\$ 2,115,432
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,778,318	3,628,417
Allowance for uncollectible accounts	83,373	(30,127)
Net changes in operating assets and liabilities:		
Accounts receivable	321,957	(509,023)
Inventory	(166,200)	(24,931)
Prepaid expenses	60,077	(53,292)
Deferred charges and debt service costs	(72,467)	112,366
Accounts payable	230,453	761,158
Accrued expenses	(31,562)	179,299
Other post-employment benefits	(55,707)	-
Accrued compensated absences	48,406	47,847
Reserve for energy conservation	(104,806)	(93,580)
Reserve for rate stabilization	<u>869,798</u>	<u>458,432</u>
Net cash provided by operating activities	<u>\$ 7,336,773</u>	<u>\$ 6,591,998</u>

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT BENEFIT OBLIGATION
DECEMBER 31, 2014**

Assets

Cash	\$ 7,357
Investments - mutual funds	<u>495,040</u>
Total assets	<u>502,397</u>

Net position

Held in trust for other post-employment benefit obligation	<u>\$ 502,397</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT BENEFIT OBLIGATION
FOR THE YEAR ENDED DECEMBER 31, 2014

Contributions	\$ 500,000
Investment income (expense):	
Realized gain	12,101
Unrealized loss	(12,061)
Other income	2,712
Management fees	<u>(355)</u>
Investment income, net	<u>2,397</u>
Total additions	502,397
Net position, beginning of year	<u>-</u>
Net position, end of year	<u>\$ 502,397</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, 2014 AND 2013

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 69% and 72% of the Department's operating revenues were derived from its electric division during 2014 and 2013, 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 established an Other Post-Employment Benefits Trust in 2014 as further described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Recent accounting changes

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. This statement was effective for 2013.

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 which is likely to be significant.

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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Recent accounting changes (continued)

In February 2015, the Governmental Accounting Standards Board ("GASB") issued SGAS No. 72, "*Fair Value Measurement and Application*" ("GASB No. 72"). GASB No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The statement provides guidance for determining a fair value measurement for financial reporting purposes. GASB No. 72 also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). This statement is effective for the Department in 2016.

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 promulgated 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 (subject to adjustments resulting from rate stabilization changes), regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Public utility regulation

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

Under Massachusetts Law, the rates of the Department are set by the Municipal Light Board and may be changed not more than once every three months. Rate schedules are filed with the DPU. While the DPU exercises general supervisory authority over the Department, the rates are not subject to DPU approval. Rates must be set such that net earnings from operations do not exceed 8% of the cost of the utility plant.

Massachusetts Municipal Wholesale Electric Company ("MMWEC")

MMWEC is a non-profit, public corporation and political subdivision of the Commonwealth of Massachusetts. They offer services ranging from power supply planning and resource development to risk management and regulatory support. The Department utilizes MMWEC for purchased power and investment of 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 Municipal Light Board pursuant to Chapter 32B, Section 20 of the General Laws of the Commonwealth of Massachusetts. The OPEB Trust constitutes the principal instrument of a plan established by the Municipal Light Board to fund the Department's annual actuarially determined OPEB contribution for retirees.

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Revenues and expenses

Utility revenues are based on authorized rates applied to each customer's use of energy. Rate changes are approved by the Department's Municipal Light Board and are filed with the DPU. These operating revenues are recognized on the basis of cycle billings rendered monthly. A five percent (5%) discount is offered to residential customers who pay within 15 days of being billed. Discounts are also offered to commercial and industrial customers up to five percent based on payment method and services purchased. Discounts for the years ended December 31, 2014 and 2013 were \$923,691 and \$820,874, respectively. These discounts are recorded against revenues.

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

Cash

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

Accounts receivable

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

Inventory – materials and supplies

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

Restricted and designated assets

Cash, cash equivalents and investments, which are restricted under terms of legislation, certain agreements for payments to third parties or Municipal Light Board actions limiting the use of such funds, are included as restricted 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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Restricted and designated assets (continued)

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

Cash in escrow

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

Other investments

This consists of the Department's equity in New England Hydro-Transmission Electric Company ("Hydro-Quebec"). The Department 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 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.

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. 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 and Cooperative capitalize additions to plant with an original cost of \$1,000 or more.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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 2014 and 2013. Depreciation expense for the years ended December 31, 2014 and 2013 was \$3,741,073 and \$3,591,172, 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.

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, 2014 and 2013 was \$2,655,870 and \$2,596,154, 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, 2014 and 2013 was \$81,619 and \$87,590, respectively.

Accrued vacation and sick leave for retired employees as of December 31, 2014 and 2013 was \$241,771 and \$247,110, 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.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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 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 Municipal Light 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.

Presentation of sales taxes

The Commonwealth of Massachusetts imposes a sales tax of 6.25% as of December 31, 2014 and 2013 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.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified to conform with the current year presentation. The reclassification moves amounts from operating revenue, distribution expense, and miscellaneous income to telecommunication income and from miscellaneous income to investment income. These reclassifications had no effect on reported net income.

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 and are recorded at fair value. Fair value is based on quoted market prices at December 31st.

Balances at December 31, 2014, consists of the following:

	<u>Cash and cash equivalents</u>		<u>Investments</u>		<u>Total</u>
Segregated cash:					
Escrow	\$ 665,978		\$ -		\$ 665,978
Rate stabilization	4,229,872		-		4,229,872
	<u>4,895,850</u>		<u>-</u>		<u>4,895,850</u>
MMWEC Reserve Trust:					
Electric	13,843		21,868,728		21,882,571
Gas	7,714		2,400,324		2,408,038
	<u>21,557</u>		<u>24,269,052</u>		<u>24,290,609</u>
Deferred charges (held by MMWEC):					
Purchase power	1,289,701		1,407,965		2,697,666
Prepaid PASNY fund	-		142,188		142,188
	<u>1,289,701</u>		<u>1,550,153</u>		<u>2,839,854</u>
Total	<u>\$ 6,207,108</u>		<u>\$ 25,819,205</u>		<u>\$ 32,026,313</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

Investments included in restricted and designated assets at December 31, 2014 consist of:

	Cost	Fair value	Unrealized gain/(loss)
Cash and cash equivalents	\$ 3,427,001	\$ 3,427,001	\$ -
U.S. treasury securities	8,626,225	8,613,761	(12,464)
U.S. agency securities	11,468,515	11,481,334	12,819
Municipal bonds	2,293,379	2,297,109	3,730
Total	\$ <u>25,815,120</u>	\$ <u>25,819,205</u>	\$ <u>4,085</u>

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

	Cash and cash equivalents	Investments	Total
Segregated cash			
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>
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>
Total	\$ <u>6,546,216</u>	\$ <u>24,903,792</u>	\$ <u>31,450,008</u>

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

	Cost	Fair value	Unrealized loss
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>

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:

	2014	2013
Interest income	\$ 185,553	\$ 146,078
Unrealized gain (loss)	72,043	(97,740)
Total investment income (loss)	\$ <u>257,596</u>	\$ <u>48,338</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

At December 31, 2014 and 2013, 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, 2014					
U.S. treasury securities	\$ 8,613,761	\$ 6,730,344	\$ 1,883,417	\$ -	\$ -
U.S. agency securities	11,481,334	146,934	8,588,074	2,290,471	455,855
Municipal bonds	2,297,109	885,184	1,266,312	145,613	-
	<u>\$ 22,392,204</u>	<u>\$ 7,762,462</u>	<u>\$ 11,737,803</u>	<u>\$ 2,436,084</u>	<u>\$ 455,855</u>

	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>

At December 31, 2014 and 2013, the Department's bond investments were rated as follows:

	2014		2013	
	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	AA+ to AA-	AA2 to AA3	AAA to AA-	AA2 to AA3

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

Interest rate risk

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

Credit risk

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
U.S agency securities:		
Federal National Mortgage	12%	39%
Federal Agricultural Mortgage	10%	8%
Federal Farm Credit Bank	36%	26%
Federal Home Loan Bank	18%	15%
Federal Home Loan Mortgage	24%	12%

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, 2014 as reflected in the consolidated financial statements, the uninsured balance could be as high as approximately \$16,367,000. 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 \$25,819,205 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:

	<u>2014</u>	<u>2013</u>
Hydro-Quebec Phase II	\$ 33,750	\$ 33,750
Public Utility Mutual Insurance Company	266,000	266,000
	<u>\$ 299,750</u>	<u>\$ 299,750</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

5. FIDUCIARY FUND:

The assets and net position of this trust are reported in the Department's Statement of Fiduciary Net Position.

Investments (at fair value) of the OPEB Trust consist of the following at December 31:

	2014
Cash	\$ 7,357
Fixed income mutual funds	223,060
Equity mutual funds:	
Futures strategy fund	10,460
Mid cap growth fund	15,447
Large cap fund	151,965
Small cap select fund	10,127
Real estate equity fund	15,617
Emerging markets	14,082
Diversified international fund	24,500
Mid cap value fund	15,357
Select 40 fund	14,425
Total equity mutual funds	271,980
 Total	 \$ 502,397

6. 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.

	2014	2013
Regulatory asset - cost	\$ 856,641	\$ 856,641
Less: accumulated amortization	148,980	111,735
	\$ 707,661	\$ 744,906

Amortization expense on the regulatory asset was \$37,245 for the year ended December 31, 2014 and 2013 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, 2014 AND 2013**

7. PLANT INVESTMENT:

A summary of plant investment at December 31, 2014 is as follows:

	<u>Balance December 31, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2014</u>
<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	104,868,715	2,285,185	(194,732)	106,959,168
Office and computer equipment	6,212,802	799,364	(1,150,000)	5,862,166
Transportation equipment	3,756,946	438,553	-	4,195,499
Equipment	<u>10,292,943</u>	<u>734,480</u>	<u>-</u>	<u>11,027,423</u>
<i>Total plant investment being depreciated</i>	<u>125,131,406</u>	<u>4,257,582</u>	<u>(1,344,732)</u>	<u>128,044,256</u>
<i>Less accumulated depreciation for:</i>				
Plant investment	(37,178,300)	(2,748,141)	188,642	(39,737,799)
Office and computer equipment	(4,384,771)	(348,964)	1,150,000	(3,583,735)
Transportation equipment	(2,550,340)	(249,671)	-	(2,800,011)
Equipment	<u>(5,560,333)</u>	<u>(394,297)</u>	<u>-</u>	<u>(5,954,630)</u>
<i>Total accumulated depreciation</i>	<u>(49,673,744)</u>	<u>(3,741,073)</u>	<u>1,338,642</u>	<u>(52,076,175)</u>
<i>Total plant investment being depreciated, net</i>	<u>75,457,662</u>	<u>516,509</u>	<u>(6,090)</u>	<u>75,968,081</u>
Total plant investment, net	\$ <u>76,466,553</u>	\$ <u>516,509</u>	\$ <u>(6,090)</u>	\$ <u>76,976,972</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

7. PLANT INVESTMENT: (CONTINUED)

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

	<u>Balance December 31, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2013</u>
<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	3,647,527	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>197,915</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>

8. LONG-TERM DEBT:

Bond anticipation note ("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 2014, total BAN's of \$5,750,000 were converted to a general obligation bond and, as a result, were included under the terms and conditions of the general obligation bonds payable at December 31, 2014. No BAN's were obtained in 2014.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

8. LONG-TERM DEBT: (CONTINUED)

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</u>	
				<u>2014</u>	<u>2013</u>
11/15/96	11/15/16	4.95%	\$ 1,000,000	\$ 100,000	\$ 150,000
07/15/04	07/15/14	3.51%	1,000,000	-	100,000
02/01/06	02/01/25	4.21%	2,100,000	1,210,000	1,320,000
02/01/08	02/01/18	3.08%	520,155	198,256	249,420
04/01/08	04/01/28	4.34%	6,000,000	4,110,000	4,425,000
04/04/14	03/01/32	4.30%	6,233,950	6,233,950	5,750,000
				<u>11,852,206</u>	<u>11,994,420</u>
				<u>(877,467)</u>	<u>(626,163)</u>
				<u>\$ 10,974,739</u>	<u>\$ 11,368,257</u>
Less current portion of bonds					
General obligation bonds, long-term portion					

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>
2015	\$ 877,467	\$ 490,397	\$ 1,367,864
2016	871,886	458,421	1,330,307
2017	821,305	424,571	1,245,876
2018	810,142	391,760	1,201,902
2019	761,886	357,731	1,119,617
2020 – 2024	3,779,431	1,256,506	5,035,937
2025 – 2029	2,919,431	442,836	3,362,267
2030 – 2032	1,010,658	55,800	1,066,458
Total	<u>\$ 11,852,206</u>	<u>\$ 3,878,022</u>	<u>\$ 15,730,228</u>

9. NONCURRENT LIABILITIES:

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts due within one year</u>
December 31, 2014					
Accrued compensated absences	\$ 2,930,854	\$ 599,096	\$ (550,690)	\$ 2,979,260	\$ 308,348
Other post-employment benefit obligation	6,690,395	1,137,460	(1,193,167)	6,634,688	-
General obligation bonds	11,994,420	483,950	(626,164)	11,852,206	877,467
Total	<u>\$ 21,615,669</u>	<u>\$ 2,220,506</u>	<u>\$ (2,370,021)</u>	<u>\$ 21,466,154</u>	<u>\$ 1,185,815</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

9. NONCURRENT LIABILITIES: (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts due within one year</u>
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	<u>\$ 14,633,720</u>	<u>\$ 12,998,674</u>	<u>\$ (6,016,725)</u>	<u>\$ 21,615,669</u>	<u>\$ 941,905</u>

* Balance converted to general obligation bonds.

10. RETIREMENT PLANS:

City of Westfield contributory retirement system

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, 2014, 2013, and 2012 was \$1,291,897, \$1,217,998 and \$1,152,625, 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, 2014 AND 2013**

10. 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 upon 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, 2014 and January 1, 2012, the effective dates of the OPEB valuation are as follows:

	<u>2014</u>	<u>2012</u>
Active members	72	78
Retirees	94	67
Total	<u>166</u>	<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. Participants contribute 35% of the premiums for their selected benefit. Beginning in 2014, the Department’s intent is to fully fund the Annual Required Contribution, subject to the availability of financial resources.

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)
2014	\$ 1,076,753	\$ 468,328	\$ (407,621)	\$ 1,137,460	\$ 1,193,167	\$ (55,707)	\$ 6,634,688
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, 2014 AND 2013**

10. 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 2014 and 2013 were as follows:

<u>Year Ended</u>		<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>		<u>Net OPEB Obligation</u>
2014	\$	1,137,460	104.90%	\$	6,634,688
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.

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability</u>	<u>Value of Assets*</u>	<u>Required Supplementary Information</u>				
			<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>	<u>Interest Rate</u>
1/1/2014	\$12,596,639	-	\$12,596,639	0%	\$6,846,000	184%	7.00%
1/1/2012	\$19,800,938	-	\$19,800,938	0%	\$6,961,000	284%	4.00%

*After January 1, 2014, the Department contributed \$500,000 to the OPEB Trust.

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, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7% investment rate of return and an annual medical cost trend rate of 8%, reduced by decrements to an ultimate rate of 5% after 6 years. The unfunded actuarial accrued liability ("UAAL") is being amortized over a closed 24 year amortization with payments increasing at 3.25% per year. Differences between the expected and actual UAAL in future years will be amortized over 24 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, 2014 AND 2013

11. RESERVE FOR RATE STABILIZATION:

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

During 2014 and 2013, the Department used \$1,040,000 and \$1,820,164, respectively to offset the cost of power. The Department increased the reserve liability by \$1,909,798 and \$2,278,596 during 2014 and 2013, respectively. The balance available to offset future costs is \$36,576,769 at December 31, 2014.

12. RELATED PARTY TRANSACTIONS:

The Department provides electric sales and service to the City. Total electric sales were \$2,277,312 and \$2,084,198 for the years ended December 31, 2014 and 2013, respectively. Amounts due from the City for electric sales and service totaled \$149,352 and \$173,280 at December 31, 2014 and 2013, respectively.

In lieu of tax payments required by the City for their fiscal years ended June 30, 2014 and 2013 were \$415,000 and \$405,919, 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 \$207,500 and \$202,959 for the years ended December 31, 2014 and 2013, respectively. The Cooperative paid \$2,922 and \$2,652 for taxes as of December 31, 2014 and 2013, respectively.

The Cooperative has an Agency Contract with Massachusetts Municipal Wholesale Electric Company ("MMWEC") whereby MMWEC is to serve as the Cooperative's agent in all matters with respect to financing the transmission facilities and pipelines and the performance of the Cooperative's administrative obligations under what is known as the Transportation Contract. On behalf of the Cooperative, MMWEC records and accounts for bills received and paid. During the years ended December 31, 2014 and 2013, the Cooperative incurred charges related to accounting and administrative expense of \$4,356 and \$15,076, respectively. As of December 31, 2014 and 2013, the Cooperative had balances due to MMWEC of \$1,326 and \$1,297, respectively.

The Cooperative utilized legal services provided by a member of its Board of Directors. The Cooperative paid \$5,488 and \$8,741 in 2014 and 2013, respectively for those services.

13. COMMITMENTS AND CONTINGENCIES:

Commitments

The Department purchases power through agreements with various public and investor owned utilities. At December 31, 2014, 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, 2014 AND 2013**

13. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Commitments (continued)

The Department is a participant in certain projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC), created as a means to develop a bulk power supply for its members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund.

The Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, the Department is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

As of December 31, 2014, total capital expenditures for MMWEC related projects amounted to \$1,616,889,000 of which approximately \$112,158,000 represents the amount attributable to the Department. MMWEC's debt outstanding for the projects included Power Supply Project Revenue Bonds totaling \$167,110,000 of which \$12,868,000 is attributable to the Department, although such amount is not allocated to the Department's statement of net position. As of December 31, 2014, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$152,675,000, of which \$11,325,000 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 PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2014 and estimated for future years is shown below:

		<u>Annual costs</u>
For years ended December 31, 2015	\$	5,547,000
2016		3,788,000
2017		1,463,000
2018		526,000
	\$	<u>11,324,000</u>

In addition, under the PSAs, the Department is required to pay MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs was \$15,945,000 for the year ended December 31, 2014.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

13. 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 \$135,325 and \$135,350 for the years ended December 31, 2014 and December 31, 2013, respectively. 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 had a gas supply agreement with Hess Corporation which expired October 31, 2014. It consisted 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.

The 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.

The Department has a gas supply agreement with Direct Energy Business Marketing, LLC which expires October 31, 2017. It consists of a fixed gas price ranging from \$4.232/MMBtu to \$19.60/MMBtu for 500 to 1,000 MMBtu purchased per day from November 2014 to October 2017.

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

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 2014 (\$32,351 was accrued in 2013). The amount of expense incurred for workers compensation for the years ended December 31, 2014 and 2013 was \$91,543 and \$252,440, respectively.

	<u>2014</u>		<u>2013</u>
Unpaid claims, beginning of year	\$ 56,372	\$	20,220
Incurred claims (including IBNR's)	72,694		272,944
Claim payments	(74,228)		(236,792)
Unpaid claims, end of year	<u>\$ 54,838</u>	<u>\$</u>	<u>56,372</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

13. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

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 year ended December 31, 2014. The Department has had no amount of settlements exceeding insurance coverage for each of the past three years.

Sackett Street facility

The Department's Sackett Street facility has been owned and operated by the Department since 1899 and, until 1953, was the site of a coal gasification plant. On November 21, 1991, the Massachusetts Department of Environmental Protection (MDEP) notified the Department of a potential imminent hazard associated with the former coal gasification plant site. The MDEP mandated that further testing be performed to determine if hazardous materials were present. As a result of testing, MDEP concluded that hazardous materials are present and that an imminent hazard does exist. The Department has commenced assessment action and implementation of a contingency plan as required by Chapter 21E of the Massachusetts General Laws. During 2014 and 2013, the Department incurred costs of \$74,939 and \$206,000, 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 \$5,980,250 for 2015. As of December 2014, approximately \$87,800 has been committed. The Department anticipates funding these expenditures through operations.

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, 2014 AND 2013**

14. 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.

Future minimum commitments due are as follows at December 31:

2015	\$	16,885
2016		17,729
2017		18,616
2018		19,547
2019		20,524
2020-2057		<u>1,802,627</u>
	\$	<u>1,895,928</u>

Lease expense was \$16,081 and \$15,315 for the years ended December 31, 2014 and 2013, respectively.

The Department leases various office and transportation equipment under non-cancelable operating leases with monthly payments ranging from \$236 to \$7,603 due through May 2017. Rent expense totaled approximately \$164,000 and \$72,000 for the years ended December 31, 2014 and 2013, respectively.

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

2015	\$	163,093
2016		121,166
2017		<u>7,288</u>
Total	\$	<u>291,547</u>

15. 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 29% 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 71% of the work force and expires on March 31, 2016.

16. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through May 6, 2015, 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, 2014**

ASSETS

	<u>WG&E</u>	<u>Cooperative</u>	<u>Eliminations</u>	<u>Total</u>
Current assets				
Cash	11,077,125	\$ 512,557	\$ -	\$ 11,589,682
Accounts receivable, less reserve of \$751,373	4,485,214	16,750	(79,915)	4,422,049
Inventory - materials and supplies	2,187,009	-	-	2,187,009
Prepaid expenses	-	59,364	-	59,364
Total current assets	<u>17,749,348</u>	<u>588,671</u>	<u>(79,915)</u>	<u>18,258,104</u>
Restricted and designated assets				
Cash in escrow	-	665,978	-	665,978
Cash for rate stabilization	4,229,872	-	-	4,229,872
MMWEC Reserve Trust	24,290,609	-	-	24,290,609
Deferred charges	2,839,854	-	-	2,839,854
Total restricted and designated assets	<u>31,360,335</u>	<u>665,978</u>	<u>-</u>	<u>32,026,313</u>
Noncurrent assets				
Regulatory asset, net	707,661	-	-	707,661
Other investments	299,750	-	-	299,750
Deferred charges	126,941	-	-	126,941
Deferred debt service costs	28,512	-	-	28,512
Note receivable - Southwest Cooperative	5,932,361	-	(5,932,361)	-
Total noncurrent assets	<u>7,095,225</u>	<u>-</u>	<u>(5,932,361)</u>	<u>1,162,864</u>
Plant investment				
Land	559,305	449,586	-	1,008,891
Electric	72,094,901	-	-	72,094,901
Gas	50,297,042	5,652,313	-	55,949,355
	122,951,248	6,101,899	-	129,053,147
Less: accumulated depreciation	<u>(51,177,101)</u>	<u>(899,074)</u>	<u>-</u>	<u>(52,076,175)</u>
Total plant investment, net	<u>71,774,147</u>	<u>5,202,825</u>	<u>-</u>	<u>76,976,972</u>
Total assets	<u>\$ 127,979,055</u>	<u>\$ 6,457,474</u>	<u>\$ (6,012,276)</u>	<u>\$ 128,424,253</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	\$ 6,667,070	\$ 23,259	\$ (35,402)	\$ 6,654,927
Accrued expenses	399,425	44,513	(44,513)	399,425
Payable to municipality	207,500	-	-	207,500
Current portion of general obligation bonds	877,467	-	-	877,467
Current portion of accrued compensated absences	<u>308,348</u>	<u>-</u>	<u>-</u>	<u>308,348</u>
Total current liabilities	<u>8,459,810</u>	<u>67,772</u>	<u>(79,915)</u>	<u>8,447,667</u>
Noncurrent liabilities				
General obligation bonds	10,974,739	-	-	10,974,739
Accrued compensated absences	2,670,912	-	-	2,670,912
Other post-employment benefit obligation	6,634,688	-	-	6,634,688
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>20,280,339</u>	<u>5,932,361</u>	<u>(5,932,361)</u>	<u>20,280,339</u>
 Total liabilities	 <u>28,740,149</u>	 <u>6,000,133</u>	 <u>(6,012,276)</u>	 <u>28,728,006</u>
Deferred inflows of resources				
Reserve for rate stabilization	36,576,769	-	-	36,576,769
Reserve for energy conservation	<u>536,128</u>	<u>-</u>	<u>-</u>	<u>536,128</u>
Total deferred inflows of resources	<u>37,112,897</u>	<u>-</u>	<u>-</u>	<u>37,112,897</u>
Net position				
Net investment in capital assets	59,950,453	(729,536)	5,932,361	65,153,278
Restricted				
Escrow	-	665,978	-	665,978
Unrestricted	<u>2,175,556</u>	<u>520,899</u>	<u>(5,932,361)</u>	<u>(3,235,906)</u>
Total net position	<u>62,126,009</u>	<u>457,341</u>	<u>-</u>	<u>62,583,350</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 127,979,055</u>	 <u>\$ 6,457,474</u>	 <u>\$ (6,012,276)</u>	 <u>\$ 128,424,253</u>

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
Cash for rate stabilization	4,487,485	-	-	4,487,485
Cash for BAN/bonds	85,506	-	-	85,506
MMWEC Reserve Trust	23,368,735	-	-	23,368,735
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
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

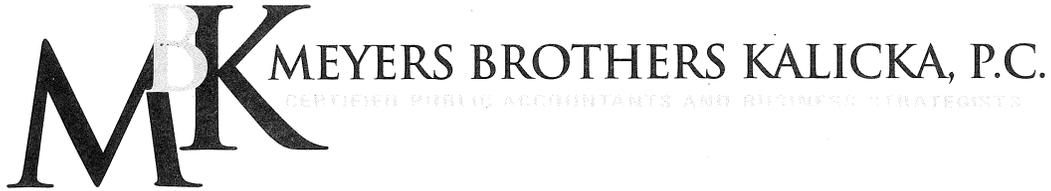
**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014**

	WG&E		Cooperative	Eliminations	Total
	Gas	Electric			
Operating revenues					
Residential	\$ 10,555,578	\$ 18,102,043	\$ -	\$ -	\$ 28,657,621
Commercial	8,931,971	15,447,372	201,000	(201,000)	24,379,343
Industrial	3,780,560	14,353,486	-	-	18,134,046
Municipal	449,216	2,277,312	-	-	2,726,528
Off-street lighting	-	144,391	-	-	144,391
Service income and finance charges	39,193	26,129	-	-	65,322
Rate stabilization fund transfers	(119,505)	(750,293)	-	-	(869,798)
Total operating revenues	<u>23,637,013</u>	<u>49,600,440</u>	<u>201,000</u>	<u>(201,000)</u>	<u>73,237,453</u>
Operating expenses					
Purchase power and gas	16,791,813	32,949,920	-	(201,000)	49,540,733
Distribution expenses	1,036,652	2,448,370	-	-	3,485,022
Maintenance	1,065,991	2,545,349	-	-	3,611,340
General and administrative	1,474,636	5,679,071	122,148	(18,652)	7,257,203
Pension and benefits	865,085	2,249,680	-	-	3,114,765
Environmental response expense	74,939	-	-	-	74,939
Depreciation and amortization	1,498,710	2,122,908	156,700	-	3,778,318
Total operating expenses	<u>22,807,826</u>	<u>47,995,298</u>	<u>278,848</u>	<u>(219,652)</u>	<u>70,862,320</u>
Operating income	<u>829,187</u>	<u>1,605,142</u>	<u>(77,848)</u>	<u>18,652</u>	<u>2,375,133</u>
Non-operating revenues (expenses)					
Miscellaneous income	99,137	197,970	-	(18,652)	278,455
Telecommunication income	35,320	462,536	-	-	497,856
Investment income	33,082	268,305	722	(44,513)	257,596
Interest expense	(123,217)	(346,147)	(44,513)	44,513	(469,364)
Total non-operating revenue (expense), net	<u>44,322</u>	<u>582,664</u>	<u>(43,791)</u>	<u>(18,652)</u>	<u>564,543</u>
Income before transfers and contributions	<u>\$ 873,509</u>	<u>\$ 2,187,806</u>	<u>\$ (121,639)</u>	<u>\$ -</u>	<u>2,939,676</u>
Transfers out - in lieu of tax payments to City					(417,922)
Contributions in aid of construction					<u>1,076,478</u>
Change in net position					3,598,232
Net position, beginning of year					<u>58,985,118</u>
Net position, end of year					<u>\$ 62,583,350</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**

	<u>WG&E</u>				
	<u>Gas</u>	<u>Electric</u>	<u>Cooperative</u>	<u>Eliminations</u>	<u>Total</u>
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	248,328	2,084,199	-	-	2,332,527
Off-street lighting	-	146,841	-	-	146,841
Service income and finance charges	32,636	21,757	-	-	54,393
Rate stabilization fund transfers	<u>629,128</u>	<u>(1,087,560)</u>	-	-	<u>(458,432)</u>
Total operating revenues	<u>18,793,716</u>	<u>47,206,686</u>	<u>417,381</u>	<u>(417,381)</u>	<u>66,000,402</u>
Operating expenses					
Purchase power and gas	12,213,521	32,543,237	-	(417,381)	44,339,377
Distribution expenses	1,225,614	1,977,815	-	-	3,203,429
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	<u>1,436,629</u>	<u>2,035,088</u>	<u>156,700</u>	-	<u>3,628,417</u>
Total operating expenses	<u>18,149,018</u>	<u>45,881,992</u>	<u>291,966</u>	<u>(438,006)</u>	<u>63,884,970</u>
Operating income	<u>644,698</u>	<u>1,324,694</u>	<u>125,415</u>	<u>20,625</u>	<u>2,115,432</u>
Non-operating revenues (expenses)					
Miscellaneous income	136,607	357,745	-	(20,625)	473,727
Telecommunication income	188,034	964,713	-	-	1,152,747
Investment income	25,461	58,030	763	(35,916)	48,338
Interest expense	<u>(127,888)</u>	<u>(253,950)</u>	<u>(35,916)</u>	<u>35,916</u>	<u>(381,838)</u>
Total non-operating revenue (expense), net	<u>222,214</u>	<u>1,126,538</u>	<u>(35,153)</u>	<u>(20,625)</u>	<u>1,292,974</u>
Income before transfers and contributions	<u>\$ 866,912</u>	<u>\$ 2,451,232</u>	<u>\$ 90,262</u>	<u>\$ -</u>	3,408,406
Transfers out - in lieu of tax payments to City					(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>



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of the City of Westfield Gas and Electric Light Department (the "Department") and the Southwest Cooperative (the "Cooperative"), which comprise the proprietary fund consolidated statement of net position as of December 31, 2014, 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, 2014 and statement of changes in fiduciary net position for the year ended and the related notes to the consolidated financial statements, and have issued our report thereon dated May 6, 2015.

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

We noted certain matters that we reported to management of the Department in a separate letter dated May 6, 2015.

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.

Mayer Brothers Kalicka P.C.

Holyoke, Massachusetts
May 6, 2015