



South Hadley
Electric Light
D E P A R T M E N T

FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED

DECEMBER 31, 2017 AND 2016

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)	4 - 9
BASIC FINANCIAL STATEMENTS	
Proprietary Fund	
Statement of Net Position	10 - 11
Statement of Revenues, Expenses, and Changes in Net Position	12
Statement of Cash Flows	13 - 14
Fiduciary Fund	
Statement of Net Position	15
Statement of Changes in Net Position	16
Notes to Financial Statements	17 – 46
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)	
Schedule of Changes in Total Pension Liability, Net Pension Liability, and Related Ratios	47 - 48
Schedule of Proportionate Share of to Net Pension Liability	48
Schedule of Employer Contributions to the Pension Plan	48
Schedule of Changes in Net OPEB Liability and Related Ratios	49 - 50
Schedule of Employer Contributions to the OPEB Plan	50
Schedule of Funding Progress	50
OTHER INFORMATION (Unaudited)	
Schedule of Operating Expenses	51

INDEPENDENT AUDITORS' REPORT

To the Municipal Light Board
South Hadley Electric Light Department
South Hadley, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the South Hadley Electric Light Department and OPEB Liability Trust, proprietary and fiduciary funds, respectively, of the Town of South Hadley, Massachusetts, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents. Hereafter the funds will collectively be referred to as "South Hadley Electric Light Department."

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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor considers internal control relevant to South Hadley Electric Light Department'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 South Hadley Electric Light Department'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the proprietary and fiduciary funds of the South Hadley Electric Light Department as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the South Hadley Electric Light Department proprietary and fiduciary funds and do not purport to, and do not present fairly the financial position of the Town of South Hadley, Massachusetts, as of December 31, 2017 and 2016 and the changes in its financial position and its cash flows, where applicable, for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Note 1, South Hadley Electric Light Department adopted the provisions of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* effective January 1, 2017. Our opinions are not modified with respect to this matter.

As discussed in Note 10 to the financial statements, net position as of January 1, 2016 has been restated to correct an error in the service life used in the actuarial valuation for the Hampshire County Retirement System pension plan. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us sufficient evidence to express an opinion or provide an assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The schedule of operating expenses as listed in the table of contents, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion or provide any assurance on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
August 16, 2018

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2017, 2016 AND 2015

Within this section of the South Hadley Electric Light Department's ("the Department") annual financial report, management provides a narrative discussion and analysis of the Department's financial activities as of and for the years ending December 31, 2017, 2016 and 2015. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures.

Overview of the Financial Statements

The Department is a self-supporting enterprise fund of the Town of South Hadley, Massachusetts that operates a retail electric power distribution system subject to regulation by the Federal Energy Regulatory Commission ("FERC") and the Massachusetts Department of Public Utilities ("DPU"). The Department's financial statements are presented in accordance with Accounting Principles Generally Accepted in the United States of America ("GAAP") using the economic resource measurement focus and the accrual basis of accounting. The Department operates and maintains its own sub-station, 92+ miles of overhead lines, 55+ miles of underground lines, 925+ transformers, 1,875+ street lights, and services approximately 8,000 residential, commercial, industrial, and municipal customers.

The Statement of Net Position includes all of the Department's assets, deferred outflows, liabilities, and deferred inflows at a certain point in time. It provides information about the nature and magnitude of the Department's investments in resources and its obligations to creditors. This statement provides a basis for evaluating the capital structure and liquidity of the utility.

The following is a summary of the Department's net position at December 31, 2017, 2016 and 2015.

CONDENSED COMBINED STATEMENT OF NET POSITION			
	2017	Restated 2016	2015
ASSETS AND DEFERRED OUTFLOWS			
Current	\$ 15,562,190	\$ 16,115,238	\$ 15,974,826
Restricted	8,505,263	7,858,759	7,008,637
Non-current	515,974	489,286	-
Capital - Net	4,484,507	4,766,089	5,791,009
Deferred Outflows	1,265,729	1,156,611	531,537
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 30,333,663	\$ 30,385,983	\$ 29,306,009
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION			
Current	\$ 1,646,835	\$ 1,586,477	\$ 999,917
Long-Term	5,010,731	5,035,982	3,644,759
Deferred Inflows	187,026	-	-
Net Position			
Net Investment in Capital Assets	4,484,507	4,766,089	5,791,009
Restricted	8,116,333	7,512,429	6,752,527
Unrestricted	10,888,231	11,485,006	12,117,797
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	\$ 30,333,663	\$ 30,385,983	\$ 29,306,009

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2017, 2016 AND 2015

Overview of the Financial Statements (continued)

The Statement of Revenues, Expenses and Changes in Net Position includes all of the Department's revenues, expenses, capital contributions, and operating transfers for a discrete period in time. It provides information about the sources and magnitude of the Department's income and nature and magnitude of its expenses. This statement provides a basis for evaluating the financial performance of the utility.

The following is a summary of the Department revenues, expenses and changes in net position for the years ended December 31, 2017, 2016 and 2015.

CONDENSED COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
	2017	Restated 2016	2015
OPERATING REVENUES	\$ 13,058,069	\$ 14,501,234	\$ 15,364,724
OPERATING EXPENSES			
Cost of Power Sold	9,526,650	10,623,161	11,522,547
Distribution Expense	938,043	988,177	946,461
Customer Accounts Expense	442,940	310,778	362,326
General and Administrative Expense	1,778,688	2,218,054	1,344,796
Depreciation Expense	1,051,891	1,042,712	1,071,808
TOTAL OPERATING EXPENSES	13,738,212	15,182,882	15,247,938
OPERATING INCOME (LOSS)	(680,143)	(681,648)	116,786
NONOPERATING REVENUES (EXPENSES)	386,251	(10,548)	45,209
OTHER FINANCING SOURCES (USES)	(66,150)	(175,574)	(112,378)
CHANGE IN NET POSITION	\$ (360,042)	\$ (867,770)	\$ 49,617

The Statement of Cash Flows includes all of the Department's cash receipts and cash expenditures for a discrete period in time. It provides information about the nature and magnitude of the Department's cash flows provided by and used in operating activities, financing activities, and investing activities. This statement also provides a basis for evaluating the financial performance of the utility as well as providing additional information necessary to explain the changes in the Department's net position.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2017, 2016 AND 2015

Overview of the Financial Statements (continued)

The following is a summary of the Department's sources and uses of cash for the years ended December 31, 2017, 2016 and 2015.

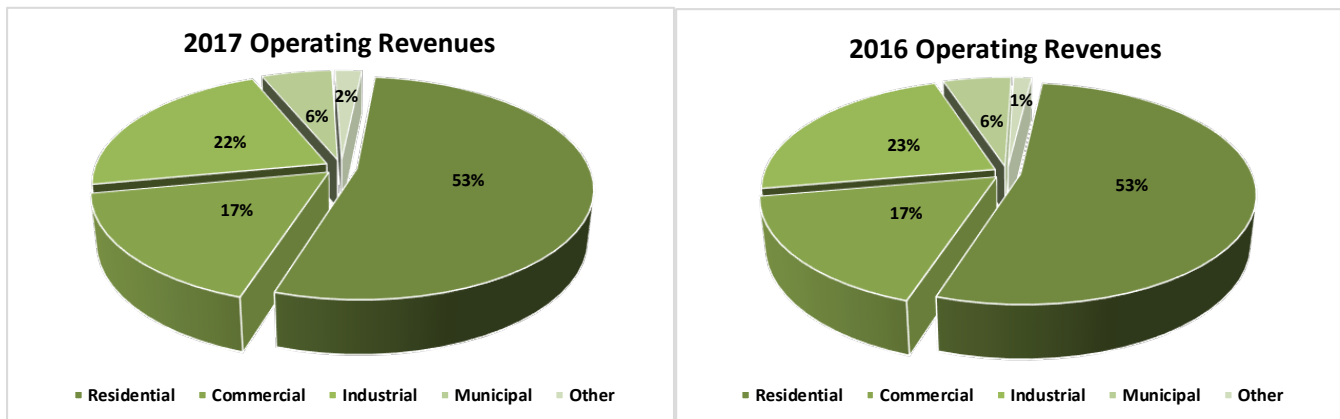
CONDENSED COMBINED STATEMENT OF CASH FLOWS			
	2017	Restated 2016	2015
CASH FLOW PROVIDED BY (USED IN):			
Operating Activities	\$ 296,901	\$ 1,598,110	\$ 1,626,147
Financing Activities	(800,571)	(835,816)	(1,084,522)
Investing Activities	(4,955,688)	39,332	29,846
NET INCREASE (DECREASE) IN CASH	(5,459,358)	801,626	571,471
CASH - BEGINNING	9,437,802	8,636,176	8,064,705
CASH - ENDING	\$ 3,978,444	\$ 9,437,802	\$ 8,636,176

Financial Highlights and Analysis

Sales of electricity for 2017 of \$12,834,113 decreased by \$1,520,493, or 10.59% from the prior year. kWh sales for 2017 of 109,872,539 decreased by 2,513,772, or 2.24% from the prior year. The decrease in revenues was primarily due to a reduction in power costs passed on to our customers and the overall reduction in kWh sold.

Other operating revenues for 2017 of \$223,956, which consists of equipment rentals, pole attachment fees, and fiber income increased by \$77,328 from the prior year.

The following provides a comparative distribution of operating revenues for the years ended December 31, 2017 and 2016.



SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

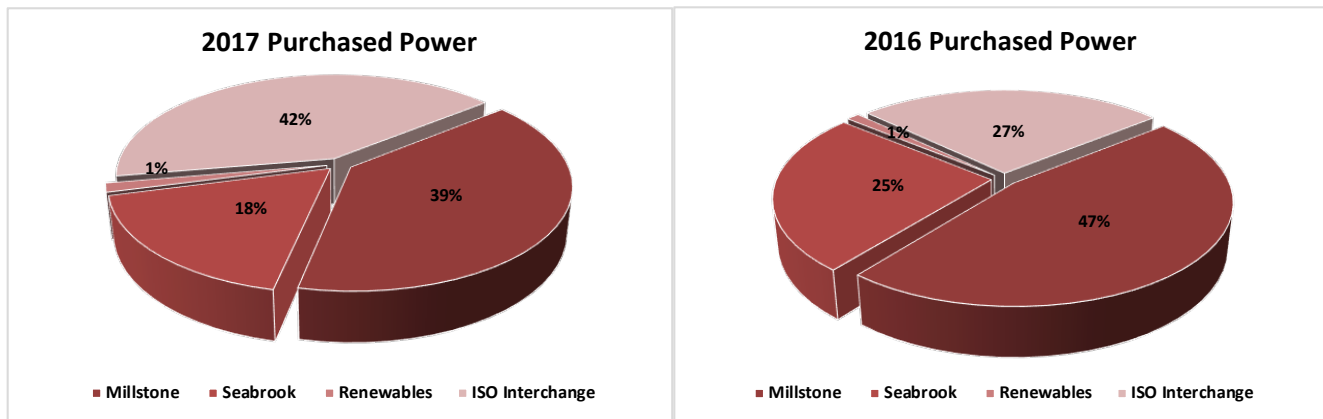
AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2017, 2016 AND 2015

Financial Highlights and Analysis (Continued)

The Department secures power for its customers through both purchased power agreements and open market acquisitions in an effort to stabilize power costs. The cost of power sold includes the costs associated with buying capacity, energy, and transmission.

The cost of power sold for 2017 of \$9,526,650, decreased by \$1,096,511, or 10.32% from the prior year. kWh purchases for 2017 of 113,542,443 decreased by 3,382,858, or 2.89% from the prior year. The decrease in costs were primarily due to debt service cost reductions in our in purchased power agreements, changes in the wholesale market price of electricity and the overall reduction in kWh purchased.

The following provides a comparative distribution of the purchased power for the years ended December 31, 2017 and 2016.



Other operating expenses for 2017, excluding depreciation, of \$3,159,671 decreased by \$357,338, or 10.16% from the prior year.

Nonoperating revenues (expenses) and other financing sources (uses), which consists of interest and investment earnings, other nonoperating expenses, gains or losses on capital assets dispositions, capital contributions and transfers to the Town, increased by \$506,223 from the prior year.

Current assets, which consist of cash, the MLDM Reserve Trust, accounts receivable, inventory, and prepaid and other assets, decreased by \$553,048 from the prior year. The decrease was primarily due to changes in operating cash.

Current liabilities, which consist of accounts payables, current portion of accrued compensated absences, customer deposits, and accrued liabilities, increased by \$60,358 from the prior year. The increase was primarily due to changes in accounts payable, accrued liabilities and customer deposits.

Restricted assets, which consist of customer deposits, the depreciation fund, the OPEB Liability Trust, and purchased power advances, increased by \$646,504 from the prior year. The increase was primarily due to changes in the depreciation fund.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2017, 2016 AND 2015

Financial Highlights and Analysis (Continued)

Non-current assets, which consist of preliminary survey and investigation charges, increased by \$26,688.

Deferred outflows, which consist of pension and OPEB related costs applicable to future reporting periods, increased by \$109,118 over the prior year.

Long-term liabilities, which consist of the net pension liability, accrued compensated absences, other noncurrent liabilities, and other post-employment benefits, decreased by \$25,251 from the prior year. With the exception of the required payments under purchased power agreements, the Department has no long-term debt service.

Deferred inflows, which consist of pension and OPEB related cost reductions applicable to future reporting periods, increased by \$187,026 over the prior year.

Net capital assets decreased by \$281,582 from 2016 due to capital improvements made which were less than the current provision for depreciation.

The following is a summary of the Department's capital assets at December 31, 2017, 2016 and 2015.

SUMMARY OF CAPITAL ASSETS			
	2017	2016	2015
CAPITAL ASSETS			
Distribution Plant	\$ 29,461,542	\$ 29,578,009	\$ 29,331,508
General Plant	5,737,712	5,485,018	5,425,563
Land	344,448	344,448	344,448
Construction-in-progress	54,720	54,720	630,573
TOTAL	35,598,422	35,462,195	35,732,092
ACCUMULATED DEPRECIATION	31,113,915	30,696,106	29,941,083
CAPITAL ASSETS - NET	\$ 4,484,507	\$ 4,766,089	\$ 5,791,009

The Department realized an overall decrease in net position for 2017 of \$360,042 and a decrease in net position for 2016 of \$867,770. Cash flows from operating activity activities for both years were sufficient to cover operating expenses.

Additional information on all of the matters included in this report can be found in the accompanying financial statement and notes.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2017, 2016 AND 2015

Requests for Information

This financial report is designed to provide a general overview of the South Hadley Electric Light Department's finances for all those with an interest in the utility's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Financial Manager

South Hadley Electric Light Department

85 Main Street

South Hadley, Massachusetts 01075

**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
PROPRIETARY FUND**

**STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2017 AND 2016**

ASSETS AND DEFERRED OUTFLOWS

	<u>2017</u>	<u>Restated 2016</u>
CURRENT ASSETS		
Cash - operation fund	\$ 2,444,321	\$ 3,366,505
MLDM Reserve Trust	11,933,856	11,835,932
Accounts receivable - net of allowance for uncollectible accounts of \$404,290 in 2017 and \$354,851 in 2016	669,210	447,340
Inventory	421,951	420,122
Prepaid expenses and other assets	92,852	45,339
Total Current Assets	<u>15,562,190</u>	<u>16,115,238</u>
RESTRICTED ASSETS		
Depreciation fund	6,254,088	5,724,967
Cash - customer deposits	388,930	346,330
Purchased Power Advances	1,096,803	1,121,251
Total Restricted Assets	<u>7,739,821</u>	<u>7,192,548</u>
NON-CURRENT ASSETS		
Preliminary survey and investigation charges	<u>515,974</u>	<u>489,286</u>
CAPITAL ASSETS		
Distribution plant	29,461,542	29,578,009
General plant	5,737,712	5,485,018
Land	344,448	344,448
Construction-in-progress	54,720	54,720
Total	<u>35,598,422</u>	<u>35,462,195</u>
Less: accumulated depreciation	<u>31,113,915</u>	<u>30,696,106</u>
Capital Assets - Net	<u>4,484,507</u>	<u>4,766,089</u>
DEFERRED OUTFLOWS		
Pension and OPEB related deferrals (as restated)	<u>1,265,729</u>	<u>1,156,611</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 29,568,221</u></u>	<u><u>\$ 29,719,772</u></u>

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
PROPRIETARY FUND
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2017 AND 2016

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

	2017	Restated 2016
CURRENT LIABILITIES		
Accounts payable	\$ 902,821	\$ 668,370
Current portion of accrued compensated absences	168,069	154,114
Customer deposits	388,930	346,330
Accrued liabilities	187,015	417,663
Total Current Liabilities	1,646,835	1,586,477
LONG-TERM LIABILITIES		
Net pension liability	4,058,779	3,761,021
Accrued compensated absences	52,759	26,129
Other noncurrent liabilities	450,000	600,000
Other post-employment benefits	449,193	648,832
Total Long-Term Liabilities	5,010,731	5,035,982
TOTAL LIABILITIES	6,657,566	6,622,459
DEFERRED INFLOWS		
Pension and OPEB related deferrals	187,026	-
NET POSITION		
Net investment in capital assets	4,484,507	4,766,089
Restricted	7,350,891	6,846,218
Unrestricted (as restated)	10,888,231	11,485,006
Total Net Position	22,723,629	23,097,313
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 29,568,221	\$ 29,719,772

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
PROPRIETARY FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	Restated 2016
OPERATING REVENUES		
Residential	\$ 6,959,302	\$ 7,703,532
Commercial	2,223,512	2,487,260
Industrial	2,838,462	3,287,731
Municipal	750,595	810,524
Other	286,198	212,188
Total Operating Revenues	13,058,069	14,501,235
OPERATING EXPENSES		
Cost of power sold	9,526,650	10,623,161
Distribution expense	938,043	988,177
Customer accounts expense	442,940	310,778
General and administrative expense (as restated)	1,778,688	2,218,054
Depreciation expense	1,051,891	1,042,712
Total Operating Expenses	13,738,212	15,182,882
OPERATING LOSS	(680,143)	(681,647)
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	251,131	92,213
Gain on disposition of capital assets	35,889	81,836
Other nonoperating expenses	-	(235,000)
Net nonoperating revenues	287,020	(60,951)
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS OUT	(393,123)	(742,598)
CAPITAL CONTRIBUTIONS	83,486	37,696
TRANSFER TO TOWN	(149,636)	(213,270)
CHANGE IN NET POSITION	(459,273)	(918,172)
NET POSITION - BEGINNING (as restated)	23,097,313	24,015,485
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	85,589	-
NET POSITION - ENDING	\$ 22,723,629	\$ 23,097,313

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
PROPRIETARY FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>Restated 2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 12,836,199	\$ 14,404,783
Payments to power suppliers	(9,300,792)	(10,510,253)
Payments to employees	(1,357,776)	(1,279,822)
Payments for other operations	(1,880,731)	(1,016,596)
Net cash provided by operating activities	<u>296,900</u>	<u>1,598,112</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Town	(149,636)	(213,270)
Nonoperating expense	-	(235,000)
Net cash used in noncapital financing activities	<u>(149,636)</u>	<u>(448,270)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(770,309)	(507,078)
Capital contributions	83,486	37,696
Proceeds from disposition of capital assets	35,889	81,836
Net cash used in capital and related financing activities	<u>(650,934)</u>	<u>(387,546)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment income	251,131	92,213
(Increase) decrease in investment - MLDM Reserve Trust	(97,924)	(52,882)
(Increase) decrease in investment - Depreciation fund	(5,108,895)	-
Net cash provided by investing activities	<u>(4,955,688)</u>	<u>39,331</u>
NET INCREASE (DECREASE) IN CASH	<u>(5,459,358)</u>	<u>801,627</u>
CASH - BEGINNING OF YEAR	<u>9,437,802</u>	<u>8,636,175</u>
CASH - END OF YEAR	<u>\$ 3,978,444</u>	<u>\$ 9,437,802</u>

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
PROPRIETARY FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	Restated 2016
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (680,143)	\$ (681,647)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,051,891	1,042,712
Provision for uncollectible accounts	41,576	4,851
Cumulative change in accounting principle	85,589	
Changes in assets and liabilities:		
Purchased power advances	24,448	(32,999)
Accounts receivable	(263,446)	(101,303)
Inventory	(1,829)	41,856
Prepaid expenses and other assets	(47,513)	1,973
Preliminary survey and investigation charges	(26,688)	-
Pension and OPEB related deferrals (as restated)	77,908	(655,114)
Accounts payable	234,451	134,148
Customer deposits	42,600	90,220
Accrued liabilities	(230,648)	378,471
Other noncurrent liabilities	(150,000)	600,000
Net pension liability	297,758	784,334
Accrued compensated absences	40,585	(78,582)
Other post-employment benefits	(199,639)	69,192
Net cash provided by operating activities	\$ 296,900	\$ 1,598,112

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

The following accounts are considered to be cash for the statement of cash flows:

Depreciation fund	\$ 1,145,193	\$ 5,724,967
Cash - customer deposits	388,930	346,330
Cash - operation fund	2,444,321	3,366,505
CASH - END OF YEAR	\$ 3,978,444	\$ 9,437,802

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

**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
 FIDUCIARY FUND
 STATEMENTS OF NET POSITION
 AS OF DECEMBER 31, 2017 AND 2016**

ASSETS

	2017	2016
RESTRICTED ASSETS		
OPEB Liability Trust	\$ 765,442	\$ 666,211
TOTAL ASSETS	\$ 765,442	\$ 666,211

NET POSITION

NET POSITION		
Restricted for OPEB	\$ 765,442	\$ 666,211
TOTAL NET POSITION	\$ 765,442	\$ 666,211

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

**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
FIDUCIARY FUND
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ADDITIONS		
Employer contributions	\$ 43,243	\$ 45,495
Interest and investment income	99,231	50,403
Total Additions	<u>142,474</u>	<u>95,898</u>
DEDUCTIONS		
Benefit payments	43,243	45,495
Total Deductions	<u>43,243</u>	<u>45,495</u>
CHANGE IN NET POSITION	99,231	50,403
TOTAL NET POSITION - BEGINNING	666,211	615,808
TOTAL NET POSITION - ENDING	<u>\$ 765,442</u>	<u>\$ 666,211</u>

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The South Hadley Electric Light Department (the "Department") is an enterprise fund of the Town of South Hadley, Massachusetts (the "Town"). The Department provides electric service to residential, commercial, industrial, and municipal customers, substantially all of whom are located within the Town.

Measurement Focus and Basis of Accounting

The Department's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The Department's accounting records are maintained in accordance with accounting principles generally accepted in the United States of America ("GAAP") for proprietary and fiduciary funds as promulgated by the Governmental Accounting Standards Board ("GASB") and generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the United States Federal Energy Regulatory Commission ("FERC").

Public Utility Regulation

Arrangements among the Department, outside agencies, and other utilities covering interconnections, interchange of electric power, and sales of utility property are subject to regulation by the FERC. The Department is subject to further regulation by the Massachusetts Department of Public Utilities ("DPU"). Under Massachusetts law, electric rates are set by the Municipal Light Board. While the DPU exercises general supervisory authority over the Department, rates are not subject to DPU approval.

Cash and Investments

Cash includes cash on hand, on deposit with the Town, which is in the custody of and managed by the Town Treasurer, and held by Massachusetts Municipal Wholesale Electric Company ("MMWEC"). The Department considers all short-term investments with an original maturity date of 90 days or less to be cash.

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. Dividend and interest income is recorded when declared.

Massachusetts General Laws place limitations on the nature of deposits and investments available to the Department. Cash and investment, which are subject to legislation, regulation, or agreement that limit the use of such funds, are reflected as restricted assets.

Cash, for purposes of the cash flow statement, consists of cash on hand and on deposit with the Town.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Municipal Light Departments of Massachusetts Reserve Trust

The Municipal Light Department of Massachusetts Reserve Trust ("MLDM Reserve Trust") was established by Massachusetts Municipal Wholesale Electric Company ("MMWEC") in anticipation of deregulation of the electric industry in Massachusetts. The Trust was established to help maintain the competitive position of its member utilities, in the face of increasing competition from investor owned utilities, by providing a source of funds to be accessed as needed for extraordinary or unanticipated expenses such as unit outages, loss of load, and retail wheeling.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect. Management provides for uncollectable amounts through a charge against income based on its assessment of the current status of individual accounts. Management is required to comply with the billing and termination procedures mandated by the DPU. No interest is charged on residential accounts. The Department obtains security interests as it deems appropriate.

Inventory

Inventory, which consists of poles and fixtures, conductors and devices, underground conduits, transformers, meters and street lights, is valued at the lower of cost or market using the first-in, first-out flow assumption.

Other Post-Employment Benefit Liability Trust

The Other Post-Employment Benefit Liability Trust ("OPEB Liability Trust") was established by the Department pursuant to Chapter 32B, Section 20 of the General Laws of the Commonwealth of Massachusetts. The Trust was established to maintain and accumulate funds for the payment of benefits related to the Department's other post-employment benefit plans.

Purchased Power Advances

Under the terms of the Department's member agreement with Massachusetts Municipal Wholesale Electric Company, the Department is required to prepay various operating expenses and provide for certain working capital requirements for various projects that are operational. The Department charges items to expense when MMWEC indicates that an expense has been incurred.

Prepaid Expenses and Other Assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Other assets consist of a deposit maintained with the Department's insurance company.

Preliminary Survey and Investigation Charges

Preliminary survey and investigation charges represent costs related to capital asset construction and will be capitalized upon commencement of the project.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Additions to and replacements of capital assets are recorded at cost. The estimated cost, less accumulated depreciation of capital assets retired is charged against revenue in the year of disposition. The cost of repairs and minor renewals is charged to expense as incurred.

Deferred Outflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Accrued Compensated Absences

The Department recognizes sick and vacation leave costs as they are earned. Employees earn from 12 to 15 sick days per year depending on date of hire and 10 to 30 vacation days per year depending on date of hire and length of service. Earned days not taken accumulate, subject to certain limitations.

Customer Deposits

The Department requires security deposits from certain residential, commercial, and industrial customers. These deposits, including accrued interest, are held in escrow and reflected as a liability in the financial statements.

Other Noncurrent Liabilities

Other noncurrent liabilities consist of claims or other liabilities payable in greater than one year.

Deferred Inflow of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that future time.

Net Position

The Department classifies net position into three components as follows:

Net Investment in Capital Assets – This component consists of capital assets net of accumulated depreciation, reduced by any related outstanding debt balance.

Restricted – This component consists of assets required to be segregated by bond agreement and or external parties. Such segregated assets are presented net of any related liabilities.

Unrestricted – This component consists of all assets and liabilities that do not meet the criteria for “Net Investment in Capital Assets” or “Restricted”.

When both restricted and unrestricted resources are available for use, it is the Department’s policy to use restricted resources first, then unrestricted resources as they are needed.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Expenses

The Department distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the sale of electricity. Operating revenues are based on authorized rates applied to each customer's consumption of electricity. They are recognized on the basis of cycle billings rendered monthly. Revenues are not accrued for services delivered beyond such billing cycle dates. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Depreciation

Depreciation of capital assets is recorded on a straight-line basis using an annual rate of 3% of depreciable assets in accordance with DPU regulations.

Benefit Plans

The Department provides pension benefits through participation in the Hampshire County Contributory Retirement System and post-employment health and life insurance benefits through participation in the Town of South Hadley's Other Postemployment Benefit Plan.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could vary from those estimates.

Effect of New Accounting Standards on Current and Future Period Financial Statements

The Department implemented the provisions of GASB Statement No. 74 *Financial Reporting for Postemployment Benefits Plans Other Than Pensions* and GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective January 1, 2017. These statements establish standards for financial reporting and disclosure by governments that provide postemployment benefits.

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations*, GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 85, *Omnibus 2017*, GASB Statement No. 87, *Leases*, and GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. When these statements become effective, application of these standards may restate portions of these financial statements.

Reclassifications

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

2. CASH and INVESTMENTS

The Department's cash and investments are segregated by purpose, recorded at fair value, and consist of both restricted and unrestricted assets.

The cash and investment balances at December 31, 2017 consisted of the following:

	<u>CASH</u>	<u>INVESTMENTS</u>	<u>STATEMENT BALANCE</u>
PROPRIETARY FUND			
Unrestricted			
Cash - operation fund	\$ 2,444,321	\$ -	\$ 2,444,321
MLDM Reserve Trust	921,862	11,011,994	11,933,856
Restricted			
Depreciation fund	1,145,193	5,108,895	6,254,088
Cash - customer deposits	388,930		388,930
Purchased power advances	664,006	432,797	1,096,803
FIDUCIARY FUND			
OPEB Liability Trust	38,387	727,055	765,442
TOTAL	<u>\$ 5,602,699</u>	<u>\$ 17,280,741</u>	<u>\$ 22,883,440</u>

The investment balances at December 31, 2017 consisted of the following:

	<u>COST</u>	<u>FAIR VALUE</u>	<u>UNREALIZED GAIN (LOSS)</u>
PROPRIETARY FUND			
U.S Treasury Securities	\$ 1,268,817	\$ 1,264,233	\$ (4,584)
U.S Agency Securities - Implicitly Guaranteed	10,571,253	10,523,249	(48,004)
Municipal Bonds	1,691,862	1,682,048	(9,814)
Mutual Funds - Bond Types	212,570	207,729	(4,841)
Corporate Bonds	798,738	799,218	480
Common Stock	701,421	811,694	110,273
Certificates of Deposit - Negotiable	1,266,963	1,265,515	(1,448)
FIDUCIARY FUND			
Mutual Funds - Bond Types	269,787	267,174	(2,613)
Mutual Funds - Equity Types	348,621	459,881	111,260
TOTAL	<u>\$ 17,130,032</u>	<u>\$ 17,280,741</u>	<u>\$ 150,709</u>

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

2. CASH and INVESTMENTS (CONTINUED)

The cash and investment balances at December 31, 2016 consisted of the following:

	<u>CASH</u>	<u>INVESTMENTS</u>	<u>STATEMENT BALANCE</u>
PROPRIETARY FUND			
Unrestricted			
Cash - operation fund	\$ 3,366,505	\$ -	\$ 3,366,505
MLDM Reserve Trust	1,893,677	9,942,255	11,835,932
Restricted			
Depreciation fund	5,724,967		5,724,967
Cash - customer deposits	346,330		346,330
Purchased power advances	402,903	718,348	1,121,251
FIDUCIARY FUND			
OPEB Liability Trust	33,841	632,370	666,211
TOTAL	<u>\$ 11,768,223</u>	<u>\$ 11,292,973</u>	<u>\$ 23,061,196</u>

The investment balances at December 31, 2016 consisted of the following:

	<u>COST</u>	<u>FAIR VALUE</u>	<u>UNREALIZED GAIN (LOSS)</u>
PROPRIETARY FUND			
U.S Treasury Securities	\$ 1,921,978	\$ 1,918,848	\$ (3,130)
U.S Agency Securities - Implicitly Guaranteed	7,024,394	6,997,931	(26,463)
Municipal Bonds	1,755,033	1,743,824	(11,209)
FIDUCIARY FUND			
Mutual Funds - Bond Types	212,652	207,192	(5,460)
Mutual Funds - Equity Types	378,707	425,178	46,471
TOTAL	<u>\$ 11,292,764</u>	<u>\$ 11,292,973</u>	<u>\$ 209</u>

The Department's return on proprietary and fiduciary fund invested assets consisted of the components reported in the statements of revenues, expenses, and changes in net position as follows:

	<u>2017</u>	<u>2016</u>
INTEREST AND INVESTMENT INCOME		
Realized Gain (Loss), Interest and Dividends	\$ 199,653	\$ 142,408
Unrealized Gain (Loss)	150,709	209
TOTAL	<u>\$ 350,362</u>	<u>\$ 142,617</u>

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

2. CASH and INVESTMENTS (CONTINUED)

Fair Value

The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in level 2 of the fair value hierarchy are valued using interest rate curves and credit spreads applied to the terms of the underlying instruments and consider the credit rating of the counterparty.

The Department's recurring fair value measurements as of December 31, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
PROPRIETARY FUND				
U.S Treasury Securities	\$ -	\$ 1,264,233	\$ -	\$ 1,264,233
U.S Agency Securities - Implicitly Guaranteed		10,523,249		10,523,249
Municipal Bonds		1,682,048		1,682,048
Mutual Funds - Bond Types	207,729			207,729
Corporate Bonds		799,218		799,218
Common Stock	811,694			811,694
Certificates of Deposit		1,265,515		1,265,515
FIDUCIARY FUND				
Mutual Funds - Bond Types	267,174			267,174
Mutual Funds - Equity Types	459,881			459,881
Total	\$ 1,746,478	\$ 15,534,263	\$ -	\$ 17,280,741

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

2. CASH and INVESTMENTS (CONTINUED)

Fair Value (Continued)

The Department's recurring fair value measurements as of December 31, 2016 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
PROPRIETARY FUND				
U.S Treasury Securities	\$ -	\$ 1,918,848	\$ -	\$ 1,918,848
U.S Agency Securities - Implicitly Guaranteed		6,997,931		6,997,931
Municipal Bonds		1,743,824		1,743,824
FIDUCIARY FUND				
Mutual Funds - Bond Types	207,192			207,192
Mutual Funds - Equity Types	425,178			425,178
Total	<u>\$ 632,370</u>	<u>\$ 10,660,603</u>	<u>\$ -</u>	<u>\$ 11,292,973</u>

Custodial Credit Risk - Cash

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the Department's deposits may not be returned. The Department does not have a deposit policy for custodial risk. The Department, through the Town, maintains cash balances at various financial institutions located in Massachusetts. These balances are insured, subject to certain limitations, by the Federal Deposit Insurance Corporation. At certain times during the year, these cash balances may exceed the insurance limit. The amount by which the Department's cash balances may exceed the insurance limits at December 31, 2017 and 2016, has not been determined. The Department has not experienced any loss on such account and monitors the credit worthiness of the financial institutions through the Town Treasurer's Office.

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that, in the event of a failure by a counter-party to the transaction, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department does not have a policy for custodial credit risk, however, none of the Department's investments are uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department, but not in the Department's name.

Interest Rate Risk

Interest rate risk is the risk that the fair value of an investment will be adversely affected by changes in market interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. While the Department does not have a formal policy for interest rate risk, it does vary the duration of investments within its portfolio as a means of managing the effects of this risk.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

2. CASH and INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

Maturities of the Department's investments in U.S. Securities and Municipal Bonds at December 31, 2017 were as follows:

	FAIR VALUE	LESS THAN 1 YEAR	1 TO 5 YEARS	6 TO 10 YEARS	MORE THAN 10 YEARS
U.S Treasury Securities	\$ 1,264,233	\$ 593,587	\$ 670,646	\$ -	\$ -
U.S Agency Securities - Implicitly Guaranteed	10,523,249	2,567,411	7,275,508	527,994	152,336
Municipal Bonds	1,682,048	961,279	720,769		
Corporate Bonds	799,218	390,461	408,757		
Certificates of Deposit	1,265,515	84,006	1,181,509		
Total	\$ 15,534,263	\$ 4,596,744	\$ 10,257,189	\$ 527,994	\$ 152,336

Maturities of the Department's investments in U.S. Securities and Municipal Bonds at December 31, 2016 were as follows:

	FAIR VALUE	LESS THAN 1 YEAR	1 TO 5 YEARS	6 TO 10 YEARS	MORE THAN 10 YEARS
U.S Treasury Securities	\$ 1,918,848	\$ 1,697,563	\$ 221,285	\$ -	\$ -
U.S Agency Securities - Implicitly Guaranteed	6,997,931	161,654	6,119,414	557,036	159,827
Municipal Bonds	1,743,824	164,185	1,579,639		
Total	\$ 10,660,603	\$ 2,023,402	\$ 7,920,338	\$ 557,036	\$ 159,827

Investments Highly Sensitive to Market Changes

The Department held investments in U.S. Agency Securities with market values of \$152,336 and \$159,827 at December 31, 2017 and 2016, respectively, bearing maturities date in 2028.

Credit Risk

Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assigning of a rating by a nationally recognized statistical rating organization. The Department's investment policies require the investments within its portfolio to be investment grade.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

2. CASH and INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The Department's investments at December 31, 2017 and 2016 were rated as follows:

	2017			2016		
	FAIR VALUE	MOODY's RATING	S&P RATING	FAIR VALUE	MOODY's RATING	S&P RATING
U.S Treasury Securities	\$ 1,264,233	Aaa	AA+	\$ 1,918,848	Aaa	AA+
U.S Agency Securities - Implicitly Guaranteed	10,523,249	Aaa	AA+	6,997,931	Aaa	AA+
Municipal Bonds	1,682,048	Aa3	AA-	1,743,824	Aa3	AA-
Mutual Funds - Bond Types	474,903	NR	NR	207,192	NR	NR
Mutual Funds - Equity Types	459,881	NR	NR	425,178	NR	NR
Corporate Bonds	799,218	A1 to Baa2	AA- to BBB			
Common Stock	811,694	NR	NR			
Certificates of Deposit	1,265,515	NR	NR			
Total	\$ 17,280,741			\$ 11,292,973		

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Department's investment in a single issuer. The Department's investment policies limit the magnitude of investment with any one single issuer (with the exception of the United States Government and its Agencies) to 5% of the portfolio value. The Department diversifies the investments within its portfolio as a means of managing the effects of this risk.

Investments in any one issuer that represent greater than 5% of total investments at December 31, 2017 include the U.S. Treasury (7%), Federal Home Loan Bank (34%), Federal Farm Credit Bank (6%), and Federal Home Loan Mortgage Corporation (36%).

Investments in any one issuer that represent greater than 5% of total investments at December 31, 2016 include the U.S. Treasury (17%), Federal Home Loan Bank (34%), and Federal National Mortgage Association (12%), and Federal Home Loan Mortgage Corporation (14%).

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

3. CAPITAL ASSETS

Capital asset activity as of and for the year ended December 31, 2017 was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCES</u>
CAPITAL ASSETS BEING DEPRECIATED				
Distribution plant	\$ 29,578,009	\$ 517,615	\$ (634,082)	\$ 29,461,542
General plant	5,485,018	252,694	-	5,737,712
Totals	<u>35,063,027</u>	<u>770,309</u>	<u>(634,082)</u>	<u>35,199,254</u>
Less accumulated depreciattion	(30,696,106)	(1,051,891)	634,082	(31,113,915)
Total Capital Assets Being Depreciated - Net	<u>4,366,921</u>	<u>(281,582)</u>	<u>-</u>	<u>4,085,339</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	344,448	-	-	344,448
Construction in progress	54,720	-	-	54,720
Total Capital Assets Not Being Depreciated	<u>399,168</u>	<u>-</u>	<u>-</u>	<u>399,168</u>
CAPITAL ASSETS - NET	<u>\$ 4,766,089</u>	<u>\$ (281,582)</u>	<u>\$ -</u>	<u>\$ 4,484,507</u>

Capital asset activity as of and for the year ended December 31, 2016 was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCES</u>
CAPITAL ASSETS BEING DEPRECIATED				
Distribution plant	\$ 29,331,508	\$ 436,043	\$ (189,542)	\$ 29,578,009
General plant	5,425,563	157,602	(98,147)	5,485,018
Totals	<u>34,757,071</u>	<u>593,645</u>	<u>(287,689)</u>	<u>35,063,027</u>
Less accumulated depreciattion	(29,941,083)	(1,042,712)	287,689	(30,696,106)
Total Capital Assets Being Depreciated - Net	<u>4,815,988</u>	<u>(449,067)</u>	<u>-</u>	<u>4,366,921</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	344,448	-	-	344,448
Construction in progress	630,573	-	(575,853)	54,720
Total Capital Assets Not Being Depreciated	<u>975,021</u>	<u>-</u>	<u>(575,853)</u>	<u>399,168</u>
CAPITAL ASSETS - NET	<u>\$ 5,791,009</u>	<u>\$ (449,067)</u>	<u>\$ (575,853)</u>	<u>\$ 4,766,089</u>

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

4. RETIREMENT PLAN

The Department implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective January 1, 2015.

Plan Description

The Department participates in the Hampshire County Contributory Retirement System (the "System"), a cost sharing, multiple employer, defined benefit public employee retirement system ("PERS"). Eligible employees must participate in the System. As of January 1, 2016, the most recent actuarial valuation date, approximately 15 retirees and 21 active and inactive employees met the eligibility requirements. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publically available from the System located at 99 Industrial Drive, Northampton, Massachusetts 01060-2326.

Benefits Provided

The retirement plan provides pension benefits, deferred allowances, and death and disability benefits. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Department payroll on January 1, 1978, (3) voluntarily left Department employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity. Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. 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. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

4. RETIREMENT PLAN (CONTINUED)

Funding Policy

Participants contribute a set percentage of their gross regular compensation annually. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5.00%
January 1, 1975 - December 31, 1983	7.00%
January 1, 1984 - June 30, 1996	8.00%
Beginning July 1, 1996	9.00%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission ("PERAC"). The Department's contribution to the System for the years ended December 31, 2017 and 2016 were \$374,795 and \$360,342, respectively, which were equal to its annual required contributions.

Actuarial Methods and Assumptions

The Department's net pension liability at December 31, 2017 was measured as of December 31, 2016 as determined by an actuarial valuation dated January 1, 2016. The Department's net pension liability at December 31, 2016 was measured as of December 31, 2015 as determined by an actuarial valuation dated January 1, 2014. The measurement dates for the total pension liability and valuation dates for the fiduciary net position were the same.

The measurement of the net pension liability was determined by an independent actuary using the entry age normal cost method. The assumptions used to measure the total pension liability included an inflation assumption of 3.00% per year, salary increases of 4.50% - 4.75% per year, and a post-retirement cost of living adjustment of 3.00% of the first \$13,000. The mortality assumptions were based on the RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB and a base year of 2012 for both males and females for non-disabled members. The forgoing table was set forward two years for disabled members.

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period ended December 31, 2015. GASB 68 requires an actuarial valuation as of the measurement date or the use of roll forward procedures to the measurement date no more than 30 months and 1 day from the current fiscal year-end. The Hampshire County Plan dated December 31, 2016 uses underlying actuarial data for the period of January 1 – December 31, 2015 for the December 31, 2017 financial statements which falls within the allowable date range.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

4. RETIREMENT PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

The projected long-term real rate of return on pension plan investments was determined using a building block method, which considers historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions. These best estimate ranges, net of long-term inflation are combined to produce the long-term expected rate of return of 7.50%.

The target allocation and best estimate of arithmetic real rates of return for each major asset classes are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	1.00%	0.73%
Large Cap Equities	9.00%	4.61%
Small/Mid Cap Equities	6.00%	4.85%
International Equities (Unhedged)	11.00%	5.10%
International Equities (Hedged)	0.00%	5.34%
Emerging International Equities	6.00%	6.31%
Core Bonds	7.00%	1.42%
High-Yield Bonds	3.00%	2.91%
Bank Loans	3.00%	3.16%
Global Bonds (Unhedged)	3.00%	0.00%
EDM (Local Currency)	6.00%	4.13%
Private Equity	8.00%	6.55%
Private Debt	2.00%	5.10%
Real Estate	8.00%	3.40%
Hedged Funds	11.00%	3.88%
Global Asset Allocation	16.00%	4.17%
Totals	100.00%	

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

4. RETIREMENT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.5000% for 2017 and 7.8750% for 2016. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive 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.

Proportionate Share of Net Pension Liability

The following presents the Department's proportionate share of the Hampshire County Retirement System's net pension liability at December 31, 2017 and 2016:

	2017	2016
Proportionate share of net pension liability for the most recent measurement rate	\$ 4,058,779	\$ 3,761,021
Proportion of net pension liability for the most recent measurement date	2.3129%	1.8110%

The Departments proportionate share was determined based on covered payrolls. The period used to amortize the change in proportionate share was 5.3 years in 2017 and 11.7 years in 2016.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Department's proportionate share of the net pension liability at December 31, 2017 and 2016, calculated using the discount rate of 7.500% and 7.875%, respectively, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	2017		2016	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.5000%	\$ 4,999,659	6.8750%	\$ 4,739,575
Current Rate	7.5000%	\$ 4,058,779	7.8750%	\$ 3,761,021
1% Increase	8.5000%	\$ 3,316,419	8.8750%	\$ 2,956,665

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

4. RETIREMENT PLAN (CONTINUED)

Net Pension Liability

The following schedule presents the changes in net pension liability at December 31:

	2017	2016
Total Pension Liability		
Service cost	\$ 195,823	\$ 185,977
Interest	639,385	631,015
Differences between expected and actual experience	(80,298)	-
Changes in assumptions	306,701	-
Benefit payments, including refunds	(496,335)	(462,048)
	565,276	354,944
Net Change in Total Liability		
Total Pension Liability - Beginning of Year	8,577,472	8,057,933
Total Pension Liability - End of Year	\$ 9,142,748	\$ 8,412,877
Plan Fiduciary Net Position		
Contributions - employer	\$ 363,635	\$ 337,338
Contributions - employees	137,505	132,611
Other additions	30	-
Net investment income	351,054	(20,955)
Benefit payments	(496,335)	(462,048)
Administrative expenses	(14,788)	(15,131)
	341,101	(28,185)
Net Change in Fiduciary Net Position		
Plan Fiduciary Net Position - Beginning of Year	4,742,868	4,680,041
Plan Fiduciary Net Position - End of Year	\$ 5,083,969	\$ 4,651,856
Net Pension Liability		
Beginning of year - based on prior year proportions	\$ 3,761,021	\$ 2,976,687
Change in proportionate share	(73,583)	(401,205)
	3,834,604	3,377,892
Beginning of year - based on current year proportions		
Net Pension Liability - End of Year	\$ 4,058,779	\$ 3,761,021

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

4. RETIREMENT PLAN (CONTINUED)

Pension Expense, Deferred Outflows and Deferred Inflows

For the years ended December 31, 2017 and 2016, the Department recognized pension expense of \$638,093 and \$479,057, respectively.

The following schedule presents information about the pension related deferred outflows and deferred inflows at December 31:

	2017	2016
DEFERRED OUTFLOWS		
Contributions subsequent to the measurement date	\$ 185,366	\$ 189,429
Changes in assumptions	246,564	-
Changes in proportionate share	435,271	460,417
Difference between expected and actual earnings on pension plan investments	346,660	506,765
Total Deferred Outflows	\$ 1,213,861	\$ 1,156,611
DEFERRED INFLOWS		
Differences between expected and actual experience rate	\$ (64,553)	\$ -
Total Deferred Inflows	\$ (64,553)	\$ -

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ 312,573
2019	312,573
2020	250,521
2021	82,386
Thereafter	5,889
Total	\$ 963,942

5. OTHER POSTEMPLOYMENT BENEFITS – FIDUCIARY FUND

The Department implemented the provisions of GASB Statement No. 74 *Financial Reporting for Postemployment Benefits Plans Other Than Pensions*, effective January 1, 2017. The information summarized in this note supports the December 31, 2017 balances on the Fiduciary Fund's Statement of Net Position and Statement of Changes in Net Position and is based on a valuation date of December 31, 2017.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

5. OTHER POSTEMPLOYMENT BENEFITS – FIDUCIARY FUND (CONTINUED)

Plan Description

The Department participates in the Town of South Hadley's Other Postemployment Benefit Plan, a single employer defined benefit plan. Benefits, benefit levels, employee and employer contributions are governed by Massachusetts General Laws, Chapter 32. The Plan does not issue a separate financial report.

Plan Membership

The Department's membership at December 31, 2017 consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	22
Inactive plan members entitled to but not receiving benefit payments	-
Active plan member	18
Total	<u>40</u>

Benefits Provided

The Plan offers medical, dental, and life insurance coverage to all eligible retired employees. A retired employee hired on or after April 2, 2012 becomes eligible upon reaching age 60 with ten years of service. A retired employee hired before April 2, 2012 becomes eligible upon reaching age 55 with 10 years of service or upon completing 20 years of service.

Contributions

As of December 31, 2017, a retired employee contributes 26% to 45% of stated premiums for their chosen medical plan, 100% of stated premiums for their chosen dental plan, and 50% of the premiums for a \$5,000 group term life insurance benefit. The Department contributes the remainder of the medical, dental and life insurance plan costs on a pay-as-you-go basis.

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 14.89 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

5. OTHER POSTEMPLOYMENT BENEFITS – FIDUCIARY FUND (CONTINUED)

Net OPEB Liability of the Department

The following schedule presents the components of the net OPEB liability of the Department at December 31, 2017:

Total OPEB liability	\$ 1,170,608
Plan fiduciary net position	765,442
Department net OPEB liability	<u>\$ 405,166</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 65.39%

Actuarial Methods and Assumptions

The Department recognized annual OPEB expense and net OPEB liability based on information obtained from an actuarial report. The net OPEB liability as of December 31, 2017 was measured as of December 31, 2016. The measurement date for the total OPEB liability and valuation date for the fiduciary net position were the same.

The measurement of the total OPEB liability was determined by an independent actuary using the entry age normal cost method. The assumptions used to measure the total OPEB liability included an inflation assumption of 2.75% per year and salary increases of 3.00% per year. Healthcare coverage assumptions include acceptance rates which were consistent with elections made by retiring employees in recent years. The mortality assumptions were based on the RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB and a base year of 2009 for both males and females for non-disabled members. The forgoing table was set forward three years for disabled members. The healthcare cost trend assumptions are based on a trend rate 5.00%.

The projected long-term real rate of return on OPEB plan investments was determined using a building block method, which considers historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions. These best estimate ranges, net of long-term inflation are combined to produce the long-term expected rate of return of 5.84%.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

5. OTHER POSTEMPLOYMENT BENEFITS – FIDUCIARY FUNDS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

The target allocation and best estimate of arithmetic real rates of return for each major asset classes are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	5.00%	0.00%
Domestic Equity - Large Cap	30.00%	4.00%
Domestic Equity - Small/Mid Cap	12.50%	6.00%
International Equities - Developed Markets	7.50%	4.50%
International Equities - Emerging Markets	0.00%	7.00%
Domestic Fixed Income	30.00%	2.00%
International Fixed Income	15.00%	3.00%
Real Estate	0.00%	3.25%
Alternatives	0.00%	6.50%
Totals	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.00%. The projection of cash flows used to determine the discount rate assumed that future employee and employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan employees. 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 OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the sensitivity of the net OPEB liability calculation to a 1.00% increase and a 1.00% decrease in the discount rate used to measure the net OPEB liability:

	<u>1% Decrease 5.0000%</u>	<u>Discount Rate 6.0000%</u>	<u>1% Increase 7.0000%</u>
Net OPEB Liability	\$ 578,052	\$ 405,166	\$ 265,078

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

5. OTHER POSTEMPLOYMENT BENEFITS – FIDUCIARY FUNDS (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate

The following presents the sensitivity of the net OPEB liability calculation to a 1.00% increase and a 1.00% decrease in the medical cost assumption used to measure the net OPEB liability:

	<u>1% Decrease</u> <u>4.0000%</u>	<u>Heathcare Cost</u> <u>Trend Rate</u> <u>5.0000%</u>	<u>1% Increase</u> <u>6.0000%</u>
Net OPEB Liability	\$ 145,472	\$ 405,166	\$ 730,898

6. OTHER POSTEMPLOYMENT BENEFITS – PROPRIETARY FUND

The Department implemented the provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective January 1, 2017. The information summarized in this note support the December 31, 2017 balances on the Proprietary Fund’s Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position and is based on a valuation date of December 31, 2016.

Plan Description

The Department participates in the Town of South Hadley’s Other Postemployment Benefit Plan, a single employer defined benefit plan. Benefits, benefit levels, employee and employer contributions are governed by Massachusetts General Laws, Chapter 32. The Plan does not issue a separate financial report.

Employees Covered by Benefit Terms

The Department’s employees covered by the benefit terms as of the valuation date of December 31, 2016 and used to calculate the December 31, 2017 net OPEB liability consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	14	
Inactive plan members entitled to but not receiving benefit payments	-	
Active plan member	17	
Total	31	

Contributions

As of December 31, 2017, a retired employee contributes 26% to 45% of stated premiums for their chosen medical plan, 100% of stated premiums for their chosen dental plan, and 50% of the premiums for a \$5,000 group term life insurance benefit. The Department contributes the remainder of the medical, dental and life insurance plan costs on a pay-as-you-go basis.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

6. OTHER POSTEMPLOYMENT BENEFITS – PROPRIETARY FUND (CONTINUED)

Changes in Net OPEB Liability

The following schedule presents the changes in net OPEB liability for the year ended December 31, 2017:

Total OPEB Liability	
Service cost	\$ 30,942
Interest	71,255
Differences between expected and actual experience	(120,349)
Changes in assumptions	-
Benefit payments, including refunds	(45,495)
	(63,647)
Net Change in Total Liability	(63,647)
Total OPEB Liability - Beginning of Year	1,179,051
Total OPEB Liability - End of Year	\$ 1,115,404
 Plan Fiduciary Net Position	
Employer contributions to the Trust	\$ 45,495
Benefit payments withdrawn from the Trust	(45,495)
Interest	36,948
Differences between projected and actual earnings on plan investments	2,124
Net investment income	11,331
Administrative expenses	-
	50,403
Net Change in Fiduciary Net Position	50,403
Plan Fiduciary Net Position - Beginning of Year	615,808
Plan Fiduciary Net Position - End of Year	\$ 666,211
 Net OPEB - Beginning of Year	\$ 563,243
 Net OPEB - End of Year	\$ 449,193

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

6. OTHER POSTEMPLOYMENT BENEFITS – PROPRIETARY FUND (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the sensitivity of the net OPEB liability calculation to a 1.00% increase and a 1.00% decrease in the discount rate used to measure the net OPEB liability.

	1% Decrease 5.0000%	Discount Rate 6.0000%	1% Increase 7.0000%
Net OPEB Liability	\$ 613,926	\$ 449,193	\$ 315,712

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate

The following presents the sensitivity of the net OPEB liability calculation to a 1.00% increase and a 1.00% decrease in the medical cost assumption used to measure the net OPEB liability:

	1% Decrease 4.0000%	Healthcare Cost Trend Rate 5.0000%	1% Increase 6.0000%
Net OPEB Liability	\$ 201,922	\$ 449,193	\$ 759,344

OPEB Expense, Deferred outflows and Deferred Inflows

For the years ended December 31, 2017, the Department recognized an OPEB expense of \$8,423. The following presents information about the OPEB related deferred outflows and deferred inflows at December 31, 2017:

DEFERRED OUTFLOWS	
Contributions subsequent to measurement date	\$ 51,867
Total Deferred Outflows	\$ 51,867
DEFERRED INFLOWS	
Difference between expected and actual experience	\$ (120,349)
Difference between expected and actual earnings on OPEB plan investments	(2,124)
Total Deferred Inflows	\$ (122,473)

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

6. OTHER POSTEMPLOYMENT BENEFITS – PROPRIETARY FUND (CONTINUED)

OPEB Expense, Deferred outflows and Deferred Inflows (continued)

Amounts reported as deferred outflows and deferred inflows related to OPEB will be recognized in the OPEB expense as follows:

2018	\$	(34,712)
2019		(34,712)
2020		(34,712)
2021		(17,912)
Thereafter		(425)
Total	\$	(122,473)

PRIOR YEAR DISCLOSURE REQUIRED UNDER GASB 45

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statements of revenues, expenses, and changes in net position when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the statement of net position over time.

Plan Description

The Department provides postemployment health and life insurance benefits for retired employees through the Town of South Hadley's Plan. Benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2015, the most recent actuarial valuation date, approximately 11 retirees and 21 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

Funding Policy

As of January 1, 2015, the most recent actuarial valuation date, recent and new retirees contribute 26% to 45% of stated premiums for their chosen health plan, as determined by the Town of South Hadley. Retirees also contribute 50% of premiums for a \$5,000 group term life insurance benefit. The Department contributes the remainder of the medical and life insurance plan costs on a pay-as-you-go basis.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

6. OTHER POSTEMPLOYMENT BENEFITS – PROPRIETARY FUND (CONTINUED)

PRIOR YEAR DISCLOSURE REQUIRED UNDER GASB 45 (CONTINUED)

Annual OPEB Costs and Net OPEB Obligation

The Department's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years.

The following table shows the components of the Department's annual OPEB cost, the amount actually contributed to the plan, and the change in the Department's net OPEB obligation as of December 31, 2016:

Annual required contribution	\$	186,161
Interest on net OPEB obligation		23,185
Amortization of net OPEB obligation		(32,235)
Amortization of actuarial (gains)/losses		(68,658)
		108,453
Annual OPEB cost		108,453
Contributions made		(39,261)
		69,192
Change in net OPEB obligation		69,192
Net OPEB Obligation - Beginning		579,640
Net OPEB Obligation - Ending	\$	648,832

The Department's annual OPEB cost, the percentage of annual OPEB cost, and the net OPEB obligation for the years ended December 31, 2016 and 2015 were as follows:

Period Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
December 31, 2016	\$ 108,453	36.20%	\$ 648,832
December 31, 2015	97,196	32.69%	579,640

The Department's net OPEB obligation as of December 31, 2016 and 2015 is recorded as a component of the "noncurrent liabilities" line item in the Statements of Net Position.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

PRIOR YEAR DISCLOSURE REQUIRED UNDER GASB 45 (CONTINUED)

Funded Status and Funding Progress

The funded status of the plan at January 1, 2015, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 1,460,737
Actuarial value of plan assets	622,895
	<hr/>
Unfunded actuarial accrued liability (UAAL)	\$ 837,842
	<hr/> <hr/>
Funded Ratio (actuarial value of plan assets/AAL)	42.64%
	<hr/> <hr/>
Covered payroll (active plan members)	\$ 1,508,681
	<hr/> <hr/>
UAAL as a percentage of covered payroll	55.53%
	<hr/> <hr/>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the plan as understood by the Department and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Department and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2015 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return and an initial annual health care cost trend rate of 6.0%. The amortization costs for the initial UAAL is a level dollar amortization, with amortization payments increasing at 3% per year for a period of 30 years. An inflation rate of 3.00% was used related to compensation increases and mortality rates were represented by the RP-2000 Mortality Table projected to 2017 for males and females.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

7. COMMITMENTS AND CONTINGENCIES

Massachusetts Municipal Wholesale Electric Company

The Town of South Hadley, acting through its Light Department, is a participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC). MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its *pro rata* share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution ("GBR") with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC, and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. ("DNCI"), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Massachusetts Municipal Wholesale Electric Company (Continued)

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook), the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act ("Act"). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

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

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

As of December 31, 2017, total capital expenditures for MMWEC's Projects amounted to \$1,583,481,000, of which \$53,123,000 represents the amount associated with the Department's share of Project Capability, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects from Power Supply Project Revenue Bonds totaled \$10,680,000, of which \$579,000 is associated with the Department's share of Project Capability, although such amount is not allocated to the Department. As of December 31, 2017, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$11,425,000, of which \$600,000 is anticipated to be billed to the Department in the future.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Massachusetts Municipal Wholesale Electric Company (Continued)

The estimated aggregate amount of South Hadley Electric light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2017 and estimated future years is as follows:

	<u>ANNUAL COST</u>
December 31, 2018	\$ 600,000
2019	-
Total	<u><u>\$ 600,000</u></u>

In addition, under the PSAs, the Department is required to pay to MMWEC its share of the Operation and Maintenance ("O&M") costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs were \$4,134,000 and \$6,327,000 for the years ended December 31, 2017 and 2016, respectively.

Source of Labor Supply

Fifty percent of the Department's labor force is covered under a collective bargaining agreement between the South Hadley Electric Light Department and the International Brotherhood of Electrical Workers Local Union 455. The agreement expires June 30, 2020.

Claims and Judgements

From time to time, the Department is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Department's legal counsel that the likelihood is remote that any such claim or proceeding will have a materially adverse effect on the Department's financial position or results of operations.

8. RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters, for which the Department carries commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of coverage in 2017 and 2015 and two settlements in excess of coverage in 2016.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

9. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The Department implemented the provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective January 1, 2017. The cumulative effect of the implementation is reflected as a change in net position at December 31, 2017 as follows:

Net OPEB liability - January 1, 2017	\$ 85,589
Cumulative Effect of Change in Accounting Principle	<u>\$ 85,589</u>

Additional information required for retroactive implementation was not provided by the plan.

10. BEGINNING NET POSITION RESTATEMENT

The most recent actuarial valuation for the Hampshire County Retirement System included a correction for the amortization period of certain pension related deferred outflows. As a result of the correction, the 2016 reported General and Administrative Expenses were increased by \$71,475 and the January 1, 2016 net position of the Department's proprietary fund was restated as follows:

As previously reported	\$ 24,045,525
Correction of pension related deferred outflow amortization	(30,040)
As restated	<u>\$ 24,015,485</u>

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

RETIREMENT PLAN

Schedule of Changes in Total Pension Liability, Net Pension Liability, and Related Ratios

The following schedules present the multi-year trend information that demonstrates the components of change in total pension liability and net pension liability from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts presented are determined as of the measurement date of December 31:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service cost	\$ 195,823	\$ 185,977	\$ 157,207
Interest	639,385	631,015	532,592
Differences between expected and actual experience	(80,298)	-	-
Changes in assumptions	306,701	-	-
Benefit payments, including refunds	(496,335)	(462,048)	(389,610)
Net Change in Total Liability	565,276	354,944	300,189
Total Pension Liability - Beginning of Year	8,577,472	8,057,933	6,800,673
Total Pension Liability - End of Year	<u>\$ 9,142,748</u>	<u>\$ 8,412,877</u>	<u>\$ 7,100,862</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 363,635	\$ 337,338	\$ 278,338
Contributions - employees	137,505	132,611	120,650
Other additions	30	-	-
Net investment income	351,054	(20,955)	191,784
Benefit payments	(496,335)	(462,048)	(389,610)
Administrative expenses	(14,788)	(15,131)	(13,427)
Net Change in Fiduciary Net Position	341,101	(28,185)	187,735
Plan Fiduciary Net Position - Beginning of Year	4,742,868	4,680,041	3,936,440
Plan Fiduciary Net Position - End of Year	<u>\$ 5,083,969</u>	<u>\$ 4,651,856</u>	<u>\$ 4,124,175</u>
Net Pension Liability			
Beginning of year - based on prior year proportions	\$ 3,761,021	\$ 2,976,687	\$ 2,573,173
Change in proportionate share	(73,583)	(401,205)	(291,060)
Beginning of year - based on current year proportions	3,834,604	3,377,892	2,864,233
Net Pension Liability - End of Year	<u>\$ 4,058,779</u>	<u>\$ 3,761,021</u>	<u>\$ 2,976,687</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	55.61%	55.29%	58.08%
Covered Payroll	\$ 1,457,169	\$ 1,465,393	\$ 1,274,741
Net Pension Liability as a Percentage of Covered Payroll	278.54%	256.66%	233.51%

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

RETIREMENT PLAN (Continued)

Schedule of Changes in Total Pension Liability, Net Pension Liability, and Related Ratios

Changes in assumptions – As part of the December 31, 2016 valuation, the discount rate was changed from 7.8750% to 7.5000.

Schedule of Proportionate Share of Net Pension Liability

The following schedules present the multi-year trend information regarding the Department's proportionate share of the Hampshire County Retirement System's net pension liability for the years ending December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of net pension liability for the most recent measurement date	2.3129%	1.8110%	1.5959%
Proportionate share of net pension liability for the most recent measurement rate	\$ 4,058,779	\$ 3,761,021	\$ 2,976,687
Covered-employee payroll for the most recent measurement date	\$ 1,457,169	\$ 1,465,393	\$ 1,274,741
Proportionate share of net pension liability (asset) as a percentage of covered-employee payroll	278.54%	256.66%	233.51%
Plan fiduciary net position as a percentage of the total pension liability	55.61%	55.29%	58.08%

Schedule of Employer Contributions to the Pension Plan

The following schedules present the multi-year trend information regarding employer contributions to the plan for the years ending December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 374,795	\$ 360,342	\$ 276,896
Contribution in relation to the contractually required contribution	374,795	360,342	276,896
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll for the current fiscal year	\$ 1,546,558	\$ 1,457,169	\$ 1,465,393
Contributions as a percentage of covered-employee payroll	24.23%	24.73%	21.72%

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OTHER POST-EMPLOYMENT BENEFIT PLANS

Schedule of Changes in Net OPEB Liability and Related Ratios:

The following schedules present the multi-year trend information that demonstrates the components of change in the net OPEB liability from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts presented are determined as of the measurement date of December 31:

	2017	2016
Total OPEB Liability		
Service cost	\$ 30,944	\$ 30,942
Interest	67,503	71,255
Differences between expected and actual experience	-	(120,349)
Changes in assumptions	-	-
Benefit payments, including refunds	(43,243)	(45,495)
	55,204	(63,647)
Net Change in Total Liability		
Total OPEB Liability - Beginning of Year	1,115,404	1,179,051
	\$ 1,170,608	\$ 1,115,404
Plan Fiduciary Net Position		
Employer contributions to the Trust	\$ 43,243	\$ 45,495
Benefit payments withdrawn from the Trust	(43,243)	(45,495)
Interest	39,973	36,948
Differences between projected and actual earnings on plan investments	-	2,124
Net investment income	59,258	11,331
Administrative expenses	-	-
	99,231	50,403
Net Change in Fiduciary Net Position		
Plan Fiduciary Net Position - Beginning of Year	666,211	615,808
	\$ 765,442	\$ 666,211
Net OPEB - Beginning of Year	\$ 563,243	\$ 563,243
Net OPEB - End of Year	\$ 405,166	\$ 449,193
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	65.39%	59.73%
Covered Payroll	\$ 1,763,241	\$ 1,711,884
Net OPEB Liability as a Percentage of Covered Payroll	22.98%	26.24%
Annual Money Weighted Rate of Return on OPEB Plan Investments	14.89%	8.18%

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

Schedule of Changes in Net OPEB Liability and Related Ratios (continued):

Changes in assumptions – As part of the December 31, 2016 valuation, the mortality table was updated from the RP-2000 M projected to 2017 to RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base males and females. In addition, the discount range was changed from 4.00% to 6.00%.

Schedule of Employer Contributions to the OPEB Plan

The following schedules present the multi-year trend information regarding employer contributions to the plan for the years ending December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 45,495	\$ 39,261	\$ 31,770
Contribution in relation to the contractually required contribution	45,495	39,261	31,770
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll for the current fiscal year	\$ 1,711,884	\$ 1,553,941	\$ 1,508,681
Contributions as a percentage of covered-employee payroll	2.66%	2.53%	2.11%

PRIOR YEAR SUPPLEMENTAL INFORMATION REQUIRED UNDER GASB 45

Schedule of Funding Progress:

The following schedules present the multi-year trend information regarding funding progress.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
01/01/16	\$647,811	\$ 1,530,524	\$ 882,713	42.33%	\$ 1,553,941	56.80%
01/01/15	\$622,895	\$ 1,460,737	\$ 837,842	42.64%	\$ 1,508,681	55.53%
01/01/14	\$587,558	\$ 1,691,268	\$ 1,103,710	34.74%	\$ 1,064,922	103.64%

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
OTHER INFORMATION (Unaudited)
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	Restated 2016
OPERATING EXPENSES		
Cost of Power Sold		
Purchased power	\$ 6,743,511	\$ 8,179,358
Transmission expense	2,383,206	2,220,261
Supplies and expense	399,933	223,542
Total Cost of Power Sold	9,526,650	10,623,161
Distribution Expense		
Salaries and wages	634,608	646,915
Supplies and expense	303,435	341,262
Total Distribution Expense	938,043	988,177
Customer Accounts Expense		
Salaries and wages	238,317	203,099
Supplies and expense	204,623	107,679
Total Customer Accounts Expense	442,940	310,778
General and Administrative Expense		
Salaries and wages	525,436	351,226
Supplies and expense	255,595	280,194
Pension and benefits (as restated)	699,006	1,324,992
Insurance	105,906	102,400
Legal and consulting	171,405	137,136
General	21,340	22,106
Total General and Administrative Expense	1,778,688	2,218,054
Depreciation Expense		
Distribution and general plant	1,051,891	1,042,712
TOTAL OPERATING EXPENSES	\$ 13,738,212	\$ 15,182,882

See Independent Auditors' Report.