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CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

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Independent Auditors' Report



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Independent Auditors' Report

To the Board of Directors and Members
Connecticut Municipal Electric Energy Cooperative

Report on the Financial Statements

We have audited the accompanying financial statements of the Connecticut Municipal Electric Energy Cooperative as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Connecticut Municipal Electric Energy Cooperative'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the 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 Connecticut Municipal Electric Energy Cooperative as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Principles of Accounting

As discussed in Note 2 to the financial statements, during the year, management decided it was more appropriate to follow principles of accounting issued by the Governmental Accounting Standards Board rather than the Financial Accounting Standards Board. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Connecticut Municipal Electric Energy Cooperative's basic financial statements.

The combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Required Supplementary Information

Management has omitted the management's discussion and analysis for the year ended December 31, 2015 that accounting principles generally accepted in the United States of America require to 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2016 on our consideration of Connecticut Municipal Electric Energy Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Connecticut Municipal Electric Energy Cooperative's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
March 15, 2016

**Basic
Financial
Statements**

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

STATEMENTS OF NET POSITION

DECEMBER 31, 2015 AND 2014

(In Thousands)

	<u>2015</u>	<u>2014</u>
ASSETS		
Utility Plant and Property		
Land	\$ 60	\$ 60
Intangible plant and property in service	861	861
General plant in service	146,058	145,639
Construction work in progress	919	501
	<u>147,898</u>	<u>147,061</u>
Less accumulated depreciation and amortization	47,701	43,758
Net utility plant and property	<u>100,197</u>	<u>103,303</u>
Investment in Hydro Quebec	<u>107</u>	<u>107</u>
Investment in Energy New England	<u>709</u>	<u>699</u>
Special Funds		
Debt service funds	14,900	15,095
Conservation and load management fund	1,648	1,940
Economic development fund	2,004	1,938
Municipal Competitive Trust	14,735	14,444
Total special funds	<u>33,287</u>	<u>33,417</u>
Current Assets		
Cash and cash equivalents	44,761	28,084
General reserve fund	3,823	1,399
Deposit for current debt service	8,849	8,866
Accounts receivable	8,048	8,582
Accounts receivable from related parties	15,764	18,389
Grants receivable	-	864
Inventories	3,913	3,188
Other current assets	7,061	3,976
Total current assets	<u>92,219</u>	<u>73,348</u>
Other Assets		
Bond costs to be recovered from future billings	<u>7,400</u>	<u>9,146</u>
Total Assets	<u>\$ 233,919</u>	<u>\$ 220,020</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

STATEMENTS OF NET POSITION (CONTINUED)

DECEMBER 31, 2015 AND 2014

(In Thousands)

	<u>2015</u>	<u>2014</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Current portion of long-term debt	\$ 6,275	\$ 6,225
Accounts payable	14,950	20,765
Accrued liabilities	7,641	2,056
Accrued interest on long-term debt	2,598	2,641
Total current liabilities	<u>31,464</u>	<u>31,687</u>
Other Liabilities	<u>1,689</u>	<u>1,905</u>
Long-Term Liabilities		
Line of credit	15,000	-
Long-term debt, net of current portion	117,137	124,759
Total long-term liabilities	<u>132,137</u>	<u>124,759</u>
Total liabilities	<u>165,290</u>	<u>158,351</u>
Rate Stabilization Funds	<u>18,142</u>	<u>11,152</u>
Conservation and Load Management Fund	<u>1,648</u>	<u>1,940</u>
Economic Development Fund	<u>2,004</u>	<u>1,938</u>
Municipal Competitive Trust	<u>14,735</u>	<u>14,444</u>
Asset Management Reserve Deferral	<u>3,924</u>	<u>3,924</u>
Net Position		
Net investment in capital assets	(4,575)	(10,045)
Unrestricted	32,751	38,316
Total net position	<u>28,176</u>	<u>28,271</u>
Total Liabilities and Net Position	<u>\$ 233,919</u>	<u>\$ 220,020</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In Thousands)

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Electric power supply revenues	\$ 173,804	\$ 125,027
Electric transmission revenues	15,461	11,802
Uses of (additions to) rate stabilization funds and other	(7,050)	4,562
Total operating revenues	<u>182,215</u>	<u>141,391</u>
Operating Expenses		
Purchased power and generation costs	155,968	114,337
Transmission costs	8,633	10,514
Administrative and general	4,251	3,749
Depreciation and amortization	4,003	3,809
Total operating expenses	<u>172,855</u>	<u>132,409</u>
Net Operating Income	<u>9,360</u>	<u>8,982</u>
Other Income (Expense)		
Interest and investment income	289	110
Interest expense	(5,462)	(4,343)
Amortization of debt discount and premium, issuance expense and loss on reacquisition of debt	1,258	(1,508)
Other income (expense)	444	(333)
Other amortization	-	(259)
Grant revenues	-	4,587
Grant expenditures	-	(4,587)
Change in fair value of hedges	-	29
Net other expense	<u>(3,471)</u>	<u>(6,304)</u>
Change in Bond Expenses to be Recovered from Future Billings	<u>(2,192)</u>	<u>(723)</u>
Net Income	3,697	1,955
Excess Equity Distribution to Members	<u>(3,792)</u>	<u>(5,700)</u>
Change in Net Position	(95)	(3,745)
Net Position at Beginning of Year	<u>28,271</u>	<u>32,016</u>
Net Position at End of Year	<u>\$ 28,176</u>	<u>\$ 28,271</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In Thousands)

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 190,074	\$ 144,763
Cash paid to suppliers:		
Fuel and purchased power	(156,693)	(114,267)
Transmission costs	(8,633)	(10,514)
Operations and maintenance	(4,774)	1,110
Cash paid to employees:		
Salaries and benefits	(4,959)	(5,304)
Net cash provided by operating activities	<u>15,015</u>	<u>15,788</u>
Cash Flows from Noncapital Financing Activities		
Net change in grants receivable	833	(751)
Grant revenues	-	4,587
Grant expenditures	-	(4,587)
Net cash provided by (used in) noncapital financing activities	<u>833</u>	<u>(751)</u>
Cash Flows from Capital and Related Financing Activities		
Net change in fixed assets	(892)	(2,108)
Principal payments - long-term debt	(6,225)	(7,465)
Proceeds from line of credit	15,000	-
Interest paid	(5,462)	(4,343)
Net change in accrued interest	(43)	461
Excess equity distribution to members	(1,985)	(2,853)
Net cash provided by (used in) capital and related financing activities	<u>393</u>	<u>(16,308)</u>
Cash Flows from Investing Activities		
Net proceeds from special funds	147	2,036
Interest and investment income	289	110
Net cash provided by investing activities	<u>436</u>	<u>2,146</u>
Net Increase in Cash and Cash Equivalents	16,677	875
Cash and Cash Equivalents at Beginning of Year	<u>28,084</u>	<u>27,209</u>
Cash and Cash Equivalents at End of Year	<u>\$ 44,761</u>	<u>\$ 28,084</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In Thousands)

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 9,360	\$ 8,982
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	4,003	3,809
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	3,159	(3,982)
(Increase) decrease in inventories	(725)	70
(Increase) decrease in other assets and general reserve fund	(5,509)	1,728
(Increase) decrease in costs to be recovered from future billings to members	(75)	407
Increase (decrease) in accounts payable and accrued liabilities	(230)	4,813
Increase (decrease) in rate stabilization funds	5,183	59
Increase (decrease) in Economic Development Fund	66	14
Increase (decrease) in Conservation and Load Management Fund	(292)	(291)
Increase (decrease) in Municipal Competitive Trust	291	395
Increase (decrease) in other liabilities	(216)	(216)
Total adjustments	<u>5,655</u>	<u>6,806</u>
Net Cash Provided by Operating Activities	<u>\$ 15,015</u>	<u>\$ 15,788</u>
Supplemental Disclosure of Cash Flow Information		
Noncash investing, capital and financing transactions:		
Excess equity distribution to members transferred to special funds	\$ 1,807	\$ 2,843
Amortization of debt discount and premium and issuance expenses	1,347	1,419
Increase in investment in Energy New England	10	45
Change in bond expenses to be recovered through future billings	<u>1,821</u>	<u>3,426</u>
Net Noncash Investing, Capital and Financing Transactions	<u>\$ 4,985</u>	<u>\$ 7,733</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Amounts Expressed in Thousands)

NOTE 1 - NATURE OF OPERATIONS

Organization

Connecticut Municipal Electric Energy Cooperative (CMEEC) was organized in 1976 as a public corporation under Connecticut Public Act 75-634, subsequently enacted as Title 7-233, Chapter 101a of the General Statutes of Connecticut, as amended. It is empowered to undertake the planning, financing, acquisition, construction and operation of facilities for the generation and transmission of electric power and energy for its member utilities (the Members) and others. Under the bylaws of CMEEC, a Board of Directors was established to act as a regulatory body for the review and approval of cost recovery through rates on an annual basis. The bylaws were amended in 1995 and 2013 to remain current with the statutory environment, with no fundamental operating changes effected.

Blended Component Units

Connecticut Transmission Municipal Electric Energy Cooperative (d/b/a TRANSCO), a blended component unit of CMEEC, was organized in 2009 as a public corporation under Connecticut Public Act 75-634, subsequently enacted as Title 7-233, Chapter 101a of the General Statutes of Connecticut, as amended. It is empowered to undertake the transmission of electric power and energy for its member utilities (the Members) and others. The Members of CMEEC, the Town of Wallingford Electric Division (WED) and Bozrah Light & Power Company (BL&P) are Members of TRANSCO.

Sustainable Energy Analytics (SEA), a blended component unit of CMEEC, was created by CMEEC's Board of Directors in July 2007 for the purpose of maximizing energy related opportunities available under State of Connecticut law. SEA is wholly owned by CMEEC. During 2012, SEA wound down its operations. In 2014, the Board voted to dissolve SEA as a legal entity. The process of dissolution was completed in 2015.

Operations

CMEEC has entered into power sales contracts with each of the Members. Under the contracts, each of the utilities agreed to purchase essentially all of its electric power required for resale from CMEEC, with CMEEC's electric revenues to consist of billings for resale of power. The contracts obligate each system to pay for their share of CMEEC's fixed costs, which consist primarily of debt service and CMEEC administrative and general costs on a take-or-pay basis. The Members maintain this fixed cost obligation whether or not they take any power from CMEEC.

In addition to the Members, CMEEC provides electric service to WED, BL&P and the Mohegan Tribal Utility Authority (MTUA). CMEEC also provides wholesale power to the Hampshire Council of Governments (HCOG). See Note 13 for additional information of these arrangements.

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Amounts Expressed in Thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Financial Statement Presentation

As the governing body of CMEEC consists of members appointed by various local governments, the accounting records of CMEEC are maintained using the standards established by the Governmental Accounting Standards Board (GASB), the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and accounting principles generally accepted in the United States of America (GAAP) using the economic resources measurement focus and the accrual basis of accounting.

Application of the accounting methods for regulatory operations is also included in these financial statements. This accounting guidance relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process, which is governed by the Board of Directors. The more significant accounting policies are summarized below.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Significant estimates are used in the areas of general plant in service and costs to be recovered from future billings. Actual results could differ from those estimates.

Utility Plant and Property

Utility plant and property is stated at historical cost and is defined as assets with an initial cost of more than \$5,000 and an estimated life of more than a year. Costs relative to the development of Firm Capacity Power Contracts and certain transmission facilities under which CMEEC purchases bulk electric power are classified as general plant in service. These costs include an allocation of direct and indirect charges for engineering, supervision and administrative expenses. Amortization of intangible plant in service is computed on the straight-line method over the estimated useful life of each unit under contract, ranging from 10 to 30 years. Depreciation of general plant in service is computed on the straight-line method over the estimated lives of the assets ranging from 3 to 42 years. Costs related to plant not placed into service are classified as construction-in-process. Depreciation does not commence until the item is placed in service. For assets sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is distributed through the CMEEC billing process or is reflected in net income for the period.

Investment in Energy New England

CMEEC has entered into a partnership arrangement with several municipalities forming Energy New England (ENE). CMEEC's investment is accounted for under the equity method. CMEEC's investment in ENE is approximately \$709 and \$699 as of December 31, 2015 and 2014, respectively. CMEEC's ownership percentage was 28.33% at both December 31, 2015 and 2014. The investment balance as of December 31, 2015 reflects CMEEC's share of the net gains or losses incurred by ENE through December 31, 2015. CMEEC recognized an increase of \$10 and \$45 in investment income for the years ended December 31, 2015 and 2014, respectively.

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Amounts Expressed in Thousands)

Investment in Hydro Quebec

This investment is recorded at cost and represents CMEEC's 0.84% equity ownership interest in the Hydro Quebec Phase II Transmission Facilities, which was used to transmit power from Canada to New England under a firm energy contract (FEC) with Hydro Quebec. The FEC expired in August 2001. Effective July 2015, Hydro Quebec Energy Services U.S. began paying CMEEC a monthly fee of \$26,280 for the transfer of use rights associated with CMEEC's interest in the project. This is a 3-year contract ending in June 2018.

Unamortized Debt Discount or Premium

Unamortized debt discount or premium is amortized based on the interest method over the lives of the respective bond issues. The excess of the reacquisition price over the net carrying amount of refunded bonds is included in costs to be recovered from future billings to the Members and is being amortized using the bonds-outstanding method over the life of the new issues.

Special Funds

Proceeds from the sale of revenue bonds were deposited in the special funds in accordance with the bond resolutions. Assets in the debt service funds are held by the trustee and invested until required for debt service payments in accordance with the provisions of bond resolutions. Assets in the conservation and load management fund, economic development fund and Municipal Competitive Trust are held for Members, MTUA and BL&P. Assets in the general reserve are held by CMEEC. See Note 4 for additional information regarding special funds.

Cash and Cash Equivalents

Cash equivalents consist of short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less. Cash equivalents are stated at cost and are adjusted for amortization of premium or accretion of discount, which approximates market value. The Entities maintain their cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. The Entities have not experienced any losses in such accounts and believe they are not exposed to any significant credit risk on cash and cash equivalents.

Electric Rates and Power Contracts

Rates for power billings to the Members are designed to recover CMEEC's allowable service costs as defined by the Power Supply System Revenue Bond Resolution, as amended, and the Power Sales Contracts. Certain expenses are not included as costs in the current period and are recognized in future periods when such expenses will be recovered through rates charged to the Members. These deferrals result from rates that are designed to recover the principal component of debt service. The difference between charges associated with specific assets and the principal payments of debt associated with those assets and currently recovered in rates is deferred and amortized over the life of the related debt. These deferred expenses consist of depreciation and amortization, funded interest costs after in-service date and net difference of the book value and the sales price of Millstone III in 2001. The net amounts recorded as change in bond expenses to be recovered from future billings were \$(2,192) and \$(723) for 2015 and 2014, respectively.

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Amounts Expressed in Thousands)

Municipal Competitive Trust

The Municipal Competitive Trust (MCT) was established in 2003 to provide a means for the members to accumulate funds and enhance their financial position and flexibility in an increasingly competitive energy industry. Pursuant to resolution of the CMEEC Board of Directors, monies deposited in the MCT can be used to maintain rate stability and rate competitiveness, provide for retirement or liquidation of certain debt obligations, and pay for certain capital expenses related to power supply or infrastructure improvements. MCT is invested in corporate and bank certificates of deposit (fully insured), treasury bills, municipal bonds and government agencies.

Rate Stabilization Funds

When the basic rates provide revenues in excess of the allowed service costs, the excess revenues are deferred. When the basic rates do not provide sufficient revenue to recover the actual allowable service costs, the excess costs are deferred for recovery, through either an increase in rates or amortization of existing deferred revenues. The deferral of revenues and amortization of deferred revenues is part of an overall rate setting policy approved on an annual basis by each system.

Economic Development Fund

This fund is established pursuant to the CMEEC rate structure and participant designations to collect 0.5 mils/kWh for the total kWh of load. Contributions may be changed by participants at any time. Funds shall be used for economic development activities.

General Reserve Fund

The General Reserve Fund is established pursuant to CMEEC's Power Supply Revenue Bond Resolution and CMEEC's Transmission Services Revenue Bond Resolution. Funds represent the remaining balance after all operating and debt service payments are transacted. These funds are unrestricted and can be used for any lawful purpose.

Conservation and Load Management Fund

This fund is established pursuant to Bill #7501, "An Act Concerning Energy Independence," of the Connecticut General Assembly and is administered by CMEEC. The Act requires each municipal electric utility to accrue and deposit funds each year for the purpose of investment in renewable resources and for conservation and load management programs. There are no requirements related to the timing of use of these funds. The balance of this fund was approximately \$1,648 and \$1,940 as of December 31, 2015 and 2014, respectively.

Accounts Receivable

Accounts receivable are recorded at net realizable value. Provision for credit losses on customer accounts is made in amounts required to maintain an adequate allowance to cover anticipated losses. No allowance was recorded as of December 31, 2015 and 2014.

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Amounts Expressed in Thousands)

Inventories

Material replacement parts inventories are valued at cost on a first-in, first-out basis. Fuel inventories are valued at cost on a weighted-average basis. Renewable energy credits are valued at cost on a first-in, first-out basis and are purchased in accordance with contracted terms with certain customers.

Other Assets

Other assets include underbillings to customers. In the event there is a cost in excess of a contracted rate, there is an unbilled asset that is collected over future periods in accordance with contract stipulations. Underbillings are recorded at net realizable value.

Grant Accounting

CMEEC recognizes revenue under its grant when the earnings process is complete. This is typically the incurring of a qualified expense under a given grant.

Asset Retirement Obligations

GAAP requires that a liability be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. At a future date, CMEEC and TRANSCO will be obligated to incur costs in order to retire generation and transmission assets and return applicable property to its original condition. At this point, the Entities are not able to estimate the date, or range of potential dates, of settlement of these obligations. Accordingly, the liability associated with these obligations is not reasonably estimable. As of December 31, 2015, approximately \$402 has been collected from customers and is being maintained in reserve for the purpose of eventual retirement obligations.

Operating Items

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with CMEEC's principal ongoing operations. The principal operating revenues are charges to customers for services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. The reclassifications primarily are in regard to a change in presentation to conform to GASB. These reclassifications had no effect on previously reported results of operations or net position.

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through March 15, 2016, which represents the date the financial statements were available to be issued.

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Amounts Expressed in Thousands)

NOTE 3 - UTILITY PLANT AND PROPERTY

Utility plant and property activity for the year ended December 31, 2015 consisted of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Utility plant and property not being depreciated:					
Land	\$ 60	\$ -	\$ -	\$ -	\$ 60
Construction in progress	501	897	-	(479)	919
Total capital assets not being depreciated	<u>561</u>	<u>897</u>	<u>-</u>	<u>(479)</u>	<u>979</u>
Utility plant and property being depreciated:					
Intangible plant and property in service	861	-	-	-	861
General plant in service	145,639	-	60	479	146,058
Total utility plant and property being depreciated	<u>146,500</u>	<u>-</u>	<u>60</u>	<u>479</u>	<u>146,919</u>
Less accumulated depreciation for:					
Intangible plant and property in service	683	33	-	-	716
General plant in service	43,075	3,970	60	-	46,985
Total accumulated depreciation	<u>43,758</u>	<u>4,003</u>	<u>60</u>	<u>-</u>	<u>47,701</u>
Total utility plant and property being depreciated, net	<u>102,742</u>				<u>99,218</u>
Utility Plant and Property, Net	<u>\$ 103,303</u>	<u>\$ (3,106)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,197</u>

Depreciation expense related to utility plant and property was \$4,003 for the year ended December 31, 2015.

Utility plant and property activity for the year ended December 31, 2014 consisted of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Utility plant and property not being depreciated:					
Land	\$ 60	\$ -	\$ -	\$ -	\$ 60
Construction in progress	7,108	2,391	5	(8,993)	501
Total capital assets not being depreciated	<u>7,168</u>	<u>2,391</u>	<u>5</u>	<u>(8,993)</u>	<u>561</u>
Utility plant and property being depreciated:					
Intangible plant and property in service	861	-	-	-	861
General plant in service	137,241	84	679	8,993	145,639
Total utility plant and property being depreciated	<u>138,102</u>	<u>84</u>	<u>679</u>	<u>8,993</u>	<u>146,500</u>
Less accumulated depreciation for:					
Intangible plant and property in service	650	33	-	-	683
General plant in service	39,616	3,776	317	-	43,075
Total accumulated depreciation	<u>40,266</u>	<u>3,809</u>	<u>317</u>	<u>-</u>	<u>43,758</u>
Total utility plant and property being depreciated, net	<u>97,836</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>102,742</u>
Utility Plant and Property, Net	<u>\$ 105,004</u>	<u>\$ (1,334)</u>	<u>\$ (367)</u>	<u>\$ -</u>	<u>\$ 103,303</u>

Depreciation expense related to utility plant and property was \$3,809 for the year ended December 31, 2014.

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

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(Amounts Expressed in Thousands)

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Fair Value of Financial Instruments

GAAP defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” It also establishes a fair value hierarchy consisting of three “levels” that prioritize the inputs to the valuation techniques used to measure fair value.

Based on these definitions, all of the Entities’ financial assets and liabilities that are recorded at fair value are categorized as Level 1 (quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date) as of December 31, 2015 and 2014.

Investments in U.S. Government, corporate and municipal issues are assets traded on active markets with readily available daily values. The inputs are therefore Level 1.

For purposes of the following disclosure, the estimated fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The carrying amounts of CMEEC’s accounts receivable, note receivable, other current assets, accounts payable and line of credit approximate fair value at December 31, 2015 and 2014.

Deposits

Deposit Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, CMEEC’s deposit will not be returned. CMEEC does not have a deposit policy for custodial credit risk.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$17,194 of CMEEC’s bank balance of \$17,944 was uninsured and uncollateralized.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At December 31, 2015 and 2014, CMEEC had \$31,500 and \$9,850, respectively, in certificates of deposit maturing within 90 days.

Investments

Special funds investments consist of U.S. government securities, municipal bonds, federal agency obligation and bank certificates of deposit in accordance with the provisions of bond resolutions.

Management determines the proper classifications of investments in obligations with fixed maturities and marketable equity securities at the time of purchase and reevaluates such designations as of each balance sheet date. As of December 31, 2015, CMEEC intends and has the ability to hold the aforementioned debt securities to maturity and has classified these debt securities as held to maturity. The cost of securities sold is based on specific identification. Please see Note 2 for related restrictions on these funds.

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(Amounts Expressed in Thousands)

As of December 31, 2015, CMEEC's Special Funds investments consisted of the following:

Investment Type	Credit Rating	Carrying Value	Fair Value	Investment Maturities (In Years)		
				N/A	Less Than 1	1 to 5
Special Funds						
Interest-bearing investments:						
Cash and equivalents	N/A	\$ 41,811	\$ 41,811	\$ 41,811	\$ -	\$ -
U.S. treasury bonds/notes	AAA	325	325	25	300	-
Total Investments		\$ 42,136	\$ 42,136	\$ 41,836	\$ 300	\$ -

As of December 31, 2014, CMEEC's Special Funds investments consisted of the following:

Investment Type	Credit Rating	Carrying Value	Fair Value	Investment Maturities (In Years)		
				N/A	Less Than 1	1 to 5
Special Funds						
Interest-bearing investments:						
Cash and equivalents	N/A	\$ 36,200	\$ 36,200	\$ 36,200	\$ -	\$ -
U.S. treasury bonds/notes	AAA	2,964	2,975	1,655	1,320	-
Municipal bonds	AA	710	713	713	-	-
Certificates of deposit	N/A	2,409	2,415	2,415	-	-
Total Investments		\$ 42,283	\$ 42,303	\$ 40,983	\$ 1,320	\$ -

Of the total investments at book value, for the years ended December 31, 2015 and 2014, \$8,849 and \$8,866, respectively, are reflected as current assets on the balance sheet. These represent deposits in special funds for current debt service.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. CMEEC's investment policy addresses interest rate risk by defining the allowable investment terms, investments and maximum allocation to each asset class.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. CMEEC's investment policy addresses credit risk by defining the allowable investments and maximum allocation to each asset class.

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Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, CMEEC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. CMEEC's investments are not exposed to custodial credit risk at December 31, 2015. Furthermore, CMEEC, as an issuer of tax-exempt obligations, must not engage in any arbitrage practice prohibited by the arbitrage regulations promulgated under Section 103(c) of the Internal Revenue Code. In no event should funds be invested in a manner that will violate the provision of such Section 103(c). CMEEC's investment policy addresses interest rate risk by defining the allowable investment terms, investments and maximum allocation to each asset class.

Concentrations of Credit Risk

CMEEC places no limit on the amount of investment in any one issuer that is in excess of 5% of CMEEC's total investments.

NOTE 5 - COSTS TO BE RECOVERED FROM FUTURE BILLINGS

Costs to be recovered from future billings consist of amounts that will be recovered by CMEEC and TRANSCO through future rates and owners as follows:

	<u>2015</u>	<u>2014</u>
CMEEC:		
Debt related deferrals	\$ 4,408	\$ 6,144
Other deferrals	987	1,448
TRANSCO:		
Debt related deferrals	1,705	1,239
Other deferrals	300	315
	<u>\$ 7,400</u>	<u>\$ 9,146</u>

NOTE 6 - LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES

Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2015:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bond payable:					
Bonds payable	\$ 118,615	\$ -	\$ 6,225	\$ 112,390	\$ 6,275
Bond premium	12,369	-	1,347	11,022	
Total bonds payable	<u>130,984</u>	<u>-</u>	<u>7,572</u>	<u>123,412</u>	<u>6,275</u>
Other liabilities:					
Line of credit	-	15,000	-	15,000	-
Deferred compensation	1,499	-	212	1,287	-
Pierce decommissioning liability	400	2	-	402	-
Long-Term Liabilities	<u>\$ 132,883</u>	<u>\$ 15,002</u>	<u>\$ 7,784</u>	<u>\$ 140,101</u>	<u>\$ 6,275</u>

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The following is a summary of changes in long-term liabilities for the year ended December 31, 2014:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bond payable:					
Bonds payable	\$ 126,080	\$ -	\$ 7,465	\$ 118,615	\$ 6,225
Bond premium	13,806	-	1,437	12,369	-
Total bonds payable	<u>139,886</u>	<u>-</u>	<u>8,902</u>	<u>130,984</u>	<u>6,225</u>
Other liabilities:					
Deferred compensation	1,557	-	58	1,499	-
Pierce decommissioning liability	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>	<u>-</u>
Long-Term Liabilities	<u>\$ 141,843</u>	<u>\$ -</u>	<u>\$ 8,960</u>	<u>\$ 132,883</u>	<u>\$ 6,225</u>

Bonds Payable

The debt service requirements for CMEEC's consolidated debt outstanding as of December 31, 2015 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,275	\$ 5,149	\$ 11,424
2017	6,360	5,005	11,365
2018	6,445	4,820	11,265
2019	3,325	4,624	7,949
2020	3,385	4,472	6,390
2021-2025	18,225	19,756	37,981
2026-2030	20,820	15,025	35,845
2031-2035	24,110	9,134	33,244
2036-2040	19,935	2,890	22,825
2041-2042	<u>3,510</u>	<u>88</u>	<u>3,598</u>
	<u>\$ 112,390</u>	<u>\$ 70,963</u>	<u>\$ 183,353</u>

On April 16, 2013, CMEEC issued \$58,450 Power Supply System Revenue Bonds (2013 Series A) and \$16,715 Power Supply System Revenue Bonds (2013 Series B). The 2013 Series A bonds bear interest at a range of 2-5% and were issued at a premium to yield 0.38-3.15%. These bonds mature January 1, 2014 through 2029. The 2013 Series B bonds bear interest at a range of 0.66-1.50%. These bonds mature January 1, 2014 through 2018.

On May 15, 2012, CMEEC issued \$31,980 of Transmission Service Revenue Bonds (2012 Series A). The 2012 Series A bonds bear interest at a rate of 5% and were issued at a premium to yield a range of 0.45-3.44%. These bonds mature January 1, 2013 through 2031.

On May 15, 2012, TRANSCO issued \$20,690 Transmission System Revenue Bonds (2012 Series A). The 2012 Series A bonds bear interest at a range of 2-5% and were issued at a premium to yield a range of 3.44-3.79%. These bonds mature January 1, 2031 through 2042. Under the agreement, TRANSCO will pay semi-annual interest payments on January 1 and July 1 of each year commencing

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

(Amounts Expressed in Thousands)

July 1, 2012. CMEEC is obligated by the Comprehensive Management Service Agreement to pay all costs of TRANSCO in providing such transmission services, including the debt service on the 2012 Series A Bonds.

The excess of the reacquisition price over the net carrying amount of the refunded bonds is included in costs to be recovered from future billings and is being amortized using the bonds-outstanding method over the life of the new issues. The unamortized balance at December 31, 2015 and 2014, is \$7,040 and \$8,828, respectively. This amount is being recovered over the life of the new bonds. CMEEC will benefit from reduced debt service costs over the life of the new issues as a result of the refundings.

Each series of revenue bonds is collateralized by a pledge of revenues derived by CMEEC or TRANSCO, as applicable, from the operating of its power supply system and/or transmission service.

The Power Supply System Bond Resolution and CMEEC Transmission Services Revenue Bond Resolution contain various restrictive covenants that require, among other things, that CMEEC establish rates each year sufficient to recover all operating costs, to recover 110% of debt service and to maintain required amounts in the special funds.

The TRANSCO Transmission System Bond Resolution contains various restrictive covenants that require, among other things, that TRANSCO establish rates each year sufficient to recover all operating costs, to recover 100% of debt service and to maintain required amounts in the special funds.

Of the \$112,390 long-term debt outstanding at December 31, 2015, \$22,314 is the responsibility of the nonmembers for their participation in the respective projects.

The premium amortization schedule is as follows:

Year Ending December 31

2016	\$	1,263
2017		1,154
2018		1,053
2019		958
2020		856
Thereafter		<u>5,738</u>
	\$	<u><u>11,022</u></u>

Prior Year Defeasance of Debt

In prior years, CMEEC has defeased certain revenue bonds by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on CMEEC's financial statements.

The balance in escrow for the remaining payments of principal and interest on the refunding issuance dated April 16, 2013 was \$67,047 at December 31, 2015. The outstanding balance of the defeased bonds as of December 31, 2015 is \$62,905.

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NOTE 7 - LINES OF CREDIT

CMEEC has a line of credit with Wells Fargo Bank with available amounts of \$30,000 bearing interest at LIBOR Market Index Rate plus 1.50%. No balance was drawn or outstanding as of December 31, 2015 and 2014. A fee of 0.25% is assessed on any unused balance. The line of credit expiration date is January 30, 2017.

CMEEC also has a line of credit with Bank of Montreal on August 26, 2011 with available amounts of \$15,000 bearing interest at LIBOR Market Index Rate plus 1.50%. No balance was drawn or outstanding as of December 31, 2015 and 2014. A fee of 0.25% is assessed on any unused balance. The line expires on August 26, 2017.

On August 31, 2015, CMEEC established an additional line of credit with Bank of Montreal with available amounts of \$50,000 bearing interest at LIBOR Market Index Rate plus 1.50%. At December 31, 2015, there was \$15,000 outstanding on the line of credit. A fee of 0.25% is assessed on any unused balance. The line expires on August 31, 2020.

Lines of credit have been established to provide for operational cash flow fluidity and to accommodate for delays in cost recovery from the point in which costs are incurred to when they are recovered through the billing rates.

NOTE 8 - RETIREMENT PLANS

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

CMEEC contributions to the RS Plan in 2015 and in 2014 represented less than 5% of the total contributions made to the plan by all participating employers. Contribution rates are determined by NRECA based on funding levels and projected obligations to be paid out. Required contributions to the plan for 2015 and 2014 as a percent of covered payroll were 23.36% and 22.97%, respectively. CMEEC made contributions to the plan of \$654 in 2015 and \$652 in 2014. Amounts contributed to the RS Plan for 2015 and 2014 were 100% of the contributions required by NRECA for each respective year. There have been no significant changes that affect the comparability of 2015 and 2014 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was 115.9% funded on January 1, 2014 and 112.6% funded at January 1, 2013 based on the PPA funding target and PPA actuarial value of assets on those dates.

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Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

CMEEC also has a plan under Section 401(k) of the Internal Revenue Code covering all eligible employees. Under the plan, CMEEC contributes 1% of the employee's base salary. CMEEC's contribution expenses under the plan were \$37 for the years ended December 31, 2015 and 2014.

CMEEC has post-employment contracts and associated liabilities valued at \$1,287 and \$1,499 at December 31, 2015 and 2014, respectively. The first payment was in March 2012. Payments continue through 2038.

NOTE 9 - RELATED PARTY TRANSACTIONS

Related parties consist of member municipal utility departments and BL&P that have representation on the Board of Directors of CMEEC and TRANSCO, and Wallingford that has representation on the Board of Directors of TRANSCO. Operating revenues currently billed and amounts due from related parties are summarized below:

	2015		2014	
	Revenues from Related Parties	Accounts Receivable from Related Parties	Revenues from Related Parties	Accounts Receivable from Related Parties
Members				
Groton	\$ 40,199	\$ 5,962	\$ 39,697	\$ 6,818
Norwich	31,561	4,775	27,404	4,911
Jewett City	2,483	196	2,442	230
East Norwalk	6,788	986	6,731	1,102
South Norwalk	9,311	734	8,319	846
Nonmembers				
Bozrah	11,604	1,852	15,192	2,282
Wallingford	11,600	1,259	13,924	1,312
	<u>\$ 113,546</u>	<u>\$ 15,764</u>	<u>\$ 113,709</u>	<u>\$ 17,501</u>

NOTE 10 - POWER SUPPLY ACTIVITIES

Power Purchase and Sale Forward Contracts

CMEEC manages risks associated with power supply commitments and excess capacity by entering into forward contracts for the purchase and sale of electricity in the normal course of business. None of these contracts are on a take-or-pay basis. These contracts qualify for the normal purchases and sales exception under GAAP and are not accounted for as derivatives.

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

(Amounts Expressed in Thousands)

Risk Management

CMEEC developed risk management policies and procedures for fuel swap, option contract and power purchase and sale forward contract activities. The objectives of the risk management policies are to optimize power supply resources, control costs and manage price volatility to the Members and customers.

NOTE 11 - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The majority of CMEEC’s sales are to the five municipal electric systems, BL&P, WED and MTUA. As of December 31, 2015, two of those systems had accounts receivable balances greater than 10% of total receivables.

NOTE 12 - OPERATING LEASES

In July 2006, CMEEC entered into an agreement with WED to lease a partition of land and buildings for the purpose of installing and maintaining a new electric generation facility (the Pierce Project). The lease expires December 31, 2027, but may be extended an additional five years at CMEEC’s option. The rent is payable in annual installments of \$300 per year, spread ratably over the 12-month period thereafter with an annual increase of 1.5% starting in October 2012. Lease expense was \$315 and \$310 for the years ended December 31, 2015 and 2014, respectively.

Expected future payments under the Pierce operating leases are as follows:

Year Ending December 31

2016	\$	320
2017		324
2018		329
2019		334
2020		339
Thereafter		<u>2,458</u>
	\$	<u><u>4,104</u></u>

During 2007, CMEEC completed construction of the Pierce Project. The generator became operational on October 4, 2007. CMEEC contracted with EthosEnergy Power Plant Services, LLC to operate and maintain the facility. As discussed in Note 1, all operating expenses are paid for by CMEEC and are included in power generation costs on the statements of revenues, expenses and changes in net position.

During 2009 and 2010, CMEEC entered into lease agreements with property owners located in the service territory of the Members and participants for the purpose of installing the equipment pertaining to the MicroGen Project (formerly known as 50 in 5 Project).

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(Amounts Expressed in Thousands)

Expected future payments under these operating leases are as follows:

Year Ending December 31

2016	\$	180
2017		180
2018		180
2019		180
2020		104
Thereafter		<u>14</u>
	\$	<u>838</u>

In 2014, CMEEC entered into a twenty-year lease agreement for the property located at the sub base in Groton, Connecticut, to install eight megawatts of peaking and backup generation. The annual rent payment during the construction phase is \$10 increasing to \$57 upon commercial operation.

NOTE 13 - CONTRACTS

CMEEC provides electric service to the Town of Wallingford Electric Division (WED). Under the terms of a Memorandum of Agreement dated February 23, 2012, WED is obligated to pay for all forward energy purchases made on its behalf for the period of 2014-2017. In addition, WED is responsible for payment of an allocation of CMEEC administrative expenses proportional to the forward energy purchases made on its behalf for the same period. On July 1, 2006, WED entered into a contract for the sale of Pierce Project Electric Power & Energy (the Pierce Project). On January 22, 2009, WED entered into a contract for the sale of the MicroGen Peaking Project Electric Power and Crediting of Avoided Cost Benefits (formerly known as the 50 in 5 Project). WED is entitled to its net benefit and is responsible for its allocable share of the costs of these projects. See also Note 14.

CMEEC also provides the Bozrah Light & Power Company (BL&P) its full requirements for electric service pursuant to a power sales contract (the BL&P Contract) between BL&P and CMEEC. Under the BL&P Contract, BL&P agrees to purchase from CMEEC essentially all electric capacity and energy that BL&P will require for retail sales. The term of the BL&P Contract remains in effect until terminated with one year's notice from either party. On October 1, 2006, BL&P entered into a contract for the sale of Pierce Project Electric Power & Energy (the Pierce Project). On April 23, 2009, BL&P entered into a contract for the sale of the MicroGen Peaking Project Electric Power and Crediting of Avoided Cost Benefits (formerly known as the 50 in 5 Project). In the event that the BL&P Contract is terminated, BL&P is entitled to its net benefit and is responsible for its allocable share of the cost of the Pierce Project and the Microgen Project. Effective January 1, 2016, BL&P became a member of CMEEC. See Note 15 for further information.

CMEEC also provides the Mohegan Tribal Utility Authority (MTUA) its full requirements for electric service pursuant to the restated and amended agreement for the supply of electric power and energy (the MTUA Contract) beginning January 1, 2014. Under the MTUA Contract, MTUA agrees to purchase from CMEEC essentially all electric capacity and energy that MTUA will require for its own retail sales. MTUA will also reimburse CMEEC for the use of certain transmission and distribution

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

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(Amounts Expressed in Thousands)

facilities. Also, according to the contract the cost of distribution facility construction and upgrades will be paid for by CMEEC. The initial term expires on December 31, 2021, with a provision for optional extensions by MTUA beginning January 1, 2022 through December 2022. On July 31, 2006, MTUA entered into a contract for the sale of the Pierce Project Electric Power & Energy (the Pierce Project). MTUA is entitled to its net benefit and is responsible for its allocable share of the cost of the Pierce Project.

TRANSCO entered into an agreement with Connecticut Light & Power Company to purchase certain transmission facilities located within the Town of Wallingford (Transmission Project #1), and the two parties jointly filed at the Federal Energy Regulatory Commission (FERC). The acquisition of these facilities was financed through a combination of CMEEC and TRANSCO bond financing. WED did not participate in Transmission Project #1 and is not obligated to pay the associated debt service costs. CMEEC is obligated by the Comprehensive Management Services Agreement to pay all costs of TRANSCO in providing such transmission services, including debt service on the 2012 Series A Bonds.

CMEEC also provides wholesale power to the Hampshire Council of Governments (HCOG), a competitive supplier in Massachusetts under a purchase power agreement. The power being supplied to HCOG is being utilized to serve several "aggregation" loads in Massachusetts and have various terms, the last expiring in 2018.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

In September 2011, the Massachusetts Attorney General filed a complaint at FERC, seeking a reduction in the base Return on Equity (ROE) component of the Regional Network Service revenue requirements for all electric transmission owners, from the previously approved level of 11.14%. The final FERC decision, on October 16, 2014, found that the base ROE should be reduced to 10.57% with a total ROE, including incentive additions, not to exceed a top range of 11.74%, with refunds to be issued within 30 days of the decision. The net impact on the ROE for TRANSCO Project #1 Facilities will be a reduction of ROE from 12.64% to 11.74%. A request for an extension of time to complete the refund process was filed and approved. TRANSCO established a reserve for the payment of the refund. The net balance of the reserve at December 31, 2015 is \$459, reflecting an accrual of \$790 less refund payments of \$331 through December 31, 2015. As of December 31, 2015, CMEEC has received \$833 of refunded transmission expense. CMEEC has not entered any receivable for the balance of the refund.

WED has disputed administrative and general charges being allocated to them under the three contracts remaining in effect as of December 31, 2015 as well as various other charges charged under the contracts. The contractually defined dispute resolution process started with direct negotiations between the parties, followed by mediation, followed finally by binding arbitration. The parties are currently involved in arbitration with a final decision expected in late 2016.

NOTE 15 - SUBSEQUENT EVENTS

Effective January 1, 2016, BL&P became a member of CMEEC. Under the terms of the contract, BL&P is obligated to pay for its share of CMEEC's fixed costs, which consist primarily of debt service and CMEEC administrative and general costs on a take-or-pay basis. This fixed cost obligation is maintained whether or not they take any power from CMEEC.

Combining Schedules

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

EXHIBIT A-1

COMBINING SCHEDULE OF NET POSITION
DECEMBER 31, 2015
(In Thousands)

	CMEEC Power Supply Operations	CMEEC Transmission Operations	CMEEC Total	TRANSCO	Eliminations	Total
ASSETS						
Utility Plant and Property						
Land	\$ 60	\$ -	\$ 60	\$ -	\$ -	\$ 60
Intangible plant and property in service	861	-	861	-	-	861
General plant in service	93,115	-	93,115	52,943	-	146,058
Construction work in progress	919	-	919	-	-	919
	<u>94,955</u>	<u>-</u>	<u>94,955</u>	<u>52,943</u>	<u>-</u>	<u>147,898</u>
Less accumulated depreciation and amortization	37,452	-	37,452	10,249	-	47,701
Net utility plant and property	<u>57,503</u>	<u>-</u>	<u>57,503</u>	<u>42,694</u>	<u>-</u>	<u>100,197</u>
Investment in Hydro Quebec	107	-	107	-	-	107
Investment in Energy New England	709	-	709	-	-	709
Investment in TRANSCO	-	32,633	32,633	-	(32,633)	-
Special Funds						
Debt service funds	12,174	-	12,174	2,726	-	14,900
Conservation and load management fund	1,648	-	1,648	-	-	1,648
Economic development fund	2,004	-	2,004	-	-	2,004
Municipal Competitive Trust	14,735	-	14,735	-	-	14,735
Total special funds	<u>30,561</u>	<u>-</u>	<u>30,561</u>	<u>2,726</u>	<u>-</u>	<u>33,287</u>
Current Assets						
Cash and cash equivalents	37,453	-	37,453	7,308	-	44,761
General reserve fund	3,823	-	3,823	-	-	3,823
Deposit for current debt service	8,332	-	8,332	517	-	8,849
Accounts receivable	8,018	-	8,018	30	-	8,048
Accounts receivable from related parties	15,834	-	15,834	804	(874)	15,764
Inventories	3,913	-	3,913	-	-	3,913
Other current assets	6,594	-	6,594	467	-	7,061
Total current assets	<u>83,967</u>	<u>-</u>	<u>83,967</u>	<u>9,126</u>	<u>(874)</u>	<u>92,219</u>
Other Assets						
Bond costs to be recovered from future billings	10,434	(5,039)	5,395	2,005	-	7,400
Total Assets	<u>\$ 183,281</u>	<u>\$ 27,594</u>	<u>\$ 210,875</u>	<u>\$ 56,551</u>	<u>\$ (33,507)</u>	<u>\$ 233,919</u>

(Continued on next page)

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

EXHIBIT A-1

COMBINING SCHEDULE OF NET POSITION (CONTINUED)

DECEMBER 31, 2015

(In Thousands)

	CMEEC Power Supply Operations	CMEEC Transmission Operations	CMEEC Total	TRANSCO	Eliminations	Total
LIABILITIES AND MEMBERS' EQUITY						
Current Liabilities						
Current portion of long-term debt	\$ 4,520	\$ 1,755	\$ 6,275	\$ -	\$ -	\$ 6,275
Accounts payable	15,347	-	15,347	477	(874)	14,950
Accrued liabilities	7,182	-	7,182	459	-	7,641
Accrued interest on long-term debt	1,430	651	2,081	517	-	2,598
Total current liabilities	<u>28,479</u>	<u>2,406</u>	<u>30,885</u>	<u>1,453</u>	<u>(874)</u>	<u>31,464</u>
Other Liabilities	<u>1,689</u>	<u>-</u>	<u>1,689</u>	<u>-</u>	<u>-</u>	<u>1,689</u>
Long-Term Liabilities						
Line of credit	15,000	-	15,000	-	-	15,000
Long-term debt, net of current portion	69,722	24,950	94,672	22,465	-	117,137
Total long-term liabilities	<u>84,722</u>	<u>24,950</u>	<u>109,672</u>	<u>22,465</u>	<u>-</u>	<u>132,137</u>
Total liabilities	<u>114,890</u>	<u>27,356</u>	<u>142,246</u>	<u>23,918</u>	<u>(874)</u>	<u>165,290</u>
Rate Stabilization Funds	<u>18,142</u>	<u>-</u>	<u>18,142</u>	<u>-</u>	<u>-</u>	<u>18,142</u>
Conservation and Load Management Funds	<u>1,648</u>	<u>-</u>	<u>1,648</u>	<u>-</u>	<u>-</u>	<u>1,648</u>
Economic Development Fund	<u>2,004</u>	<u>-</u>	<u>2,004</u>	<u>-</u>	<u>-</u>	<u>2,004</u>
Municipal Competitive Trust	<u>14,735</u>	<u>-</u>	<u>14,735</u>	<u>-</u>	<u>-</u>	<u>14,735</u>
Asset Management Reserve Deferral	<u>3,924</u>	<u>-</u>	<u>3,924</u>	<u>-</u>	<u>-</u>	<u>3,924</u>
Net Position						
Net investment in capital assets	(4,575)	-	(4,575)	(7,549)	7,549	(4,575)
Unrestricted	32,513	238	32,751	40,182	(40,182)	32,751
Total net position	<u>27,938</u>	<u>238</u>	<u>28,176</u>	<u>32,633</u>	<u>(32,633)</u>	<u>28,176</u>
Total Liabilities and Net Position	<u>\$ 183,281</u>	<u>\$ 27,594</u>	<u>\$ 210,875</u>	<u>\$ 56,551</u>	<u>\$ (33,507)</u>	<u>\$ 233,919</u>

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

EXHIBIT A-2

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

(In Thousands)

	<u>CMEEC Power Supply Operations</u>	<u>CMEEC Transmission Operations</u>	<u>CMEEC Total</u>	<u>TRANSCO</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating Revenues						
Electric power supply revenues	\$ 173,804	\$ -	\$ 173,804	\$ -	\$ -	\$ 173,804
Electric transmission revenues	3,259	12,202	15,461	24,728	(24,728)	15,461
Uses of (additions to) rate stabilization funds and other	(6,935)	(115)	(7,050)	-	-	(7,050)
Total operating revenues	<u>170,128</u>	<u>12,087</u>	<u>182,215</u>	<u>24,728</u>	<u>(24,728)</u>	<u>182,215</u>
Operating Expenses						
Purchased power and generation costs	155,968	-	155,968	-	-	155,968
Transmission costs	95	10,921	11,016	21,068	(23,451)	8,633
Administrative and general	4,252	-	4,252	1,550	(1,551)	4,251
Depreciation and amortization	2,654	-	2,654	1,349	-	4,003
Total operating expenses	<u>162,969</u>	<u>10,921</u>	<u>173,890</u>	<u>23,967</u>	<u>(25,002)</u>	<u>172,855</u>
Net Operating Income	<u>7,159</u>	<u>1,166</u>	<u>8,325</u>	<u>761</u>	<u>274</u>	<u>9,360</u>
Nonoperating Revenues (Expenses)						
Interest and investment income	288	1	289	-	-	289
Interest expense	(3,126)	(1,302)	(4,428)	(1,034)	-	(5,462)
Amortization of debt discount and premium, issuance expense and loss on reacquisition of debt	801	457	1,258	75	(75)	1,258
Other income (expense)	437	-	437	(268)	275	444
Net nonoperating expense	<u>(1,600)</u>	<u>(844)</u>	<u>(2,444)</u>	<u>(1,227)</u>	<u>200</u>	<u>(3,471)</u>
Change in Bond Expenses to be Recovered from Future Billings to Members	<u>(1,201)</u>	<u>(991)</u>	<u>(2,192)</u>	<u>466</u>	<u>(466)</u>	<u>(2,192)</u>
Net Income (Loss)	4,358	(669)	3,689	-	8	3,697
Excess Equity Distribution to Members	<u>(3,792)</u>	<u>-</u>	<u>(3,792)</u>	<u>-</u>	<u>-</u>	<u>(3,792)</u>
Change in Net Position	566	(669)	(103)	-	8	(95)
Net Position at Beginning of Year	<u>27,372</u>	<u>907</u>	<u>28,279</u>	<u>32,633</u>	<u>(32,641)</u>	<u>28,271</u>
Net Position at End of Year	<u>\$ 27,938</u>	<u>\$ 238</u>	<u>\$ 28,176</u>	<u>\$ 32,633</u>	<u>\$ (32,633)</u>	<u>\$ 28,176</u>

**Independent
Auditors' Report
on Internal Control**

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors and Members
Connecticut Municipal Electric Energy Cooperative

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Connecticut Municipal Electric Energy Cooperative as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Connecticut Municipal Electric Energy Cooperative's basic financial statements, and have issued our report thereon dated March 15, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
March 15, 2016