

CITY OF WESTFIELD
GAS AND ELECTRIC LIGHT DEPARTMENT
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023 AND 2022

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

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MeyersBrothersKalicka, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS STRATEGISTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of the City of Westfield Gas and Electric Light Department (the "Department") and the Southwest Cooperative (the "Cooperative"), which comprise the proprietary fund consolidated statements of net position as of December 31, 2023 and 2022, and the related proprietary fund consolidated statements of revenues, expenses and changes in net position and cash flows for the years then ended, the fiduciary fund statements of fiduciary net position as of December 31, 2023 and 2022 and the related fiduciary fund statements of changes in fiduciary net position for the years then ended and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department and the Cooperative as of December 31, 2023 and 2022, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Department and the Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department and the Cooperative's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements. In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department and Cooperative's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department and the Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that pension plan and other post-employment benefit plan schedules as listed on the table of contents (pages 49-51) be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2024 on our consideration of the Department and the Cooperative's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Department and the Cooperative's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department and the Cooperative's internal control over financial reporting and compliance.

Mayer Beckett Halicka, P.C.

Holyoke, Massachusetts
September 4, 2024

PROPRIETARY FUND

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

PROPRIETARY FUND CONSOLIDATED STATEMENTS OF NET POSITION DECEMBER 31, 2023 AND 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Current assets		
Cash and cash equivalents	\$ 26,415,649	\$ 23,905,802
Accounts receivable, less reserve of approximately \$793,000 in 2023 and \$817,000 in 2022	4,206,737	5,065,440
Inventory - materials and supplies	8,410,270	7,314,337
Prepaid expenses	<u>281,910</u>	<u>279,147</u>
Total current assets	<u>39,314,566</u>	<u>36,564,726</u>
Restricted and designated assets		
Cash in escrow	483,910	508,360
Cash for rate stabilization	11,238,646	9,622,023
MMWEC Reserve Trust	45,240,834	39,304,528
Cash - Connect America Fund	3,987,091	2,964,196
Deferred charges	<u>4,183,386</u>	<u>4,021,743</u>
Total restricted and designated assets	<u>65,133,867</u>	<u>56,420,850</u>
Noncurrent assets		
Regulatory asset, net	862,723	928,807
Cooperative investments	1,503,827	1,220,068
Lease asset, net	1,862,661	1,916,782
Other investments	343,390	343,390
Deferred charges	82,680	1,446
Deferred debt service costs	<u>11,107</u>	<u>13,041</u>
Total noncurrent assets	<u>4,666,388</u>	<u>4,423,534</u>
Plant investment		
Land	907,442	908,942
Electric	104,447,204	100,528,474
Gas	75,844,486	71,033,096
Telecommunications	<u>34,978,601</u>	<u>30,398,057</u>
	216,177,733	202,868,569
Less: accumulated depreciation	<u>(92,727,066)</u>	<u>(86,107,670)</u>
Total plant investment, net	<u>123,450,667</u>	<u>116,760,899</u>
Deferred outflows of resources		
Deferred outflows related to other post-employment benefits	1,246,720	2,263,344
Deferred outflows related to pensions	<u>3,406,863</u>	<u>3,635,383</u>
Total deferred outflows of resources	<u>4,653,583</u>	<u>5,898,727</u>
Total assets	<u>\$ 237,219,071</u>	<u>\$ 220,068,736</u>

(Continued)

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

PROPRIETARY FUND CONSOLIDATED STATEMENTS OF NET POSITION (Continued) DECEMBER 31, 2023 AND 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2023</u>	<u>2022</u>
Current liabilities		
Accounts payable	\$ 7,937,389	\$ 7,910,115
Accrued expenses	222,811	202,745
Payable to municipality	277,998	295,428
Current portion of general obligation bonds	1,525,204	1,533,204
Current portion of accrued compensated absences	432,997	365,433
Current portion of lease liability	<u>24,518</u>	<u>23,248</u>
Total current liabilities	<u>10,420,917</u>	<u>10,330,173</u>
Noncurrent liabilities		
Accrued expenses	1,405,205	1,742,165
General obligation bonds	13,971,345	15,496,549
Accrued compensated absences	1,182,787	2,588,553
Connect America Fund liability	3,987,091	2,964,196
Net other post-employment benefit liability	8,142,727	10,132,161
Net pension liability	16,737,895	16,713,526
Lease liability	<u>1,651,025</u>	<u>1,675,543</u>
Total noncurrent liabilities	<u>47,078,075</u>	<u>51,312,693</u>
Total liabilities	<u>57,498,992</u>	<u>61,642,866</u>
Deferred inflows of resources		
Deferred inflows related to other post-employment benefits	1,924,311	1,233,227
Deferred inflows related to pensions	-	18,703
Reserve for rate stabilization	66,580,651	57,159,345
Reserve for energy conservation	<u>1,478,434</u>	<u>1,700,863</u>
Total deferred inflows of resources	<u>69,983,396</u>	<u>60,112,138</u>
Net position		
Net investments in capital assets	108,152,343	99,962,178
Restricted	483,910	508,360
Unrestricted	<u>1,100,430</u>	<u>(2,156,806)</u>
Total net position	<u>109,736,683</u>	<u>98,313,732</u>

Total liabilities, deferred inflows of resources and net position	<u>\$ 237,219,071</u>	<u>\$ 220,068,736</u>
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The accompanying notes are an integral part of these consolidated financial statements.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

PROPRIETARY FUND

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Operating revenues, net		
Residential	\$ 41,804,102	\$ 41,173,822
Commercial	30,718,592	29,548,534
Industrial	20,877,574	19,737,022
Municipal	3,806,148	3,896,839
Off-street lighting	169,052	174,428
Other operating income	1,837,628	2,247,632
ISP revenue	4,501,402	4,476,371
Service income and finance charges	155,482	96,379
Rate stabilization fund transfers	<u>(9,421,306)</u>	<u>(4,988,472)</u>
Total operating revenues, net	<u>94,448,674</u>	<u>96,362,555</u>
Operating expenses		
Purchased power and gas	45,381,434	47,466,103
Distribution expenses	4,391,062	4,536,958
Maintenance	6,033,714	5,396,250
General and administrative	15,073,877	13,817,718
Pension and benefits	5,791,920	6,500,645
Environmental response expense	8,259	22,834
Other operating expense	1,600,126	2,028,795
Depreciation and amortization	<u>7,007,634</u>	<u>6,567,848</u>
Total operating expenses	<u>85,288,026</u>	<u>86,337,151</u>
Operating income	<u>9,160,648</u>	<u>10,025,404</u>
Non-operating revenues (expenses)		
Miscellaneous income	667,335	773,207
Investment income (loss)	2,019,505	(2,527,486)
Interest expense	<u>(515,645)</u>	<u>(558,902)</u>
Total non-operating revenues (expenses), net	<u>2,171,195</u>	<u>(2,313,181)</u>
Income before transfers and contributions	11,331,843	7,712,223
Transfers out - in lieu of tax payments to City	(559,194)	(593,963)
Contributions in aid of construction	<u>650,302</u>	<u>632,648</u>
Change in net position	11,422,951	7,750,908
Net position, beginning of year	<u>98,313,732</u>	<u>90,562,824</u>
Net position, end of year	<u>\$ 109,736,683</u>	<u>\$ 98,313,732</u>

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

PROPRIETARY FUND CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Cash received for services	\$ 95,307,377	\$ 95,383,201
Cash paid to power suppliers	(35,932,854)	(40,861,179)
Cash paid to employees for services	(22,098,682)	(14,810,763)
Cash paid for other operations	<u>(13,903,337)</u>	<u>(16,763,804)</u>
Net cash provided by operating activities	<u>23,372,504</u>	<u>22,947,455</u>
Cash flows from capital and related financing activities		
Cash received from contributions in aid of construction	650,302	632,648
Cash paid for capital expenditures	(13,577,197)	(11,891,466)
Cash paid to reduce lease liability	(23,248)	(23,759)
Cash paid for principal on general obligation bonds incurred for capital purposes	(1,533,204)	(1,538,204)
Cash paid for interest on general obligation bonds incurred for capital purposes	<u>(515,645)</u>	<u>(557,195)</u>
Net cash used in capital financing activities	<u>(14,998,992)</u>	<u>(13,377,976)</u>
Cash flows from non-capital financing activities		
Cash paid for in lieu of tax payments	(576,624)	(591,083)
Cash received for Connect America Fund	1,022,895	1,003,647
Cash received from non-operating revenues	<u>667,335</u>	<u>773,207</u>
Net cash provided by non-capital financing activities	<u>1,113,606</u>	<u>1,185,771</u>
Cash flows from investing activities		
Cash paid for purchases of investments	(6,541,607)	(6,564,666)
Realized investment losses	(103,472)	(175,497)
Cash received for interest income	<u>932,520</u>	<u>232,244</u>
Net cash used in investing activities	<u>(5,712,559)</u>	<u>(6,507,919)</u>
Net increase in cash, cash equivalents, and restricted cash	3,774,559	4,247,331
Cash, cash equivalents, and restricted cash, beginning of year	<u>42,631,170</u>	<u>38,383,839</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 46,405,729</u>	<u>\$ 42,631,170</u>
Cash included in:		
Unrestricted cash	\$ 26,415,649	\$ 23,905,802
Restricted and designated cash	<u>19,990,080</u>	<u>18,725,368</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 46,405,729</u>	<u>\$ 42,631,170</u>

(Continued)

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

PROPRIETARY FUND CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued) FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Operating income	\$ 9,160,648	\$ 10,025,404
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	7,007,634	6,567,848
Deferred outflows related to other post-employment benefits	1,016,624	(165,708)
Deferred outflows related to pensions	228,520	(2,009,834)
Deferred inflows related to other post-employment benefits	691,084	(620,779)
Deferred inflows related to pensions	(18,703)	(5,150,532)
Allowance for uncollectible accounts	(23,999)	110,999
Net changes in operating assets and liabilities:		
Accounts receivable	882,702	(1,090,353)
Inventory - materials and supplies	(1,095,933)	(1,131,514)
Prepaid expenses	(2,763)	(42,466)
Deferred charges and debt service costs	(79,300)	3,618
Accounts payable	27,274	1,616,452
Accrued expenses	(316,894)	348,073
Accrued compensated absences	(1,338,202)	(114,294)
Net other post-employment benefit liability	(1,989,434)	794,142
Net pension liability	24,369	8,611,501
Reserve for rate stabilization	9,421,306	4,988,472
Reserve for energy conservation	<u>(222,429)</u>	<u>206,426</u>
 Net cash provided by operating activities	 <u>\$ 23,372,504</u>	 <u>\$ 22,947,455</u>
 The supplemental disclosure of noncash financing and investing activities is as follows:		
Unrealized holding (gain) loss	\$ (1,213,589)	\$ 2,584,233

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

FIDUCIARY FUND

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**FIDUCIARY FUND
STATEMENTS OF FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT BENEFIT TRUST FUND
DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 117,564	\$ 134,554
Investments - U.S. governments & agencies	1,260,305	1,063,945
Investments - corporate bonds	959,368	668,821
Investments - equities	3,912,403	3,089,981
Investments - mutual funds	<u>772,346</u>	<u>799,366</u>
Total assets	<u>7,021,986</u>	<u>5,756,667</u>
Net position		
Held in trust for other post-employment benefits	<u>\$ 7,021,986</u>	<u>\$ 5,756,667</u>

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

FIDUCIARY FUND STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION OTHER POST-EMPLOYMENT BENEFIT TRUST FUND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Additions		
Contributions	\$ 500,000	\$ 500,000
Investment income (expense):		
Realized gain	54,649	170,558
Unrealized gain (loss)	560,054	(791,087)
Other investment income	175,501	192,080
Management fees	<u>(24,885)</u>	<u>(22,745)</u>
Investment income (expense), net	<u>765,319</u>	<u>(451,194)</u>
Total additions	<u>1,265,319</u>	<u>48,806</u>
Increase in net position	1,265,319	48,806
Net position, beginning of year	<u>5,756,667</u>	<u>5,707,861</u>
Net position, end of year	<u>\$ 7,021,986</u>	<u>\$ 5,756,667</u>

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

1. REPORTING ENTITY:

The City of Westfield Gas and Electric Light Department (the "Department") provides electric, gas, fiber and telecommunication services to its customers. Some of these services are marketed under the name "Whip City Fiber". The Department is classified under the proprietary fund category and enterprise fund type of the City of Westfield, Massachusetts (the "City"). These consolidated financial statements report only that portion of the financial reporting entity of the City that is attributable to the Department's (and Cooperative's - see below) transactions. The Department grants credit to its customers, substantially all of whom are local residents and commercial and industrial businesses. Approximately 58% and 59% of the Department's operating revenues were derived from its electric division during 2023 and 2022, respectively.

Included in these consolidated financial statements are the Department and its blended component unit, the Southwest Cooperative (the "Cooperative"). The Cooperative was formed in October 2006 for the sole purpose of constructing gas transmission facilities and pipelines to connect the supplier's source, located in Southwick, Massachusetts, to the gas distribution system currently operated by the Department. In accordance with the by-laws of the Cooperative, a majority of its members, officers and directors will consist of members of the Department's management. The entire capacity provided by this project is utilized by the Department. All significant intercompany accounts and transactions have been eliminated as part of the consolidation.

The Department maintains an Other Post-Employment Benefits Trust, as further described in Note 2. This Trust is classified under the fiduciary fund category.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Measurement focus and basis of accounting

The Department's accounting records are maintained in accordance with Generally Accepted Accounting Principles ("GAAP") for proprietary fund category (enterprise fund type) as promulgated by the Governmental Accounting Standards Board ("GASB"). The Department's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the U.S. Federal Energy Regulatory Commission ("FERC"), except as it relates to the accounting for contributions of utility property in aid of construction. The consolidated financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred (subject to adjustments resulting from rate stabilization changes), regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Public utility regulation

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

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Massachusetts Municipal Wholesale Electric Company ("MMWEC")

MMWEC is a non-profit, public corporation and political subdivision of the Commonwealth of Massachusetts. They offer services ranging from power supply planning and resource development to risk management and regulatory support. The Department utilizes MMWEC for the investment of some assets. The Cooperative utilizes MMWEC for accounting related management services.

Fiduciary fund - Other Post-Employment Benefits Trust

The other post-employment benefit trust fund ("OPEB Trust") was established in 2014 by the MLB pursuant to Chapter 32B, Section 20 of the General Laws of the Commonwealth of Massachusetts. The OPEB Trust constitutes the principal instrument of a plan established by the MLB to fund the Department's actuarially determined OPEB liability.

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

Revenues and expenses

Gas and electric revenues are based on authorized rates applied to each customer's use of energy. Rate changes are approved by the Department's MLB and are filed with the DPU. These operating revenues are recognized on the basis of cycle billings rendered monthly. A five percent (5%) discount is offered to residential customers who pay within 15 days of being billed. Discounts are also offered to commercial and industrial customers, on the non-energy portion of their bill, up to five percent (5%) based on payment method and services purchased. Discounts for the years ended December 31, 2023 and 2022 were \$1,517,260 and \$1,501,961, respectively. These discounts are recorded net against revenues.

Fiber and telecommunication revenues are based on fixed monthly rates, which are established by Management. These operating revenues are recognized on the basis of monthly billings.

Cooperative revenues are set at a fixed monthly rate as agreed upon by the Cooperative and the Department.

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

Cash

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

Accounts receivable

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Inventory – materials and supplies

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

Restricted and designated assets

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

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. Adjustments necessary to record investments at fair value are recorded in the consolidated statements of revenues, expenses and changes in net position as increases or decreases in investment income. Dividend and interest income is recorded when declared.

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

Investments at December 31, 2023 include certificates of deposit with original maturity dates greater than 90 days. The certificates were recorded at cost plus interest which had been reinvested. As of December 31, 2023, the Department's investments include certificates of deposit with interest rates of 5.25% and 5.5% and maturity dates of May 2, 2024 and December 3, 2024. As of December 31, 2023, the Cooperative's investments include certificates of deposit with an interest rate of 5% and maturity dates of April 15, 2025 and July 7, 2025.

Cash in escrow

As a requirement of the related ground lease (see Note 14), the Cooperative has an escrow agreement with the Town of Southwick, Massachusetts. The interest bearing escrow account is considered security for the Cooperative's lease payments and compliance with all of the terms, conditions, provisions, and obligations of a lease agreement. Interest earned on this account must remain in the account and be used to offset future lease payments.

Deferred charges

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

Amortization

The Union Street regulatory asset is being amortized on a straight-line basis over 276 months. The Twiss Street regulatory asset is being amortized on a straight-line basis over 288 months.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other investments

This consists of the Department's equity in New England Hydro-Transmission Electric Company ("Hydro-Quebec"). The Department has joined with other utilities on committing to equity sponsorship of a project known as Hydro-Quebec Phase II. The Department owns .2554% of the outstanding common stock. The Department uses the equity method of accounting for the investment because the investment is under common control with other municipal utilities. Under the equity method, investments are recorded at cost and increased or decreased by the Department's pro-rata share of earnings or losses and distributions. Investment income is recorded as earned.

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

In 2021 the Public Utilities Risk Management Association (PURMA) created a Captive Insurance Cell with the objective of insuring a portion of members property insurance exposure. Public Energy Insurance Company (PEIC) is an incorporated cell under PURMA's Sponsored Captive. A "Captive" is an insurance company owned and controlled by its insureds. The Department invested \$43,801 in 2021. No additional investment was made by the Department in 2022 or 2023.

Plant investment

The utility plant is stated at cost which includes material and labor. Maintenance and repairs are charged to operating expense as incurred, and significant renewals and betterments are capitalized. As assets are retired or otherwise disposed of, the Department and the Cooperative calculate or estimate the related cost and accumulated depreciation which are removed from the accounts. Any profit or loss on disposition is credited or charged to income in the year retired. The Department and the Cooperative evaluated the fair value of their assets and no adjustment for impairment was deemed necessary by management. The Department and Cooperative capitalize additions to plant with an original cost of \$1,000 or more.

Depreciation

Depreciation is computed using the straight-line method at a composite rate as prescribed by DPU. Depreciation was calculated using a composite rate of 3% for 2023 and 2022 with the exception of various fixed assets of the telecommunications division, for which management may estimate alternative useful lives. Depreciation expense for the years ended December 31, 2023 and 2022 was \$6,887,429 and \$6,447,645, respectively.

Construction in progress

Construction in progress consists principally of the costs related to direct materials, direct labor, direct purchased services, and indirect costs, including general and administrative costs, related to any utility plant assets under construction. Construction in progress is stated at cost. Any internal costs that were capitalized were limited to those costs that can be directly identified with the design, engineering, or construction of a specific project. There were no amounts in construction in progress as of December 31, 2023 and 2022.

Deferred outflows and inflows related to other post-employment benefits

Deferred outflows and inflows related to other post-employment benefits as of December 31, 2023 were determined using actuarial assumptions as of January 1, 2023 for December 31, 2023. Deferred outflows and inflows related to other post-employment benefits as of December 31, 2022 were determined using actuarial assumptions as of January 1, 2021 for December 31, 2022.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Deferred outflows and inflows related to pensions

Deferred outflows and inflows related to pensions as of December 31, 2023 were determined using actuarial assumptions as of January 1, 2023 for December 31, 2023. Deferred outflows and inflows related to pensions as of December 31, 2022 were determined using actuarial assumptions as of January 1, 2021 for December 31, 2022.

Accrued compensated absences

Employees under the existing labor agreements are granted up to 12 days of sick leave per year, along with vacation time ranging from one to six weeks and 5 personal days annually. Employees may carry over a maximum of 40 hours of unused vacation time into the following year. Unused sick leave accrues and, upon retirement, can be compensated at full value, capped at either 50 days or 140 days depending on hire date. Additionally, eligible employees have the option to be paid out up to 50 days of accumulated time at \$50 per day upon retirement.

Accrued vacation and sick leave for active and retired employees as of December 31, 2023 and 2022 was \$1,114,904 and \$2,586,059, respectively. Accrued vacation and sick leave for recently retired employees as of December 31, 2023 and 2022 was \$500,880 and \$367,927, respectively, and may be paid over five years from date of retirement.

Net other post-employment benefit liability

Under GASB No. 75, the net OPEB liability ("NOL") is the difference between the actuarial present value of projected OPEB benefit payments attributable to employees' past service and the OPEB plan's fiduciary net position. At December 31, 2023 and 2022, the NOL was \$8,142,727 and \$10,132,161, respectively (see Note 12).

Net pension liability

Under GASB No. 68, the net pension liability ("NPL") is the difference between the actuarial present value of projected pension benefit payments attributable to employees' past service and the Plan's fiduciary net position. At December 31, 2023 and 2022, the NPL was \$16,737,895, and \$16,713,526, respectively (see Note 11).

Net position

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

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Net position (continued)

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

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

Contributions in aid of construction

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

Presentation of sales taxes

The Commonwealth of Massachusetts (“the State”) imposes a sales tax of 6.25% as of December 31, 2023 and 2022 on all of the Department's sales except to exempt and residential use customers. The Department collects that sales tax from customers and remits the entire amount to the State. The Department's accounting policy is to exclude the tax collected and remitted to the State from revenues and operating expenses.

Taxes

The Department is exempt from income tax, tax on real property and various other taxes. However, the Department pays an amount to the City in lieu of taxes.

Use of estimates

The preparation of consolidated 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Leases – SGAS No. 87

The Department and Cooperative previously adopted the SGAS No. 87, “Leases”, related to the Cooperative ground lease, using the retroactive approach effective January 1, 2021. The Department determines if an arrangement is a lease at inception. The Department continues to assess new leases and modifications to existing leases annually.

Additional information and disclosures required by this standard are contained in Note 14, “Lease asset and liability” and Note 10, “Noncurrent liabilities”.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Subscription-Based Information Technology Arrangements

In May 2020, GASB issued SGAS No. 96, “*Subscription-Based Information Technology Arrangements*” (SBITAs), effective for fiscal years beginning after June 15, 2022. This standard requires recognition for right-to-use subscription intangible assets and a corresponding subscription liability.

The Department and Cooperative considered the requirements of this new standard effective January 1, 2023. Management has determined that there are currently no Subscription-Based Information Technology Arrangements that meet the required definition to qualify for capitalization under SGAS No. 96 for the year ended December 31, 2023.

Recent accounting pronouncements

In June 2022, GASB issued SGAS No. 101, “*Compensated Absences*”. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This statement is scheduled to be effective for the Department in 2024.

3. RESTRICTED AND DESIGNATED ASSETS:

Restricted and designated assets include accounts deposited with various third parties. These funds are segregated by management for specific outlays and contingencies and are recorded at fair value. Balances at December 31, 2023 and 2022, consist of the following:

<u>2023</u>	<u>Cash and cash equivalents</u>	<u>Investments</u>	<u>Total</u>
Segregated cash:			
Escrow	\$ 483,910	\$ -	\$ 483,910
Rate stabilization	11,238,646	-	11,238,646
Connect America fund	3,987,091	-	3,987,091
	<u>15,709,647</u>	<u>-</u>	<u>15,709,647</u>
MMWEC Reserve Trust:			
Electric	161,881	31,185,718	31,347,599
Gas	713,074	13,180,161	13,893,235
	<u>874,955</u>	<u>44,365,879</u>	<u>45,240,834</u>
Deferred charges:			
Purchase power	155,687	600,323	756,010
Prepaid Energy New England	3,246,127	-	3,246,127
Prepaid PASNY fund	3,664	177,585	181,249
	<u>3,405,478</u>	<u>777,908</u>	<u>4,183,386</u>
Total	<u>\$ 19,990,080</u>	<u>\$ 45,143,787</u>	<u>\$ 65,133,867</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

<u>2022</u>	<u>Cash and cash equivalents</u>	<u>Investments</u>	<u>Total</u>
Segregated cash:			
Escrow	\$ 508,360	\$ -	\$ 508,360
Rate stabilization	9,622,023	-	9,622,023
Connect America fund	2,964,196	-	2,964,196
	<u>13,094,579</u>	<u>-</u>	<u>13,094,579</u>
MMWEC Reserve Trust:			
Electric	1,631,696	26,312,369	27,944,065
Gas	434,451	10,926,012	11,360,463
	<u>2,066,147</u>	<u>37,238,381</u>	<u>39,304,528</u>
Deferred charges:			
Purchase power	432,876	307,365	740,241
Prepaid Energy New England	3,100,253	-	3,100,253
Prepaid PASNY fund	31,513	149,736	181,249
	<u>3,564,642</u>	<u>457,101</u>	<u>4,021,743</u>
Total	<u>\$ 18,725,368</u>	<u>\$ 37,695,482</u>	<u>\$ 56,420,850</u>

Investments included in restricted and designated assets at December 31, 2023 and 2022 consist of:

<u>2023</u>	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized (Loss) Gain</u>
U.S. treasury securities	\$ 6,712,140	\$ 6,564,735	\$ (147,405)
U.S. agency securities	34,923,899	34,145,091	(778,808)
Municipal bonds	4,430,048	3,933,961	(496,087)
Certificates of deposit	499,667	500,000	333
Total	<u>\$ 46,565,754</u>	<u>\$ 45,143,787</u>	<u>\$ (1,421,967)</u>

<u>2022</u>	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized Loss</u>
U.S. treasury securities	\$ 12,299,253	\$ 11,780,588	\$ (518,665)
U.S. agency securities	22,177,797	20,728,706	(1,449,091)
Municipal bonds	5,785,280	5,186,188	(599,092)
Total	<u>\$ 40,262,330</u>	<u>\$ 37,695,482</u>	<u>\$ (2,566,848)</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

At December 31, 2023 and 2022, the Department's investments were as follows:

2023	Fair value	Maturity			
		Less than 1 year	1 - 5 years	6 - 10 years	Over 10 years
U.S. treasury securities	\$ 6,564,735	\$ 4,662,643	\$ 1,902,092	\$ -	\$ -
U.S. agency securities	34,145,091	11,014,471	22,413,432	717,188	-
Municipal bonds	3,933,961	504,652	2,392,954	1,036,355	-
Certificates of deposit	500,000	500,000	-	-	-
	<u>\$ 45,143,787</u>	<u>\$ 16,681,766</u>	<u>\$ 26,708,478</u>	<u>\$ 1,753,543</u>	<u>\$ -</u>

2022	Fair value	Maturity			
		Less than 1 year	1 - 5 years	6 - 10 years	Over 10 years
U.S. treasury securities	\$ 11,780,588	\$ 5,590,238	\$ 6,190,350	\$ -	\$ -
U.S. agency securities	20,728,706	5,969,428	14,119,865	639,413	-
Municipal bonds	5,186,188	1,433,561	2,157,548	1,595,079	-
	<u>\$ 37,695,482</u>	<u>\$ 12,993,227</u>	<u>\$ 22,467,763</u>	<u>\$ 2,234,492</u>	<u>\$ -</u>

At December 31, 2023 and 2022, the Department's investments were rated as follows:

	2023		2022	
	Standard & Poor's	Moody's Investment	Standard & Poor's	Moody's Investment
U.S. treasury securities	AA+	AAA	AA+	AAA
U.S. agency securities	AA+	AAA	AA+	AAA
Municipal bonds	AAA to A+	AA1 to A2	AAA to A+	AA1 to A2
Certificates of deposit	N/A	N/A	N/A	N/A

Cooperative investments at December 31, 2023 and 2022 consisted of:

2023	Cost	Fair value	Unrealized (loss) gain
Municipal bonds	\$ 298,580	\$ 295,427	\$ (3,153)
U.S. agency securities	991,470	1,006,967	15,497
Certificates of deposit	200,000	201,433	1,433
Total	<u>\$ 1,490,050</u>	<u>\$ 1,503,827</u>	<u>\$ 13,777</u>

2022	Cost	Fair value	Unrealized (loss) gain
Municipal bonds	\$ 596,212	\$ 568,725	\$ (27,487)
U.S. agency securities	650,000	651,343	1,343
Total	<u>\$ 1,246,212</u>	<u>\$ 1,220,068</u>	<u>\$ (26,144)</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

At December 31, 2023 and 2022, the Cooperative's investments were as follows:

2023	Fair value	Maturity		
		Less than 1 year	1 - 5 years	6 - 10 years
Municipal bonds	\$ 295,427	\$ 295,427	\$ -	\$ -
U.S. agency securities	1,006,967	296,932	710,035	-
Certificates of deposit	201,433	-	201,433	-
	<u>\$ 1,503,827</u>	<u>\$ 592,359</u>	<u>\$ 911,468</u>	<u>\$ -</u>

2022	Fair value	Maturity		
		Less than 1 year	1 - 5 years	6 - 10 years
Municipal bonds	\$ 568,725	\$ 199,398	\$ 369,327	\$ -
U.S. agency securities	651,343	450,724	200,619	-
	<u>\$ 1,220,068</u>	<u>\$ 650,122</u>	<u>\$ 569,946</u>	<u>\$ -</u>

At December 31, 2023 and 2022, the Cooperative's investments were rated as follows:

	2023		2022	
	Standard & Poor's	Moody's Investment	Standard & Poor's	Moody's Investment
Municipal bonds	AAA to A+	AA3 to A1	AAA to A+	AA3 to A1
U.S. agency securities	AA+	AAA	AA+	AAA
Certificates of deposit	N/A	N/A	N/A	N/A

The total return on invested assets consisted of the following components reported on the consolidated statements of revenues, expenses and changes in net position at December 31, 2023 and 2022:

	2023	2022
Interest income	\$ 932,520	\$ 232,244
Unrealized gain (loss)	1,213,589	(2,584,233)
Realized loss	(126,604)	(175,497)
Total investment income (loss)	<u>\$ 2,019,505</u>	<u>\$ (2,527,486)</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

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

Interest rate risk

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

Credit risk

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

Concentration of credit risk

The Department places no limit on the amount it may invest in one issuer. The following are the concentrations of risk greater than five percent:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
U.S. agency securities:		
Federal Farm Credit Bank	-	8%
Federal Home Loan Bank	46%	34%
Federal Home Loan Mortgage	20%	9%

The Cooperative places no limit on the amount it may invest in one issuer. The following are the concentrations of risk greater than five percent of the total investment balance at December 31:

	<u>2023</u>	<u>2022</u>
Municipal Bonds:		
Rutgers State University	-	7%
Erie County NY	-	8%
Rhode Island	7%	8%
Norfolk VA	6%	8%
New Jersey Econ Dev	7%	8%
St. Francis WI	-	8%
U.S. Agency Securities:		
Federal Home Loan Bank	20%	37%
Federal Home Loan Mtg Corp	20%	16%
Federal Agric Mtg Corp	7%	-
Certificates of Deposit:		
Cross River Bank Teaneck NJ CD	6%	-
Wells Fargo Bank Sioux Falls CD	6%	-

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

3. RESTRICTED AND DESIGNATED ASSETS: (CONTINUED)

Custodial credit risk – cash

Custodial credit risk is the risk that in the event of a bank failure, the Department and Cooperative's deposits may not be returned. The Department and Cooperative do not have a deposit policy for custodial credit risk. The Department and Cooperative maintain cash balances at various financial institutions located in Massachusetts. These balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At certain times during the year, the cash balances may exceed the insurance limit. Based on cash balances at December 31, 2023 and 2022, the Department's uninsured balance could be as high as \$43,741,527 and \$38,504,915, respectively. Based on cash balances at December 31, 2023 and 2022, the Cooperative's uninsured balance could be as high as \$233,910 and \$274,808, respectively. The Department and Cooperative have not experienced any loss on such accounts and management monitors the credit worthiness of these financial institutions through the City of Westfield Treasurer's Office.

Custodial credit risk - investments

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty the Department or Cooperative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Department's \$45,143,787 (2023) and \$37,695,482 (2022) in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department, but not in the Department's name. Of the Cooperative's \$1,503,827 (2023) and \$1,220,068 (2022) in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department, but not in the Cooperative's name. The Department and Cooperative have not experienced any loss on such accounts and management monitors the credit worthiness of these financial institutions through the City of Westfield Treasurer's Office.

4. OTHER INVESTMENTS:

Other investments consist of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Hydro-Quebec Phase II	\$ 33,589	\$ 33,589
Public Utility Mutual Insurance Company	309,801	309,801
	<u>\$ 343,390</u>	<u>\$ 343,390</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

5. FAIR VALUE MEASUREMENTS:

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

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

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

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

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

The following table identifies the level within the fair value hierarchy that the Department's financial assets were accounted for on a recurring basis as of December 31, 2023 and 2022. As required by GASB No. 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Department's assessment of the significance of the particular input to the fair value measurement requires judgement, and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

5. FAIR VALUE MEASUREMENTS: (CONTINUED)

Department recurring fair value measurements as of December 31, 2023 and 2022:

<u>2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments, excluding cash and cash equivalents:			
U.S. treasury securities	\$ 6,564,735	\$ -	\$ 6,564,735
U.S. agency securities	-	34,145,091	34,145,091
Municipal bonds	-	3,933,961	3,933,961
Certificates of deposit	-	500,000	500,000
	<u>\$ 6,564,735</u>	<u>\$ 38,579,052</u>	<u>\$ 45,143,787</u>
<u>2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments, excluding cash and cash equivalents:			
U.S. treasury securities	\$ 11,780,588	\$ -	\$ 11,780,588
U.S. agency securities	-	20,728,706	20,728,706
Municipal bonds	-	5,186,188	5,186,188
	<u>\$ 11,780,588</u>	<u>\$ 25,914,894</u>	<u>\$ 37,695,482</u>

The following table identifies the level within the fair value hierarchy that the Cooperative's financial assets were accounted for on a recurring basis as of December 31, 2023 and 2022. As required by GASB No. 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Cooperative's assessment of the significance of the particular input to the fair value measurement requires judgement, and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

Cooperative recurring fair value measurements as of December 31, 2023 and 2022:

<u>2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Municipal bonds	\$ 295,427	\$ -	\$ 295,427
U.S. agency securities	1,006,967	-	1,006,967
Certificates of deposit	-	201,433	201,433
Total	<u>\$ 1,302,394</u>	<u>\$ 201,433</u>	<u>\$ 1,503,827</u>
<u>2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Municipal bonds	\$ 568,725	\$ -	\$ 568,725
U.S. agency securities	651,343	-	651,343
Total	<u>\$ 1,220,068</u>	<u>\$ -</u>	<u>\$ 1,220,068</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

6. FIDUCIARY FUND:

The assets and net position of this Trust are reported in the Department's statements of fiduciary net position on Page 9. Investments (at fair value) of the OPEB Trust consist of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 117,564	\$ 134,554
U.S. governments & agencies	1,260,305	1,063,945
Corporate bonds	959,368	668,821
Fixed income mutual funds	772,346	799,366
Equities:		
Diversifying funds	815,437	876,828
Materials	76,275	51,560
Communications	256,121	155,499
Consumer discretionary	184,226	153,526
Consumer staples	193,644	140,181
Healthcare	403,236	270,461
Energy	135,302	62,087
Financials	494,232	327,114
Industrials	208,682	138,594
Information technology	524,375	367,309
International	547,466	498,003
Utilities	73,407	48,819
Total equities	<u>3,912,403</u>	<u>3,089,981</u>
Total assets	\$ <u>7,021,986</u>	\$ <u>5,756,667</u>

7. REGULATORY ASSETS:

The accounting policies of the Department conform to accounting principles generally accepted in the United States of America applicable to rate-regulated enterprises and historically reflect the effects of the rate-making process. In 2010, the Union Street LNG peaking facility was abandoned. In 2016, the Twiss Street methane plant was also abandoned. The Commissioners of the Department (with approval by the Massachusetts Department of Public Utilities) voted to include the unrecovered cost of its investment, with a full return on investment, in future rates as amortization of a regulatory asset. Management believes it is probable that the Department will recover their investment in these regulatory assets.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

7. REGULATORY ASSETS: (CONTINUED)

Amortization expense on the regulatory assets was \$66,084 and \$66,080 for the years ended December 31, 2023 and 2022, respectively, and is estimated to be \$66,085 for each of the next five years.

	<u>2023</u>	<u>2022</u>
Regulatory assets - cost		
Union Street	\$ 856,641	\$ 856,641
Twiss Street	692,146	692,146
	<u>1,548,787</u>	<u>1,548,787</u>
Less: accumulated amortization	<u>(686,064)</u>	<u>(619,980)</u>
	<u>\$ 862,723</u>	<u>\$ 928,807</u>

8. PLANT INVESTMENT:

A summary of plant investment at December 31, 2023 is as follows:

	<u>Balance December 31, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2023</u>
<i>Plant investment not being depreciated:</i>				
Land	\$ 908,942	\$ -	\$ (1,500)	\$ 907,442
<i>Total plant investment not being depreciated</i>	<u>908,942</u>	<u>-</u>	<u>(1,500)</u>	<u>907,442</u>
<i>Plant investment being depreciated:</i>				
Plant investment	170,455,687	9,744,569	(268,033)	179,932,223
Office and computer equipment	8,640,687	1,473,485	-	10,114,172
Transportation equipment	6,228,151	1,598,320	-	7,826,471
Equipment	16,635,102	762,323	-	17,397,425
<i>Total plant investment being depreciated</i>	<u>201,959,627</u>	<u>13,578,697</u>	<u>(268,033)</u>	<u>215,270,291</u>
<i>Less accumulated depreciation for:</i>				
Plant investment	(71,731,968)	(5,986,716)	268,033	(77,450,651)
Office and computer equipment	(3,459,253)	(233,488)	-	(3,692,741)
Transportation equipment	(3,311,499)	(186,845)	-	(3,498,344)
Equipment	(7,604,950)	(480,380)	-	(8,085,330)
<i>Total accumulated depreciation</i>	<u>(86,107,670)</u>	<u>(6,887,429)</u>	<u>268,033</u>	<u>(92,727,066)</u>
<i>Total plant investment being depreciated, net</i>	<u>115,851,957</u>	<u>6,691,268</u>	<u>-</u>	<u>122,543,225</u>
Total plant investment, net	\$ <u>116,760,899</u>	<u>6,691,268</u>	\$ <u>(1,500)</u>	\$ <u>123,450,667</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

8. PLANT INVESTMENT: (CONTINUED)

A summary of plant investment at December 31, 2022 is as follows:

	<u>Balance December 31, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2022</u>
<i>Plant investment not being depreciated:</i>				
Land	\$ 908,942	\$ -	\$ -	\$ 908,942
<i>Total plant investment not being depreciated</i>	<u>908,942</u>	<u>-</u>	<u>-</u>	<u>908,942</u>
<i>Plant investment being depreciated:</i>				
Plant investment	160,703,985	9,772,076	(20,374)	170,455,687
Office and computer equipment	7,629,174	1,011,513	-	8,640,687
Transportation equipment	5,814,359	591,605	(177,813)	6,228,151
Equipment	16,118,832	516,270	-	16,635,102
<i>Total plant investment being depreciated</i>	<u>190,266,350</u>	<u>11,891,464</u>	<u>(198,187)</u>	<u>201,959,627</u>
<i>Less accumulated depreciation for:</i>				
Plant investment	(66,151,514)	(5,600,828)	20,374	(71,731,968)
Office and computer equipment	(3,250,785)	(208,468)	-	(3,459,253)
Transportation equipment	(3,314,881)	(174,431)	177,813	(3,311,499)
Equipment	(7,141,032)	(463,918)	-	(7,604,950)
<i>Total accumulated depreciation</i>	<u>(79,858,212)</u>	<u>(6,447,645)</u>	<u>198,187</u>	<u>(86,107,670)</u>
<i>Total plant investment being depreciated, net</i>	<u>110,408,138</u>	<u>5,443,819</u>	<u>-</u>	<u>115,851,957</u>
Total plant investment, net	\$ <u>111,317,080</u>	\$ <u>5,443,819</u>	\$ <u>-</u>	\$ <u>116,760,899</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

9. DEBT:

General obligation bonds

The following bonds were issued by the Department, through the City, for the financing of plant investment. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

<u>Date of Issue</u>	<u>Maturity Dates</u>	<u>Interest Rate</u>	<u>Amount of Original Issue</u>	<u>Outstanding Balance 2023</u>	<u>Outstanding Balance 2022</u>
02/01/06	08/01/24	4.00%	\$ 2,100,000	\$ 108,334	\$ 216,667
04/01/08	12/31/28	2.10%	6,000,000	1,382,500	1,679,000
04/04/14	03/01/32	4.30%	6,233,950	3,031,725	3,404,361
10/31/17	10/15/37	4.13%	5,000,000	3,493,490	3,745,525
08/10/18	12/31/38	2.97%	10,000,000	7,480,500	7,984,200
				15,496,549	17,029,753
				(1,525,204)	(1,533,204)
Less current portion of bonds				\$ 13,971,345	\$ 15,496,549
General obligation bonds, long-term portion					

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,525,204	\$ 475,258	\$ 2,000,462
2025	1,420,871	412,083	1,832,954
2026	1,405,871	359,015	1,764,886
2027	1,395,872	309,039	1,704,911
2028	1,284,872	264,246	1,549,118
2029 – 2033	4,982,220	863,575	5,845,795
2034 – 2038	3,481,639	267,000	3,748,639
Total	\$ 15,496,549	\$ 2,950,216	\$ 18,446,765

Interest maturities were calculated based on the interest rates in effect as of December 31, 2023.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

10. NONCURRENT LIABILITIES:

A summary of the changes in noncurrent liabilities as of December 31, 2023 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
Accrued compensated absences	\$ 2,953,986	\$ 708,061	\$ (2,046,263)	\$ 1,615,784	\$ 432,997
Connect America Fund liability	2,964,196	1,022,895		3,987,091	-
Net other post-employment benefit liability	10,132,161	-	(1,989,434)	8,142,727	-
Net pension liability	16,713,526	24,369	-	16,737,895	-
General obligation bonds	17,029,753	-	(1,533,204)	15,496,549	1,525,204
Lease liability	1,698,791	-	(23,248)	1,675,543	24,518
Total	\$ <u>51,492,413</u>	\$ <u>1,755,325</u>	\$ <u>(5,592,149)</u>	\$ <u>47,655,589</u>	\$ <u>1,982,719</u>

A summary of the changes in noncurrent liabilities as of December 31, 2022 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
Accrued compensated absences	\$ 3,068,280	\$ 598,678	\$ (712,972)	\$ 2,953,986	\$ 365,433
Connect America Fund liability	1,960,549	1,003,647	-	2,964,196	-
Net other post-employment benefit liability	9,338,019	794,142	-	10,132,161	-
Net pension liability	8,102,025	8,611,501	-	16,713,526	-
General obligation bonds	18,567,957	-	(1,538,204)	17,029,753	1,533,204
Lease liability	1,720,828	-	(22,037)	1,698,791	23,248
Total	\$ <u>42,757,658</u>	\$ <u>11,007,968</u>	\$ <u>(2,273,213)</u>	\$ <u>51,492,413</u>	\$ <u>1,921,885</u>

11. PENSION PLANS:

Plan description

Qualifying employees of the Department are members of the City of Westfield Contributory Retirement System ("the System"). The System is a cost-sharing multiple-employer public employee retirement system administered by the Westfield Retirement Board ("the Board"). Massachusetts General Laws ("MGL"), Chapter 32, assigns authority to establish the System and amend benefit provisions of the plan; which is regulated by the Public Employees Retirement Administration Commission ("PERAC"). The System is a defined benefit pension plan that covers substantially all employees of its member employers except for school teachers and school administrators who participate in a separate plan. The System issues a publicly available financial report in accordance with guidelines established by the Massachusetts PERAC. That report may be obtained by contacting the System at 59 Court Street, Westfield, Massachusetts.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

11. PENSION PLANS: (CONTINUED)

Benefits provided (continued)

The System provides retirement, disability, and death benefits to plan members and their beneficiaries. Members become vested after 10 years of creditable service and are eligible for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Retirement benefits are determined as a percentage of the member's final three-year (five-year for members hired on or after April 2, 2012) average compensation multiplied by (1) the number of years and full months of creditable service at the time of retirement and (2) a percentage based on age at retirement in accordance with a schedule provided by state law. The authority for amending these provisions rests with the Massachusetts Legislature.

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

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

As of January 1, 2023 (December 31, 2023), the plan covered 831 active employees, 313 inactive employees, and 762 retired employees. As of January 1, 2021 (December 31, 2022), the plan covered 831 active employees, 260 inactive employees, and 719 retired employees.

Contributions

MGL Chapter 32 governs the contributions of plan members and the Department. Plan members are required to contribute to the System at rates ranging from 5% to 9% based upon their membership date of gross regular compensation with an additional 2% contribution after exceeding \$30,000 in annual covered compensation. The Department is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The Department's proportionate share of the required contribution to the System for the years ended December 31, 2023 and 2022 was \$2,654,415 and \$2,309,796, respectively, representing 27.20% and 27.62% of the covered payroll, an actuarially determined amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year and an additional amount to finance any unfunded accrued liability.

Pension liability

As of December 31, 2023 and 2022, a reported liability of \$16,737,895 and \$16,713,526 was the Department's proportionate share of the city-wide net pension liability measured as of December 31, 2023 and 2022. The net pension liability as of December 31, 2023 was determined using the total pension liability and the actuarial assumptions as of January 1, 2023 for December 31, 2023. The net pension liability as of December 31, 2022 was determined using the total pension liability and the actuarial assumptions as of January 1, 2021 for December 31, 2022. This net pension liability is based on the Department's proportional percentage of 20.71% and 19.08% at December 31, 2023 and 2022, respectively.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

11. PENSION PLANS: (CONTINUED)

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

For the years ended December 31, 2023 and 2022, the Department recognized pension expense of \$1,881,056 and \$2,748,150, respectively, and reported deferred outflows related to pensions of \$3,406,863 and \$3,635,383, respectively. The Department reported no deferred inflows related to pensions as of December 31, 2023, and deferred inflows related to pensions of \$18,703 as of December 31, 2022.

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

	<u>2023</u>	<u>2022</u>
Difference between expected and actual experience	\$ 786,518	\$ -
Differences between projected and actual investment earnings on pension plan investments	2,190,733	2,647,385
Change of assumptions	429,612	987,998
Total	<u>\$ 3,406,863</u>	<u>\$ 3,635,383</u>

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

	<u>2023</u>	<u>2022</u>
Differences between projected and actual investment earnings on pension plan investments	\$ -	\$ 18,703

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

For years ended December 31,	
2024	\$ 1,210,917
2025	1,056,579
2026	1,056,479
2027	82,888
	<u>\$ 3,406,863</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

11. PENSION PLANS: (CONTINUED)

Actuarial assumptions

The total pension liability as of December 31, 2023 was determined by an actuarial valuation as of January 1, 2023, using the following actuarial assumptions, for December 31, 2023:

Valuation date:	January 1, 2023 (December 31, 2023)
Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Total payments increase 4.96% each year until FY35, with a final amortization payment in FY36
Remaining amortization period:	13 years from July 1, 2023
Asset valuation method:	Market value for GASB 67/68. For funding purposes, gains and losses each year are recognized over 5 years.
Investment rate of return:	7.00% net of pension plan investment expense, including inflation.
Projected salary increase:	Select and ultimate by job group; ultimate rates of 4.25% for Group 1 and 4.75% for Group 4.
Cost of living adjustments:	3% of first \$13,000.
Mortality rates:	Pre-retirement: the RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2020 (gender distinct). Post-retirement: the RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2020 (gender distinct). For disabled retirees: the RP-2014 Blue Collar Healthy Annuitant Table set forward 1 year projected generationally with Scale MP-2020 (gender distinct).

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

11. PENSION PLANS: (CONTINUED)

Actuarial assumptions (continued)

The total pension liability as of December 31, 2022 was determined by an actuarial valuation as of January 1, 2021, using the following actuarial assumptions, for December 31, 2022:

Valuation date:	January 1, 2021 (December 31, 2022)
Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Total payments increase 4.96% each year until FY35, with a final amortization payment in FY36
Remaining amortization period:	13 years from July 1, 2023
Asset valuation method:	Market value for GASB 67/68. For funding purposes, gains and losses each year are recognized over 5 years.
Investment rate of return:	7.00% net of pension plan investment expense, including inflation.
Projected salary increase:	Select and ultimate by job group; ultimate rates of 4.25% for Group 1 and 4.75% for Group 4.
Cost of living adjustments:	3% of first \$13,000.
Mortality rates:	Pre-retirement: the RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2020 (gender distinct). Post-retirement: the RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2020 (gender distinct). For disabled retirees: the RP-2014 Blue Collar Healthy Annuitant Table set forward 1 year projected generationally with Scale MP-2020 (gender distinct).

Long-term expected rate of return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense 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 real rates of return by the target asset allocation percentage and by adding expected inflation of 3 percent.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

11. PENSION PLANS: (CONTINUED)

Long-term expected rate of return (continued)

Best estimates of arithmetic real rates of return for each major class included in the pension plan's target asset allocation as of December 31, 2023 and 2022 are summarized in the following table:

Asset Class	2023		2022	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	24%	6.90%	24%	7.10%
International Equity	17%	6.60%	17%	6.90%
Real Estate	15%	6.60%	15%	5.70%
Private Equity	18%	10.20%	18%	10.20%
Core Fixed Income	18%	4.70%	18%	4.70%
Hedge Funds	8%	6.40%	8%	6.60%
Total	100%		100%	

Rate of return

As of December 31, 2023 and 2022, the annual money-weighted rate of return, net of investment expense was 12.17% and -7.21%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

For the years ended December 31, 2023 and 2022, the discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that member employer contributions will be made in accordance with Sections 22D and 22F of Chapter 32 of the Massachusetts General Laws. 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 net pension liability to changes in the discount rate

The following presents the Department's proportionate share of the net pension liability as of December 31, 2023 calculated using the discount rate of 7.00%, as well as discount rates 1-percentage-point lower (6.00%) and 1-percentage-point higher (8.00%):

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Department's net pension liability	\$ 25,369,750	\$ 16,737,895	\$ 9,423,050

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

11. PENSION PLANS: (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate (continued)

The following presents the Department's proportionate share of the net pension liability as of December 31, 2022 calculated using the discount rate of 7.00%, as well as discount rates 1-percentage-point lower (6.00%) and 1-percentage-point higher (8.00%):

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Department's net pension liability	\$ 24,479,640	\$ 16,713,526	\$ 10,112,400

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

Plan description

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

Plan information

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

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

Plan membership

The OPEB valuation dated January 1, 2023 covers the year ended December 31, 2023. The OPEB valuation dated January 1, 2021 covers the year ended December 31, 2022. The number of participants as of the valuation dates are as follows:

	<u>2023</u>	<u>2022</u>
Current active members	125	100
Current retirees, beneficiaries and dependents receiving benefits	120	108
Total	<u>245</u>	<u>208</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

Actuarial assumptions and methods

The total OPEB liability was determined by an actuarial valuation as of January 1, 2023, using the following actuarial assumptions, applied to all periods included in the measurement that was updated for the reporting date of December 31, 2023, unless otherwise specified:

Valuation date:	January 1, 2023
Actuarial cost method:	Entry age normal
Discount rate:	6.10% annually, net of investment expenses
Participant salary increases:	3.00% annually
Healthcare cost trend rates:	Increases according to the Getzen Model of Long-Run Medical Cost Trends for Active and Medicare supplement plans (6.50% for 2022) and an ultimate trend rate of 3.63% in fiscal year 2060.
Mortality rates:	Pre-retirement: RP-2014 Mortality Table, sex-distinct, for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females. Post-retirement: RP-2014 Mortality Table, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females. Disabled: RP-2014 Mortality Table, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2021, using the following actuarial assumptions, applied to all periods included in the measurement that was updated for the reporting date of December 31, 2022, unless otherwise specified:

Valuation date:	January 1, 2021
Actuarial cost method:	Entry age normal
Discount rate:	5.29% annually, net of investment expenses
Participant salary increases:	3.00% annually
Healthcare cost trend rates:	Increases according to the Getzen Model of Long-Run Medical Cost Trends for Active and Medicare supplement plans (4.50% for 2022) and an ultimate trend rate of 3.6% in fiscal year 2061.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

Actuarial assumptions and methods (continued)

Mortality rates: Pre-retirement: RP-2014 Mortality Table, sex-distinct, for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females.
Post-retirement: RP-2014 Mortality Table, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females.
Disabled: RP-2014 Mortality Table, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year.

The actuarial assumptions which used the January 1, 2023 and 2021 actuarial valuation and market value of assets as of the measurement dates of December 31, 2023 and 2022, respectively, were reflective of published municipal bond indices. The S&P Municipal Bond 20-Year High Grade Index with a rate of 4.00% and 4.31% was used at December 31, 2023 and 2022, respectively.

Long-term expected rate of return

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

Asset Class	2023		2022	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Large Capital Equity	38.75%	4.91%	31.75%	4.1%
Internationally Developed Equity	5.75%	5.32%	4.5%	4.64%
Real Estate	2.00%	6.25%	4.0%	6.25%
Alternatives	3.50%	6.35%	8.75%	5.95%
International Fixed Income	1.75%	2.02%	5.0%	0.96%
Internationally Emerging Equity	1.75%	6.13%	2.25%	5.45%
Domestic Fixed Income	40.75%	2.30%	37.00%	1.05%
Domestic Small/Mid Capital Equity	4.00%	5.29%	4.5%	4.55%
Cash & Cash Equivalents	1.75%	0.00%	2.25%	0.00%
Total	<u>100.0%</u>		<u>100.0%</u>	

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

	Changes in net OPEB liability ("NOL")		
	Increase (decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	NOL (a) – (b)
Balances at January 1, 2022	\$ 15,045,880	\$ 5,707,861	\$ 9,338,019
Service cost	324,944	-	324,944
Interest on total OPEB liability	825,847	-	825,847
Changes in assumptions	412,654	-	412,654
Differences between actual and expected experience	-	-	-
Net investment income	-	(451,194)	451,194
Contributions – employer	-	1,220,497	(1,220,497)
Benefit payments, including implicit cost	(720,497)	(720,497)	-
Net changes	842,948	48,806	794,142
Balances at December 31, 2022	15,888,828	5,756,667	10,132,161
Service cost	354,159	-	354,159
Interest on total OPEB liability	839,263	-	839,263
Changes in assumptions	(478,306)	-	(478,306)
Differences between actual and expected experience	(673,543)	-	(673,543)
Net investment income	-	765,319	(765,319)
Contributions – employer	-	1,265,688	(1,265,688)
Benefit payments, including implicit cost	(765,688)	(765,688)	-
Net changes	(724,115)	1,265,319	(1,989,434)
Balances at December 31, 2023	\$ 15,164,713	\$ 7,021,986	\$ 8,142,727

Discount rate

The discount rate used to measure the total OPEB liability as of December 31, 2023 and 2022 was 6.10% and 5.29%, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that member employer contributions will be made in accordance Massachusetts General Law Chapter 32. Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

Sensitivity of the NOL to changes in the discount rate

The following table presents the Department's net OPEB liability in each year as of December 31 calculated at the valuation discount rates of 6.10% (2023) and 5.29% (2022) as well as at discount rates 1-percentage-point lower and 1-percentage-point higher:

		1% Decrease (5.10%)	Current Discount Rate (6.10%)	1% Increase (7.10%)
2023				
Department's net OPEB liability	\$	10,158,846	\$ 8,142,727	\$ 6,503,505
2022				
Department's net OPEB liability	\$	12,510,484	\$ 10,132,161	\$ 8,228,881

Sensitivity of the NOL to changes in the healthcare trend rates

The actuarial assumptions for the year ended December 31, 2023 assume healthcare cost trend rates increase according to the Getzen Model of Long-Run Medical Cost Trends, with the 2023 rate being 6.50%. The actuarial assumptions for the year ended December 31, 2022 assume healthcare cost trend rates increase according to the Getzen Model of Long-Run Medical Cost Trends, with the 2022 rate being 4.50%. The following table presents the effect of a 1-percentage-point decrease and 1-percentage-point increase in the assumed rates of healthcare cost trends in each year as of December 31:

		1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
2023				
Department's net OPEB liability	\$	6,368,149	\$ 8,142,727	\$ 10,329,138
2022				
Department's net OPEB liability	\$	8,064,548	\$ 10,132,161	\$ 12,728,822

Expense, deferred outflows of resources, and deferred inflows of resources related to OPEB

For the years ended December 31, 2023 and 2022, the Department recognized OPEB income of \$690,584 and \$151,725, respectively, and reported deferred inflows related to OPEB of \$1,924,311 and \$1,233,227, respectively. For the years ended December 31, 2023 and 2022 deferred outflows related to OPEB were \$1,246,720 and \$2,263,344, respectively.

Deferred outflows of resources related to OPEB at December 31 consists of the following:

	2023	2022
Differences between expected and actual experience	\$ -	\$ 8,419
Changes in assumptions	784,911	1,581,597
Net difference between projected and actual earnings on investments	461,809	673,328
Total	\$ 1,246,720	\$ 2,263,344

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

Expense, deferred outflows of resources, and deferred inflows of resources related to OPEB (continued)

The Department's deferred outflows of resources related to OPEB will be recognized in the OPEB expense as follows:

For years ended December 31,	
2024	\$ 546,326
2025	463,921
2026	236,473
	<u>\$ 1,246,720</u>

Deferred inflows of resources related to OPEB at December 31 consists of the following:

	<u>2023</u>	<u>2022</u>
Differences between expected and actual experience	\$ 1,009,580	\$ 892,598
Changes in assumptions	390,705	-
Net differences between projected and actual earnings on investments	524,026	340,629
Total	<u>\$ 1,924,311</u>	<u>\$ 1,233,227</u>

The Department's deferred inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

For years ended December 31,	
2024	\$ 632,959
2025	593,402
2026	300,450
2027	300,451
2028	97,049
	<u>\$ 1,924,311</u>

Contributions

There is no statutory actuarially determined contribution. OPEB contributions are elective and not required. For the years ended December 31, 2023 and 2022, contributions totaled \$1,265,688 and \$1,220,497, respectively.

13. RESERVE FOR RATE STABILIZATION:

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

During 2023 and 2022, the Department used \$5,343,297 and \$8,037,737, respectively, to offset the cost of power. The Department increased the reserve liability by \$14,764,603 and \$13,026,209 during 2023 and 2022, respectively. The balance available to offset future costs is \$66,580,651 and \$57,159,345, respectively, at December 31, 2023 and 2022.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

14. LEASE ASSET AND LIABILITY:

The Cooperative has a 50 year ground lease agreement with the Town of Southwick which expires in 2057. The lease grants the Cooperative certain rights to use land for the purpose of constructing, installing, and operating a natural gas pipeline facility and conduits for telecommunication lines and other purposes from the Tennessee Gas Transmission Line to the Town of Southwick's border with the City of Westfield and further on to the point of distribution in the City of Westfield.

The Cooperative determines if an arrangement is a lease at inception. This ground lease agreement met the criteria of a lease under GASB Statement No. 87; thus, requiring a lease asset and associated liability to be recorded by the Cooperative. This lease did not provide an implicit interest rate, therefore, to determine the present value of future payments the Cooperative used the Secured Overnight Financing Rate (SOFR) of .1% at January 1, 2021 the date of adoption of GASB 87.

Lease payments are due on an annual basis per a payment schedule, which covers the initial 26 years. For the remainder of the lease, the annual lease payments are adjusted based on the Consumer Price Index. To determine the measurement of the lease liability payments beyond the 26 years, the Cooperative elected to use the minimum 2.5% increase as outlined in the lease agreement.

The Cooperative's lease terms include ten options to renew the lease for five years each, at the Cooperative's own discretion. The Cooperative regularly evaluates the renewal options and when they are reasonably certain of exercise, the Cooperative includes the renewal period in its lease term. As of December 31, 2023 and 2022, the Cooperative did not include options to renew in its lease term. There are no residual value guarantees in the lease provisions. The lease asset will be amortized over the remainder of the lease term.

Lease asset

A summary of the lease asset at December 31, 2023 and 2022 is as follows:

	December 31, 2022	Additions	December 31, 2023
Lease asset	\$ 2,025,024	\$ -	\$ 2,025,024
<i>Less accumulated amortization:</i>	<u>(108,242)</u>	<u>(54,121)</u>	<u>(162,363)</u>
Total lease asset, net	<u>\$ 1,916,782</u>	<u>\$ (54,121)</u>	<u>\$ 1,862,661</u>
	December 31, 2021	Additions	December 31, 2022
Lease asset	\$ 2,025,024	\$ -	\$ 2,025,024
<i>Less accumulated amortization:</i>	<u>(54,121)</u>	<u>(54,121)</u>	<u>(108,242)</u>
Total lease asset, net	<u>\$ 1,970,903</u>	<u>\$ (54,121)</u>	<u>\$ 1,916,782</u>

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

14. LEASE ASSET AND LIABILITY: (CONTINUED)

Lease liability

The Cooperative recorded \$2,025,024 as a lease liability on January 1, 2021, which included \$282,149 that was an existing balance on the Cooperative's statement of net position representing initial costs related to the ground lease. This lease liability will be reduced by annual lease payments.

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

	Principal	Imputed Interest	Total
2024	\$ 24,518	\$ 1,676	\$ 26,194
2025	25,852	1,652	27,504
2026	27,254	1,626	28,880
2027	28,725	1,599	30,324
2028	30,270	1,570	31,840
2029 – 2033	177,369	7,362	184,731
2034 – 2038	217,891	6,386	224,277
2039 – 2043	248,513	5,237	253,750
2044 – 2048	283,168	3,926	287,094
2049 – 2053	322,388	2,433	324,821
2054 – 2057	289,595	734	290,329
	\$ <u>1,675,543</u>	\$ <u>34,201</u>	\$ <u>1,709,744</u>

Interest maturities were calculated based on the SOFR rate of .1% in effect at January 1, 2021.

15. RELATED PARTY TRANSACTIONS:

The Department provides electric sales and service to the City. Total electric sales were \$2,463,977 and \$2,515,612, respectively, for the years ended December 31, 2023 and 2022. Amounts due from the City for electric sales and service totaled \$138,645 and \$340,192, respectively at December 31, 2023 and 2022.

The Department makes payments to the City for various types of expenses and reimbursable costs such as employee health care premiums. As of December 31, 2023 and 2022, the Department had a balance due to the City of \$300,381 and \$226,399, respectively.

In lieu of tax payments made to the City were \$556,001 and \$590,869, respectively, and include an accrued remaining contribution of \$277,998 and \$295,428 for the years ended December 31, 2023 and 2022, respectively. The Cooperative paid \$3,193 and \$3,094, respectively, for the in lieu of tax payments as of December 31, 2023 and 2022.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

15. RELATED PARTY TRANSACTIONS: (CONTINUED)

The Cooperative has an Agency Contract with MMWEC whereby MMWEC is to serve as the Cooperative's agent in all matters with respect to financing the transmission facilities and pipelines and the performance of the Cooperative's administrative obligations under what is known as the Transportation Contract. On behalf of the Cooperative, MMWEC records and accounts for bills received and paid. During the years ended December 31, 2023 and 2022, the Cooperative incurred charges related to accounting and administrative expense of \$5,948 and \$6,557, respectively. As of December 31, 2023 and 2022, the Cooperative had a balance due to MMWEC of \$672 and \$341, respectively.

16. COMMITMENTS AND CONTINGENCIES:

Commitments

The Department purchases power through agreements with various public and investor owned utilities. At December 31, 2023, the Department was committed under various short and long-term agreements for the purchase of power from generating units currently operating, under construction, and planned for construction. The objective of these commitments is to obtain sufficient power at the lowest energy cost available to meet the current and long-term needs of the Department's customers.

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

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

As of December 31, 2023, total capital expenditures and annual capacity, fuel and transmission costs (which include operations and maintenance costs, debt service, and decommissioning expenses) by participants and MMWEC toward capital projects amounted to \$867,928,701, of which approximately \$106,134,069 represents the amount associated with the Department's Project Capability of the projects in which it participates. As of December 31, 2022, total capital expenditures and annual capacity, fuel and transmission costs (which include operations and maintenance costs, debt service, and decommissioning expenses) by participants and MMWEC toward capital projects amounted to \$863,232,143, of which approximately \$105,434,767 represents the amount associated with the Department's Project Capability of the projects in which it participates.

Capacity, fuel and transmission costs billed to the Department by MMWEC were \$7,352,735 and \$8,202,501 for the years ended December 31, 2023 and 2022, respectively.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

16. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Commitments (continued)

Under the Hydro-Quebec support agreement, the Department provides support payments to Hydro-Quebec to cover its pro rata share of costs relating to the Phase II facilities. Support payments were \$68,318 and \$60,141, respectively, for the years ended December 31, 2023 and 2022. The Project agreement includes requirements that the participant make equity contributions, provide credit support and furnish certain guarantees. In addition, the Project contains a step-up-mechanism which requires participants to assume obligations of other participants who are in default, subject to certain limitations. The Department's potential liability cannot be reasonably estimated at this time.

The Department has an electric supply agreement with Nextera Energy Marketing, LLC. The agreement provides fixed annual purchases of 17,520 MWh at a fixed price at \$43.05/MWh purchased over the term of the contract from January 2025 to December 2034.

The Department has an electric supply agreement with Nextera Energy Marketing, LLC. The agreement provides fixed annual purchases of 43,800 MWh annually at a fixed price escalating annually from \$66.77 to \$98.11/MWh purchased over the term of the contract from January 2030 to December 2050.

The Department has various electric bilateral transactions with Nextera Energy Marketing, LLC. The agreements provide fixed purchases totaling between 320,000 kWh and 8,928,000 kWh monthly at prices ranging from \$.02788/kWh to \$.028020/kWh purchased over the term of the contracts from January 2023 through December 2026.

The Department has a bilateral electric supply agreement with Nextera Energy Marketing, LLC. The agreement provides fixed annual purchases of 43,800 MWh at a fixed price of \$77.21/MWh purchased over the term of the contract from January 2024 to December 2049.

The Department has an electric supply agreement with Shell Energy North America, L.P. The agreement provides for an annual total of 19,057 kWh at fixed prices ranging from \$38.95 to \$114.11/MWh purchased over the term of the contract from January 2023 through December 2023.

The Department has an electric supply agreement with FirstLight Power Management, LLC (Cabot and Turners). The agreement provides for an estimated annual production of 8,413 MWh at a fixed price ranging from \$36.26/MWh to \$49.31/MWh purchased over the term of the contract from January 2022 to December 2030.

The Department has an electric supply agreement with FirstLight Power Management, LLC (Shepaug and Stevenson). The agreement provides for an estimated annual production of 6,288 MWh at a fixed price ranging from \$25.46/MWh to \$102.01/MWh purchased over the term of the contract from January 2019 through December 2023.

The Department has an electric supply agreement with FirstLight Power Management, LLC (Shepaug and Stevenson). The agreement provides for an estimated annual production of 6,469 MWh at a fixed price ranging from \$36.42/MWh to \$172.11/MWh purchased over the term of the contract from January 2024 to December 2030.

The Department has a solar energy supply agreement with Twiss Street Solar LLC. The agreement provides for an estimated annual production ranging from 2,225 to 2,448 MWh at a fixed price ranging from \$0.075/kWh to \$0.09952/kWh purchased over the term of the contract from February 2015 through January 2035.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

16. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Commitments (continued)

The Department has a solar energy supply agreement with RWE Westfield Solar (formerly ConEd Solar). The agreement provides for an estimated annual production ranging from 2,994 to 3,294 MWh at a fixed price ranging from \$0.06/kWh to \$0.06915/kWh purchased over the term of the contract from September 2016 through August 2036.

The Department has an electric supply agreement with Sunfarm Westfield LLC. The agreement provides for an estimated annual production of 2,885,000 kWh to 3,173,000 kWh at a fixed price ranging from \$0.055/kWh to \$0.06646/kWh purchased over the term of the contract from a commercial operation date of no later than June 2018 through May 2038.

The Department has an electric supply agreement with GSPP Terawatt Westfield LLC. The agreement provides for an estimated annual production of 6,105,370 kWh to 5,550,399 kWh at a fixed price ranging from \$0.045/kWh to \$0.05697/kWh purchased over the term of the contract from February 2019 to January 2039.

The Department has a solar energy supply agreement with Broadleaf Solar, LLC. The agreement provides for an estimated annual production ranging from 13,838 to 15,288 MWh at a fixed price of \$57.50/MWh purchased over the term of the contract from January 2026 to December 2051.

The Department has a solar energy supply agreement with Gravel Pit Solar III, LLC. The agreement provides for an estimated annual production ranging from 5,043 to 6,964 MWh at a fixed price of \$51.95/MWh purchased over the term of the contract from June 2025 to May 2050.

The Department has an electric supply agreement with Granite Reliable Power LLC. The agreement provides for an estimated annual production of 5,173 MWh at a fixed price ranging from \$66.00/MWh to \$96.15/MWh purchased over the term of the contract from January 2018 through December 2037.

The Department has an electric supply agreement with Holiday Hill Community Winds, LLC. The agreement provides for an estimated annual production of 3,188 MWh at a fixed price ranging from \$60/MWh to \$66.90/MWh purchased over the term of the contract from January 2020 to December 2044.

The Department has an electric supply agreement with H.Q. Energy Services (U.S.) Inc. The agreement provides for an estimated annual production of 26,806 MWh at a fixed price ranging from \$67.18/MWh to \$72.72/MWh purchased over the term of the contract from January 2024 to December 2028.

The Department has an electric supply agreement with Bear Swamp Power Company LLC. The agreement provides for an estimated annual production of 30,951 MWh at a fixed price ranging from \$68.34/MWh to \$90/MWh purchased over the term of the contract from January 2026 to December 2045.

The Department has an electric supply agreement with Brookfield White Pine Hydro LLC. The agreement provides for an estimated annual production of 96,788 MWh at a fixed price ranging from \$63.71/MWh to \$90/MWh purchased over the term of the contract from January 2026 to December 2045.

The Department has a gas supply agreement with Direct Energy Business Marketing, LLC. The agreement provides for fixed gas prices ranging from \$2.28/MMBtu to \$41.428/MMBtu for up to 5,211 and up to 7,000 MMBtu purchased per day from November 2023 through April 2028.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

16. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Commitments (continued)

During the general course of business, the Department enters into long term contracts with energy suppliers who are in the early stages of developing a facility to generate electricity. These agreements commit the Department to purchasing set amounts of energy at predetermined prices. However, the commitment arising from these contracts only exists when and if the energy producing facilities are completed and begin transmitting energy. No commitment exists for the Department if a project is not completed.

In addition to offering internet service to 7,000 Westfield customers, the Department and Whip City Fiber serves an additional 9,000 subscribers through Intergovernmental Agreements ("IGAs") encompassing nineteen communities in Massachusetts. These agreements authorize the Department to act as the internet service provider network operator ("ISPNO"), responsible for management, construction, and maintenance services. The terms of these agreements vary, with most requiring a ten-year commitment and evergreen renewal clauses that activate after seven years. As an ISPNO, the Department invoices a monthly per-subscriber fee to these municipalities. Apart from revenue generated by ISPNO services, these IGAs also contribute revenue from network management and maintenance services that the Department provides.

Workers' compensation

The Department participates in the City's self-insurance program covering workers compensation risks. Coverage for risks in excess of predetermined limits is placed with a commercial carrier. The Department is assessed and recognizes an amount equal to claims paid by the City for the Department's employees, administrative costs, and insurance premiums. The Department is responsible for administering their portion of the workers compensation program. The City only assesses the Department for insurance premiums because the Department pays all claims for their employees and has contracted with a third party to administer the plan. There was no accrued liability for self-insurance costs for 2023 and 2022. The amount of expense incurred for workers compensation for the years ended December 31, 2023 and 2022 was \$241,209 and \$285,795, respectively.

	<u>2023</u>		<u>2022</u>
Unpaid claims, beginning of year	\$ 242,805	\$	146,234
Incurred claims (including IBNR's)	240,000		365,055
Claim payments	(265,520)		(268,484)
Unpaid claims, end of year	\$ <u>217,285</u>	\$	<u>242,805</u>

Carbon emissions regulations

Pursuant to the Global Warming Solutions Act, in 2020, the Commonwealth of Massachusetts established a 2050 statewide limit for greenhouse gas emissions of net zero. The Department continues to monitor changes in the legislation and the potential impact to operations.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

16. COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Connect America Fund

The Department is one of one hundred and three providers in the United States to receive a portion of \$1.488 billion in Connect America Fund II ("CAF II") money from the Federal Communications Commission which is intended to support expansion of broadband internet availability in rural areas which are currently considered unserved communities. The Department's portion of this funding is for \$10,325,401 and is planned to reach 20 communities and over 12,400 households. The Department received their first payment of this funding for approximately \$85,000 on February 27, 2020 and has continued to receive an additional \$85,000 each month thereafter. This money will be received over 10 years and each payment is to be transferred directly into an escrow account with a third-party financial institution and is not available for use to the Department. The Department serves as a pass through "trustee" and will hold this money until the recipient communities have met all the necessary requirements in order for the funding to be released and used as designated.

In June 2024, the Department disbursed \$2,964,196 to 20 communities based on their award percentage. Now that all necessary requirements under this fund have been met, the Department will continue to disburse money each year to these communities.

General liability

The Department is self-insured for general liability insurance for the first \$500,000 per occurrence with a maximum of \$2,000,000 in the aggregate. There were no general liability claims paid for the years ended December 31, 2023 and 2022. The Department has had no amount of settlements exceeding insurance coverage for each of the past three years.

Litigation

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

Construction programs

The Department has budgeted construction expenditures of approximately \$20,171,300 for 2024. As of December 31, 2023, approximately \$523,000 has been committed. The Department anticipates funding these expenditures through operations or grant proceeds.

Deregulation

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

17. COLLECTIVE BARGAINING AGREEMENTS:

The entire work force of the Department is covered by two collective bargaining agreements. One of these agreements, the Management Guild, covers approximately 29% of the work force. A new contract with the Management Guild was signed by the Municipal Light Board on September 7, 2023 and expires February 28, 2026. The other contract with I.B.E.W. covers the remaining 71% of the work force and expires March 31, 2025.

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

18. SUBSEQUENT EVENTS:

On April 5, 2023, the Department was provisionally awarded a \$10,000,000 infrastructure grant from the Pipeline and Hazardous Materials Safety Administration (PHMSA), which was formally executed on March 15, 2024. Additionally, on May 10, 2024, the Department was notified of another provisional award of \$7,339,940, which is currently in the process of being executed. Both grants are cost-reimbursement and will be utilized to replace cast iron and leak prone pipes, with the capital replacement project anticipated to start in 2025.

On September 4, 2024, the Department acquired a property in Westfield, Massachusetts. The purchase price was approximately \$3,700,000 and will be funded through cash from operations.

In April 2024, the Department approved an additional in lieu of tax payment to the City of \$1,000,000, which was paid in July 2024.

Management has evaluated subsequent events through September 4, 2024, the date on which the consolidated financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

PENSION PLAN SCHEDULES

WESTFIELD CONTRIBUTORY RETIREMENT SYSTEM

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

Schedule of the Department's proportionate share of the net pension liability:

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Department's share of the net pension liability	20.71%	19.08%	17.26%	17.57%	16.92%	15.97%	15.29%	14.79%	15.33%
Department's proportionate share of the net pension liability	\$ 16,737,895	\$ 16,713,526	\$ 16,713,526	\$ 12,465,533	\$ 14,013,171	\$ 15,755,873	\$ 10,882,173	\$ 11,761,813	\$ 12,128,814
Department's share of covered payroll**	\$ 9,757,931	\$ 8,361,428	\$ 7,563,850	\$ 7,699,701	\$ 7,153,776	\$ 6,507,454	\$ 6,232,694	\$ 5,598,990	\$ 5,850,103
Net pension liability percentage of covered payroll	171.5%	199.8%	107.1%	161.9%	195.8%	242.1%	174.6%	210.1%	207.3%
Plan fiduciary net position as a percentage of the total pension liability	79.4%	76.8%	87.2%	80.1%	75.6%	69.1%	76.9%	72.3%	71.4%

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

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

(Continued)

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
PENSION PLAN SCHEDULES (Continued)
WESTFIELD CONTRIBUTORY RETIREMENT SYSTEM
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

Schedule of the Department's contributions:

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution *	\$ 2,633,613	\$ 2,310,992	\$ 1,989,583	\$ 1,911,819	\$ 1,737,838	\$ 1,670,042	\$ 1,511,712	\$ 1,392,236	\$ 1,374,643
Less: Contributions in relation to the actuarially determined contribution	<u>2,633,613</u>	<u>2,310,992</u>	<u>1,989,583</u>	<u>1,911,819</u>	<u>1,737,838</u>	<u>1,670,042</u>	<u>1,511,712</u>	<u>1,392,236</u>	<u>1,374,643</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Department's share of covered payroll**	\$ 9,757,931	\$ 8,361,428	\$ 7,563,850	\$ 7,699,701	\$ 7,153,776	\$ 6,507,454	\$ 6,232,694	\$ 5,598,990	\$ 5,850,103
Contributions percentage of covered payroll	27.0%	27.6%	26.3%	24.8%	24.3%	25.7%	24.3%	24.9%	23.5%

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

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

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

CITY OF WESTFIELD GAS AND ELECTRIC LIGHT DEPARTMENT

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
OTHER POST-EMPLOYMENT BENEFIT PLAN SCHEDULE
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

OPEB liability:

	<u>12/31/2023</u>	<u>12/31/2022</u>	<u>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Total OPEB liability	\$ 15,164,713	\$ 15,888,828	\$ 15,045,880	\$ 14,643,346	\$ 13,806,561	\$ 12,360,233	\$ 11,818,418
Less: Plan fiduciary net position	7,021,986	5,756,667	5,707,861	4,630,643	3,731,561	2,710,442	2,218,980
Department's net OPEB liability	<u>\$ 8,142,727</u>	<u>\$ 10,132,161</u>	<u>\$ 9,338,019</u>	<u>\$ 10,012,703</u>	<u>\$ 10,075,000</u>	<u>\$ 9,649,791</u>	<u>\$ 9,599,438</u>
Plan fiduciary net position as a percentage of the total OPEB liability	46.3%	36.2%	37.9%	31.6%	27.0%	21.9%	18.8%
Department's share of covered payroll	\$ 13,124,613	\$ 9,586,132	\$ 9,306,924	\$ 7,910,353	\$ 7,679,954	\$ 8,110,383	\$ 7,874,158
Participating employer net OPEB liability as a percentage of covered payroll	62.0%	105.7%	100.3%	126.6%	131.2%	119.0%	121.9%

Actuarial assumptions and methods:

Valuation dates	January 1, 2023 for the measurement date December 31, 2023 January 1, 2021 for the measurement date December 31, 2022 January 1, 2021 for the measurement date December 31, 2021 January 1, 2019 for the measurement date December 31, 2020 January 1, 2019 for the measurement date December 31, 2019 January 1, 2017 for the measurement date December 31, 2018 December 31, 2016 for the measurement date December 31, 2017
Actuarial cost method	Individual Entry Age Normal
Discount rate	6.10% annually, net of investment expenses (2023) 5.29% annually, net of investment expenses (2022) 5.50% annually, net of investment expenses (2021) 5.25% annually, net of investment expenses (2020) 5.50% annually, net of investment expenses (2019) 6.25% annually, net of investment expenses (2018 & 2017)
Participant salary increases	3.00% annually
Healthcare cost trend rates	Current rate of 6.50% (2023) Current rate of 4.50% (2022, 2021*, 2020 & 2019) Current rate of 5.00% (2018 & 2017)
Mortality rates (2023, 2022, 2021 & 2020)	Pre-retirement: RP-2014 Mortality Table, for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females. Post-retirement: RP-2014 Mortality Table, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females. Disabled: RP-2014 Mortality Table, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year.
Mortality rates (2019)	Pre-retirement: RP-2014 Mortality Table, sex-distinct, for Blue Collar Employees projected generationally with scale MP-2016. Post-retirement: RP-2014 Mortality Table, sex-distinct, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016. Disabled: RP-2014 Mortality Table, sex-distinct, for Blue Collar Healthy Annuitants projected generationally with scale MP-2016, set forward 1 year.
Mortality rates (2018 & 2017)	Pre-retirement: RP-2000 Mortality Tables, sex-distinct, for Employees projected generationally with scale BB and a base year 2009. Post-retirement: RP-2000 Mortality Tables, sex-distinct, for Healthy Annuitants projected generationally with scale BB and a base year 2009. Disabled: RP-2000 Mortality Tables, sex-distinct, for Healthy Annuitants projected generationally with scale BB and a base year 2012.

*The Healthcare cost trend rates assumptions were updated for the valuation date of January 1, 2021 to increase according to the Getzen model of Long-Run Medical Cost Trends.

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



MeyersBrothersKalicka , P.C.

CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS STRATEGISTS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of the City of Westfield Gas and Electric Light Department (the "Department") and the Southwest Cooperative (the "Cooperative"), which comprise the proprietary fund consolidated statement of net position as of December 31, 2023 and 2022, and the related proprietary fund consolidated statements of revenues, expenses and changes in net position and cash flows for the years then ended, the fiduciary fund statement of fiduciary net position as of December 31, 2023 and 2022 and the related fiduciary fund statement of changes in fiduciary net position for the years then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated September 4, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Department and the Cooperative's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department and the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department and the Cooperative's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department and the Cooperative'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 and the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Myrus Brothers Kalicka, P.C.

Holyoke, Massachusetts
September 4, 2024