

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE
OPERATIONS (SELCO) - ELECTRIC
Financial Statements
December 31, 2017 and 2016

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
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DECEMBER 31, 2017 AND 2016

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**GOULET, SALVIDIO
& ASSOCIATES, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Town of Shrewsbury, Massachusetts
Shrewsbury Electric and Cable Operations (SELCO) – Electric
Shrewsbury, Massachusetts 01545

We have audited the accompanying financial statements of Shrewsbury Electric and Cable Operations (SELCO) – Electric as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise SELCO-Electric's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shrewsbury Electric and Cable Operations (SELCO) – Electric as of December 31, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1, the financial statements present only the Shrewsbury Electric and Cable Operations (SELCO) – Electric and do not purport to, and do not present fairly the financial position of the Town of Shrewsbury, Massachusetts, as of December 31, 2017 and 2016, and the changes in financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Other Post-Employment Benefits and Net Pension Liability information on pages three through seven and 41 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Electric Operating Revenues, Schedules of Operation and Maintenance Expenses and Schedules of Kilowatt Hours Sold on pages 37 through 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
March 29, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Shrewsbury Electric and Cable Operations (SELCO) - Electric (an enterprise fund of the Town of Shrewsbury, Massachusetts) annual financial report, management provides narrative discussion and analysis of the financial activities of SELCO - Electric for the years ended December 31, 2017 and 2016. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements:

The basic financial statements include (1) the statements of net position (2) the statements of revenues, expenses and changes in net position (3) the statements of cash flows and (4) notes to the financial statements.

The Statements of Net Position is designed to indicate the financial position as of a specific point in time. At December 31, 2017, it shows our net position increased \$2,227,876 compared to the year ended December 31, 2016.

The Statements of Revenues, Expenses and Changes in Net Position summarize the operating results and reveal how much income, if any, was earned for the year. As discussed in more detail below, there was a net income for the years ended December 31, 2017 and 2016 of \$2,468,812 and \$2,832,265, respectively.

The Statements of Cash Flows provide information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financing activities for the same period. A review of the Statements of Cash Flows indicates that the cash receipts from operating activities, (that is, electricity sales and related services) adequately covered the operating expenses for the years ended December 31, 2017 and 2016.

Summary of Net Position

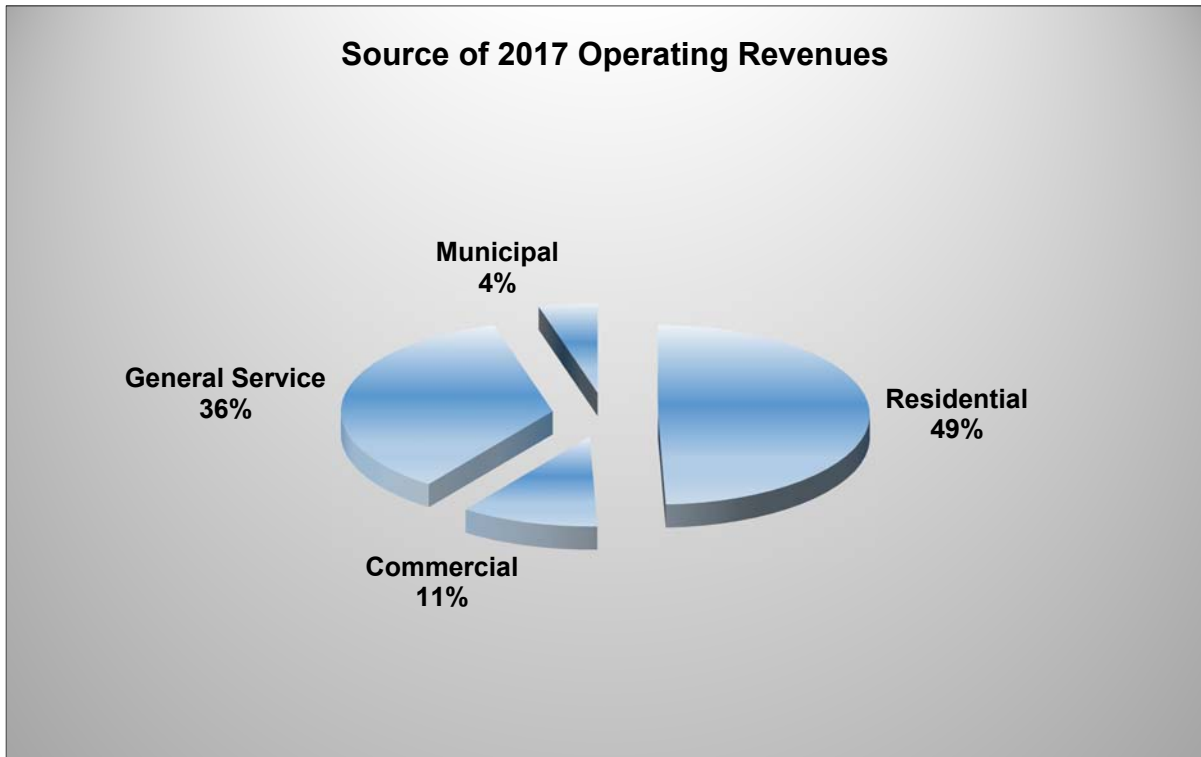
	2017	2016
Current Assets	\$ 10,726,976	\$ 10,093,506
Noncurrent Assets	43,931,732	43,589,062
Total Assets	54,658,708	53,682,568
Deferred Outflows of Resources	477,573	956,431
Total Assets and Deferred Outflows of Resources	\$ 55,136,281	\$ 54,638,999
Current Liabilities	\$ 2,748,014	\$ 2,326,951
Noncurrent Liabilities	5,281,680	6,444,243
Total Liabilities	8,029,694	8,771,194
Deferred Inflows of Resources	5,818,749	6,807,843
Net Position:		
Net Investment in Capital Assets	25,576,962	24,538,933
Net Position Restricted for Depreciation	3,369,102	3,365,735
Unrestricted Net Position	12,341,774	11,155,294
Total Net Position	41,287,838	39,059,962
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 55,136,281	\$ 54,638,999

Summary of Changes in Net Position

	2017	2016
Operating Revenues	\$ 29,800,076	\$ 32,160,355
Operating Expenses	27,371,462	29,185,686
Operating Income	2,428,614	2,974,669
Non-Operating Revenues Less Non-Operating Expenses	40,198	(142,404)
Income Before Contributions and Transfers	2,468,812	2,832,265
Transfer Out - Payment in Lieu of Taxes	(240,936)	(240,942)
Net Position, January 1	39,059,962	36,468,639
Net Position, December 31	\$ 41,287,838	\$ 39,059,962

Financial Highlights:

Kilowatt-hour sales for the year ended December 31, 2017, were slightly below one percentage point or 3,459,782 kilowatt-hours of 2016. For the first nine months of 2016 the Generation and Transmission Adjustment (GTA) resulted in additional revenue. A credit adjustment was then implemented and remained in place until October 2017. Operating revenues for 2017 were \$2,360,279 or 7.34% less than 2016.



Rate Matters:

For the electric bills issued after November 1, 2014 the component of the rate previously titled “Transition” was replaced by a new component titled “Generation & Transmission Adjustment (GTA).” The GTA is calculated and scheduled on a semi-annual basis to offset fluctuations in power cost during the fall/winter and spring/summer cycles. This adjustable rate component enables SELCO to recover fluctuating power and transmission costs without over or under collecting the respective revenue from its customers.

For bills issued effective April 1, 2017 the Generation and Transmission Adjustment (GTA) was set at negative \$0.01450 per kWh. The GTA was set to zero for bills issued effective October 1, 2017.

Power Supply:

SELCO - Electric provides electricity to its customers through fixed purchase power contracts, short term contracts, and purchases from the open market in an effort to stabilize power costs. Purchased power costs are the costs associated with buying energy and having it delivered to residents and businesses in the Town of Shrewsbury. There are circumstances that will make the cost of electric energy fluctuate, such as peak demands for electric energy caused by extended periods of time with above or below normal temperatures, unexpected power plant shutdowns for unforeseen repair, and fuel prices being affected by fluctuation in demand and the global economy.

During 2017 SELCO – Electric transferred \$1,183,715 million out of the All Requirements Select Energy Termination Trust Fund to reduce purchased power costs. There is no longer a balance in that account.

Actual kilowatt hour purchases for the year were one percentage point less than 2016.

Working with electric power supply experts, SELCO - Electric continues to try to position itself to best manage the impact that adverse weather, and market and economic conditions have on the rates of its customers.

Net Plant Assets and Debt Administration:Net Plant Assets

Net plant assets increased by \$633,029 during 2017. This increase is the difference between the current year additions of \$2,647,363 and the annual depreciation (3%) expense of \$2,014,334.

During 2017, SELCO – Electric purchased 2 new bucket trucks totaling \$415,214.

SELCO spent \$172,509 replacing 2,000 street lights with LED fixtures. This expenditure was eligible for grant money so the actual value added to plant was twice that amount or \$345,018.

It should be noted that the above mentioned utility plant expenditures have been, and will continue to be funded with revenue received from the sale of electricity, bond proceeds, and, if necessary, a draw on SELCO - Electric reserve funds.

Net Plant Assets and Debt Administration (Continued):

Debt Administration

Debt outstanding at year-end 2017 was \$5,100,000. The amount consists of one bond issue.

The issue is a \$6,000,000 general obligation bond issued January 23, 2014 to finance the construction of the Centech Sub-Station. Principal payments of \$300,000 are due annually, beginning January 15, 2016 and maturing January 15, 2034. Interest is payable semiannually on January 15 and July 15 at rates starting at 3% and moving to 4%. The amount payable on this bond is \$5.1 million at December 31, 2017.

Interest and principal payments have and will continue to be paid with revenue received from the sale of electricity.

Return on Investment:

The annual Return on Investment for Municipal Light Plants (Net Income less Serial Debt) is restricted by regulation and cannot exceed 8% of the year-end Cost of Plant Assets. The ROI in 2017 of \$2,168,812 was 3.12% of the Cost of Plant.

Significant Balances and Transactions:

Purchased Power Working Capital

Prepayments include Purchased Power Working Capital which is an amount held by MMWEC, the Department's power supply agent. MMWEC requires that they hold a set amount of capital from which they may pay the power obligations when they are due. The fund is replenished as needed through invoices paid monthly to MMWEC.

PCA Fund

SELCO - Electric's PCA (Power Cost Adjustment) Fund is a contingency fund established to mitigate power costs on an as needed basis. A balance of \$1,500,000 is maintained in the Fund for that purpose

Construction Fund

SELCO - Electric transferred \$933,275 into the Construction Fund during 2017. This money was set aside as a reserve to aide in the payment for the Centech Peaking Plant project.

Depreciation Fund

SELCO - Electric maintains a Depreciation Fund, which is invested by the Town of Shrewsbury's Treasurer. This Fund is used to pay for capital investments. These items are purchased from the Operating Funds, which are then replenished by funds transferred from the Depreciation Fund. The Depreciation Fund is required by state statute. In 2017 the Fund earned \$3,367 of interest income.

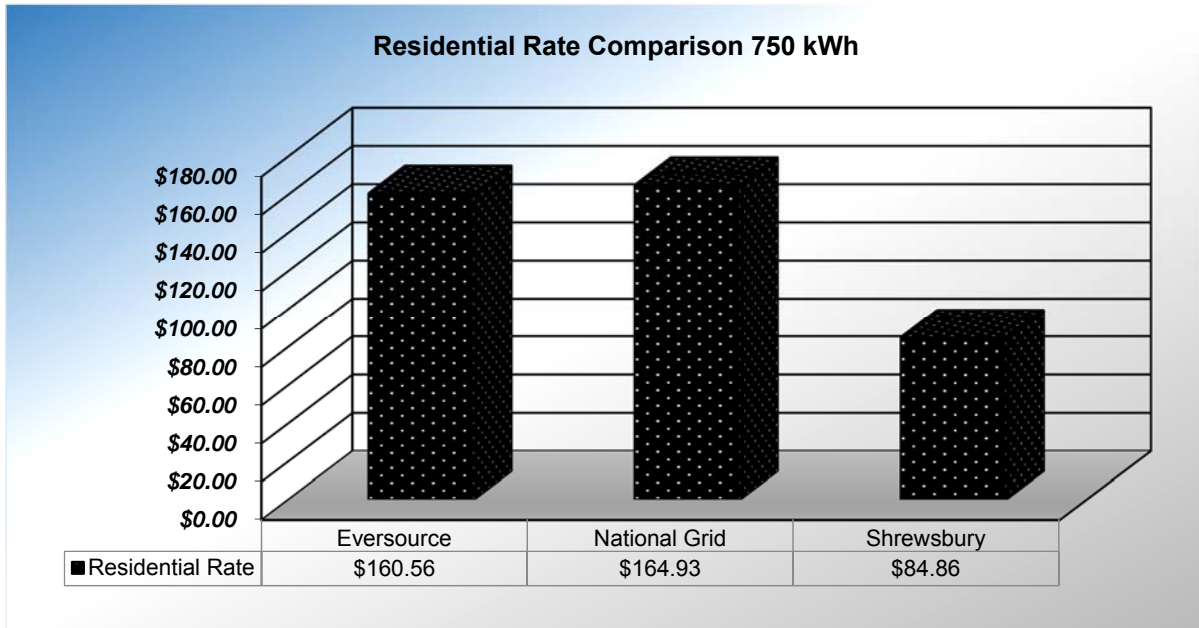
Customer Accounts Receivable

Customer Accounts Receivable is reported net of the Allowance for Doubtful Accounts. During 2017, the Allowance for Doubtful Accounts was decreased by \$23,000. Increases and decreases to the Allowance are offset to Bad Debt Expense.

Significant Balances and Transactions (Continued):

Rates

On average, during 2017, a SELCO - Electric residential customer, using 750 kWh per month, paid \$84.86 per month while an Eversource residential customer paid \$160.56 for the same 750 kWh. SELCO - Electric residential rates remain among the lowest in the state.



*12 Month Average rates taken from the Massachusetts Municipal Wholesale Electric Company (MMWEC) website.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

OPERATING FUND

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2017	2016
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Fund	\$ 5,665,821	\$ 4,995,375
Accounts Receivable Customers, Net	2,497,960	2,201,772
Other Receivables	836,950	888,933
Materials and Supplies	133,409	121,210
Energy Conservation Loans Receivable, Current Portion	60,399	40,353
Purchased Power Working Capital	1,393,441	1,526,115
Prepayments	138,996	319,748
	10,726,976	10,093,506
TOTAL CURRENT ASSETS		
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	3,369,102	3,365,735
Construction Fund	3,670,085	2,736,810
Power Cost Adjustment Fund	1,500,000	1,500,000
All Requirements Select Energy Termination Trust Fund	-	1,179,332
Rate Stabilization Fund	4,153,103	4,113,208
Net Other Postemployment Benefits Asset	401,316	504,341
Energy Conservation Loans Receivable, Net of Current Portion	99,643	124,444
Investments in Associated Companies	61,521	20,821
Unamortized Debt Discount	-	438
Plant Assets, Net	30,676,962	30,043,933
	43,931,732	43,589,062
TOTAL NONCURRENT ASSETS		
TOTAL ASSETS	54,658,708	53,682,568
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflows of Resources Related to Pensions	477,573	956,431
	477,573	956,431
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 55,136,281	\$ 54,638,999

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

OPERATING FUND

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2017	2016
CURRENT LIABILITIES:		
Bonds Payable, Current Portion	\$ 300,000	\$ 405,000
Accounts Payable	1,829,534	1,370,367
Accrued Expenses	618,480	551,584
TOTAL CURRENT LIABILITIES	2,748,014	2,326,951
NONCURRENT LIABILITIES:		
Bonds Payable, Net of Current Portion	4,800,000	5,100,000
Unamortized Debt Premium	111,855	124,689
Net Pension Liability	369,825	1,219,554
TOTAL NONCURRENT LIABILITIES	5,281,680	6,444,243
TOTAL LIABILITIES	8,029,694	8,771,194
DEFERRED INFLOWS OF RESOURCES:		
All Requirements Select Energy Termination Trust	-	1,179,332
Contribution in Aid of Construction, Net	544,757	153,439
Rate Stabilization Reserve	4,153,103	4,113,208
Deferred Inflow of Resources Related to Pensions	1,120,889	1,361,864
TOTAL DEFERRED INFLOWS OF RESOURCES	5,818,749	6,807,843
NET POSITION:		
Net Investment in Capital Assets	25,576,962	24,538,933
Net Position Restricted for Depreciation	3,369,102	3,365,735
Unrestricted Net Position	12,341,774	11,155,294
TOTAL NET POSITION	41,287,838	39,059,962
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 55,136,281	\$ 54,638,999

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Sales of Electricity	\$ 29,558,655	\$ 31,925,410
Other Operating Revenues	<u>241,421</u>	<u>234,945</u>
 TOTAL OPERATING REVENUES	 <u>29,800,076</u>	 <u>32,160,355</u>
OPERATING EXPENSES:		
Operations	23,819,797	25,702,653
Maintenance	1,541,934	1,528,310
Depreciation, Net of Amortization	<u>2,009,731</u>	<u>1,954,723</u>
 TOTAL OPERATING EXPENSES	 <u>27,371,462</u>	 <u>29,185,686</u>
 OPERATING INCOME	 <u>2,428,614</u>	 <u>2,974,669</u>
NONOPERATING REVENUES (EXPENSES):		
Grant Income	172,509	-
Interest Expense	(160,964)	(174,506)
Investment Income	16,256	15,440
Amortization of Premium on Debt	12,835	17,400
Amortization of Discount on Debt	<u>(438)</u>	<u>(738)</u>
 TOTAL NONOPERATING REVENUES (EXPENSES)	 <u>40,198</u>	 <u>(142,404)</u>
 Income Before Contributions and Transfers	 2,468,812	 2,832,265
 NET POSITION - JANUARY 1	 39,059,962	 36,468,639
 Transfers Out - Payment in Lieu of Taxes	 <u>(240,936)</u>	 <u>(240,942)</u>
 NET POSITION - DECEMBER 31	 <u>\$ 41,287,838</u>	 <u>\$ 39,059,962</u>

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 29,578,871	\$ 31,979,247
Cash Paid to Suppliers	(21,343,981)	(25,368,541)
Cash Paid to Employees	(3,301,733)	(2,402,202)
Cash Paid for Benefits	(404,954)	(408,011)
Payment in Lieu of Taxes	(240,936)	(240,942)
Net Cash Provided by Operating Activities	4,287,267	3,559,551
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to Plant Assets	(2,474,854)	(1,987,651)
Contribution in Aid of Construction	395,921	103,125
Repayments of Bond	(405,000)	(405,000)
Payment of Bond Interest	(167,058)	(180,600)
Net Cash Used by Capital and Related Financing Activities	(2,650,991)	(2,470,126)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Transfer to OPEB Trust Fund	(9,500)	(9,500)
Interest and Dividend Income	12,890	12,067
New England Hydro Capital Investment	(40,700)	-
Payments to Customers for Energy Conservation Loans	(76,529)	(76,440)
Payments from Customers for Energy Conservation Loans	81,284	65,482
Net Cash Used by Investing Activities	(32,555)	(8,391)
INCREASE IN CASH AND CASH EQUIVALENTS	1,603,721	1,081,034
CASH AND CASH EQUIVALENTS - JANUARY 1	9,232,185	8,151,151
CASH AND CASH EQUIVALENTS - DECEMBER 31	\$ 10,835,906	\$ 9,232,185

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 2,428,614	\$ 2,974,669
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	2,014,334	1,956,280
Amortization of Contribution in Aid of Construction	(4,603)	(1,557)
Payment in Lieu of Taxes	(240,936)	(240,942)
Allowance for Doubtful Accounts	(23,000)	(7,000)
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Accounts Receivable	(273,188)	124,229
Other Accounts Receivable	51,983	(305,337)
Materials and Supplies	(12,199)	16,440
Purchased Power Working Capital	132,674	(80,361)
Prepayments	180,752	200,872
Other Postemployment Benefits Asset	112,525	12,062
Deferred Outflows of Resources Related to Pensions	478,858	(334,795)
Increase (Decrease) in Liabilities:		
Accounts Payable	459,167	(229,748)
Accrued Expenses	72,990	(105,356)
Net Pension Liability	(849,729)	(1,679,332)
Deferred Inflow of Resources Related to Pensions	(240,975)	1,259,427
Net Cash Provided by Operating Activities	\$ 4,287,267	\$ 3,559,551

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

The following amounts are considered to be cash or cash equivalents for the purpose of the statements of cash flows.

	2017	2016
Operating Fund	\$ 5,665,821	\$ 4,995,375
Construction Fund	3,670,085	2,736,810
Power Cost Adjustment Fund	1,500,000	1,500,000
	\$ 10,835,906	\$ 9,232,185

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
 STATEMENTS OF FIDUCIARY NET POSITION
 DECEMBER 31, 2017 AND 2016

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

ASSETS		
	2017	2016
Funds on Deposit with Town Treasurer		
Investments	<u>\$ 1,415,227</u>	<u>\$ 1,263,138</u>
NET POSITION		
NET POSITION - Restricted	<u>\$ 1,415,227</u>	<u>\$ 1,263,138</u>

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TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
 STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

	2017	2016
Contributions	\$ 9,500	\$ 9,500
Net Investment Income	<u>142,589</u>	<u>71,006</u>
CHANGES IN NET POSITION	<u>152,089</u>	<u>80,506</u>
NET POSITION - January 1,	<u>1,263,138</u>	<u>1,182,632</u>
NET POSITION - December 31,	<u>\$ 1,415,227</u>	<u>\$ 1,263,138</u>

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

Shrewsbury Electric and Cable Operations (SELCO) - Electric is a component unit of the Town of Shrewsbury, Massachusetts. SELCO - Electric purchases power, predominantly from the Massachusetts Municipal Wholesale Electric Company (MMWEC), and sells it to consumers in the Town of Shrewsbury at rates submitted to the Massachusetts Department of Public Utilities (DPU). SELCO - Electric appoints a General Manager who, under the direction and control of the Municipal Light Board, has full charge of the operation and management of SELCO - Electric.

Regulation and Basis of Presentation

SELCO - Electric's financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

SELCO - Electric is considered an enterprise fund of the Town of Shrewsbury, Massachusetts. The operations of SELCO - Electric are accounted for with a separate set of self-balancing accounts organized on an Enterprise Fund type basis. Enterprise funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case GASB prevails.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Rate Matters

Under Massachusetts law, the electric rates of SELCO - Electric are set by the Municipal Light Board and may be changed once every three months. Rate schedules are filed with the Massachusetts DPU. While the DPU exercises general supervisory authority over SELCO – Electric, SELCO - Electric's rates are not subject to DPU approval.

Utility Plant

The statutory provision for depreciation of utility plant is computed on a straight-line method at 3% of the cost of plant in service at the beginning of the year, exclusive of land and land rights. Therefore, no depreciation is taken in the year of plant additions. Management has determined that this method is not materially different than the estimated useful lives in accordance with GAAP. Massachusetts law stipulates that SELCO - Electric may exceed the 3% depreciation rate only with the approval of the DPU. The Department used a rate of 3% for both 2017 and 2016.

SELCO - Electric charges maintenance to expense when incurred. Replacements and betterments are charged to utility plant. At the time properties are retired, the cost of the property retired less accumulated depreciation, salvage value, and any cash proceeds was charged to unappropriated earned surplus.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Materials and Supplies

Materials and supplies are inventories of parts, accessories and fuel purchased for use in the utility business for construction, operation and maintenance purposes. The parts and accessories are stated at cost on a first-in-first-out basis. Fuel is valued using the average cost method.

Revenue

Revenues from the sale of electricity are recorded on the basis of bills rendered from monthly readings taken on a cycle basis. The revenues are based on rates established by SELCO - Electric which are applied to customers' consumption of electricity.

Taxes

SELCO - Electric is exempt from federal and state income taxes as well as property taxes, but pays an amount in lieu of taxes to the Town of Shrewsbury.

Union Labor

Operations personnel, which includes approximately one-half of SELCO - Electric's employees, are covered by a three-year union contract which expires on June 30, 2019.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2017 financial statement presentation with no effect on previously stated net income.

Use of Estimates

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

Cash and Cash Equivalents

For the purpose of the Statements of Cash Flows, SELCO - Electric considers only unrestricted cash on deposit with the Town Treasurer as cash and cash equivalents.

Compensated Absences

SELCO - Electric's employment benefit plan provides that employees are entitled to a minimum of ten days' vacation per year up to twenty-five days per year depending on years of service and employment classification. Employees are allowed to accumulate up to 200 hours of unused vacation. Accrued amounts for accumulated vacation at December 31, 2017 and 2016 were \$93,525 and \$86,641, respectively.

Accounts Receivable, Customers, Net

SELCO - Electric carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, SELCO - Electric evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on history of past write-offs and collections and current collection conditions.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Accounts Receivable, Customers, Net (continued)

SELCO - Electric's policy on collections is to consider any receivable past due if payments have not been received within 60 days of receipt of notice. Termination letters are mailed with a disconnection date. Meters are disconnected if payment is not received by the disconnection date. For residential customers only, there are no disconnections performed from November 15th through March 15th due to DPU regulations.

Allowance for Doubtful Accounts

Accounts Receivable is net of allowances for doubtful accounts of \$118,000 for 2017 and \$141,000 for 2016.

Sales Tax

SELCO - Electric collects sales tax. The amount received is credited to a liability account and as payments are made, this account is charged. At any point in time, this account represents the net amount owed to the taxing authority for amounts collected but not yet remitted.

Operating Income

Operating income includes revenues and expenses related to the continuing operations of SELCO - Electric. Principal operating revenues are charges to customers for sales of electricity or services. Operating expenses are costs of providing electricity and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Deferred Compensation Plan

The employees of SELCO - Electric are eligible to participate in the Town's deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. Participation in the plan is optional. All amounts of compensation deferred under the plan, all property or rights purchased with amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of participants and their beneficiaries. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Construction Fund

The Construction Fund is used to finance the following year's capital budget projects that have been approved by the Light Commissioners.

Contribution in Aid of Construction

Contribution in Aid of Construction represents non-refundable payments received from consumers and developers for extension of electric services for assets owned and maintained by SELCO - Electric. These amounts are recorded as a deferred inflow of resources net of amortization.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Shrewsbury Contributory Retirement System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report a separate section for deferred outflows and deferred inflows of resources. These separate financial statement elements, deferred outflows and inflows of resources, represent a consumption of net position that applies to a future period and so will not be recognized as an outflow/inflow of resources (expense/expenditure) until then.

NOTE 2 – DEPRECIATION FUND:

Pursuant to provisions of the Commonwealth's General Laws, cash in an amount equivalent to the annual depreciation expense is to be transferred from unrestricted funds to the depreciation fund. Interest earned on the balance of the fund must also remain in the fund. Such cash may be used for the cost of utility plant, nuclear decommissioning costs, costs of contractual commitments, and deferred costs related to such commitments which the Municipal Light Board determines are above market value.

NOTE 3 – RATE STABILIZATION FUND:

The Rate Stabilization Fund was created as an aftermath of the Massachusetts Electricity Restructuring Act of 1997. The fund is for unexpected escalation in costs, such as the decommissioning of nuclear power plants before the end of their operating license, unusual price spikes in fuel prices and transmission cost increases. The Rate Stabilization fund balance at December 31, 2017 and 2016 was \$4,153,103 and \$4,113,208, respectively. The balance in the fund is offset by a corresponding deferred inflow of resources for the accumulated provision of rate refund. These funds are commingled and deposited in external investment pools. The total amount of these external investment pools as of December 31, 2017 and 2016 was \$80,389,045 and \$75,376,417, respectively, of which SELCO - Electric's ownership was approximately 5.17% and 5.46%, respectively.

NOTE 4 – ALL REQUIREMENTS SELECT ENERGY TERMINATION TRUST FUND:

SELCO participated in MMWEC's "All Requirements" power supply program. In this program, MMWEC entered into bulk power purchase contracts and other arrangements to meet the power supply needs of its members as efficiently and economically as possible. One of the contracts that MMWEC entered into on behalf of the All Requirements participants was the "Select Energy Contract". With this contract, MMWEC received power and energy through a 50 megawatt contract with Select Energy. The Select Energy contract provided system power for a term that ran through 2011. During the third quarter of 2005, the contract with Select Energy was terminated.

TOWN OF SHREWSBURY, MASSACHUSETTS
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NOTE 4 – ALL REQUIREMENTS SELECT ENERGY TERMINATION TRUST FUND (Continued):

MMWEC on behalf of the ten All Requirements participants received \$82,000,000 in proceeds which they had deposited into a custodial account for the benefit of the All Requirements participants. There was an irrevocable trust “All Requirements Select Energy Termination Trust” that was established to protect the funds from creditors of both MMWEC and the participants. The funds were used to offset power costs for replacement of energy and capacity above the costs that would have been incurred with the Select contract. SELCO’s portion of the \$82,000,000 buy-out was \$26,568,000. During 2017, SELCO - Electric transferred the remaining balance of \$1,183,715 out of the fund to reduce purchased power costs. During 2016, SELCO - Electric transferred \$1,200,000 out of the fund to reduce purchased power costs. At December 31, 2017 and 2016 the balance in the fund was \$0 and \$1,179,332, respectively. These funds were commingled and deposited in external investment pools. The total amount of these external investment pools as of December 31, 2016 was \$7,923,857, of which SELCO - Electric’s ownership was approximately 14.87%.

NOTE 5 – PURCHASED POWER WORKING CAPITAL:

SELCO - Electric made an advance deposit to Massachusetts Municipal Wholesale Electric Company (MMWEC). MMWEC requires that they hold a set amount of capital from which it may pay power obligations when they are due. The funds are replenished as needed from the payments of monthly invoices. The balance in the fund as of December 31, 2017 and 2016 was \$1,393,441 and \$1,526,115, respectively.

NOTE 6 – CONCENTRATION OF CREDIT RISK:

SELCO - Electric's deposits with the Town Treasurer are commingled and invested with deposits from other Town funds. Accordingly, it is not practical to disclose the related bank balance and credit risk of such cash deposits for SELCO - Electric. Funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC). The amount of insurance coverage for the Light Department’s deposits is not determinable because the limits of insurance are computed on a Town-wide basis.

NOTE 7 – ACCOUNTS RECEIVABLE CUSTOMERS:

	<u>2017</u>	<u>2016</u>
Accounts Receivable Customers	\$ 2,615,960	\$ 2,342,772
Allowance for Doubtful Accounts	<u>(118,000)</u>	<u>(141,000)</u>
Accounts Receivable Customers, Net	<u>\$ 2,497,960</u>	<u>\$ 2,201,772</u>

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NOTE 8 – OTHER RECEIVABLES:

	2017	2016
Due from Town Departments	\$ 578,059	\$ 448,944
Due from MMWEC	93,588	200,956
SELCO - Cable	124,736	147,556
Liens	24,323	14,995
Merchandise & Jobbing Receivable	14,097	13,093
Other	2,147	63,889
	\$ 836,950	\$ 888,933

NOTE 9 – ENERGY CONSERVATION LOANS:

SELCO - Electric offers 0% interest energy conservation loans for residential and municipal customers. The loans are available for conversion of electric heating systems to energy efficient, non-electric heating systems or for other efficiency upgrades, such as installation of energy efficient replacement windows, solar panels, geothermal heating systems, or additional insulation. The maximum loan amount is \$10,000 for residential loans; municipal loan amounts are determined and approved on a case by case basis. The maximum repayment period is sixty months for residential loans and varies with each municipal loan. At December 31, 2017, SELCO - Electric had 42 Energy Conservations Loans Receivable totaling \$160,042. At December 31, 2016, SELCO - Electric had 33 Energy Conservations Loans Receivable totaling \$164,797.

NOTE 10 – INVESTMENTS IN ASSOCIATED COMPANIES:

Under agreements with the New England Hydro-Transmission Electric Company, Inc. (NEH) and the New England Hydro-Transmission Corporation (NHH), SELCO - Electric has funded its equity requirements for the Hydro-Quebec phase II interconnection. SELCO - Electric's ownership interest is less than one quarter of one percent in both projects. During 2017, SELCO - Electric made an additional capital contribution of \$40,700 to NEH. The securities are stated at cost. Fair market value approximates stated value.

NOTE 11 – NET INVESTMENT IN CAPITAL ASSETS:

	2017	2016
Cost of Capital Assets Acquired	\$ 69,760,415	\$ 67,294,490
Less: Accumulated Depreciation	(39,083,453)	(37,250,557)
Less: Outstanding Debt Related to Capital Assets	(5,100,000)	(5,505,000)
Net Investment in Capital Assets	\$ 25,576,962	\$ 24,538,933

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SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
NOTES TO FINANCIAL STATEMENTS
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NOTE 12 – PLANT ASSETS:

	Balance January 1, 2017	Increases	Decreases	Balance December 31, 2017
Capital Assets Not Being Depreciated:				
Land	\$ 139,292	\$ -	\$ -	\$ 139,292
Construction in Progress	10,728	30,335	-	41,063
Total	<u>150,020</u>	<u>30,335</u>	<u>-</u>	<u>180,355</u>
Capital Assets Being Depreciated:				
Production Plant	5,712,679	91,739	-	5,804,418
Transmission Plant	1,980,475	-	-	1,980,475
Distribution Plant	47,619,985	2,019,959	(36,932)	49,603,012
General Plant	11,831,331	505,330	(144,506)	12,192,155
Total	<u>67,144,470</u>	<u>2,617,028</u>	<u>(181,438)</u>	<u>69,580,060</u>
Less Accumulated Depreciation For:				
Production Plant	(3,502,499)	(105,102)	-	(3,607,601)
Transmission Plant	(59,263)	(59,414)	-	(118,677)
Distribution Plant	(24,638,219)	(1,272,826)	36,932	(25,874,113)
General Plant	(9,050,576)	(576,992)	144,506	(9,483,062)
Total Accumulated Depreciation	<u>(37,250,557)</u>	<u>(2,014,334)</u>	<u>181,438</u>	<u>(39,083,453)</u>
Capital Assets Being Depreciated, Net	<u>29,893,913</u>	<u>602,694</u>	<u>-</u>	<u>30,496,607</u>
Plant Assets, Net	<u>\$ 30,043,933</u>	<u>\$ 633,029</u>	<u>\$ -</u>	<u>\$ 30,676,962</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$2,014,334 and \$1,956,280, respectively. Depreciation expense reported on the Statements of Revenues, Expenses and Changes in Net Position is net of amortization of \$4,603 and \$1,557 related to contribution in aid of construction for the years ended December 31, 2017 and 2016, respectively.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
NOTES TO FINANCIAL STATEMENTS
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NOTE 13 – LONG TERM DEBT:

General Obligation Bonds:

	2017	2016
\$6,000,000 General Obligation Bond issued January 23, 2014; principal payments of \$300,000 due annually, beginning January 15, 2015 and maturing January 15, 2034. Interest is payable semiannually on January 15 and July 15, at rates starting at 3% and moving to 4%.	\$ 5,100,000	\$ 5,400,000
\$649,000 General Obligation Bond issued April 15, 2010; principal payments of \$105,000 due annually, beginning August 15, 2012 and maturing June 30, 2018. Interest is payable semiannually on February 15 and August 15, at rates starting at 3% and moving to 5%.	-	105,000
Total Debt	5,100,000	5,505,000
Less: Current Portion of Bonds Payable	300,000	405,000
Total Long-Term Debt	\$ 4,800,000	\$ 5,100,000

Maturities of Long-Term Debt are as Follows:

		Principal	Interest	Total
Year Ending December 31,	2018	\$ 300,000	\$ 150,600	\$ 450,600
	2019	300,000	141,600	441,600
	2020	300,000	135,600	435,600
	2021	300,000	129,600	429,600
	2022	300,000	122,850	422,850
	2023-2027	1,500,000	487,350	1,987,350
	2028-2032	1,500,000	238,500	1,738,500
	2033-2034	600,000	23,100	623,100
	Total	\$ 5,100,000	\$ 1,429,200	\$ 6,529,200

TOWN OF SHREWSBURY, MASSACHUSETTS
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NOTE 14 – PENSION PLAN:

Plan Description - SELCO - Electric, through the Town of Shrewsbury, is a member of the Shrewsbury Contributory Retirement System which, in turn, is a member of the Massachusetts Contributory Retirement System which is governed by M.G.L. c.32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The plan is a cost-sharing multiple-employer contributory defined benefit plan for all Town employees except those employees who are covered by teachers' retirement board. The Plan's separately issued financial statements can be obtained by contacting Shrewsbury Contributory Retirement System at 100 Maple Avenue, Shrewsbury, Massachusetts 01545.

Benefits Provided – The System provides retirement, disability and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of member's highest three-year average annual rate of regular compensation. For members who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are three classes of membership in the retirement system: Group 1, Group 2, and Group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, Group 4 consists of police officers, firefighters, and other hazardous positions.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service if hired after 1978 and if classified in group 1 or 2. A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with 10 years of service if in group 1, 55 years of age with 10 years of service if in group 2, and 55 years of age if classified in group 4 or hired prior to 1978. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions normal retirement is at age 55).

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors: including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status, and group classification. Employees who resign from state 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 contributions. 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 increase 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.

Contributions - Active members are required to contribute at rates from 5-9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired after 1978 contribute an additional 2% of annual pay above \$30,000.

TOWN OF SHREWSBURY, MASSACHUSETTS
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 14 – PENSION PLAN (continued):

SELCO - Electric is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the member units based on the actuarial study. The actuarially determined SELCO - Electric contribution is an amount, when combined with employee contributions, is expected to finance the cost of benefits earned by the employees during the year, with an additional amount to finance the unfunded liability. SELCO - Electric's required contributions to the System for the years ended December 31, 2017 and 2016 were \$647,207 and \$621,636, respectively, which were paid during calendar years 2016 and 2015, respectively.

Pension Liabilities - At December 31, 2017 and 2016, SELCO - Electric reported a liability of \$369,825 and \$1,219,554, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and 2015, respectively, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of January 1, 2017 and January 1, 2016, respectively. SELCO – Electric's portion of the net pension liability was based on the current employees, retirees, inactive participants and actual share of the net position to the entire System as of the measured date of December 31, 2016. SELCO - Electric's portion of the net pension liability was based on the percentage of SELCO –Electric's contributions to the total System contributions as of the measured date of December 31, 2016. At the measured date of December 31, 2016 and 2015, SELCO – Electric's portion was 1.96% and 5.84%, respectively.

Pension Income (Expense) - For the years ended December 31, 2017 and 2016, SELCO - Electric recognized a pension income (expense) of \$254,981 and \$107,493 respectively. For the years ended December 31, 2017 and 2016, SELCO - Electric reported deferred outflows of resources related to pensions of \$477,573 and \$956,431, respectively, consisting of the differences between expected and actual experience which amounted to \$52,860 and zero, respectively, differences between projected and actual investment earnings which amounted to \$67,848 and \$309,223, respectively, and the amount paid for contributions made subsequent to the measurement date which amounted to \$356,865 and \$647,208, respectively. For the years ended December 31, 2017 and 2016, SELCO - Electric reported deferred inflows of resources related to pensions of \$1,120,889 and \$1,361,864, respectively, consisting of the differences between expected and actual experience which amounted to \$41,175 and \$158,310, respectively, changes in assumptions which amounted to \$11,287 and \$43,398, respectively, and changes in proportion and differences between employer contributions and proportionate share of contributions which amounted to \$1,068,427 and \$1,160,156, respectively.

SELCO – Electric's net deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year Ended December 31:	2017	\$	(283,224)
	2018		(283,224)
	2019		(394,462)
	2020		(39,666)
	2021		<u>394</u>
	Total	\$	<u>(1,000,181)</u>

As discussed in the previous paragraph, deferred outflows of resources related to pensions as of December 31, 2017 was \$477,573, which includes \$356,865 of contributions made subsequent to the measurement date that does not get amortized.

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

NOTE 14 – PENSION PLAN (Continued):

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

Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	The Actuarial Value of Assets is the market value as reported by the Public Employees Retirement Administration Commission (PERAC).
Inflation Rate	Not explicitly assumed
Projected Salary Increases	3.5%, per year.
Cost of Living Allowance	3.0% of the lesser of the pension amount and \$12,000 per year.
Mortality Rates:	
Healthy Retirees	RP-2014 Blue Collar Mortality Table with Scale MP-2014.
Disabled Retirees	RP-2000 Mortality Table set forward two years for disabled members.
Investment Rate of Return	7.50% per year.

Investment Policy - The Plan's asset allocation policies are established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the Plan.

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 category 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. Best estimates of arithmetic real rates of return for each major asset class included in the pensions plan's target asset allocation as of the measured date of December 31, 2016 are summarized on the following page.

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NOTE 14 – PENSION PLAN (Continued):

Asset Class	Target Allocation	Long-Term Expected Rate of Return	Weighted Average
Domestic Equity	40%	7.00%	2.60%
Fixed Income	22.50%	2.40%	0.54%
Foreign Equity	17.50%	4.00%	0.65%
Real Estate	10%	7.10%	0.70%
Private Estate	6%	12.10%	0.67%
Hedge Funds	4%	2.70%	0.08%
	<u>100%</u>		

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from participating employers will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected 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 net pension liability calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Proportionate share of the Net Pension Liability	\$ 644,274	\$ 369,825	138,116

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued Shrewsbury Contributory Retirement System financial report.

NOTE 15 – RELATED PARTY TRANSACTIONS:

The Electric and Cable Operations are enterprise funds of the Town of Shrewsbury and are both under the management of the same Municipal Light Board.

Amounts due from SELCO - Cable consist of various payments by SELCO - Electric made on behalf of SELCO - Cable. Payments were for shared operating expenses.

In 2017 and 2016 SELCO - Electric paid the Town amounts of \$1,159,801 and \$1,214,355, respectively. Included in the 2017 and 2016 payments was a retirement funding payment in the amount of \$356,865 and \$647,208, respectively. Also, included in 2017 and 2016 payments was payment in lieu of taxes amount of \$240,936 and \$240,942, respectively.

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NOTE 15 – RELATED PARTY TRANSACTIONS (Continued):

At December 31, 2017 and 2016, the outstanding balances payable to the Town were \$140,034 and \$131,795, respectively.

In 2017 and 2016, SELCO - Electric received payments from the Town for municipal electric service in the amounts of \$1,326,286 and \$1,444,172, respectively. The outstanding electric customer receivable balances due from the Town at December 31, 2017 and 2016 were \$83,760 and \$80,543, respectively.

NOTE 16 – PAYMENT IN LIEU OF TAXES:

The SELCO Commission is responsible for determining the amount that the Light Department pays to the Town in lieu of taxes. The payment in lieu of taxes was \$240,936 and \$240,942 for the years ended December 31, 2017 and 2016, respectively.

NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS LIABILITY TRUST FUND:

The Other Postemployment Benefits Liability Trust Fund was established by vote of the Board of Light Commissioners on May 11, 2009. The Board voted to accept the provisions of MGL Chapter 32B, Section 20 which establishes a separate Fund and a funding schedule for the Fund. The schedule and any future updates shall be designed, consistent with standards issued by the Governmental Accounting Standards Board, to reduce the unfunded actuarial liability of health care and other postemployment benefits to zero as of an actuarially acceptable period of years and to meet the normal cost of all future benefits for which the government unit is obligated. The SELCO - Electric Fund is held under the custodianship of the Treasurer of the Town of Shrewsbury. The balance in the Trust as of December 31, 2017 and 2016 was \$1,415,227 and \$1,263,138, respectively.

The Trust implemented Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, which provides a definition of fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below.

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS LIABILITY TRUST FUND (Continued):

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

- Mutual Funds:
 Valued at closing price as reported on the active market on which the individual funds are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although SELCO - Electric OPEB Trust Fund's management believes its valuations methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth, by level within the fair value hierarchy, SELCO - Electric's OPEB Trust Fund investments at fair value at December 31, 2017 and 2016. As of December 31, 2017 and 2016, SELCO – Electric OPEB Trust Fund did not have any investments that were measured using Level 2 or Level 3 inputs.

	December 31, 2017 Quoted Prices in Active Markets for Identical Assets (All Level 1)	December 31, 2016 Quoted Prices in Active Markets for Identical Assets (All Level 1)
<u>FMV Investments:</u>		
Mutual Funds	\$ 1,415,227	\$ 1,257,408
<u>Other Securities:</u>		
Money Market	-	5,730
 Total	 <u>\$ 1,415,227</u>	 <u>\$ 1,263,138</u>

As of December 31, 2017 and 2016, there were no investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represents 5% or more of total investments.

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 NOTES TO FINANCIAL STATEMENTS
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NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS LIABILITY TRUST FUND (Continued):

The Trust has adopted GASB 74 for the year ending December 31, 2017, which introduces a new actuarial cost method and discount rate as well as new disclosures and methodologies for reporting plan liabilities and OPEB expenses.

The following disclosures have been provided by the Actuary at the Plan Level.

Plan Administration:

The Town of Shrewsbury administers the retiree health care benefits program-a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees.

Plan Membership:

At June 30, 2017, OPEB plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits payments	648
Active plan members	<u>1,012</u>
	<u><u>1,660</u></u>

Benefits provided:

The Town provides health care benefits for retirees and their dependents. Benefits are provided through the Harvard Pilgrim, Fallon, Blue Cross Blue Shield and Tufts, and the full cost of benefits is shared between the Town and retirees.

Contributions:

The Town annual contributes an actuarially determined contribution based on the results of the most recent actuarial valuation.

Investment Policy:

The Governmental Unit’s Treasurer is the custodian of the fund or in the case of the light plant, an officer designated by the board. Investment of funds monies by the custodian must be consistent with the prudent person standard as set forth in the Massachusetts General Law Chapter 203C for private trust funds. Interest earned on the investment of fund monies belongs to the fund.

Rate of Return:

For the year ended December 31, 2017, the annual money weighted rate of return (which expresses investment performance), net of investment expense was not provided.

Net OPEB Liability of the Plan:

The components of the net OPEB liability at June 30, 2017, were as follows:

Total OPEB Liability	\$ 48,107,891
Fiduciary Net Position	<u>(3,292,451)</u>
Net OPEB Liability	<u><u>\$ 44,815,440</u></u>

Fiduciary net position as a percentage of the total OPEB liability was 6.8%.

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NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS LIABILITY TRUST FUND (Continued):

Actuarial Assumptions:

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following assumptions, applied to all periods included in the measurement:

Inflation	3%
Investment rate of return	7.50%, net of investment expenses
Healthcare cost trend rate	5% for 2016, decreasing .5% per year to an ultimate rate of 4.5%.
Pre-Retirement Mortality- All Groups	RP-2014 Blue Collar Mortality Table, with scale MP-2015, fully generational.
Post-Retirement Mortality- Group 1 and 2	RP-2014 Blue Collar Mortality Table, set forward 5 years for males and 3 years for females fully generational, fully generational.
Group 4	RP-2014 Blue Collar Mortality Table, set forward 3 years for males and 6 years for females fully generational, fully generational.

The actuarial assumptions used in July 1, 2016 valuation were based on the results of an actuarial experience study for the period of December 2014.

The long-term expected rate of return on OPEB plan investments was not provided.

Discount Rate:

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made in accordance with the Plan’s funding policy. Based on those assumptions, the OPEB Plan’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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate- The following presents the net OPEB liability calculated using the discount rate of 7.50%, as well as what the net OPEB liability would be if it were calculated using a discount rate 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net OPEB Liability	\$ 51,209,273	\$ 44,815,440	\$ 39,542,471

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NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS LIABILITY TRUST FUND (Continued):

Sensitivity of the Net Pension Liability to Changes in the Healthcare Cost Trend Rates- The following presents the net OPEB liability calculated using current healthcare cost trend rates as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (6% year 1 decreasing to 4%) or 1-percentage point higher (8% year 1 decreasing to 6%) than the current healthcare cost trend rates:

	1% Decrease 6% Year 1 <u>Decreasing to 4%</u>	Current Healthcare Cost Trend Rates 7% Year 1 <u>Decreasing to 5%</u>	1% Increase 8% Year 1 <u>Decreasing to 6%</u>
Net OPEB Liability	\$ 38,502,700	\$ 44,815,440	\$ 52,685,354

NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS (OPEB):

The Town of Shrewsbury provides medical benefits and life insurance to its retirees. SELCO - Electric recognizes its share of the actuarially determined liability for that benefit as required by GASB Statement 45, *Accounting for Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. As allowed by GASB 45, the Department has applied the measurement recognition requirements of GASB 45 on a prospective basis.

At June 30, 2016, SELCO - Electric’s membership in the plan consisted of the following:

Current retirees, beneficiaries, and dependents	36
Current active employees	34
Total	70

Funding Policy

SELCO - Electric funds the cost of providing benefits on a full prefunding basis by expensing the annual insurance premiums charged to the SELCO - Electric by the Town of Shrewsbury, which aggregated approximately \$486,875 and \$455,101 for the years ending December 31, 2017 and 2016, respectively. Retired plan members and beneficiaries currently receiving benefits are required to contribute a variable portion for their post-retirement medical costs and any costs exceeding \$4.24 per month for life insurance. The Town has established a Trust to accept funding for OPEB liabilities.

Annual OPEB Costs and Net Obligation

SELCO - Electric's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of generally accepted accounting standards. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period of thirty years.

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NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

The components of SELCO - Electric's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in SELCO - Electric's net OPEB obligation are summarized in the following table:

	2017	2016
Annual required contribution	\$ 216,267	\$ 207,758
Contributions Made	(103,742)	(195,696)
Decrease in net OPEB Obligation	112,525	12,062
Transfer to OPEB Trust Fund	(9,500)	(9,500)
Change in net OPEB Obligation	103,025	2,562
Net OPEB Obligation (Asset) - beginning of year	(504,341)	(506,903)
Net OPEB Obligation (Asset) - end of year	\$ (401,316)	\$ (504,341)

SELCO Electric's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for 2017 and the preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Percentage of Annual Cost Contributed	Net OPEB Asset
12/31/2015	\$ 172,235	\$ 142,182	82.55%	\$ (506,903)
12/31/2016	\$ 239,247	\$ 236,685	98.93%	\$ (504,341)
12/31/2017	\$ 257,837	\$ 154,813	60.00%	\$ (401,316)

Funding Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as supplemental information, presents trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

The funded status is as follows:

	<u>2017</u>	<u>2016</u>
Actuarial accrued liability (AAL)	\$ 2,417,164	\$ 2,417,164
Actuarial value of plan assets	<u>(1,415,227)</u>	<u>(1,263,138)</u>
Unfunded actuarial accrued liability	<u>\$ 1,001,937</u>	<u>\$ 1,154,026</u>
Funded ratio (actuarial value of plan assets/AAL)	58.54%	52.26%
Covered payroll (active plan members)	\$ 3,301,733	\$ 3,150,508
UAAL as a percentage of covered payroll	30.34%	36.63%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the department and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial liabilities were determined using the projected unit credit cost method. The actuarial methods and assumptions included a 7.5% rate of return and an annual health care cost rate trend based on projected per capita health claims costs for specific age groups as a result of factors such as medical inflation, utilization of healthcare services, plan design and technological developments. Expected cost increases related to age ranged from 3.7% for ages 60 to 64 reduced to 0% for age 80 and over. Both rates included a 4.0% general inflation assumption. The UAAL is being amortized over 30 years at transition and is assumed to increase annually by 4.0%. The remaining amortization period at December 31, 2017, was 20 years.

NOTE 19 – REFUND OF EXCESS PROJECT FUNDS:

SELCO - Electric receives annually from Massachusetts Municipal Wholesale Electric Company, (MMWEC), excess project funds as a result of its participation in certain MMWEC power projects. Funds received in 2017 and 2016 were \$1,567,324 and \$375,614, respectively, and are included in income as a reduction of purchased power costs.

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NOTE 20 – RISK MANAGEMENT:

Self-Insurance Trust

SELCO - Electric participates in Mass Municipal Self Insurance Trust (the Trust) with 17 other municipal light departments for the purpose of sharing general and environmental liability risks. Through the Trust, SELCO - Electric is insured for \$500,000 per occurrence, with a \$50,000 deductible that would be paid by the Department. Environmental insurance coverage provides for \$1,500,000 per occurrence, with a \$100,000 deductible that would be paid by both SELCO - Electric and the Trust. Each participating light department contributes to the Trust based on its share of the group's total kilowatt-hour sales. Payments for claims over the deductible limit are funded by Trust assets, or, if required, additional contributions from the participants.

Generally accepted accounting principles requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At December 31, 2017 and 2016, SELCO - Electric considers its' pro rata share of these losses to be immaterial to its financial statements.

NOTE 21 – COMMITMENTS AND CONTINGENCIES:

Power Sales Agreements:

The Town of Shrewsbury acting through SELCO - Electric is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

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

In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

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

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NOTE 21 – COMMITMENTS AND CONTINGENCIES (Continued):

Power Sales Agreements (continued):

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

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

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

Shrewsbury Electric and Cable Operations has entered into PSAs and PPAs with MMWEC. Under both the PSAs and PPAs, SELCO - Electric is required to make certain payments to MMWEC payable solely from SELCO – Electric’s revenues. Under the PSAs, each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

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

As of December 31, 2017 total capital expenditures amounted to \$1,583,481,000, of which \$75,324,000 represents the amount associated with SELCO – Electric’s Project Capability. MMWEC’s debt outstanding for the Projects from Power Supply System Revenue Bonds totals \$10,680,000, of which \$562,000 is associated with SELCO – Electric’s share of Project Capability. As of December 31, 2017, MMWEC’s total future debt service requirement on outstanding bonds issued for the Projects is \$11,425,000, of which \$604,000 is anticipated to be billed to SELCO - Electric in the future.

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

		<u>Annual Costs</u>
For the years ended December 31,	2018	\$ 200,000
	2019	<u>404,000</u>
		<u>\$ 604,000</u>

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
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DECEMBER 31, 2017 AND 2016

NOTE 21 – COMMITMENTS AND CONTINGENCIES (Continued):

Power Sales Agreements (continued):

In addition, under the PSAs, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs were \$4,931,000 and \$7,356,000 for the years ended December 31, 2017 and 2016, respectively.

Other Power Supply:

The Department has entered into a Service Agreement with MMWEC, under which MMWEC performs bulk power supply services to the Department, including services related to owned generation, purchased power contracts or other power supply arrangements.

Under the terms of the Service Agreement, the Department is committed to purchase additional power through MMWEC in the amount of \$5,685,154 in 2018, \$3,479,865 in 2019, \$3,052,640 in 2020, and \$939,203 in 2021.

Berkshire Wind Cooperative Corporation

The Shrewsbury Electric & Cable Operations (Department), is a Member of the Berkshire Wind Cooperative Corporation (Cooperative).

The Cooperative is organized under Chapters 157 and 164: Section 47C of the State of Massachusetts Statutes and constitutes a municipal lighting plant cooperative. The Cooperative was formed by Massachusetts Municipal Wholesale Electric Company (MMWEC) and 14 Municipal Light Departments (Members) for the purpose of financing, owning, constructing and operating wind generation facilities located on Brodie Mountain in the towns of Hancock and Lanesborough, Massachusetts (Berkshire Wind Facility).

The Cooperative has constructed and installed 10 1.5-megawatt wind turbines at the Berkshire Wind Facility. The Cooperative provides wind energy to MMWEC pursuant to the Berkshire Wind Power Purchase Agreement dated May 21, 2008 between MMWEC and the Cooperative. Under this agreement, MMWEC entered into a Power Sales Contract with the Cooperative pursuant to which MMWEC has agreed to purchase 100% of the capacity and energy output and, to the extent uncommitted to any third party under existing agreements, associated environmental energy attributes of a wind power generating facility to be owned, constructed and operated by the Cooperative at the Berkshire Wind Facility.

MMWEC sells all of the capability of the Berkshire Wind Facility (Capability) to the Members of the Cooperative (Members) under Power Purchase Agreements (PPAs). Among other things, the PPAs require each Cooperative Member to pay its pro rata share of the costs related to the Berkshire Wind Facility, which costs include debt service on the bonds issued by the Cooperative to finance the Berkshire Wind Facility, plus 10% of the debt service to be paid into a Reserve and Contingency Fund. In addition, should a Cooperative Member fail to make any payment when due, other Cooperative Members may be required to increase (step-up) their payments and correspondingly their share of the Capability to an additional amount.

The Cooperative has issued revenue bonds, which are payable solely from, and secured solely by, the revenues derived from the Berkshire Wind Facility. The revenues are used solely to provide for the payment of any bond issue relating to the Berkshire Wind Facility and to pay the Cooperative's cost of owning and operating the Berkshire Wind Facility.

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
 NOTES TO FINANCIAL STATEMENTS
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NOTE 21 – COMMITMENTS AND CONTINGENCIES (Continued):

Berkshire Wind Cooperative Corporation (continued):

The Shrewsbury Electric & Cable Operations has entered into a PPA with the Berkshire Wind Cooperative Corporation. Under the PPA, the Department is required to make certain payments to the Cooperative. Under the PPA, each Participant is unconditionally obligated to make all payments due to the Berkshire Wind Cooperative Corporation, whether or not the Berkshire Wind Facility is completed or operating, and notwithstanding the suspension or interruption of the output of the Berkshire Wind Facility. In addition, under the PPA, the Department is required to pay to the Cooperative its share of the Operation and Maintenance (O&M) costs of the Berkshire Wind Facility.

As of December 31, 2017, total capital expenditures for the Berkshire Wind Facility amounted to \$59,256,145, of which \$7,536,000, presents the amount associated with the Department’s share of the Capability of the Berkshire Wind Facility of which it is Member, although such amount is not allocated to the Department. The Cooperative’s debt outstanding for the Berkshire Wind Facility includes bonds totaling \$46,000,000 of which \$5,850,000 is associated with the Department’s share of Capability of the Berkshire Wind Facility of which it is a Member, although such amount is not allocated to the Department. As of December 31, 2017, the Cooperative’s total future debt service requirement on outstanding bonds issued for the Projects is \$62,399,000, of which \$7,936,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of the Shrewsbury Electric & Cable Operations required payments under the PSA, exclusive of the Reserve and Contingency Fund billings, to the Cooperative at December 31, 2017 and estimated for future years is shown below.

For the Years Ending December 31,	2018	\$	649,000
	2019		642,000
	2020		607,000
	2021		606,000
	2022		606,000
	2023-2027		3,021,000
	2028-2030		<u>1,805,000</u>
	Total	\$	<u>7,936,000</u>

NOTE 22 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS:

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, is required to be implemented for periods beginning after June 15, 2017. SELCO - Electric is currently evaluating the effect this pronouncement will have on the basic financial statements.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
SCHEDULES OF ELECTRIC OPERATING REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
SALES OF ELECTRICITY			
SALES TO PRIVATE CUSTOMERS:			
Residential Sales	\$ 14,600,445	\$ 15,660,421	\$ (1,059,976)
Commercial Sales	3,107,217	3,199,267	(92,050)
General Service Sales	10,516,495	11,612,850	(1,096,355)
Green Power Sales	<u>8,212</u>	<u>8,700</u>	<u>(488)</u>
 TOTAL PRIVATE CUSTOMERS	 <u>28,232,369</u>	 <u>30,481,238</u>	 <u>(2,248,869)</u>
MUNICIPAL SALES:			
Street Lighting	168,847	154,641	14,206
Lighting Municipal Buildings	<u>1,157,439</u>	<u>1,289,531</u>	<u>(132,092)</u>
 TOTAL MUNICIPAL SALES	 <u>1,326,286</u>	 <u>1,444,172</u>	 <u>(117,886)</u>
 TOTAL SALES OF ELECTRICITY	 <u><u>29,558,655</u></u>	 <u><u>31,925,410</u></u>	 <u><u>(2,366,755)</u></u>
 OTHER ELECTRIC REVENUES	 <u>241,421</u>	 <u>234,945</u>	 <u>6,476</u>
 TOTAL OPERATING REVENUE	 <u><u>\$ 29,800,076</u></u>	 <u><u>\$ 32,160,355</u></u>	 <u><u>\$ (2,360,279)</u></u>

See Independent Auditors' Report

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	<u>2017</u>			<u>2016</u>			Increase (Decrease)
	Total	Operations	Maintenance	Total	Operations	Maintenance	
<u>Power Generation Expenses:</u>							
547 Fuel	\$ 91,289	\$ 91,289	\$ -	\$ 48,604	\$ 48,604	\$ -	\$ 42,685
548 Generation expense	64,933	64,933	-	34,643	34,643	-	30,290
553 Maintenance of generating and electric plant	51,553	-	51,553	46,192	-	46,192	5,361
<u>Total Power Generation Expenses</u>	<u>207,775</u>	<u>156,222</u>	<u>51,553</u>	<u>129,439</u>	<u>83,247</u>	<u>46,192</u>	<u>78,336</u>
<u>Power Production Expenses:</u>							
555 Purchased Power	16,115,909	16,115,909	-	18,128,148	18,128,148	-	(2,012,239)
557 Other expenses	445,028	445,028	-	368,646	368,646	-	76,382
<u>Total Power Production Expenses</u>	<u>16,560,937</u>	<u>16,560,937</u>	<u>-</u>	<u>18,496,794</u>	<u>18,496,794</u>	<u>-</u>	<u>(1,935,857)</u>
<u>Transmission Expenses:</u>							
565 Transmission of electricity by others	4,694,467	4,694,467	-	4,783,788	4,783,788	-	(89,321)
<u>Total Transmission Expenses</u>	<u>4,694,467</u>	<u>4,694,467</u>	<u>-</u>	<u>4,783,788</u>	<u>4,783,788</u>	<u>-</u>	<u>(89,321)</u>
<u>Distribution Expenses:</u>							
580 Operation supervision and engineering	219,999	219,999	-	174,091	174,091	-	45,908
582 Station expenses	4,184	4,184	-	5,163	5,163	-	(979)
583 Overhead line expenses	50,697	50,697	-	45,849	45,849	-	4,848
586 Meter expenses	43,408	43,408	-	43,306	43,306	-	102
587 Customer installation expenses	18,695	18,695	-	14,271	14,271	-	4,424
588 Miscellaneous distribution expenses	135,281	135,281	-	139,640	139,640	-	(4,359)
590 Maintenance supervision and engineering	65,621	-	65,621	63,545	-	63,545	2,076
591 Maintenance of structures	43,391	-	43,391	33,980	-	33,980	9,411
592 Maintenance of station equipment	356,367	-	356,367	340,956	-	340,956	15,411
593 Maintenance of overhead lines	694,631	-	694,631	781,256	-	781,256	(86,625)
594 Maintenance of underground lines	35,440	-	35,440	16,778	-	16,778	18,662
595 Maintenance of line transformers	60,979	-	60,979	37,547	-	37,547	23,432
596 Maintenance of street lighting and signal systems	88,256	-	88,256	79,029	-	79,029	9,227
<u>Total Distribution Expenses</u>	<u>1,816,949</u>	<u>472,264</u>	<u>1,344,685</u>	<u>1,775,411</u>	<u>422,320</u>	<u>1,353,091</u>	<u>41,538</u>
<u>Totals To Be Forwarded</u>	<u>\$ 23,280,128</u>	<u>\$ 21,883,890</u>	<u>\$ 1,396,238</u>	<u>\$ 25,185,432</u>	<u>\$ 23,786,149</u>	<u>\$ 1,399,283</u>	<u>\$ (1,905,304)</u>

See Independent Auditors' Report

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	<u>2017</u>			<u>2016</u>			Increase (Decrease)
	Total	Operation	Maintenance	Total	Operation	Maintenance	
<u>Total Forwarded</u>	<u>\$ 23,280,128</u>	<u>\$ 21,883,890</u>	<u>\$ 1,396,238</u>	<u>\$ 25,185,432</u>	<u>\$ 23,786,149</u>	<u>\$ 1,399,283</u>	<u>\$ (1,905,304)</u>
<u>Customer Account Expense:</u>							
902 Meter reading labor and expenses	39,717	39,717	-	39,406	39,406	-	311
903 Accounting and collecting labor and expenses	353,259	353,259	-	340,350	340,350	-	12,909
904 Uncollectible accounts	25,571	25,571	-	84,098	84,098	-	(58,527)
<u>Total Customer Account Expense</u>	<u>418,547</u>	<u>418,547</u>	<u>-</u>	<u>463,854</u>	<u>463,854</u>	<u>-</u>	<u>(45,307)</u>
<u>Sales Expenses:</u>							
912 Demonstrating and selling expense	151,618	151,618	-	186,598	186,598	-	(34,980)
<u>Administrative and General Expenses:</u>							
920 Administrative and general salaries	418,255	418,255	-	351,298	351,298	-	66,957
921 Office supplies and expense	117,599	117,599	-	121,640	121,640	-	(4,041)
923 Outside services employed	99,151	99,151	-	57,709	57,709	-	41,442
924 Property insurance	182,804	182,804	-	176,450	176,450	-	6,354
925 Injuries and damages	29,413	29,413	-	27,986	27,986	-	1,427
926 Employee pensions and benefits	404,954	404,954	-	408,011	408,011	-	(3,057)
930 Miscellaneous general expense	113,566	113,566	-	122,958	122,958	-	(9,392)
932 Maintenance of general plant	145,696	-	145,696	129,027	-	129,027	16,669
<u>Total Administrative and General Expenses</u>	<u>1,511,438</u>	<u>1,365,742</u>	<u>145,696</u>	<u>1,395,079</u>	<u>1,266,052</u>	<u>129,027</u>	<u>116,359</u>
<u>Total Operation and Maintenance Expenses</u>	<u>\$ 25,361,731</u>	<u>\$ 23,819,797</u>	<u>\$ 1,541,934</u>	<u>\$ 27,230,963</u>	<u>\$ 25,702,653</u>	<u>\$ 1,528,310</u>	<u>\$ (1,869,232)</u>

See Independent Auditors' Report

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
SCHEDULES OF KILOWATT HOURS SOLD
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	2017	2016	Increase (Decrease)
Kilowatt Hours Sold:			
Private Consumers:			
Residential	130,511,265	131,146,287	(635,022)
Commercial	25,373,749	24,508,498	865,251
General Service Sales	103,778,307	107,041,779	(3,263,472)
Private Lighting	1,419,024	1,374,845	44,179
Municipal Use:			
Street Lighting	1,570,071	1,567,548	2,523
Government	10,829,548	11,302,789	(473,241)
Total Kilowatt Hours Sold	273,481,964	276,941,746	(3,459,782)
Kilowatt Hours Used by Department:			
In Plant and Offices	1,296,442	1,319,715	(23,273)
Total Kilowatt Hours Accounted For	274,778,406	278,261,461	(3,483,055)
Total Kilowatt Hours Generated	701,813	314,398	387,415
Total Kilowatt Hours Purchased	290,043,937	292,962,143	(2,918,206)
Total Kilowatt Hours Generated and Purchased	290,745,750	293,276,541	(2,530,791)
Total Kilowatt Hours Unaccounted For	15,967,344	15,015,080	952,264
Ratio of Unaccounted For Kilowatt Hours (%)	5.49%	5.12%	

See Independent Auditors' Report

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
 REQUIRED SUPPLEMENTARY INFORMATION
 OTHER POSTEMPLOYMENT BENEFITS

OPERATING FUND

Schedule of Funding Progress- Other Postemployment Benefits

Actuarial Valuation Date	For the Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Payroll
6/30/2008	12/31/2008	\$ -	\$ 3,780,778	\$ 3,780,778	0.00%	\$ 2,507,339	150.79%
6/30/2008	12/31/2009	\$ -	\$ 3,900,009	\$ 3,900,009	0.00%	\$ 2,419,793	161.17%
6/30/2010	12/31/2010	\$ -	\$ 3,491,465	\$ 3,491,465	0.00%	\$ 2,493,569	140.02%
6/30/2010	12/31/2011	\$ 730,107	\$ 3,585,640	\$ 2,855,533	20.36%	\$ 2,693,013	106.03%
6/30/2012	12/31/2012	\$ 993,694	\$ 2,367,001	\$ 1,373,307	41.98%	\$ 2,669,154	51.45%
6/30/2012	12/31/2013	\$ 1,068,807	\$ 2,446,353	\$ 1,377,546	43.69%	\$ 2,744,441	50.19%
6/30/2014	12/31/2014	\$ 1,098,438	\$ 2,075,537	\$ 977,099	52.92%	\$ 2,736,400	35.71%
6/30/2014	12/31/2015	\$ 1,182,632	\$ 2,155,404	\$ 972,772	54.87%	\$ 3,123,939	31.14%
6/30/2016	12/31/2016	\$ 1,263,138	\$ 2,417,164	\$ 1,154,026	52.26%	\$ 3,150,508	36.63%
6/30/2016	12/31/2017	\$ 1,415,227	\$ 2,417,164	\$ 1,001,937	58.55%	\$ 3,301,733	30.35%

Schedule of Actuarial Methods and Assumptions

Actuarial methods:	
Valuation date	6/30/2016
Actuarial cost method	Projected Unit Credit and Assets at Market Value
Amortization method	Assumed to increase annually by 4%
Remaining amortization period	20 years as of December 31, 2017

Actuarial assumptions:	
Investment rate of return	7.50%
Inflation rate	5.00%
Projected salary increases	4.50%
Medical/drug cost trend rate	Age-based per capita cost increases ranging from 3.7% to 0%

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
 REQUIRED SUPPLEMENTARY INFORMATION
 NET PENSION LIABILITY

OPERATING FUND

Schedule of SELCO - Electric's Proportionate Share of the Net Pension Liability (NPL)

Actuarial Valuation Date	Measurement Date	For the Year Ending	SELCO - Electric's Portion of the NPL	SELCO - Electric's Proportionate Share of the NPL	SELCO - Electric's Total Employee Payroll	NPL as a Percentage of Total Employee Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability
1/1/2014	12/31/2014	12/31/2015	13.46%	\$ 2,898,886	\$ 3,123,939	92.80%	81.86%
1/1/2016	12/31/2015	12/31/2016	5.84%	\$ 1,219,554	\$ 3,150,508	38.71%	82.46%
1/1/2017	12/31/2016	12/31/2017	1.96%	\$ 369,825	\$ 3,301,733	11.20%	77.10%

Schedule of Contributions

Actuarial Valuation Date	Measurement Date	For the Year Ending	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	SELCO - Electric's Total Employee Payroll	Contribution as a Percentage of SELCO - Electric's Total Employee Payroll
1/1/2014	12/31/2014	12/31/2015	\$ 739,045	\$ 739,045	\$ -	\$ 3,123,939	23.66%
1/1/2016	12/31/2015	12/31/2016	\$ 621,636	\$ 621,636	\$ -	\$ 3,150,508	19.73%
1/1/2017	12/31/2016	12/31/2017	\$ 647,207	\$ 647,207	\$ -	\$ 3,301,733	19.60%

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

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

	2017
Total OPEB Liability:	
Service Cost	\$ 1,543,475
Interest	3,438,194
Changes of Benefit Terms	-
Differences between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments	(2,304,138)
Net Change in Total OPEB Liability	2,677,531
Total OPEB Liability - Beginning	45,430,360
Total OPEB Liability - Ending	\$ 48,107,891
Plan Fiduciary Net Position:	
Contributions-Employer	\$ 2,391,572
Net Investment Income	132,319
Benefit Payments	(2,059,702)
Administrative Expenses	-
Other	-
Net Change in Plan Fiduciary Net Position	464,189
Plan Fiduciary Net Position - Beginning	2,828,262
Plan Fiduciary Net Position - Ending	\$ 3,292,451
Net OPEB Liability - Ending	\$ 44,815,440
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	6.84%
Covered Payroll	\$ 67,279,575
Net OPEB Liability as a Percentage of Covered Payroll	66.61%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, OPEB plans should present information for those years for which information is available.

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF OPEB EMPLOYER CONTRIBUTIONS

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

For Fiscal Year Ended June 30	2017
Actuarially Determined Contributions	\$ 2,391,572
Contributions in relation to the actuarially determined contribution	(2,636,008)
Contribution Deficiency (Excess)	\$ (244,436)
Covered Payroll	\$ 67,279,575
Contributions as a percentage of covered payroll	3.92%

Notes to Schedule

Valuation Date:

Actuarially determined contributions are determined as of July 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used in calculations of actuarially determined contributions:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Increasing at 4% over 30 years on a closed amortization period
Amortization Period	30 years
Asset Valuation Method	Market Value
Inflation	3%
Healthcare Cost Trend Rates	5% for 2016, decreasing .5% per year to an ultimate rate of 4.5%.
Investment Rate of Return	7.5%, net of OPEB plan investment expense, including inflation

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, OPEB plans should present information for those years for which information is available.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF INVESTMENT RETURNS

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

Annual Money-Weighted Rate of Return, net of investment expenses information not available.

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, OPEB plans should present information for those years for which information is available.