



Bill Fraher, CPA

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Financial Statements
and Required Supplementary Information

For the Year Ended December 31, 2017

(With Independent Auditor's Report Thereon)

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT
Financial Statements and Required Supplementary Information

Years Ended December 31, 2017
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Independent Auditor's Report

The Board of Light Commissioners
Town of Middleton, Massachusetts

Report on the Financial Statements

I have audited the accompanying financial statements of the Middleton Electric Light Department an enterprise fund of the Town of Middleton, Massachusetts, as of and for the year ended December 31, 2017, and the related notes to the financial statements, as listed in the table of contents.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's judgment, including the assessment of the risks of a material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Middleton Electric Light Department of the Town of Middleton, Massachusetts,

as of December 31, 2017, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 7 and the pension and OPEB schedules on pages 28 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

As discussed in Note 1, the financial statements present only the Middleton Electric Light Department and do not purport to, and do not, present fairly the financial position of the Town of Middleton, Massachusetts as of December 31, 2017, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* I have also issued my report dated June 8, 2018 on my consideration of the Middleton Electric Light Department's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Middleton Electric Light Department's internal control over financial reporting and compliance.



Bill Fraher, CPA
June 8, 2018



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

The Board of Light Commissioners
Town of Middleton, Massachusetts

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Middleton Electric Light Department (the Department), an enterprise fund of the Town of Middleton, Massachusetts, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued my report thereon dated June 8, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Middleton Electric Light Department's internal control. Accordingly, I do not express an opinion on the effectiveness of the Middleton Electric Light Department's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Middleton Electric Light Department's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards.

I noted certain matters that I reported to management and Board of the Middleton Electric Light Department in a separate letter dated June 8, 2018.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose



Bill Fraher, CPA
June 8, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the financial statements, the management of the Middleton Electric Light Department (the Department) provides a narrative discussion of the amounts that appear in the Department's Statement of Net Position, Statement of Revenues, Expense and Changes in Net Position and Statement of Cash Flows. This discussion is provided to present an overview of the Department's year end financial position for December 31, 2017 and the results of operations for the year then ended.

Overview of the Financial Statements

The Department's basic financial statements include two fund types, a proprietary fund type for all Department activity except for the Other Post-Employment Benefits (OPEB) trust fund, which is considered a fiduciary fund type. For both fund types, the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The proprietary fund includes a Statement of Net Position, Statement of Revenues, Expense and Changes in Net Position and Statement of Cash Flows. The fiduciary fund type presents a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. Notes follow these financial statements to present additional information on some of the amounts in the financial statements. Financial highlights from these statements are presented below.

- The Statement of Net Position is designated to indicate our financial position as of a specific point in time. At December 31, 2017, our net position is \$22,068,534, which is an increase of \$2,116,055 (10.6%) from the prior year amount of \$19,952,479. Of the total net position at December 31, 2017, \$11.6 million is the net investment in capital assets, \$.5 million is restricted for future rate relief and \$10.0 million is unrestricted.
- The Statement of Revenues, Expenses and Changes in Net Position shows our operating results and reveals how much, if any, profit was made for the year. This statement shows a total increase in net position (net income) of \$2,116,055 for the year ended December 31, 2017, compared with a net income of \$777,169 for the year ended December 31, 2016. This difference was due mainly to lower power costs and other operating expenses, an increase in other operating income due to work performed on hurricane Irma, and an increase in investment income due to market returns.
- The Statement of Cash Flows provides information about the cash receipts and cash payments during the year. A review of our Statement of Cash Flows indicates that cash receipts from operating activities adequately cover our operating expenses.
- The Department continues to accrue its Other Post-Employment Benefits (OPEB) liability. The GASB 45 OPEB liability in the financial statements at December 31, 2017 is \$355,748. The total OPEB unfunded actuarial liability as of the most recent actuarial valuation (July 1, 2016) is \$918,974. The Department has funded this liability with \$250,000 in contribution to the OPEB trust in 2016 and 2017. The Department also implemented GASB 74 for its OPEB trust for the 2017 statements. At December 31, 2017, this shows a total OPEB liability of \$953,756, plan assets of \$583,364 and a net OPEB liability of \$370,392.
- The total Net Pension Liability (NPL) in the financial statements is \$3,842,901 with pension related deferred outflows of \$402,880 and deferred inflows of \$75,215. The NPL is being amortized through increased assessments from the Essex Regional Retirement System with a target date of 2035 for full liability amortization.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary financial information is presented below.

Summary of Net Position

	<u>2017</u>	<u>2016</u>
Current Assets	\$15,778,699	\$15,652,769
Noncurrent Assets	<u>11,592,264</u>	<u>9,465,661</u>
Total Assets	<u>27,370,963</u>	<u>25,118,430</u>
Deferred Outflows	<u>402,880</u>	<u>402,880</u>
Current Liabilities	1,364,491	1,050,400
Noncurrent Liabilities	<u>4,265,603</u>	<u>4,443,216</u>
Total Liabilities	<u>5,630,094</u>	<u>5,493,616</u>
Deferred Inflows	<u>75,215</u>	<u>75,215</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	11,592,264	9,465,661
Restricted	502,071	202,071
Unrestricted	<u>9,974,199</u>	<u>10,284,747</u>
Total Net Position	<u>\$22,068,534</u>	<u>\$19,952,479</u>

Larger changes are: 1) an increase prepaid expenses due to year end timing; 2) an increase in capital assets due to a land and right of way purchase and 3) increase in net assets due to net income.

Summary of Changes in Net Position

	<u>2017</u>	<u>2016</u>
Operating Revenues	\$13,813,015	\$13,777,574
Operating Expenses	<u>12,045,856</u>	<u>13,092,925</u>
Operating Income	1,767,159	684,649
Nonoperating Revenues (Expenses)	<u>348,896</u>	<u>92,520</u>
Changes in Net Position	2,116,055	777,169
Beginning Net Position	<u>19,952,479</u>	<u>19,175,310</u>
Ending Net Position	<u>\$22,068,534</u>	<u>\$19,952,479</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

Operating revenues increased, totaling \$13,777,574 for 2016 and \$13,813,015 for 2017, an increase of 0.26%. Actual customer kilowatt hour sales to customers decreased approximately 0.6% and overall revenue from customer charges decreased 0.2%. There were no rate changes in 2017. Other operating revenues increased due to work performed by Department line crew in the U.S. Virgin Island on hurricane Irma repairs.

Operating expenses decreased from \$13,092,925 in 2016 to \$12,045,856 in 2017, a decrease of 8.0%. Most of this was due to a decrease in purchased power costs due to power refunds from MMWEC.

The Department saw its investment income increase from \$312,520 in 2016 to \$552,896 in 2017 due to favorable investment returns in 2017 (market factors).

Capital Assets & Debt Administration

Total net capital assets were \$9,465,661 at December 31, 2016 and \$11,592,264 at December 31, 2017, an increase of 22.5%. Capital assets include land, buildings, structures and improvements, equipment and furnishings and infrastructure. There were approximately \$2,800,000 in capital additions in 2017, the largest for the purchase of land a right of way. Additions, net of retirements, were more than depreciation for the year resulting in the increase in net capital assets.

The Department has no outstanding debt at December 31, 2017 nor was any debt outstanding during the year.

Requests for Information

This financial report is designed to provide a general overview of the Middleton Electric Light Department's finances for all those interested in the Department's financial operations. Questions concerning any of the information in this report or requests for additional financial information should be addressed to:

Manager
Middleton Electric Light Department
Middleton, MA 01834

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Statement of Net Position

December 31, 2017

Assets

Current assets:

Cash and cash equivalents - unrestricted	\$	2,281,502
Cash and cash equivalents - restricted		247,896
Investments		9,022,266
User charges receivable, net		1,304,699
Other accounts receivable		792,751
Unbilled revenue		161,530
Inventory		605,397
Prepaid expenses		1,360,777
Other current assets		<u>1,881</u>

Total current assets 15,778,699

Noncurrent assets:

Capital assets, net		<u>11,592,264</u>
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Total noncurrent assets 11,592,264

Total assets \$ 27,370,963

Deferred Outflows

Deferred outflows related to pensions		<u>402,880</u>
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Liabilities

Current Liabilities:

Accounts payable	\$	848,391
Customer deposits		247,896
Other current liabilities		<u>268,204</u>

Total current liabilities 1,364,491

Noncurrent liabilities:

Accrued compensated absences		66,954
Other post-employment benefits		355,748
Net pension liability		<u>3,842,901</u>

Total noncurrent liabilities 4,265,603

Total liabilities 5,630,094

Deferred Inflows

Deferred inflows related to pensions		<u>75,215</u>
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Net Position

Net investment in capital assets		11,592,264
Restricted		502,071
Unrestricted		<u>9,974,199</u>

Total net position \$ 22,068,534

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended December 31, 2017

Operating revenues:		
Charges for services	\$	13,343,136
Other operating revenues		<u>469,879</u>
Total operating revenues		<u>13,813,015</u>
Operating expenditures:		
Purchased power and production		9,111,930
Other operating expenses		2,269,233
Depreciation		<u>664,693</u>
Total operating expenditures		<u>12,045,856</u>
Operating income		<u>1,767,159</u>
Nonoperating revenues (expenses):		
Interest income		552,896
Payment in lieu of taxes		<u>(204,000)</u>
Total nonoperating revenues (expenses)		<u>348,896</u>
Changes in net position		2,116,055
Net position, beginning of year		<u>19,952,479</u>
Net position, end of year	\$	<u><u>22,068,534</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Statement of Cash Flows

For the Year Ended December 31, 2017

Cash flows from operating activities:	
Cash received from customers	\$ 13,253,495
Cash paid to suppliers	(9,339,356)
Cash paid to employees	(2,053,217)
Payment in lieu of taxes (operating transfer)	<u>(204,000)</u>
Net cash provided by operating activities	<u>1,656,922</u>
Cash flows from investing activities:	
Interest on deposits and investments	552,896
Purchase and sales of investments (net)	<u>493,060</u>
Net cash provided by capital and related financing activities:	<u>1,045,956</u>
Cash flows from capital and related financing activities:	
Capital expenditures	<u>(2,791,297)</u>
Net cash provided by capital and related financing activities:	<u>(2,791,297)</u>
Net increase in cash and cash equivalents	(88,419)
Cash and cash equivalents, beginning of year	<u>2,617,817</u>
Cash and cash equivalents, end of year	<u>\$ 2,529,398</u>

Reconciliation of operating income to net cash provided

By operating activities:	
Operating income (loss)	\$ 1,767,159
Depreciation, bad debts & reserve	664,693
Payment in lieu of taxes (operating transfer)	(204,000)
(Increase)/Decrease in accounts receivable	(645,157)
(Increase)/Decrease in unbilled revenue	(11,032)
(Increase)/Decrease in inventory	16,486
(Increase)/Decrease in prepaid expenses	(67,706)
Increase/(Decrease) in accounts payable	191,243
Increase/(Decrease) in customer deposits	96,669
Increase/(Decrease) in other current liabilities	26,179
Increase/(Decrease) in OPEB liability	(168,725)
Increase/(Decrease) in net pension liability and related deferrals	-
Increase/(Decrease) in other liabilities	<u>(8,887)</u>
Net cash provided by operating activities	<u>\$ 1,656,922</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Fiduciary Fund

Statement of Fiduciary Net Position

Year Ended December 31, 2017

	<u>OPEB Trust</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	583,364
Investments	\$ <u> -</u>
Total assets	<u> 583,364</u>
<u>Liabilities</u>	
Current Liabilities:	
Other Liabilities	\$ <u> -</u>
Total liabilities	<u> -</u>
<u>Net Position</u>	
Held in trust for retiree insurance benefits	<u> 583,364</u>
Total net position	\$ <u><u> 583,364</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Fiduciary Fund

Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2017

	<u>OPEB Trust Fund</u>
<u>Additions</u>	
Contributions:	
From Middleton Electric Light Department	\$ <u>250,000</u>
Total contributions	<u>250,000</u>
Investment income:	
Interest and dividend income	<u>72,781</u>
Total investment income	<u>72,781</u>
Total additions	<u>322,781</u>
<u>Deductions</u>	
Benefits	<u>-</u>
Total deductions	<u>-</u>
Change in net position	322,781
Net position - beginning of year	<u>260,583</u>
Net position - end of year	<u>\$ <u>583,364</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

1. Summary of Significant Accounting Policies

A. Introduction

The Town of Middleton Electric Light Department (the Department) was incorporated in 1912. The Department operates under the provisions of Chapter 164 of the Massachusetts General Laws with an elected Board of Light Commissioners.

The Department complies with accounting principles generally accepted in the United States of America (GAAP). The Department's accounting records are required to conform to the accounting standards set by the Commonwealth of Massachusetts Department of Public Utilities (DPU), which differ from GAAP. Certain adjustments have been made to present the Department's financial statements in accordance with GAAP.

B. Reporting Entity

The financial statements present information only on activities of Town of Middleton Electric Light Department and do not purport to, and do not, present fairly the financial position of the Town of Middleton, Massachusetts as of December 31, 2017, and the changes in its financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. The Department is presented as an enterprise fund in the Town of Middleton, Massachusetts' financial statements.

C. Regulation and Operation

Under Massachusetts law, electric rates of the Department are set by the Board of Commissioners and may be changed once every three months. Rate schedules are filed with the DPU. While the DPU exercises general supervisory authority over the Department, rates are not subject to DPU approval. Rates must be set such that net earnings from operations do not exceed 8% of the cost of utility Department, unless prior year losses are being recaptured.

D. Basis of Accounting

I. Basis of Presentation

The financial condition and results of operations of the Department are presented as of and for the year ended December 31, 2017.

II. Basis of Accounting

The Department is considered a proprietary fund type. As such, the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The Department also distinguishes between operating and nonoperating revenues and expenses, based on whether the items relate to the primary operation of providing electric service. The Department's OPEB trust is considered a fiduciary fund type and uses the accrual basis of accounting.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

1. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

III. Cash Equivalents

For purposes of the statement of cash flows, the Department considers investments with original maturities of three months or less when purchased to be cash equivalents.

IV. Inventory

Inventory is carried at cost, calculated on an average cost basis.

V. Utility Department in Service

Utility Department in service is recorded at historical cost. Depreciation is calculated on a straight-line basis. Depreciation rates are as follows: buildings and structures - 50 years; utility Department infrastructure (poles, meters, transformers, etc.) - 20 to 33 years; other capital assets - 10 to 20 years.

An amount equal to annual depreciation expense is transferred by the Department from unrestricted cash to a segregated depreciation cash fund. This fund is utilized in accordance with DPU regulations for certain additions to utility Department in service. The Department charges maintenance costs to expense when incurred. Replacements and betterments are charged to utility Department when purchased or when placed in service, according to DPU requirements. At the time Department is retired, the cost of Department, less accumulated depreciation and any salvage value, is recorded as a reduction of the related accounts.

VI. Accrued Vacation and Sick Leave

Vacation time for Department employees varies from one to six weeks, based on years of service. In addition, employees are eligible to "buy back" a percentage of accrued sick time, subject to certain restrictions, at retirement. The total amount of accrued vacation and sick leave payable at December 31, 2017 is presented in the financial statements.

VII. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, proprietary and fiduciary fund statements may present deferred outflow and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will be recognized as an outflow (expense/expenditure) at that time. Deferred inflows of resources represent acquisition of net position that applies to a future period and will be recognized as an inflow (revenue) at that time. In the financial statements, certain items related to the net pension liability, if applicable, are presented as deferred inflows and outflows of resources.

VIII. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Essex Regional Retirement System (the System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

1. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

VIII. Pensions (continued)

System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

IX. Other Post-Employment Benefits

In additions to pensions, the Department provides health and life insurance benefits for current and future retirees and their spouses.

X. Operating Revenues

Revenues are based on rates established by the Department and are applied to customers' consumption of electricity. The Department utilizes a fuel cost adjustment, whereby fluctuations in the cost of power can be adjusted monthly on customer bills without a change to the basic rate structure. All customers are allowed a discount on a portion of their electric bill if paid within fifteen days which is recorded as revenue when forfeited.

XI. Taxes

The Department is exempt from state and federal income taxes and local property taxes. The Department pays an in lieu of tax payment to the Town of Middleton based on an annual vote by the Board of Commissioners.

XII. Use of Estimates

In preparing the Department's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Investments

Cash of the Department is in control of the Town Treasurer, as required by state law. State and local statutes place certain limitations on the nature of deposits and investments available to the Department. Cash and cash equivalents in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Separate accounts are maintained for the Department's depreciation fund, stabilization fund and customer meter deposits fund. Operating cash is pooled with Town funds in various Town bank accounts.

The Department also maintains depreciation, stabilization and OPEB funds, which are allowed per DPU regulations. Subject to certain restrictions, these amounts are available for general Department operations and are included in the financial statements as unrestricted cash and cash equivalents. Customer meter deposits are presented as restricted cash and cash equivalents, as these amounts are available to the Department only if a customer account is terminated with an outstanding balance.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

2. Cash and Investments (continued)

At year-end, the Department's carrying amount of *segregated* bank deposits was \$249,994. The bank balance of these Department segregated funds maintained by the Town Treasurer was \$252,282. In addition to the segregated funds, there was \$2,193,900 of operating cash pooled within various Town accounts. Bank deposits are pooled with, or in the same financial institution as, Town operating funds and, therefore, specific collateralization information on these amounts is not available. In addition to bank deposits, \$1,421 was invested with the Municipal Light Departments of Massachusetts Reserve Trust, an investment pool authorized under state statutes. This is considered part of cash equivalents in the financial statements.

At year-end, the investment balances for the Department were as follows:

<u>Type of Investment</u>	<u>Fair Value</u>
US government securities	\$1,109,776
Equities	3,256,013
Certificates of deposit	1,058,263
Municipal bonds	2,184,060
Corporate bonds	1,414,154
Mutual and money market funds (cash equivalents)	<u>666,497</u>
Total investments	<u>\$9,688,763</u>

Of the above amounts, maturities are as follows: 1) for US Government Securities, \$264,165 between two and five years and \$845,611 beyond five years; 2) for certificates of deposit, \$9,937 between one and two years, \$444,578 between two and five years and \$603,748 beyond five years; 3) for municipal bonds \$531,938 between two and five years and \$1,652,122 beyond five years; and 4) for corporate bonds \$519,265 between two and five years and \$894,889 beyond five years.

The US government and agency securities investments are rated Aaa by Moody's Investor Services and AA+ by Standard and Poor's. Municipal bonds are rated \$341,205 as AAA and \$1,842,855 as AA to A and corporate bonds are rated \$97,312 as AAA, \$890,458 as AA to A and \$426,384 are rated BBB by Standards and Poor's. Mutual funds, money market funds and certificates of deposit are not rated.

The Department holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Department's mission, the Department determines that disclosures related to these investments only need to be disaggregated by major type. The Department chooses a narrative format for the fair value disclosures.

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 use to measure the fair value of an 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. At December 31, 2017, Department investments are categorized as follows: Level 1 - \$1,109,776 US government securities, \$3,256,013 equities and \$666,497 mutual and money market funds; Level 2 - \$2,184,060 municipal bonds and \$1,414,154 corporate bonds. \$1,058,263 in certificates of deposit are not classified.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

3. Accounts Receivable

The following is a summary of accounts receivable as of December 31, 2017.

	<u>2017</u>
Customer accounts receivable	\$1,356,880
Other accounts receivable	763,770
Purchased power credits receivable	28,981
Allowance for uncollectible accounts	<u>(52,181)</u>
 Total accounts receivable, net	 <u>\$2,097,450</u>

Of the total customer accounts receivable at December 31, 2017 of \$1,356,880, \$1,191,011 relates to the December 2017 power bills due from customers (due in January, 2018). The Department also has \$161,530 of unbilled charges at December 31, 2017.

4. Prepaid Expenses

At December 31, 2017, the Department has total prepaid expenses of \$1,360,777. Most of the prepaid expense amount represents deposits used to facilitate timely payments of certain monthly power invoices.

5. Capital Assets

The following is a summary of the Department's capital assets for the year ended December 31, 2017.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers and Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and land improvements	<u>\$327,323</u>	<u>1,846,756</u>	-	<u>2,174,079</u>
Total capital assets not being depreciated	<u>327,323</u>	<u>1,846,756</u>	-	<u>2,174,079</u>
Capital assets being depreciated:				
Buildings and improvements	1,264,875	8,053	-	1,272,928
Equipment	2,472,521	306,219	258,001	2,520,739
Infrastructure	<u>16,971,702</u>	<u>630,270</u>	<u>95,003</u>	<u>17,506,969</u>
Total capital assets being depreciated	<u>20,709,098</u>	<u>944,542</u>	<u>353,004</u>	<u>21,300,636</u>
Less accumulated depreciation for:				
Buildings and improvements	(580,217)	(25,460)	-	(605,677)
Equipment	(1,881,779)	(109,461)	(258,001)	(1,733,239)
Infrastructure	<u>(9,108,764)</u>	<u>(529,772)</u>	<u>(95,001)</u>	<u>(9,543,535)</u>
Total accumulated depreciation	<u>(11,570,760)</u>	<u>(664,693)</u>	<u>(353,002)</u>	<u>(11,882,451)</u>
Capital assets being depreciated, net	<u>9,465,661</u>	<u>279,849</u>	<u>2</u>	<u>9,418,185</u>
Total capital assets, net	<u>\$9,465,661</u>	<u>2,126,605</u>	<u>2</u>	<u>11,592,264</u>

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

6. Notes and Bonds Payable

The Department did not have any outstanding short or long-term debt during 2017. At December 31, 2017, the Department has no unauthorized and unissued debt.

7. Pension Plans

Plan Description: Department employees are provided with pensions through the Essex Regional Retirement System, a cost sharing, multiple employer defined benefit plans administered by the Essex Regional Retirement Board and regulated by the Massachusetts Public Employee Retirement Administration Commission (PERAC). Chapter 32 of the Massachusetts General Laws (MGL) grants the authority to establish and amend benefit terms. The System issues an annual public report and audited financial statements that can be obtained at essexregional.com.

Benefits Terms: Membership in the System is mandatory for all full-time employees and non-seasonal employees who, in general, regularly work more than twenty hours per week.

The System provides retirement, disability and death benefits. Benefit payments are based on a member's age, length of creditable service, level of compensation and group classification. Retirement benefits are determined as follows. For employees hired prior to April 2, 2012, the system provides for retirement benefits up to a maximum of 80% of a member's highest three-year average annual rate of compensation. For employees hired on or after April 2, 2012, it is a maximum of 80% of a member's highest consecutive five-year average or, if greater, during the last five years (consecutive or not) preceding retirement. Employees may elect early retirement after 20 years of service or at any time after attaining age 55 (age 60 if hired on or after April 2, 2012) with 10 years eligible service.

System members who become permanently and totally disabled may be eligible to receive a disability retirement allowance. Disability benefits are based on a number of factors, including the member's age, compensation, veteran status, years of service and whether or not the disability is work related. In addition, certain death benefits exist for beneficiaries who die in active service.

Cost of living adjustments (COLAs) granted between 1981 and 1997 are the responsibility of the Commonwealth. Beginning in 1998, funding COLAs became the responsibility of the System.

Contributions: Chapter 32 of MGL governs the contributions of plan members and member employers. Employees contribute 5% of regular compensation if employed prior to January 1, 1975; 7% if first employed from January 1, 1975 to December 31, 1983; 8% of the first \$30,000 and 10% thereafter if first employed on or after January 1, 1984; and 9% of the first \$30,000 and 11% thereafter if first employed on or after January 1, 1998. The Department's contribution reflects its share of the system-wide actuarial determined contribution, in accordance with Chapter 32 Section 22D of MGL, apportioned among all System employers based on an annual employer normal cost and amortization payments to pay the unfunded net pension liability in full by fiscal year 2035. Contributions to the System by the Department for the year ended December 31, 2016 were \$289,291.

Return of Contributions: Employee contributions may be returned to the participants upon leaving Department employment prior to retirement, within certain age and length of employment restrictions, as prescribed by the Massachusetts General Laws.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

7. Pension Plans (continued)

Net Pension Liability, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the Department reported a liability of \$3,842,901 for its proportionate share of the net pension liability. The net pension liability was measured at December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 rolled forward to December 31, 2016. There were no material changes made in this update to the actuarial assumptions or to the retirement terms since the last actuarial valuation. The Department's proportion of the net pension liability was based on a projection of the Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2016, the Department's proportion was 0.9974%.

For the year ended December 31, 2017, the Department recognized pension expense of \$303,409. At December 31, 2017 the Department reported deferred outflows as follows: \$168,338 for net difference between projected and actual investment earnings, \$162,866 for changes in assumptions and \$71,676 for changes in proportion and differences between employer contributions and proportionate share of contributions and reported deferred inflows as follows: \$69,205 for the difference between expected and actual experience and \$6,010 for changes in proportion and differences between employer contributions and proportionate share of contributions. This amount will be recognized in pension expense as follows:

Fiscal year ended December 31:	
2018	\$90,492
2019	\$90,492
2020	\$94,145
2021	\$44,664
2022	7,872
Thereafter	-

Actuarial Assumptions: The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	Actuarial cost method	Entry Age Normal Cost Method
	Amortization method	The total appropriation is set to increase annually by 7.74% for five years, then by 6.36% for one year and 4% increases thereafter until the final year when it will be 3.89%.
	Asset valuation method	Market value adjusted by accounts payable and receivables
	Projected salary increases	3% of the first \$13,000 of a member's retirement allowance is assumed every year
	Remaining amortization period	18 years for the fresh start base.
	Investment rate of return	7.75% per annum
	Salary increases	7.5% year one, 6.5% year two, 6.0% year three, 5.5% year four, 5.0% year five, 3.75% ultimate rate

Mortality rates were based on the RP-2000 Mortality Table (sex distinct) projected with scale BB and generational mortality. During employment, the healthy employee mortality table is used. Post-

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

7. Pension Plans (continued)

employment the healthy annuitant table is used. For disabled life, the mortality rates were based on the RP-2000 Mortality Table set forward two years. Death is assumed to be the same cause as the disability 40% of the time.

The long-term rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<u>Global Equity</u>		
Large Cap equities	14.5%	7.5%
Small/mid cap equities	3.5%	7.75%
International equities	16%	7.83%
Emerging international equities	6%	9.61%
<u>Core Fixed Income</u>		
Core bonds	5%	4%
20+ year treasuries & TIPS	8%	3.75%
<u>Value Added Fixed Income</u>		
High-yield bonds	1.5%	5.75%
Bank loans	1.5%	6%
EMD (external)	1%	5.75%
EMD (local currency)	2%	6.5%
Private debt	4%	9.06%
Private equity	10%	9.5%
Real estate	10%	6.5%
Timberland	4%	6%
Hedge funds/other	<u>13%</u>	6.48%
Total	<u>100%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that contributions will be made at the actuarially determined contribution rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the Department's proportionate share of the net pension liability of the System calculated using the discount rate of 7.75%, 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 (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
\$4,710,129	\$3,842,901	\$3,201,301

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

8. Other Post-Employment Benefits (OPEB) – GASB 45

The Department was required to implement GASB 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, for the 2009 financial statements. The Department established the net OPEB obligation at January 1, 2009 at zero and is applying the measurement and recognition requirements for the remaining amounts of GASB 45 on a prospective basis.

Plan Description - The Department provides for certain health care benefits in accordance with Massachusetts General Law Chapter 32B, to employees who retire in accordance with various predetermined years of service and under various age requirements under a single employer defined benefit plan. Changes to plan design and contribution rates must be negotiated through the collective bargaining process.

As of the most recent valuation date of July 1, 2016, the number of Plan participants is as follows:

Active employees	16
Retirees and beneficiaries	<u>2</u>
Total	<u>18</u>

Funding Policy - Contribution requirements are negotiated as part of the collective bargaining process. Currently, members receiving these benefits contribute 40% of the cost of the plans. The cost of administering the plan is paid for by the Town.

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

Annual required contribution	\$73,202
Interest on OPEB obligation	34,660
Amortization of actuarial gains and losses	34,891
Adjustment to annual required contribution	<u>(42,947)</u>
Annual OPEB cost	99,806
Contribution to OPEB trust	(250,000)
Expected employer contribution	<u>(18,531)</u>
Increase (decrease) in net OPEB obligation	(168,725)
Net OPEB obligation - beginning of year	<u>524,473</u>
Net OPEB obligation - end of year	<u>\$355,748</u>

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

9. Other Post-Employment Benefits (OPEB) – GASB 74 (continued)

Net OPEB Liability: The components of the net OPEB liability at December 31, 2017 were as follows:

Total OPEB liability	\$953,756
OPEB plan fiduciary net position	<u>(583,364)</u>
Net OPEB liability	<u>\$370,392</u>
OPEB plan fiduciary net position as % of total OPEB liability	<u>61.16%</u>

Actuarial Assumptions: The total OPEB liability at December 31, 2017 was determined by an actuarial valuation as of December 31, 2017 with an actuarially determined contribution as of December 31, 2017, using the following actuarial methods and assumptions:

Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.75 percent
Salary increases	3% annually as of June 30, 2017 and for future periods
Investment rate of return	6.79 percent, net of OPEB investment expense, including inflation

For pre-retirement mortality, mortality rates were based on the RP-2000 Mortality Table (base year 2009) using Scale BB. For post-retirement mortality, mortality rates were based on the RP-2000 Healthy Annuitant Table (base year 2009) using Scale BB. For disabled lives, the mortality rates were based on the RP-2000 Healthy Annuitant Table (base year 2012) using Scale BB.

Investments: The Department has its funds in an investment account with an investment advisor. The Department has an OPEB investment policy. The long-term rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Large Cap	31.75%	4.00%
Domestic Equity Sm./Mid Cap	18.50%	6.00%
Int'l Equity Developed Market	8.50%	4.50%
Int'l Equity Emerging Market	6.00%	7.00%
Domestic Fixed Income	19.00%	2.00%
International Fixed Income	7.25%	3.00%
Alternatives	5.00%	6.50%
Real Estate	3.00%	6.25%
Cash	<u>0.31%</u>	0.00%
Total	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates. Based on that, the fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

9. Other Post-Employment Benefits (OPEB) – GASB 74 (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the Department’s proportionate share of the net pension liability of the System calculated using the discount rate of 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

<u>1% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
\$543,022	\$370,392	\$209,470

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate: The following presents the Department’s proportionate share of the net pension liability of the System calculated using the current healthcare cost trend rate of 5.0%, 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 (4.0%) or 1-percentage-point higher (6.0%) than the current rate:

<u>1% Decrease (4.0%)</u>	<u>Current Discount Rate (5.0%)</u>	<u>1% Increase (6.0%)</u>
\$151,655	\$370,392	\$653,366

10. Commitments

The 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 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 payment when due, other Projects Participants may be required to increase (step-up) their payments and correspondingly their Participants’ share of Project Capability to an additional amount not to exceed 25% of their original Participants’ share of 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 from, and secured solely by, the revenues derived from the Project to which such issue relates plus available funds pledged under the Amended and Restated General Bond Resolution with respect to the bonds of that project. The MMWEC revenues derived from each Project is 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.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

10. Commitments (continued)

MMWEC operates the Stony Brook Intermediate Project and Stony Brook Peaking Project, both fossil-fueled power Departments. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 Department, owned and operated by subsidiaries of 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 indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear unit. The operating license for Unit 3 extends to November 25, 2045.

A substantial portion of MMWEC's Department investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook Resources, LLC, the majority owner and indirect subsidiary of Next Era Energy Resources, LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has applied 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 Departments, which costs are being funded through monthly Project billings. The Project Participants are also liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act. Originally enacted in 1957, the Act has been renewed several times. In July, 2005, Congress extended the Act through the end of 2025.

The Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally obligated to make 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, the outcome of which, in the opinion of MMWEC management, will not have a material adverse effect on the financial position of MMWEC. As of December 31, 2017, total capital expenditures amounted to \$1,583,481,000, of which \$38,299,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects from Power Supply System Revenue Bonds totals \$10,680,000, of which \$317,000 is associated with the Department's share of Project Capability. As of December 31, 2017, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is \$11,425,000, of which \$345,000 is anticipated to be billed to the Department in future years.

The aggregate amount of the Department's required payments under the PSAs and PPAs, exclusive of Reserve and Contingency Fund billings, to MMWEC at December 31, 2017 and estimated for future years is shown below.

For years ended December 31,	2018	\$ 40,000
	2019	\$ <u>305,000</u>
	Total	\$ <u>345,000</u>

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

10. Commitments (continued)

In addition, the Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Department's total O&M costs including debt service under the PSAs were \$2,335,000 and \$3,403,000 for the years ended December 31, 2017 and 2016, respectively.

11. Power Contracts

The Department purchases its power through contracts with various power suppliers, including MMWEC. These contracts are subject to certain market factors. Based on current market conditions, the Department anticipates some stability to its power cost expenses over the next few years.

12. Contingencies

Numerous lawsuits may be pending or threatened against the Department, which arose from the ordinary course of operations, including actions commenced and claims asserted against it for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. The Department's attorney estimates that potential claims, not covered by insurance, resulting from such litigation, would not materially affect the financial statements.

13. Implementation of new GASB Statements

During fiscal year 2017, the Department implemented the following GASB pronouncements:

- GASB Statement #74 – *Financial Reporting for Postemployment Benefits Plans Other than Pension Plans*, which is required to be implemented in fiscal year 2017. The Department has successfully implemented this statement in its financial statements.
- GASB Statement #80 – *Blending Requirements for Certain Component Units – AN amendment of GASB Statement No. 14*, which is required to be implemented in fiscal year 2017. This Statement did not have any significant impact on the Department's financial statements.
- GASB Statement #82 – *Pensions Issues – An Amendment of GASB Statement Nos. 67, 68 and 73*, which is required to be implemented in fiscal year 2017. This Statement did not have any significant impact on the Department's financial statements.
- GASB Statement #81 – *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal year 2017. This Statement did not have any significant impact on the Department's financial statements.

In future fiscal years, the Department will implement the following GASB pronouncements:

- GASB Statement #75 – *Accounting and Financial Reporting for Postemployment Benefits Plans Other than Pensions*, which is required to be implemented in fiscal year 2018. The Department is currently evaluating the possible impact this will have on its financial statements.
- GASB Statement #83 – *Certain Asset Retirement Obligations*, which is required to be implemented in fiscal year 2019. The Department is currently evaluating the possible impact this will have on its financial statements.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2017

13. Implementation of new GASB Statements

- GASB Statement #84 – *Fiduciary Activities*, which is required to be implemented in fiscal year 2019. The Department is currently evaluating the possible impact this will have on its financial statements.
- GASB Statement #85 – *Omnibus 2017*, which is required to be implemented in fiscal year 2018. The Department is currently evaluating the possible impact this will have on its financial statements.
- GASB Statement #86 – *Certain Debt Extinguishment Issues*, which is required to be implemented in fiscal year 2018. The Department is currently evaluating the possible impact this will have on its financial statements.
- GASB Statement #87 – *Leases*, which is required to be implemented in fiscal year 2020. The Department is currently evaluating the possible impact this will have on its financial statements.
- GASB Statement #88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement*, which is required to be implemented in fiscal year 2019. The Department is currently evaluating the possible impact this will have on its financial statements.

Town of Middleton Municipal Light Department
 Required Supplementary Information
 Fiscal Year Ended December 31, 2017

Town of Middleton Municipal Light Department's Proportionate Share of Net Pension Liability - Essex Regional Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Department's proportion of the net pension liability	<u>0.9974%</u>	<u>0.9974%</u>	<u>0.9663%</u>
Department's proportionate share of the net pension liability	<u>\$3,842,901</u>	<u>\$3,842,901</u>	<u>\$3,278,215</u>
Department's covered-employee payroll	<u>\$1,390,838</u>	<u>\$1,390,838</u>	<u>\$1,153,368</u>
Department's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>276.3%</u>	<u>276.3%</u>	<u>284.3%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>51.12%</u>	<u>51.12%</u>	<u>52.27%</u>

Town of Middleton Municipal Light Department's Schedule of Contributions - Essex Regional Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$288,945	\$288,945	\$251,202
Contributions in relation to the contractually required contribution	<u>(289,291)</u>	<u>(289,291)</u>	<u>(251,202)</u>
Contribution deficiency (excess)	<u>(296)</u>	<u>(296)</u>	<u>-</u>
Department's covered-employee payroll	<u>\$1,390,838</u>	<u>\$1,390,838</u>	<u>\$1,153,368</u>
Contributions as a percentage of covered-employee payroll	<u>20.8%</u>	<u>20.8%</u>	<u>21.8%</u>

Note: The above schedules are required for ten years. Additional years will be presented as they become available. These amounts were determined for 2017 and 2016 as of December 31, 2016 and for 2015 as of December 31, 2014.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Required Supplementary Information
Schedules of Changes in Total OPEB Liability
and Plan Fiduciary Net Position

2017

Total OPEB Liability (GASB 74)

Service cost	\$	21,903
Interest on total OPEB liability		60,911
Changes in benefit terms		-
Difference between expected and actual plan experience		-
Changes in assumptions		-
Benefit payments, including refunds of member contributi		<u>(18,784)</u>
Net change in total OPEB liability		64,030
Total OPEB liability - beginning of year		<u>889,726</u>
Total OPEB liability - end of year	\$	<u><u>953,756</u></u>

Plan Fiduciary Net Position (GASB 74)

Interest on fiduciary net position	\$	17,589
Earnings from plan investments		<u>55,192</u>
Net investment income (loss)		72,781
Employer contributions		268,784
Benefit payments		(18,784)
Administrative expense		<u>-</u>
Net change in fiduciary plan net position		322,781
Plan fiduciary net position - beginning of year		<u>260,583</u>
Plan fiduciary net position - end of year	\$	<u><u>583,364</u></u>
Net OPEB liability	\$	<u><u>370,392</u></u>

These schedules are required for ten year. Additional years will be presented as they become available.

See notes to the Department's financial statement for a summary of significant actuarial methods and assumptions.

Town of Middleton Municipal Light Department

Required Supplementary Information

Fiscal Year Ended December 31, 2017

Schedule of Net OPEB Liability (GASB 74)

	<u>2017</u>
Total OPEB liability	\$953,756
Plan fiduciary net position	<u>583,364</u>
Net OPEB liability	<u>\$370,392</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>61.16%</u>
Department's covered-employee payroll	<u>\$1,598,393</u>
Plan net OPEB liability as a percentage of covered payroll	<u>23.17%</u>

Schedule of OPEB Contributions (GASB 74)

	<u>2017</u>
Actuarially determined contribution	\$ 68,210
Contributions in relation to the actuarially determined contribution	<u>(268,784)</u>
Contribution deficiency (excess)	<u>(200,574)</u>
Department's covered-employee payroll	<u>\$1,598,393</u>
Contributions as a percentage of covered-employee payroll	<u>16.82%</u>

Schedule of Investment Returns (GASB 74)

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	<u>6.79%</u>

The above schedules are required for ten years. Additional years will be presented as they become available.

See notes to the Department's financial statements for summary of significant actuarial methods and assumptions.