

**CHICOPEE MUNICIPAL LIGHTING PLANT**  
*FINANCIAL STATEMENTS*  
*DECEMBER 31, 2018*

**CHICOPEE MUNICIPAL LIGHTING PLANT  
FINANCIAL STATEMENTS**

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## MeyersBrothersKalicka , P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
AND BUSINESS STRATEGISTS

### INDEPENDENT AUDITORS' REPORT

To the General Manager and the Electric Light Commission  
Chicopee Municipal Lighting Plant

#### Report on the Financial Statements

We have audited the accompanying financial statements of the Chicopee Municipal Lighting Plant (the "Lighting Plant"), which comprise the proprietary fund statement of net position as of December 31, 2018, and the related proprietary fund 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, 2018, and the related fiduciary fund statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements (the "financial statements" or the "basic financial statements").

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Lighting Plant's preparation and fair presentation of the 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 Lighting Plant's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the Lighting Plant as of December 31, 2018, and the respective changes in financial position and its cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Chicopee Municipal Lighting Plant and do not purport to, and do not, present fairly the financial position of the City of Chicopee, Massachusetts (the "City") as of December 31, 2018, and the changes in the City's financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 3, the Lighting Plant has adopted the provisions of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective January 1, 2018. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

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

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2019 on our consideration of the Lighting Plant's internal control over financial reporting and on our tests of its 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lighting Plant's internal control over financial reporting and compliance.

*Maureen Beuther Kalicka, P.C.*

Holyoke, Massachusetts  
July 22, 2019

**PROPRIETARY FUND**

# CHICOPEE MUNICIPAL LIGHTING PLANT

## PROPRIETARY FUND STATEMENT OF NET POSITION DECEMBER 31, 2018

### ASSETS

#### Current assets

Cash and cash equivalents	\$ 3,102,995
Accounts receivable, less reserve of \$330,000	4,938,077
Other receivables	630,161
Fuel, materials and supplies	2,300,126
Prepaid expenses and other assets	<u>1,187,093</u>
Total current assets	<u>12,158,452</u>

#### Restricted and designated assets

Restricted and designated cash and cash equivalents	14,209,442
Restricted and designated investments	<u>39,603,020</u>
Total restricted and designated assets	<u>53,812,462</u>

#### Noncurrent assets

Regulatory asset, net	6,001,796
Investment in jointly owned electric utility plant	168,077
Other receivables, noncurrent	<u>212,612</u>
Total noncurrent assets	<u>6,382,485</u>

#### Utility plant

Land	807,063
Utility plant	<u>84,206,935</u>
	85,013,998
Less: accumulated depreciation	(46,871,685)
Construction in process	<u>3,475,501</u>
Total utility plant, net	<u>41,617,814</u>

#### Deferred outflows of resources

Deferred outflows related to other post-employment benefits	304,039
Deferred outflows related to pensions	<u>2,520,680</u>
Total deferred outflows of resources	<u>2,824,719</u>

<b>Total assets</b>	<b><u>\$ 116,795,932</u></b>
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***LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION***

**Current liabilities**

Accounts payable	\$ 5,144,244
Accrued expenses	1,030,105
Accrued compensated absences	551,322
Due to the City - in lieu of tax payments	382,500
Deferred credits	<u>30,639</u>
Total current liabilities	<u>7,138,810</u>

**Noncurrent liabilities**

Customers' deposits	1,078,129
Accrued compensated absences, noncurrent	1,423,721
Deferred credits, noncurrent	1,405,706
Net other post-employment benefit liability	5,160,340
Net pension liability	<u>6,324,580</u>
Total noncurrent liabilities	<u>15,392,476</u>

Total liabilities	<u>22,531,286</u>
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**Deferred inflows of resources**

Deferred inflows related to pensions	1,337,733
Reserve for rate stabilization	<u>19,023,573</u>
Total deferred inflows of resources	<u>20,361,306</u>

**Net position**

Net investment in capital assets	41,617,814
Restricted - depreciation	23,638,849
Restricted - rate stabilization	800,342
Unrestricted	<u>7,846,335</u>
Total net position	<u>73,903,340</u>

<b>Total liabilities, deferred inflows of resources and net position</b>	<b><u>\$ 116,795,932</u></b>
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The accompanying notes are an integral part of these financial statements.

CHICOPEE MUNICIPAL LIGHTING PLANT

PROPRIETARY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2018

<b>Operating revenues</b>	
Sales of electricity:	
Residential	\$ 26,808,403
Commercial	21,036,507
Governmental	6,974,784
Industrial	6,128,737
Transmission revenue	572,155
Contract work revenue	959,773
Other operating revenue	364,036
Rate stabilization fund transfers	<u>2,540,403</u>
Total operating revenues	<u>65,384,798</u>
<b>Operating expenses</b>	
Purchased power	47,416,033
Distribution	2,834,302
Power production	520,462
Transmission	36,236
Contract work	602,005
General and administrative	7,588,403
Depreciation	2,196,995
Amortization	867,729
Other expenses	<u>55,108</u>
Total operating expenses	<u>62,117,273</u>
<b>Operating income</b>	3,267,525
<b>Investment loss</b>	<u>(46,451)</u>
<b>Income before transfers</b>	3,221,074
<b>Transfers out - in lieu of tax payments to City</b>	(715,000)
<b>Transfers out - other payments to City</b>	<u>(25,000)</u>
<b>Change in net position</b>	2,481,074
<b>Net position, beginning of year (as restated)</b>	<u>71,422,266</u>
<b>Net position, end of year</b>	<u>\$ 73,903,340</u>

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



CHICOPEE MUNICIPAL LIGHTING PLANT

PROPRIETARY FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2018

<b>Cash flows from operating activities</b>	
Cash received for services	\$ 62,357,264
Cash paid to power suppliers	(47,230,338)
Cash paid to employees for compensation	(5,732,205)
Cash paid for other operations	<u>(6,825,750)</u>
Net cash provided by operating activities	<u>2,568,971</u>
<b>Cash flows from capital and related financing activities</b>	
Cash paid for capital expenditures	<u>(3,086,366)</u>
Net cash used by capital financing activities	<u>(3,086,366)</u>
<b>Cash flows from non-capital financing activities</b>	
Cash paid for in lieu of taxes	(715,000)
Other cash payment to City	<u>(25,000)</u>
Net cash used by non-capital financing activities	<u>(740,000)</u>
<b>Cash flows from investing activities</b>	
Cash received from sales of investments	4,782,010
Cash received from investment earnings	1,557,007
Cash paid for purchases of investments	<u>(6,196,989)</u>
Net cash provided by investing activities	<u>142,028</u>
<b>Net decrease in cash and cash equivalents</b>	(1,115,367)
<b>Cash and cash equivalents, beginning of year</b>	<u>18,427,804</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 17,312,437</u>
<b>Cash and cash equivalents included in:</b>	
Unrestricted cash and cash equivalents	\$ 3,102,995
Restricted and designated cash and cash equivalents	<u>14,209,442</u>
<b>Cash and cash equivalents, end of the year</b>	<u>\$ 17,312,437</u>

(Continued)

# CHICOPEE MUNICIPAL LIGHTING PLANT

## PROPRIETARY FUND STATEMENT OF CASH FLOWS (Continued) FOR THE YEAR ENDED DECEMBER 31, 2018

<b>Cash flows from operating activities</b>	
Operating income	\$ 3,267,525
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,196,995
Amortization	867,729
Deferred outflows related to other post-employment benefits	76,010
Deferred outflows related to pensions	(61,766)
Deferred inflows related to pensions	1,337,733
Allowance for uncollectible accounts	40,000
Net changes in operating assets and liabilities:	
Accounts receivable	(651,262)
Fuel, materials and supplies	(170,239)
Prepaid expenses and other assets	(107,990)
Other receivables	124,131
Accounts payable	185,332
Accrued expenses	(20,040)
Accrued compensated absences	(41,849)
Customers' deposits	(77,278)
Deferred credits	68,928
Net other post-employment benefit liability	36,699
Net pension liability	(1,981,687)
Reserve for rate stabilization	<u>(2,520,000)</u>
Net cash provided by operating activities	<u>\$ 2,568,971</u>
 <b>Supplemental disclosure of non-cash information</b>	
Construction in process in accounts payable as of year end	\$ 553,449

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

**FIDUCIARY FUND**

**CHICOPEE MUNICIPAL LIGHTING PLANT**  
**FIDUCIARY FUND**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**OTHER POST-EMPLOYMENT BENEFIT TRUST FUND**  
**DECEMBER 31, 2018**

**Assets**

Cash	\$ 114,997
Contribution receivable	112,500
Investments	<u>2,560,771</u>
Total assets	<u>2,788,268</u>

**Net position**

Held in trust for other post-employment benefits	<u>\$ 2,788,268</u>
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The accompanying notes are an integral part of these financial statements.

CHICOPEE MUNICIPAL LIGHTING PLANT

FIDUCIARY FUND  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
OTHER POST-EMPLOYMENT BENEFIT TRUST FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018

Contributions	\$ <u>450,000</u>
Investment income (expense):	
Dividends, interest and capital gains	117,006
Realized gain	70,970
Unrealized loss	(257,405)
Other expense	(128,158)
Management fees	<u>(9,326)</u>
Investment expense, net	<u>(206,913)</u>
Total additions	243,087
Net position, beginning of year	<u>2,545,181</u>
Net position, end of year	\$ <u>2,788,268</u>

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

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

### 1. REPORTING ENTITY:

The Chicopee Municipal Lighting Plant (the "Lighting Plant") provides electric service to its customers, substantially all of whom are local residents and commercial and industrial businesses within the City of Chicopee, Massachusetts. The Lighting Plant is classified under the proprietary fund category and enterprise fund type of the City of Chicopee (the "City"). These financial statements report only that portion of the financial reporting entity of the City of Chicopee that is attributable to the Lighting Plant's transactions and not the City as a whole.

The Lighting Plant maintains an Other Post-Employment Benefits Trust, as further described in Note 2. This Trust is classified as a fiduciary fund.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### **Measurement focus and basis of accounting**

The Lighting Plant's accounting records are maintained in accordance with Generally Accepted Accounting Principles ("GAAP") for proprietary funds as prescribed by the Government Accounting Standards Board ("GASB"). The Lighting Plant'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 Chicopee Municipal Lighting Plant, outside agencies and other utilities covering interconnections, interchange of electric power, and sales of utility property are subject to regulation by FERC. The Lighting Plant is subject to further regulation by the Massachusetts Department of Public Utilities ("DPU"). The Lighting Plant, where appropriate, follows accounting treatment prescribed by these regulatory agencies.

Under Massachusetts Law, electric rates of the Lighting Plant are set by the Electric Light Commission 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 Lighting Plant, 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 (the "Commonwealth"). They offer services ranging from power supply planning and resource development to risk management and regulatory support. The Lighting Plant utilizes MMWEC for purchased power and investment of some assets.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

#### **Fiduciary fund – Other Post-Employment Benefit Trust**

The Other Post-Employment Benefit Trust Fund (“OPEB Trust”) was established in 2015 by the Electric Light Commission, pursuant to Chapter 32B, Section 20 of the General Laws of the Commonwealth. The OPEB Trust constitutes the principal instrument of a plan established by the Electric Light Commission to fund the Lighting Plant’s actuarially determined OPEB liability.

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

#### **Revenues and expenses**

Utility revenues are based on authorized rates applied to each customer’s use of electricity. Rate changes are approved by the Electric Light Commission and are filed with the DPU. These operating revenues are recognized on the basis of cycle billings rendered monthly. Other operating revenue consists primarily of stores, merchandising and jobbing charges to customers for services related to the distribution of electricity. Other revenues not directly associated with the sale of electricity and related services are recognized on a monthly basis based on services rendered. No discounts are offered to customers for early payment. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the above definitions are reported as non-operating revenues and expenses.

#### **Cash and cash equivalents**

Cash includes cash on hand and on deposit with the City, which is in the custody of and managed by the City Treasurer and MMWEC. The Lighting Plant also considers all short-term investments with an original maturity date of 90 days or less to be cash equivalents.

#### **Accounts and other receivables**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense 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 for doubtful accounts and a credit to accounts receivable. No interest is charged on residential accounts. Interest is charged at the rate of 1½ percent per month on past due commercial accounts.

In the ordinary course of business, the Lighting Plant will enter into energy conservation reimbursement contracts with its commercial customers. These are secured by the equipment associated with the reimbursement. Contracts with terms longer than one year are classified as long-term. Also, the Lighting Plant enters into contracts for construction projects. Interest receivable is recorded when earned. Collectability is assessed by management as described above.

#### **Fuel, materials and supplies**

Fuel, materials and supplies are valued at the lower of cost (average cost method) or net realizable value. Materials and supplies consist primarily of cable, switchgears and utility poles.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

#### **Restricted and designated assets**

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

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

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

#### **Investment in jointly owned electric utility plants**

This consists of the Lighting Plant's equity in New England Hydro-Transmission Corporation and New England Hydro-Transmission Electric Company (the "Companies"). The Lighting Plant joined with other utilities on committing to equity sponsorship of a project known as Hydro-Quebec Phase II, which operates certain electric transmission facilities in New Hampshire and Massachusetts. The Lighting Plant owns .3176% of the Companies' outstanding common stock. The Lighting Plant 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 Lighting Plant's pro-rata share of earnings or losses and distributions. Investment income is recorded as earned.

#### **Utility plant**

Additions to and replacements of plant, property and equipment are recorded at cost. The cost of plant, property and equipment retired, including cost of removal, less salvage, is charged to accumulated depreciation. The cost of repairs and minor renewals is charged to maintenance expense accounts. The Lighting Plant evaluated the fair value of its assets and no impairment charges were deemed necessary by management. The Lighting Plant capitalizes fixed asset additions with an original cost of \$2,000 or more, except for electric distribution, generation and transmission plant assets for which all additions are capitalized.

#### **Deferred outflows of resources**

Deferred outflows of resources related to other post-employment benefits were determined using actuarial assumptions as of January 1, 2018. Deferred outflows of resources related to pensions were determined using actuarial assumptions as of January 1, 2017.



# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

#### Depreciation

Depreciation is computed using the straight-line method at a composite rate based upon utility plant-in service, adjusted for salvage value and removal costs. The Lighting Plant has approval from the DPU to calculate annual depreciation at a rate not in excess of 5%, in total, of depreciable property in service at the beginning of the year. The composite rate for the year ended December 31, 2018 was 2.73%.

#### Construction in process

Construction in process 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 process 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.

#### Amortization

The regulatory asset is being amortized on a straight-line basis over 296 months. The intangible plant asset, included in utility plant, was being amortized on a straight-line basis over 120 months. These assets are tested for impairment each year and no impairment was recorded.

#### Compensated absences

The Lighting Plant recognizes vacation and sick leave costs (including related employee benefits) as they are earned. An employee is entitled to vacation after having completed six months of employment. Only salaried employees may carry forward up to two weeks of vacation into the following calendar year. Accrued vacation as of December 31, 2018 was \$41,504. Employees accrue sick leave on the first day of each month at the rate of one and one quarter days per month, which can be accumulated up to 260 days. Employees with twenty years or more of consecutive services to the Lighting Plant may accumulate up to 300 sick days. Accrued sick leave as of December 31, 2018 was \$1,933,539.

#### Deferred credits

The Lighting Plant has billed customers for work not yet performed and has received advanced payments from customers. When the work is performed, the related amount will be recognized as revenue. Deferred credits classified as long-term liabilities represent work that will be performed more than twelve months after the year end date.

#### Deferred inflows of resources

Deferred inflows or resources related to pensions were determined using actuarial assumptions as of January 1, 2017. In accordance with the requirements of GASB No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, the Lighting Plant has classified its reserve for rate stabilization as a deferred inflow (see Note 12).

#### Net position

The Lighting Plant classifies its 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. Deferred inflows and outflows of resources that are attributable to the acquisition, construction or improvement of those assets are also included.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

#### Net position (continued)

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

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

#### Net other post-employment benefits liability

Under GASB No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*” (“GASB No. 75”), the net OPEB liability (“NOL”) is the difference between the actuarial present value of projected OPEB benefit payments attributable to employees’ past service and the OPEB plan’s fiduciary net position. At December 31, 2018, the NOL was \$5,160,340 (see Note 12).

#### Net pension liability

Under GASB No. 68 “*Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27,*” the net pension liability (“NPL”) is the difference between the actuarial present value of projected pension benefit payments attributable to employees’ past service and the Plan’s fiduciary net position. At December 31, 2018, the NPL was \$6,324,580 (see Note 11).

#### Presentation of sales taxes

During 2018, the Commonwealth imposed a sales tax of 6.25% on the Lighting Plant’s non-exempt customers. The Lighting Plant collects that sales tax from customers and remits the entire amount to the Commonwealth. The Lighting Plant’s accounting policy is to exclude tax collected and remitted to the Commonwealth from revenues and operating expenses.

#### Taxes

The Lighting Plant is exempt from taxes, including property taxes. Instead, the Lighting Plant pays an amount to the City in lieu of taxes.

#### Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

#### Recent accounting pronouncements

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

In March 2017, GASB issued SGAS No. 85, “*Omnibus 2017*” (“GASB No. 85”). GASB No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This statement is effective for the Lighting Plant in 2018. The Lighting Plant has assessed the financial statement impact of adopting the new statement, and its impact is not material.

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

**CHICOPEE MUNICIPAL LIGHTING PLANT**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Recent accounting pronouncements (continued)**

In June 2018, GASB issued SGAS No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period" ("GASB No. 89"). The primary objectives of this statement are to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) simplify accounting for interest cost incurred before the end of a construction period. This statement replaces the requirements of paragraphs 5-22 of SGAS No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". This statement establishes accounting requirements for interest cost incurred before the end of a construction period. For interest cost incurred before the end of a construction period, GASB No. 89 requires that the cost be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. Resultantly, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement is effective for the Lighting Plant in 2020. The Lighting Plant is currently assessing the financial statement impact of adopting this statement.

**3. ACCOUNTING CHANGES:**

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

The implementation impacted the proprietary fund statement of net position when the net OPEB liability and the corresponding deferred outflows of resources were recorded. The implementation also impacted the proprietary fund statement of revenues, expenses and changes in net position as a reduction in OPEB expense was also recorded. The Lighting Plant has updated Note 12, OPEB, to include the requirements of GASB No. 75.

A prior period adjustment was made effective January 1, 2018 to unrestricted net position to reflect the adoption of GASB No. 75 by recording the beginning net OPEB liability.

The effect on the beginning of year net position is summarized as follows:

	<u>Net Investment in Capital Assets</u>	<u>Restricted - Depreciation</u>	<u>Restricted - Rate Stabilization</u>	<u>Unrestricted</u>	<u>Total Net Position</u>
Net position as previously stated, December 31, 2017	\$ 40,728,443	\$ 23,389,710	\$ 1,010,857	\$ 10,573,548	\$ 75,702,558
Net OPEB liability	-	-	-	(4,280,292)	(4,280,292)
Net position as restated, December 31, 2017	<u>\$ 40,728,443</u>	<u>\$ 23,389,710</u>	<u>\$ 1,010,857</u>	<u>\$ 6,293,256</u>	<u>\$ 71,422,266</u>

**CHICOPEE MUNICIPAL LIGHTING PLANT**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**4. FUEL, MATERIALS AND SUPPLIES:**

Fuel, materials and supplies at December 31, 2018 consists of:

Fuel	\$	59,664
Materials and supplies		2,240,462
		2,300,126

**5. RESTRICTED AND DESIGNATED ASSETS:**

Restricted and designated assets include accounts deposited with MMWEC and the City of Chicopee (through the Office of the City Treasurer). These funds are segregated by management for specific outlays and contingencies and are recorded at their fair value.

The balance at December 31, 2018 consists of the following, at fair value:

	Cash and Cash Equivalents	Investments	Total
Depreciation fund	\$ 11,709,900	\$ 11,928,949	\$ 23,638,849
Customers' deposits	1,122,038	-	1,122,038
MMWEC working reserve fund	7,110	3,497,598	3,504,708
Rate stabilization	41,799	19,782,116	19,823,915
Pension fund	-	4,121,670	4,121,670
Westover Air Reserve Base fund	1,015,038	-	1,015,038
Other funds	313,557	272,687	586,244
Total	\$ 14,209,442	\$ 39,603,020	\$ 53,812,462

Investments included in restricted and designated assets at December 31, 2018 consist of:

	Cost	Fair Value	Cumulative Unrealized (Loss)/Gain
Cash and cash equivalents	\$ 1,536,805	\$ 1,536,805	\$ -
Certificates of deposit	979,384	969,923	(9,461)
Government and agency bonds	3,351,678	3,385,006	33,328
Municipal bonds	6,991,178	6,935,985	(55,193)
Corporate bonds	7,146,424	6,881,176	(265,248)
Mutual funds - bond type	6,496,363	6,394,857	(101,506)
Mutual funds - equity type	4,903,005	4,678,803	(224,202)
U.S. treasury securities	1,368,225	1,362,987	(5,238)
U.S. agency securities	7,488,640	7,457,478	(31,162)
Total	\$ 40,261,702	\$ 39,603,020	\$ (658,682)

**CHICOPEE MUNICIPAL LIGHTING PLANT**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**5. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)**

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

Interest and dividend income	\$	1,557,007
Realized losses		(181,593)
Unrealized loss		(1,421,865)
Total	\$	<u>(46,451)</u>

Investment fees were \$105,163 for the year ended December 31, 2018.

At December 31, 2018, the Lighting Plant's bond investments were as follows:

	<u>Fair value</u>	<u>Maturity</u>			
		<u>Less than 1 year</u>	<u>1 - 5 years</u>	<u>6 - 10 years</u>	<u>Over 10 years</u>
Government and agency bonds	\$ 3,385,006	\$ 1,106,494	\$ 2,034,505	\$ 244,007	\$ -
Municipal bonds	6,935,985	987,542	2,319,995	3,198,534	429,914
Corporate bonds	6,881,176	50,051	4,047,986	2,783,139	-
U.S. treasury securities	1,362,987	1,287,436	75,551	-	-
U.S. agency securities	7,457,478	582,661	6,428,452	446,365	-
	<u>\$ 26,022,632</u>	<u>\$ 4,014,184</u>	<u>\$ 14,906,489</u>	<u>\$ 6,672,045</u>	<u>\$ 429,914</u>

At December 31, 2018, the Lighting Plant's bond investments were rated as follows:

	<u>Standard &amp; Poor's</u>	<u>Moody's Investment</u>
Government and agency bonds	AA+	AAA
Municipal bonds	AAA to A+	AAA to A2
Corporate bonds	AAA to BBB	AAA to BAA2
U.S. treasury securities	AA+	AAA
U.S. agency securities	AA+	AAA

Investment accounts totaling \$29,504,900 at December 31, 2018, are in the custody of the City of Chicopee Treasurer's Office.

For any funds in the custody of the City Treasurer, the following risk policies are in accordance with those used by the City:

**Interest rate risk**

The Lighting Plant's policy is to manage interest rate risk by managing duration in the account.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

### 5. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

#### Credit risk

The Lighting Plant's policy includes no limit to the amount of United States Treasury and United States Government Agency obligations. In regards to fixed-income investments, the Lighting Plant will predominantly purchase investment grade securities with a high concentration rated A or better.

#### Concentration of credit risk

The Lighting Plant's policy is securities of a single corporate issuer (with the exception of the United States Government and its Agencies) will not exceed 5% of the portfolio value. At December 31, 2018, the City of Chicopee (through the Office of the City Treasurer), on the Lighting Plant's behalf, has invested 5% or more of the Lighting Plant's investments in the Federal Farm Credit Bank and in Massachusetts State Bonds, each totaling 8% of total bond investments.

#### Custodial credit risk - cash

Custodial credit risk is the risk that in the event of a bank failure, the Lighting Plant's deposits may not be returned. The Lighting Plant does not have a deposit policy for custodial credit risk. The Lighting Plant 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, 2018, as reflected in the financial statements, the uninsured balance could be as high as approximately \$16,551,000. The Lighting Plant has not experienced any loss on such accounts and management monitors the credit worthiness of these financial institutions through the Office of the City Treasurer.

#### Custodial credit risk - investments

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty the Lighting Plant will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Lighting Plant's policy includes the review of financial statements, requires proof of coverage by Securities Investor Protection Corporation ("SIPC") or other coverage that is equal to or in excess of the fair value of their investments and that the investments are held in the Lighting Plant's name and tax identification number by a third party custodian approved by the City Treasurer. Of the Lighting Plant's \$39,603,020 in investments, \$29,504,900 are in accounts held on behalf of the Lighting Plant by LPL Financial (a third party investment manager) and include various equity securities and bonds, some of which are uninsured.

### 6. FAIR VALUE MEASUREMENT:

GASB No. 72 "*Fair Value Measurement and Application*" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The Lighting Plant utilizes market data or assumption that market participants would use in pricing the asset or liability, including assumption about risk and the risks inherent in the inputs to the valuation technique.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

### 6. FAIR VALUE MEASUREMENT: (CONTINUED)

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

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

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

- Certificates of deposit – based on the initial investment amount.
- Government and agency bonds - use a market based approach which considers yield, price of comparable securities, coupon rate, maturity, credit quality and dealer-provided prices.
- Municipal bonds - use a market based approach based on institutional bond quotes. Evaluations are based on various market and industry inputs.
- Corporate bonds - use a market based approach. Evaluations are based on various market and industry inputs.
- U.S. treasury securities - use a market based approach. Evaluations are based on various market and industry inputs.
- U.S. agency securities - use a market based approach which considers yield, price of comparable securities, coupon rate, maturity, credit quality and dealer-provided prices.
- Mutual funds - are based on quoted prices in active markets.

The following table identifies the level within the fair value hierarchy that the Lighting Plant's financial assets were accounted for on a recurring basis as of December 31, 2018. As required by GASB No. 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Lighting Plant's assessment of the significance of the particular input to the fair value measurement requires judgement, and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

Recurring fair value measurements as of December 31, 2018:

	Level 1	Level 2	Total
Cash and cash equivalents	\$ 1,536,805	\$ -	\$ 1,536,805
Certificates of deposit	969,923	-	969,923
Government and agency bonds	-	3,385,006	3,385,006
Municipal bonds	-	6,935,985	6,935,985
Corporate bonds	-	6,881,176	6,881,176
U.S. treasury securities	1,362,987	-	1,362,987
U.S. agency securities	-	7,457,478	7,457,478
Mutual funds – bond type	6,394,857	-	6,394,857
Mutual funds – equity type	4,678,803	-	4,678,803
	\$ 14,943,375	\$ 24,659,645	\$ 39,603,020



# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

### 7. REGULATORY ASSET:

The accounting policies of the Lighting Plant 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 2001, the Millstone 3 Unit was sold and this sale included the Lighting Plant's ownership interest in the facility, and most of its Millstone 3 decommissioning fund. The purchaser assumed the responsibility for decommissioning the Unit. The Electric Light Commission voted to include the unrecovered cost of its investment in Millstone 3, with a full return on investment, in future rates as amortization of a regulatory asset. Management believes it is probable that the Lighting Plant will recover their investment in the regulatory asset.

Regulatory asset – cost	\$	21,403,993
Less: accumulated amortization		<u>15,402,197</u>
	\$	<u>6,001,796</u>

Amortization expense was \$867,729 for the year ended December 31, 2018. Amortization expense is estimated to be \$867,729 for each of the next five years.

### 8. FIDUCIARY FUND:

The assets and net position of this Trust are reported in the Lighting Plant's Statement of Fiduciary Net Position (see page 7).

Investments (at fair value) of the OPEB Trust consist of the following at December 31, 2018:

Mutual funds:		
Short-term bond	\$	82,155
Total return bond		244,941
Nontraditional bond		140,135
Small growth		80,618
Managed futures		53,171
Mid-cap value		98,222
Diversified emerging markets		244,084
Small value		81,071
High yield bond		156,948
Large growth		375,324
Large value		364,424
Market neutral		58,180
Commodities broad basket		52,376
Foreign large growth		202,550
Global real estate		52,287
Long-short equity		50,620
Mid-cap growth		104,270
Bank loan		<u>119,395</u>
Total investments	\$	<u>2,560,771</u>

**CHICOPEE MUNICIPAL LIGHTING PLANT**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**9. UTILITY PLANT:**

A summary of the utility plant at December 31, 2018 is as follows:

	<u>Balance January 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2018</u>
<i>Utility plant not being depreciated:</i>				
Land	\$ 807,063	\$ -	\$ -	\$ 807,063
Construction in process	<u>2,200,538</u>	<u>2,477,132</u>	<u>(1,202,169)</u>	<u>3,475,501</u>
<i>Total utility plant not being depreciated</i>	<u>\$ 3,007,601</u>	<u>\$ 2,477,132</u>	<u>\$ (1,202,169)</u>	<u>\$ 4,282,564</u>
<i>Utility plant being depreciated:</i>				
Plant investment	\$ 70,775,381	\$ 1,290,134	\$ (160,752)	\$ 71,904,763
Intangible plant	2,825,000	-	-	2,825,000
Office furniture and equipment	2,762,003	215,397	(463,630)	2,513,770
Transportation equipment	2,479,683	70,490	(45,515)	2,504,658
Communication equipment	3,363,762	29,018	-	3,392,780
Other	<u>1,011,711</u>	<u>71,405</u>	<u>(17,152)</u>	<u>1,065,964</u>
<i>Total utility plant being depreciated</i>	<u>83,217,540</u>	<u>1,676,444</u>	<u>(687,049)</u>	<u>84,206,935</u>
<i>Less accumulated depreciation for:</i>				
Plant investment	(35,207,112)	(1,746,663)	341,488	(36,612,287)
Intangible plant	(2,825,000)	-	-	(2,825,000)
Office furniture and equipment	(2,300,136)	(97,556)	463,630	(1,934,062)
Transportation equipment	(1,625,126)	(181,563)	45,515	(1,761,174)
Communication equipment	(2,696,719)	(179,937)	-	(2,876,656)
Other	<u>(842,605)</u>	<u>(37,053)</u>	<u>17,152</u>	<u>(862,506)</u>
<i>Total accumulated depreciation</i>	<u>(45,496,698)</u>	<u>(2,242,772)</u>	<u>867,785</u>	<u>(46,871,685)</u>
<i>Total utility plant being depreciated, net</i>	<u>37,720,842</u>	<u>(566,328)</u>	<u>180,736</u>	<u>37,335,250</u>
Total utility plant, net	\$ <u>40,728,443</u>	\$ <u>1,910,804</u>	\$ <u>(1,021,433)</u>	\$ <u>41,617,814</u>

In 2018, the Lighting Plant transferred \$1,202,169 from construction in process to utility plant.

Depreciation expense for the year ended December 31, 2018 amounted to \$2,196,995.

**Intangible plant asset**

Under FERC regulations, certain interconnect and other rights are included in utility plant – in service. As of December 31, 2018, the cost was \$2,825,000 and accumulated amortization was \$2,825,000.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

### 10. NONCURRENT LIABILITIES:

A summary of the changes in noncurrent liabilities as of December 31, 2018, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
Accrued compensated absences	\$ 2,016,892	\$ 914,769	\$ (956,618)	\$ 1,975,043	\$ 551,322
Deferred credits	1,367,417	536,038	(467,110)	1,436,345	30,639
Net other post-employment benefit liability	5,123,641	845,064	(808,365)	5,160,340	-
Net pension liability	8,306,267	-	(1,981,687)	6,324,580	-
Total	<u>\$ 16,814,217</u>	<u>\$ 2,295,871</u>	<u>\$ (4,213,780)</u>	<u>\$ 14,896,308</u>	<u>\$ 581,961</u>

### 11. PENSION PLANS:

#### Plan description

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

#### Benefits provided

The System provides retirement, disability, and death benefits to plan members and beneficiaries. Members become vested after 10 years of creditable service and are eligible for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Retirement benefits are determined as a percentage of the member's final three-year (five-year for members hired on or after April 2, 2012) final average compensation times the member's years of creditable service prior to retirement. The percentage is based on the age of the member at retirement and his or her Group classification. The authority for amending these provisions rests with the Massachusetts Legislature.

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

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

As of the last valuation date of January 1, 2017, the plan covered 71 active employees, no inactive employees, and 53 retired employees of the Lighting Plant.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

### 11. PENSION PLANS: (CONTINUED)

#### Contributions

MGL Chapter 32 governs the contributions of plan members and the Lighting Plant. Plan members are required to contribute to the System at rates ranging from 5% to 9% based upon their membership date of gross regular compensation with an additional 2% contribution after exceeding \$30,000 in annual covered compensation. The Lighting Plant is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The Lighting Plant's proportionate share of the required contribution to the System for the most recent period was \$1,565,720, representing 30.4% of the covered payroll, an actuarially determined amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year and an additional amount to finance any unfunded accrued liability.

#### Pension liability

As of December 31, 2018, a reported liability of \$6,324,580 is the Lighting Plant's proportionate share of the net pension liability measured as of December 31, 2017. The net pension liability was determined using the total pension liability and the actuarial assumptions as of January 1, 2017 and updated to the measurement date of December 31, 2017. This net pension liability is based on the Lighting Plant's proportional percentage of 9.08% at December 31, 2017. Certain prior year changes in net pension liability are amortized on a straight-line basis over 5 years.

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

For the year ended December 31, 2018, the Lighting Plant recognized pension expense of \$904,759 and reported deferred outflows related to pensions of \$2,520,680 and deferred inflows related to pensions of \$1,337,733.

Deferred outflows of resources related to pensions at December 31, 2018, consists of the following:

Contributions paid to the pension plan	\$ 1,610,081
Differences between expected and actual experience	27,913
Differences between employer's contributions and proportionate share	61,322
Net difference between projected and actual earnings on investments	821,364
Total	\$ <u>2,520,680</u>

Deferred inflows of resources related to pensions at December 31, 2018, consists of the following:

Differences between expected and actual experience	\$ 210,419
Differences between employer's contributions and proportionate share	162,678
Net difference between projected and actual earnings on investments	964,636
Total	\$ <u>1,337,733</u>

**CHICOPEE MUNICIPAL LIGHTING PLANT**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**11. PENSION PLANS: (CONTINUED)**

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

For years ended December 31,	
2019	\$ 331,529
2020	331,528
2021	284,870
2022	(97,162)
2023	59,834
	\$ 910,599

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

For years ended December 31,	
2019	\$ 267,547
2020	267,547
2021	267,547
2022	267,547
2023	267,545
	\$ 1,337,733

**Actuarial assumptions**

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

Valuation date:	January 1, 2017
Actuarial cost method:	Individual Entry Age Normal
Amortization method:	2.50% contribution increases
Remaining amortization period:	8 years for the fresh start base
Asset valuation method:	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains and losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value.
Investment rate of return:	7.5% per year.
Projected salary increase:	Group 1 & 2 – 7.25% years 1-6, 3.75% all other years. Group 4 – Police – 6.20% years 1-13, 4.50% all other years. Fire – 6.25% year 8, 7.25% year 25, 4.25% all other years.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

### 11. PENSION PLANS: (CONTINUED)

#### Actuarial assumptions (continued)

Cost of living adjustments: 3.0% of first \$15,000.

Mortality rates: RP-2014 mortality table projected generationally from 2006 using MP-2016. For members retired under an Accidental Disability (job-related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality RP-2014 mortality table projected generationally from 2006 using MP-2016, ages set forward 2 years. (Prior valuation used RP-2000 mortality table projected generationally from 2000 using scale BB.)

#### Long-term expected rate of return

The long-term expected real rate of return reflects the expected rate of return on plan assets minus the expected rate of inflation. Note that the discount rate includes the effect of inflation. The long-term real rate of return removes the effect of inflation on the return amounts. It is a long-term assumption and is meant to reflect a best estimate of future experience, based on the expected asset allocation. The allocation percentages on the following page are based on information provided by the Chicopee Retirement System and SEI. The real rates of return below are based on 30-year return estimates provided by SEI, adjusted using a 3% inflation assumption.

Best estimates of arithmetic real rates of return for each major class included in the pension plan's target asset allocation as of December 31, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.5%	4.47%
International Equities	15.5%	4.66%
Emerging Equities	6.0%	6.12%
Core Bonds	5.0%	0.73%
20+ Yr. Treasury STRIPS	2.0%	0.49%
TIPS	5.0%	0.73%
Value-Added Fixed Income	10.0%	3.50%
Private Equity	12.0%	6.31%
Real Estate	10.0%	3.59%
Timberland	4.0%	3.16%
Portfolio Completion (PCS)	13.0%	3.44%
Total	100.0%	

#### Rate of return

As of December 31, 2017, the annual money-weighted rate of return (which expresses investment performance), net of investment expense was 15.89%.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

### 11. PENSION PLANS: (CONTINUED)

#### Discount rate

The discount rate used to measure the total pension liability was 7.5%, which remains unchanged from the prior year. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarial determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute and in accordance with Section 22D and Section 22F of MGL Chapter 32. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Lighting Plant's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as at discount rates 1-percentage-point lower (6.5%) and 1-percentage-point higher (8.5%):

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Lighting Plant's net pension liability	\$ 10,296,147	\$ 6,324,580	\$ 3,221,367

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

#### Plan description

The Lighting Plant offers medical insurance benefits to eligible retirees (and their surviving spouse) via participation in plans offered by the City and the Chicopee Retirement System with benefits provided by Blue Cross Blue Shield of Massachusetts and Health New England. The System is a defined benefit cost-sharing multiple-employer public employee retirement system administered by the Board. The Lighting Plant obtains an individual actuarial valuation which shows their proportionate share of the NOL. Premiums are calculated based on prior year claim experiences and amounts needed to fund the plan operations.

#### Plan information

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

Chicopee Contributory Retirement System  
City Hall, Market Square  
Chicopee, Massachusetts 01013-2685

#### Plan membership

The OPEB valuation dated January 1, 2018 covers the year ended December 31, 2018. The number of participants as of the valuation date is as follows:

Current active members	71
Current retirees, beneficiaries and dependents	<u>50</u>
Total	<u><u>121</u></u>

**CHICOPEE MUNICIPAL LIGHTING PLANT**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

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

**Actuarial assumptions and methods**

The total OPEB liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement that was updated for the reporting date of December 31, 2018, unless otherwise specified:

Valuation date:	January 1, 2018
Actuarial cost method:	Entry age normal
Discount rate:	6.25% annually, net of investment expenses
Participant salary increases:	3.50% annually and 2.50% CPI-U
Healthcare cost trend rates:	Varies
Mortality rates:	Actives: RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Employees projected using generational mortality and scale MP-2016. Retirees: RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2016. Disabled: RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2016. Set forward 2 years.

The actuarial assumptions which used the January 1, 2018 actuarial valuation and market value of assets as of the measurement date of December 31, 2018 were reflective of published municipal bond indices. The 20-year Municipal General Obligation bond rate of 4.10% per the Bond Buyer 20 Bond Index was used.

**Long-term expected rate of return**

The long-term expected real rate of return reflects the expected rate of return on plan assets adjusted for the expected rate of inflation. Note that the discount rate includes the effect of inflation. The long-term real rate of return removes the effect of inflation on the return amounts. It is a long-term assumption and is meant to reflect a best estimate of future experience, based on the expected asset allocation. The allocation percentages are based on information provided by the Chicopee Electric Light Department and the asset consultant. The real rates of return below are based on long-term nominal return estimates adjusted by a CPI assumption of 1.70%.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return (geometric)</u>
U.S. stocks	51.40%	5.2%
Non-U.S. stocks	13.30%	5.9%
Bonds	29.00%	2.1%
Alternatives	5.10%	8.2%
Cash	1.20%	0.9%



**CHICOPEE MUNICIPAL LIGHTING PLANT**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

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

	<u>Changes in Net OPEB Liability Increase (Decrease)</u>		
	Total OPEB Liability at 6.25%	Plan Fiduciary Net Position	NOL
	(a)	(b)	(a) – (b)
Balances at December 31, 2017	\$ *7,668,822	\$ 2,545,181	\$ *5,123,641
Service cost	160,046	-	160,046
Interest on total OPEB liability	478,105	-	478,105
Net investment income	-	(206,913)	206,913
Contributions – employer	-	808,365	(808,365)
Benefit payments, including refunds of employee contributions	(358,365)	(358,365)	-
Net changes	279,786	243,087	36,699
Balances at December 31, 2018	\$ 7,948,608	\$ 2,788,268	\$ 5,160,340

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

**Discount rate**

The discount rate used to measure the total OPEB liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that member employer contributions will be made in accordance Massachusetts General Law Chapter 32. Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the NOL to changes in the discount rate**

The following presents the Lighting Plant’s net OPEB liability calculated at the valuation discount rate of 6.25% as well as at discount rates 1-percentage-point lower (5.25%) and 1-percentage-point higher (7.25%):

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Lighting Plant's net OPEB liability	\$ 6,097,506	\$ 5,160,340	\$ 4,385,033

**Sensitivity of the NOL to changes in the healthcare trend rates**

The actuarial assumptions included a 5.48% healthcare cost trend rate reduced by decrements to an ultimate rate of 5% after 7 years. The following table presents the effect of a 1-percentage-point decrease (4.48%) and 1-percentage-point increase (6.48%) in the assumed rates of healthcare cost trend in each year:

	1% Decrease (4.48%)	Current Discount Rate (5.48%)	1% Increase (6.48%)
Lighting Plant's net OPEB liability	\$ 4,235,034	\$ 5,160,340	\$ 6,301,990

**CHICOPEE MUNICIPAL LIGHTING PLANT**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

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

**Expense and deferred outflows of resources related to OPEB**

For the year ended December 31, 2018, the Lighting Plant recognized an OPEB expense of \$684,966.

The Lighting Plant reported deferred outflows of resources related to OPEB of \$304,039 from the following source:

Net difference between projected and actual earnings on investments	\$ <u>304,039</u>
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The Lighting Plant’s deferred outflows of resources related to OPEB will be recognized in the OPEB expense as follows:

For years ended December 31,		
2019	\$	76,010
2020		76,010
2021		76,010
2022		<u>76,009</u>
	\$	<u>304,039</u>

**Contributions**

There is no statutory actuarially determined contribution. OPEB contributions are elective and not required. For the year ended December 31, 2018, contributions totaled \$450,000, including a payment of \$112,500 made subsequent to the measurement date.

**13. RESERVE FOR RATE STABILIZATION:**

The Electric Light Commission, in their capacity as the governing body for the Lighting Plant, has 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. At the direction of the Electric Light Commission, amounts may be either transferred into this fund (which reduces revenues), or amounts are transferred out of this fund (which increases revenues). The Electric Light Commission authorizes rate stabilization fund transfers on an event driven basis.

During 2018, the Lighting Plant used these funds to offset power costs. The Lighting Plant decreased the reserve liability by \$2,520,000 during 2018. The balance remaining to offset future costs is \$19,023,573 as of December 31, 2018.

**CHICOPEE MUNICIPAL LIGHTING PLANT**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**14. LEASES:**

The Lighting Plant leases various office and transportation equipment under non-cancelable operating leases with payments due through March 2022. Rental expense totaled \$19,907 for the year ended December 31, 2018.

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

2019	\$	15,824
2020		12,450
2021		2,237
2022		491
Total required minimum lease payments	\$	<u>31,002</u>

**15. COMMITMENTS AND CONTINGENCIES:**

**Purchased power and transmission contracts**

The Lighting Plant signed a 5 year extension to the Electricity Supply Agreement with Ameresco Chicopee Energy, LLC, from February 2019 to February 2024, for the purchase of 100% of the energy (up to 7.6 Mw of electric power).

The Lighting Plant signed a 20 year purchase power agreement for 10% of the output from the Thomas A. Watson Generating Station (the "Station") located in Braintree, Massachusetts, which began commercial operations in June 2009. The Station is estimated to be 116 Mw winter rating and is a peaking plant. The contract is for 10% of the capacity and energy of the plant.

In October 2013, the Lighting Plant signed an agreement with Ashuelot River Hydro through MMWEC for 47.5% of the power. The total capacity of the two facilities is approximately 1.7 Mw. The contract expires on December 31, 2021.

The Lighting Plant signed a 20 year agreement with Chicopee Solar, LLC for the purchase of 3 Mw of solar energy and capacity from the facility. The agreement was signed on March 18, 2013 and amended on June 3, 2013. The facility started producing energy on December 27, 2013.

The Lighting Plant signed a 20 year agreement known as Special Project 2013B with Eagle Creek Renewable Energy, LLC through MMWEC. The agreement was signed on December 26, 2013 for power beginning on January 1, 2014. The original agreement called for approximately 1.826 Mw of hydro energy from the Eagle Creek assets. In July 2014, the Clement Dam was added to the Eagle Creek asset increasing the entitlement to 2.5Mw.

The Lighting Plant signed a 25 year agreement known as Special Project 2013C with Hancock Wind, LLC through MMWEC. The project is for a 35 Mw wind project located in Maine. The project began commercial operation on December 14, 2016. The Lighting Plant will purchase 16.085% of the output or approximately 5.63 Mw.

The Lighting Plant signed a 20 year agreement with Chicopee River Solar, LLC for the purchase of 2.2 Mw of solar energy and capacity from the facility. The agreement was signed on April 28, 2014. The facility started producing energy on December 30, 2014.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

### 15. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

#### Purchased power and transmission contracts (continued)

The Lighting Plant signed a 20 year agreement with Chicopee Granby Road Solar, LLC for the purchase of 1.7 Mw of solar energy and capacity from the facility. The agreement was signed on April 28, 2014. The facility started producing energy on December 30, 2014.

The Lighting Plant signed a 25 year agreement with CED Chicopee Solar, LLC for the purchase of 3.0 Mw of solar energy and capacity from the facility. The agreement was signed on November 22, 2016. The facility started producing energy on April 7, 2017.

The Lighting Plant signed a 20 year agreement with Southern Sky Renewable Energy Chicopee, LLC for the purchase of 2.0 Mw of solar energy and capacity from the facility. The agreement was signed on September 20 2016. The facility started producing energy on April 21, 2017.

MMWEC has secured several energy contracts on the Lighting Plant's behalf. Listed below are the long-term Mw commitments.

	<u>On Peak MW</u>	<u>Off Peak MW</u>
2019	28.00 Mw	24.00 Mw
2020	23.00 Mw	20.00 Mw
2021	18.00 Mw	17.00 Mw
2022	10.00 Mw	10.00 Mw
2023	10.00 Mw	10.00 Mw
2024	10.00 Mw	10.00 Mw
2025	10.00 Mw	10.00 Mw

In addition, MMWEC purchases many short-term contracts to cover individual months to help stabilize the Lighting Plants' power costs.

The Lighting Plant also secured capacity agreements through MMWEC to purchase capacity for June 2019 through May 2024 to meet its forward capacity requirements.

The Lighting Plant signed a 20 year agreement with Holiday Hill Wind for the purchase of 3.4 Mw of wind energy and capacity from the facility. The agreement was signed on September 28, 2018. The facility is expected to start producing energy on or before November 1, 2019.

The Lighting Plant signed a Power Sales Agreement with Berkshire Wind for the purchase of .75 Mw of wind energy and capacity from the facility. The agreement was signed on June 25, 2018. The facility is expected to start producing energy on or before August 1, 2019.

The Lighting Plant signed a Power Sales Agreement with MMWEC for the purchase of 2.67 M of energy and capacity from Special Project 2015A, a Peaking Project located in Peabody Massachusetts. The agreement was signed on February 2, 2019 and is expected to be online in 2021.

None of the entities with which the Lighting Plant has contracted with are related parties or component units of the Lighting Plant.

**CHICOPEE MUNICIPAL LIGHTING PLANT**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**15. COMMITMENTS AND CONTINGENCIES: (CONTINUED)**

**Purchased power and transmission contracts (continued)**

Future annual commitments for power purchases are as follows:

December 31, 2019	\$	23,422,750
2020		23,409,100
2021		20,284,090
2022		17,473,510
2023		16,001,560
Commitments beyond 2024		<u>56,256,187</u>
Total	\$	<u>156,847,197</u>

**Deregulation**

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

**Environmental matters**

The Lighting Plant 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 Lighting Plant 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 Lighting Plant 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 Lighting Plant has or may be 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 Lighting Plant's financial position.

**Self insurance**

The Lighting Plant is self insured for workers compensation as part of the City of Chicopee. The Lighting Plant reimburses the City of Chicopee for any claims paid.

The Lighting Plant has general liability insurance coverage through the Public Utility Mutual Insurance Company with a \$100,000 deductible.

The Lighting Plant has had no amount of settlements exceeding insurance coverage for each of the past three years.

CHICOPEE MUNICIPAL LIGHTING PLANT

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

15. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

**Self insurance (continued)**

Unpaid claims, beginning of year	\$	32,419
Incurred claims and adjustments (including IBNR's)		151,345
Claim payments		<u>(78,173)</u>
Unpaid claims, end of year	\$	<u>105,591</u>

**Hydro-Quebec**

Under the Hydro-Quebec support agreement, the Lighting Plant provides support payments to cover its pro rata share of costs relating to the Phase II facilities. Support payments totaled \$150,455 for the year ended December 31, 2018. In the event the project facilities are removed from commercial operation, the Lighting Plant is contractually committed to pay its pro rata share of the net investment in the project. The Lighting Plant has agreed to guarantee its share of project debt. The agreement contains a step-up mechanism, which requires participants to assume obligations of other participants who are in default, subject to certain limitations. The Lighting Plant's potential liability cannot be reasonably estimated at this time.

**Construction programs**

The Lighting Plant has budgeted construction expenditures of approximately \$4,791,700 for 2019 of which approximately \$1,692,875 has been committed as of December 31, 2018.

**Westover Air Reserve Base**

The Lighting Plant has a 50 year contract, expiring in May 2058, with the United States Defense Energy Support Center to acquire, maintain, and operate the electrical distribution system at Westover Air Reserve Base located in Chicopee, MA. The Lighting Plant assumed the operating assets of the system, which were recorded at approximately \$2,852,000, and are responsible for the continued maintenance of the operating system. The Lighting Plant receives \$27,433 monthly, of which \$8,473 is for future replacement costs and is recorded as part of deferred credits until earned.

**Chicopee Hydro Facility**

The Lighting Plant has a contract with Eagle Creek Renewable Energy, LLC for that company to manage, operate and maintain the Hydro facility owned by the Lighting Plant. The contract has been extended through March 2019. The monthly fee at December 31, 2018 was \$17,509 with a 2% increase in the year thereafter.

**Advanced Metering Infrastructure ("AMI")**

The Lighting Plant has a signed contract related to the purchase and installation of an AMI in the approximate amount of \$4,500,000 through March 31, 2020. The City, through an interdepartmental agreement, will pay the Lighting Plan approximately \$800,000 of these costs.

16. RELATED PARTY TRANSACTIONS:

The Lighting Plant provides electric sales and service to the City of Chicopee. Total electric sales were \$2,851,777 for the year ended December 31, 2018. Amounts due from the City totaled \$646,868 as of December 31, 2018.

# CHICOPEE MUNICIPAL LIGHTING PLANT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

### 16. RELATED PARTY TRANSACTIONS: (CONTINUED)

In lieu of tax payments made to the City for their fiscal year ended June 30, 2018 were \$715,000, including \$140,000 for the Chicopee Hydro facility, which is paid yearly. In addition, the Lighting Plant is required by the City to pay \$25,000 for telecom support for their fiscal year ended June 30, 2018. The Lighting Plant accrued the remaining contributions for in lieu of taxes to the City of Chicopee of \$382,500 for the Lighting Plant's year ended December 31, 2018.

### 17. COLLECTIVE BARGAINING AGREEMENTS:

Forty-nine (49) percent of the Lighting Plant's labor force is covered under a collective bargaining agreement between Chicopee Municipal Lighting Plant and the International Brotherhood of Electrical Workers – Local 455. The agreement expires June 30, 2020.

### 18. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through July 22, 2019, the date on which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**



**CHICOPEE MUNICIPAL LIGHTING PLANT**

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**PENSION PLAN SCHEDULES**

**CHICOPEE CONTRIBUTORY RETIREMENT SYSTEM**

**FOR THE YEAR ENDED DECEMBER 31, 2018**

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

**Schedule of the Lighting Plant's proportionate share of the net pension liability:**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date	12/31/17	12/31/16	12/31/15	12/31/14
Lighting Plant's share of the net pension liability	9.08%	9.32%	9.09%	9.08%
Lighting Plant's proportionate share net pension liability	<u>\$ 6,324,580</u>	<u>\$ 8,306,267</u>	<u>\$ 9,247,679</u>	<u>\$ 7,581,910</u>
Lighting Plant's share of covered payroll**	\$ 4,967,207	\$ 5,049,199	\$ 4,842,522	\$ 4,868,210
Net pension liability percentage of covered payroll	127.3%	164.5%	191.0%	155.7%
Plan fiduciary net position as a percentage of the total pension liability	82.1%	75.6%	71.3%	74.2%

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

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

**CHICOPEE MUNICIPAL LIGHTING PLANT**  
**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**PENSION PLAN SCHEDULES**  
**CHICOPEE CONTRIBUTORY RETIREMENT SYSTEM**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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

**Schedule of the Lighting Plant's contributions:**

Measurement date	<u>2018</u> 12/31/17	<u>2017</u> 12/31/16	<u>2016</u> 12/31/15	<u>2015</u> 12/31/14
Actuarially determined contribution *	\$ 1,565,720	\$ 1,567,045	\$ 1,509,929	\$ 1,440,497
Less: Contributions in relation to the actuarially determined contribution	<u>1,610,081</u>	<u>1,575,770</u>	<u>1,517,403</u>	<u>1,440,497</u>
Contribution deficiency (excess)	<u>\$ (44,361)</u>	<u>\$ (8,725)</u>	<u>\$ (7,474)</u>	<u>\$ -</u>
Lighting Plant's share of covered payroll**	\$ 4,967,207	\$ 5,049,199	\$ 4,842,522	\$ 4,868,210
Contributions percentage of covered payroll	32.4%	31.2%	31.3%	29.6%

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

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

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

**CHICOPEE MUNICIPAL LIGHTING PLANT**

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
OTHER POST-EMPLOYMENT BENEFIT PLAN SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**OPEB liability:**

	<u>12/31/2018</u>
Total OPEB liability	\$ 7,948,608
Less: Plan fiduciary net position	(2,788,268)
Lighting Plant's net OPEB liability	<u>\$ 5,160,340</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 35.1%
 Lighting Plant's share of covered payroll	 \$ 5,037,573
 Participating employer net OPEB liability as a percentage of covered payroll	 102.4%

**Actuarial assumptions and methods:**

Valuation date:	January 1, 2018
Actuarial cost method:	Entry age normal
Discount rate:	6.25% annually, net of investment expenses
Participant salary increases:	3.50% annually and 2.50% CPI-U
Healthcare cost trend rates:	Varies
Mortality rates:	Actives: RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Employees projected using generational mortality and scale MP-2016. Retirees: RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2016. Disabled: RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2016. Set forward 2 years.

Note: These schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.



## MeyersBrothersKalicka , P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
AND BUSINESS STRATEGISTS

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

To the General Manager and the Electric Light Commission  
Chicopee Municipal Lighting Plant

We have audited, in accordance with the 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 financial statements of the Chicopee Municipal Lighting Plant (the "Lighting Plant"), which comprise the proprietary fund statement of net position as of December 31, 2018, and the related proprietary fund 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, 2018 and the related fiduciary fund statement of changes in fiduciary net position for the year ended and the related notes to the financial statements, and have issued our report thereon dated July 22, 2019.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Lighting Plant's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lighting Plant's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lighting Plant's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Lighting Plant's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lighting Plant's 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*.

## 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 Lighting Plant's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lighting Plant's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Maquis Brothers Kalicka, P.C.*

Holyoke, Massachusetts  
July 22, 2019