

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

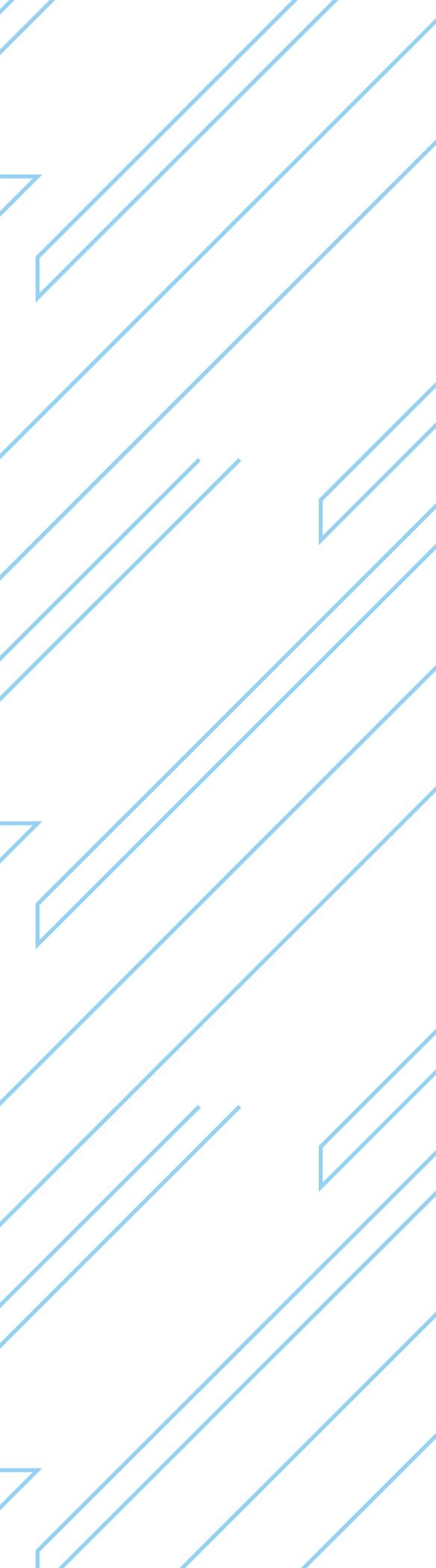
FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

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# **Independent Auditors' Report**

## **Independent Auditors' Report**

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

### **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, 2018 and 2017, 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 Connecticut Municipal Electric Energy Cooperative as of December 31, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the pension schedule on page 34 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. 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.

### ***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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated March 20, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Connecticut Municipal Electric Energy Cooperative's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Connecticut Municipal Electric Energy Cooperative's internal control over financial reporting and compliance.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
March 20, 2019

# Connecticut Municipal Electric Energy Cooperative

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### YEARS ENDED DECEMBER 31, 2018 AND 2017

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The following discussion and analysis of the Connecticut Municipal Electric Energy Cooperative (CMEEC) provides an overview and analysis of CMEEC's financial performance during the years ended December 31, 2018 and 2017. The discussion and analysis should be read in conjunction with CMEEC's financial statements and the accompanying notes.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

CMEEC was established in 1976 as a public directed joint action supply agency under Connecticut Public Act 75-634, subsequently enacted as Title 7-233, Chapter 101a of the General Statutes of Connecticut as amended. The mission and operating principles are founded on state statutes, CMEEC bylaws and a longstanding commitment to serve community utilities. Legislative actions by Connecticut's General Assembly, dating back to the early 1900s, defined the franchise areas of each municipal utility and limited electric service to the municipality itself, an adjacent municipality and / or portions therein. In 1975, the municipals obtained passage of legislation to form their own power supply company. State Statutes "permit municipal electric utilities in Connecticut to join together and form cooperative public corporations for the financing of the construction and acquisition of facilities for the purpose of furnishing efficient, low cost and reliable electric power in their areas of operation". For additional information, refer to Chapter 101 of the Connecticut General Statutes. As a result, the Connecticut Municipal Electric Energy Cooperative was created as the electric supplier for the state's municipal utilities. CMEEC became operational in 1978 as a non-profit, joint action power supply agency and first began providing wholesale power to participating municipal electric utilities in 1980. Today CMEEC manages power supply contracts, financing, acquisition, construction and operation of generating resources. CMEEC supplies power to its members and wholesale customers through various sources, including fossil-fueled generators, nuclear plants, hydroelectric station in Connecticut and massive power dams in Canada and New York. In 2013, CMEEC began expanding its market areas and currently serves customers and communities beyond Connecticut, to the extent allowed under its enabling statute.

CMEEC's all-requirements model requires member utilities to commit to purchase essentially all electric power requirements from CMEEC. This commitment results in a joint action agency with cooperative strengths vital to CMEEC's dealings with other utilities, the investment community and other energy industry stakeholders.

A basic statutory power given to CMEEC is legal authority to issue long-term tax-exempt electric power supply revenue bonds. CMEEC has the ability under law to borrow money at relatively low interest rates to pay for obtaining electric generating and transmission facilities. Repayment of interest received by bond-holders – the lender of money to CMEEC – is tax-exempt because the money borrowed is used for non-profit essential municipal utility purposes. CMEEC bonds are secured by power sales contracts between the agency and its Member or Participant utilities.

The municipal utilities do not conduct their electric operations for shareholder profit. In fact, there are no shareholders of either CMEEC or the municipal utilities. The customers and citizens of the municipality are the only "shareholders" for municipal utilities.

Under the contracts, money paid to CMEEC for community electricity goes to pay the real costs of obtaining the power, such as direct power production costs, basic staffing costs, power plant financing costs, and costs of entering into more beneficial power supply contracts with regional suppliers. Importantly, money collected by CMEEC under rates for electricity supplied to municipalities includes no so-called profit or shareholder dividends. Municipalities are charged a rate based on the actual cost of obtaining power with an additional percentage capped by state statute.

The accounting records of CMEEC are maintained using the Government Accounting Standards Board (GASB), the Uniform System of Accounts and Federal Energy Regulatory Commission (FERC) and the Generally Accepted Accounting Principles of the United States (GAAP) using the economic resources measurement focus and the accrual basis of accounting. Applications 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 recoverable through the rate-making process, which is governed by the Board of Directors.

The annual report consists of two parts: Management Discussion and Analysis (this section) and the basic financial statements. The Statement of Net Position report year end assets and liabilities based on the original cost adjusted for any depreciation, amortization or unrealized gains/losses as appropriate. The Statement of Revenues, Expenses and Changes in Net Position present CMEEC's operating revenues and expenses incurred as a result of CMEEC's business activity. The Statement of Cash Flows report the cash provided and used for operating activities, as well as investing activities and capital and related financing activities.

An analysis of CMEEC's financial position begins with the review of the Statements of Net Position, the Statements of Revenue, Expenses and Changes in Net Position and the Statement of Cash Flows.

## **STATEMENT OF NET POSITION**

### Comparison of 2018 Financial Results to 2017 Financial Results

Net utility plant and property of \$87.9 million decreased by \$4.7 million mainly due to accumulated depreciation and amortization of \$4.2 million, decreases in construction work in progress of \$.7 million and the \$.5 million sale of three DG Units offset by \$.7 million increase in capital projects placed in service.

Total Special Funds of \$32.4 million decreased by \$2.8 million due to payment of the 2013 Series B Bond of \$3.4 million and decrease of \$.2 million required for other debt service payments offset by an increase of \$.8 million from activity of the Municipal Trust Funds and the C&LM and Economic Development Funds.

Current Assets overall decreased by \$2.0 million due to a decrease of other current assets of \$3.1 million mainly attributable to Competitive Supply activity. The remaining current assets had a net increase of \$1.0 million due to an increase in Cash and cash equivalents and short-term investments of \$7.4 million offset by decreases of \$2.0 million and \$3.2 million in the General reserve fund and the deposit for current debt service respectively, as well as a decrease of \$1.4 million in accounts receivables offset by a \$.2 million increase in fuel inventories and a \$.1 million increase in Renewable Energy Credit inventory.

Other assets of \$8.9 million decreased by \$1.1 million which is due to the recovery of \$.9 million for asset impairment and \$.6 million for the metering project, a decrease of \$.3 million due to debt related deferrals, and an increase of \$.7 million for the subbase fuel cell.

Current Liabilities overall decreased by \$2.7 million mainly due to the decrease of \$3.2 million in current portion of long-term debt related to the payoff of the 2013 Series B Bonds offset by an increase of \$1.0 million in accrued liabilities, a decrease of \$.4 million in accounts payable, and a decrease of \$.1 million in accrued interest on long term debt.

The decrease of \$.1 million in other liabilities was due to a decrease of other post-employment benefits.

Long-Term Liabilities decrease of \$4.4 million is mainly attributable to principle bond payments of \$3.3 million and a decrease of \$1.1 million in amortized bond premiums.

Rate Stabilization fund increase of \$2.1 million was due to member contributions from equity distributions of \$7.9 million and margin of \$2.4 million plus allocated interest \$.4 million offset by withdrawals and transfers of \$1.3 million and \$7.3 due to billed to actual power costs.

The Conservation and Load Management Funds increased by \$.6 million due to less use of the funds and a deposit to the fund of \$.2 for NPU Hydro REC sales while the Economic Development Funds decreased by \$.2 million.

Municipal Competitive Trust increase of \$.5 million was mainly due to member repayments of \$.3 million and \$.2 million of earned interest.

## **STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

The majority of CMEEC's Statements of Revenues, Expenses and Changes in Net Position consists of the financial activity relating to revenues and expenses from power purchases and the Power Supply Agreements (PSAs) for the Projects. Project revenues are derived, primarily, from PSAs with Project Participants. Under all PSAs, the Project Participants are required to pay their respective shares of CMEEC's actual costs relating to the Projects, including debt service. Thus, CMEEC's revenues for an individual Project are dependent on debt service and the costs associated with that particular Project. Revenues for the individual Projects vary from year to year as the costs CMEEC incurs relating to a Project vary.

### Comparison of 2018 Financial Results to 2017 Financial Results

The 2018 total load of 1,521,632 MWh was 92,074 MWh lower than the 2017 total load resulting in a decrease in power revenues of \$10.4 million. This decrease is mainly attributable to the Massachusetts aggregation. The Berkshire Massachusetts contract ended and a Lowell reduction contributed to a lower load of 117,788 MWhs resulting in a decrease in revenues of \$14.5 million. CMEEC members' load increased by 25,714 MWhs resulting in an increase of \$4.1 million. Transmission Revenue of \$16.2 million for 2018 decreased by \$.7 million due to a transmission rate decrease of 1.4%. Uses of (additions to) rate stabilization and other revenues decrease of \$6.1 million was due to a decrease of margin of \$.8 million mainly due to competitive supply and \$5.3 million attributable to the difference in the estimated billed energy rates vs actual rates being lower in 2018 vs 2017.

Purchased power expense and generation costs of \$108 million decreased by \$2.6 million mainly due to the lower load mentioned above as well as a decrease of \$.6 million in staff and overhead allocated to project costs. Transmission cost of \$9 million decreased by \$.6 due to a rate decrease mentioned above.

Net Administrative and general expenses of \$8 million increased by \$.9 million primarily due to a decrease of \$.6 million in the staff and overhead allocation to project costs as well as a decrease of A&G allocated to Wallingford in the amount of \$.4 million. Also, an increase of \$.5 million for anticipated arbitration expenses was reserved offset by a decrease in legal fees of \$.5 million. Employee pension plan expenses rose by \$.3 million offset by a decrease in consulting fees in the amount of \$.4 million.

Net of other income and expense remained consistent from 2017 to 2018.

Change in bond expense to be recovered from future billings decreased accordingly year over year.

## **STATEMENT OF CASH FLOWS**

For the purposes of the Statement of Cash Flows, cash equivalents are cash and investments having an original maturity of three months or less from the date of acquisition. Cash and cash equivalents of \$17.5 million increased \$8.0 million from 2017 mainly due to the purchase of short term investments during 2017 and a \$10.0 million pay down of a credit line both of which did not occur again in 2018.

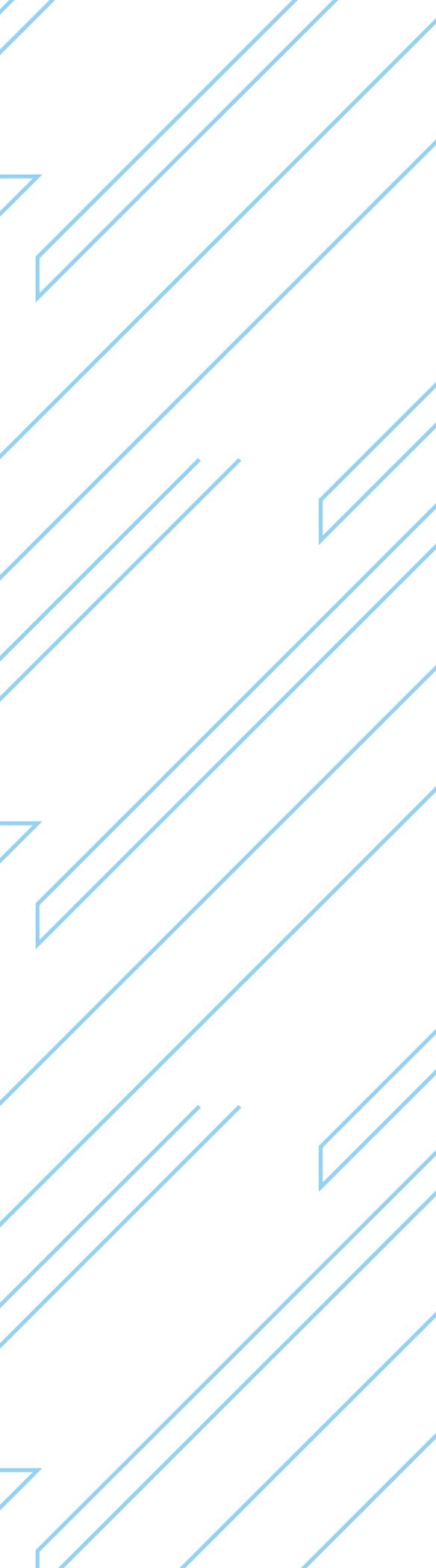
## **DEBT SERVICE COVERAGE**

For the fiscal year ending on December 31, 2018, CMEEC met all covenants for its short and long term debt, including all payments and debt servicing requirements. In accordance, CMEEC collections for the sale of output and service exceeded the required 110% of Aggregate Debt Service for by the bond covenants.

## **LONG-TERM DEBT RATINGS**

In March 2018, Fitch Ratings reviewed and affirmed the debt series listed below. Moody's Investors Service last reviewed and affirmed the debt series in 2016.

Debt Series	Fitch Ratings	Moody's Investors Service
Transmission Services Revenue Bonds, 2012 Series A	A+	Aa3
Power Supply System Revenue Bonds, 2013 Series A	A+	Aa3
Power Supply System Revenue Bonds, 2013 Series B	A+	Aa3



# **Basic Financial Statements**

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## STATEMENTS OF NET POSITION

DECEMBER 31, 2018 AND 2017

(In Thousands)

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>Utility Plant and Property</b>		
Land	\$ 60	\$ 60
Intangible plant and property in service	861	861
General plant in service	147,061	146,653
Construction work in progress	42	922
	<u>148,024</u>	<u>148,496</u>
Less accumulated depreciation and amortization	<u>60,098</u>	<u>55,873</u>
Net utility plant and property	<u>87,926</u>	<u>92,623</u>
<b>Investment in Hydro Quebec</b>	<u>317</u>	<u>317</u>
<b>Special Funds</b>		
Debt service funds	10,570	14,152
Conservation and load management fund	2,391	1,780
Economic development fund	1,888	2,128
Municipal Competitive Trust	17,547	17,096
Total special funds	<u>32,396</u>	<u>35,156</u>
<b>Current Assets</b>		
Cash and cash equivalents	17,465	9,428
Short-term investments	29,651	30,289
General reserve fund	815	2,822
Deposit for current debt service	5,639	8,855
Accounts receivable	6,789	7,228
Accounts receivable from related parties	13,994	15,003
Inventories	5,672	5,371
Other current assets	3,558	6,648
Total current assets	<u>83,583</u>	<u>85,644</u>
<b>Other Assets</b>		
Costs to be recovered from future billings	<u>8,861</u>	<u>9,973</u>
<b>Total Assets</b>	<u>\$ 213,083</u>	<u>\$ 223,713</u>

The accompanying notes are an integral part of the financial statements

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## STATEMENTS OF NET POSITION (CONTINUED)

DECEMBER 31, 2018 AND 2017

(In Thousands)

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt	\$ 4,283	\$ 7,498
Accounts payable	13,853	14,217
Accrued liabilities	10,353	9,399
Accrued interest on long-term debt	2,323	2,420
Total current liabilities	<u>30,812</u>	<u>33,534</u>
<b>Other Liabilities</b>	842	967
<b>Long-Term Liabilities</b>		
Long-term debt, net of current portion	<u>96,578</u>	<u>100,860</u>
Total liabilities	<u>128,232</u>	<u>135,361</u>
<b>Rate Stabilization Funds</b>	<u>33,863</u>	<u>31,755</u>
<b>Conservation and Load Management Fund</b>	<u>2,391</u>	<u>1,780</u>
<b>Economic Development Fund</b>	<u>1,888</u>	<u>2,128</u>
<b>Municipal Competitive Trust</b>	<u>17,547</u>	<u>17,096</u>
<b>Asset Management Reserve Deferral</b>	<u>4,180</u>	<u>4,355</u>
<b>Net Position</b>		
Net investment in capital assets	(13,642)	(13,326)
Restricted for:		
Debt service	8,743	12,391
Unrestricted	<u>29,881</u>	<u>32,173</u>
Total net position	<u>24,982</u>	<u>31,238</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 213,083</u>	<u>\$ 223,713</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, 2018 AND 2017

(In Thousands)

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues</b>		
Electric power supply revenues	\$ 115,608	\$ 125,966
Electric transmission revenues	16,244	16,907
Uses of (additions to) rate stabilization funds and other	4,873	(1,230)
Total operating revenues	<u>136,725</u>	<u>141,643</u>
<b>Operating Expenses</b>		
Purchased power and generation costs	107,741	110,336
Transmission costs	9,090	9,805
Administrative and general	8,113	7,258
Depreciation and amortization	4,247	4,225
Total operating expenses	<u>129,191</u>	<u>131,624</u>
<b>Net Operating Income</b>	<u>7,534</u>	<u>10,019</u>
<b>Other Income (Expense)</b>		
Interest and investment income	370	529
Interest expense	(4,815)	(5,120)
Amortization of debt discount and premium, issuance expense and loss on reacquisition of debt	964	1,065
Other income (expense)	(37)	11
Net other expense	<u>(3,518)</u>	<u>(3,515)</u>
<b>Change in Bond Expenses to be Recovered from Future Billings</b>	<u>(1,571)</u>	<u>(4)</u>
<b>Net Income</b>	2,445	6,500
<b>Excess Equity Distribution to Members</b>	<u>(8,701)</u>	<u>(8,157)</u>
<b>Change in Net Position</b>	(6,256)	(1,657)
<b>Net Position at Beginning of Year</b>	<u>31,238</u>	<u>32,895</u>
<b>Net Position at End of Year</b>	<u>\$ 24,982</u>	<u>\$ 31,238</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, 2018 AND 2017

(In Thousands)

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 141,330	\$ 147,495
Cash paid to suppliers:		
Fuel and purchased power	(108,042)	(111,110)
Transmission costs	(9,090)	(9,805)
Operations and maintenance	(4,871)	(5,974)
Cash paid to employees:		
Salaries and benefits	(5,954)	(5,507)
Net cash provided by operating activities	<u>13,373</u>	<u>15,099</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Principal payments - line of credit	-	(10,000)
Excess equity distribution to members	(741)	(1,068)
Net cash used in noncapital financing activities	<u>(741)</u>	<u>(11,068)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchases of capital assets	(699)	(1,117)
Proceeds from sale of capital assets	477	99
Principal payments - long-term debt	(6,445)	(6,360)
Interest payment on debt	(4,912)	(5,256)
Net cash used in capital and related financing activities	<u>(11,579)</u>	<u>(12,634)</u>
<b>Cash Flows from Investing Activities</b>		
Contributions to Hydro Quebec	-	(210)
Uses of (contributions to) special funds	5,976	(1,714)
Net proceeds from (sale of) short-term investments	1,008	(12,661)
Net cash provided by (used in) investing activities	<u>6,984</u>	<u>(14,585)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	8,037	(23,188)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>9,428</u>	<u>32,616</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 17,465</u>	<u>\$ 9,428</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, 2018 AND 2017 (In Thousands)

	<u>2018</u>	<u>2017</u>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 7,534	\$ 10,019
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,247	4,225
Amortization of debt discount and premium and issuance expenses	(88)	(90)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	1,448	(6)
(Increase) decrease in inventories	(301)	(774)
(Increase) decrease in other assets and general reserve fund	5,097	1,689
(Increase) decrease in costs to be recovered from future billings to members	213	(1,262)
Increase (decrease) in accounts payable and accrued liabilities	553	309
Increase (decrease) in rate stabilization funds	(5,802)	(358)
Increase (decrease) in Economic Development Fund	(290)	(190)
Increase (decrease) in Conservation and Load Management Fund	611	(17)
Increase (decrease) in Municipal Competitive Trust	451	1,900
Increase (decrease) in Asset Management Reserve Deferral	(175)	-
Increase (decrease) in other liabilities	(125)	(346)
Total adjustments	<u>5,839</u>	<u>5,080</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 13,373</u>	<u>\$ 15,099</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Noncash investing, capital and financing transactions:		
Abandoned utility and plant to be recovered through future billings	\$ 672	\$ 1,493
Change in bond expenses to be recovered through future billings	(1,571)	(4)
Amortization of debt discount and premium and issuance expenses	964	1,065
Excess equity distribution to members transferred to special funds	<u>(7,960)</u>	<u>(7,089)</u>
Net Noncash Investing, Capital and Financing Transactions	<u>\$ (7,895)</u>	<u>\$ (4,535)</u>

The accompanying notes are an integral part of the financial statements

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(Amounts Expressed in Thousands)

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### NOTE 1 - NATURE OF OPERATIONS

#### Organization

Connecticut Municipal Electric Energy Cooperative (CMEEEC) 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. In addition, CMEEEC is required to comply with Connecticut Public Acts 17-73 and 18-50. CMEEEC is owned and governed by six member utilities (the Members). The Members include the Cities of Norwich and Groton, the Borough of Jewett City, the Second and Third Taxing Districts of the City of Norwalk, and Bozrah Light and Power Company. 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 and others. Under the bylaws of CMEEEC, a Member Delegation and Board of Directors were established to act as regulatory bodies for the review and approval of cost recovery through rates on an annual basis. The bylaws were amended in 1995, 2013 and 2018 to remain current with the statutory environment, with no fundamental operating changes effected.

#### Blended Component Unit

Connecticut Transmission Municipal Electric Energy Cooperative (d/b/a TRANSCO), a blended component unit of CMEEEC, 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 CMEEEC and the Town of Wallingford Electric Division (WED) are Members of TRANSCO.

#### Operations

CMEEEC 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 CMEEEC, with CMEEEC's electric revenues to consist of billings for resale of power. The contracts obligate each system to pay for their share of CMEEEC's fixed costs, which consist primarily of debt service and CMEEEC 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 CMEEEC.

In addition to the Members, CMEEEC provides electric service to the Mohegan Tribal Utility Authority (MTUA). CMEEEC also participates in competitive power supply contracts. See Note 13 for additional information of these arrangements.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

As the governing body of CMEEEC consists of members appointed by various local governments, the accounting records of CMEEEC 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.

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

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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.

### 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 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. Effective July 2015, Hydro Quebec Energy Services U.S. began paying CMEEC a monthly fee of \$26 for the transfer of use rights associated with CMEEC's interest in the project for a three-year contract term ended in June 2018. Effective July 2018, CMEEC entered into an agreement with NALCOR Energy Marketing Corp for a monthly fee of \$64 for the transfer of use rights associated with CMEEC's interest in the project for a twenty-eight month contract term ending in October 2020.

### 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 and MTUA by CMEEC.

### Conservation and Load Management Fund

This fund is established pursuant to Sec. 7-233y of the Connecticut General Statutes. The Statute 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.

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### **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.

### **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.

### **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. CMEEC maintains their cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. CMEEC has not experienced any losses in such accounts and believe they are not exposed to any significant credit risk on cash and cash equivalents.

### **Short-Term Investments**

Investments consist of debt and equity securities and are reported at fair value.

### **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.

### **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, 2018 and 2017.

### **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.

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### Other Current Assets

Other current 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.

### Costs to be Recovered from Future Billings

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, and are included as costs to be recovered from future billings in the accompanying statements of net position. These deferrals primarily 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.

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. The net change in bond related expenses is recorded as "change in bond expenses to be recovered" in the accompanying statements of revenues, expenses and changes in net position.

### 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.

### Federal Energy Regulatory Commission Ruling

In 2014, Federal Energy Regulatory Commission (FERC) issued a ruling pursuant to section 206 of the Federal Power Act that determined the base return on equity of New England Transmission Owners (NETO) as reflected in ISO New England's open access transmission tariff was "unjust and unreasonable", and that a lower rate would have been more appropriate. Such a ruling would require that the NETOs make refunds, with interest on the amounts charged over the updated ROE rate. Balance accrued for in 2018 and 2017 related to the FERC Ruling is \$459. See Note 14 for more information regarding the FERC Ruling.

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

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### 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.

### 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, costs to be recovered from future billings, underbillings included in other current assets and certain commitments and contingencies as discussed in Note 14. Actual results could differ from those estimates.

### Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. 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 20, 2019, which represents the date the financial statements were available to be issued.

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (Amounts Expressed in Thousands)

### NOTE 3 - UTILITY PLANT AND PROPERTY

Utility plant and property activity for the year ended December 31, 2018 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	922	623	714	(789)	42
Total capital assets not being depreciated	<u>982</u>	<u>623</u>	<u>714</u>	<u>(789)</u>	<u>102</u>
Utility plant and property being depreciated:					
Intangible plant and property in service	861	-	-	-	861
General plant in service	146,653	76	457	789	147,061
Total utility plant and property being depreciated	<u>147,514</u>	<u>76</u>	<u>457</u>	<u>789</u>	<u>147,922</u>
Less accumulated depreciation for:					
Intangible plant and property in service	783	-	-	-	783
General plant in service	55,090	4,247	22	-	59,315
Total accumulated depreciation	<u>55,873</u>	<u>4,247</u>	<u>22</u>	<u>-</u>	<u>60,098</u>
Total utility plant and property being depreciated, net	<u>91,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,824</u>
Utility Plant and Property, Net	<u>\$ 92,623</u>	<u>\$ (3,548)</u>	<u>\$ (1,149)</u>	<u>\$ -</u>	<u>\$ 87,926</u>

Depreciation expense related to utility plant and property was \$4,247 for the year ended December 31, 2018.

Utility plant and property activity for the year ended December 31, 2017 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	1,481	361	690	(230)	922
Total capital assets not being depreciated	<u>1,541</u>	<u>361</u>	<u>690</u>	<u>(230)</u>	<u>982</u>
Utility plant and property being depreciated:					
Intangible plant and property in service	861	-	-	-	861
General plant in service	146,636	756	969	230	146,653
Total utility plant and property being depreciated	<u>147,497</u>	<u>756</u>	<u>969</u>	<u>230</u>	<u>147,514</u>
Less accumulated depreciation for:					
Intangible plant and property in service	750	33	-	-	783
General plant in service	50,965	4,192	67	-	55,090
Total accumulated depreciation	<u>51,715</u>	<u>4,225</u>	<u>67</u>	<u>-</u>	<u>55,873</u>
Total utility plant and property being depreciated, net	<u>95,782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,641</u>
Utility Plant and Property, Net	<u>\$ 97,323</u>	<u>\$ (3,108)</u>	<u>\$ (1,592)</u>	<u>\$ -</u>	<u>\$ 92,623</u>

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

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Depreciation expense related to utility plant and property was \$4,225 for the year ended December 31, 2017.

### NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

#### 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*, \$20,447 of CMEEC's bank balance of \$21,197 was uninsured and uncollateralized as of December 31, 2018.

#### Investments

Special funds and short-term 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. Special funds included in investments are the debt service funds, municipal competitive trust funds and deposits for current debt service, less any amounts considered to be cash or cash equivalents.

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, 2018, CMEEC intends and has the ability to hold the certain 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.

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

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As of December 31, 2018, CMEEC's investments consisted of the following:

Investment Type	Fair Value	Investment Maturities (In Years)			
		N/A	Less Than 1	1 to 10	More Than 10
<b>Special Funds and Short-Term Investments</b>					
Interest-bearing investments:					
U.S. Government Securities	\$ 32,599	\$ -	\$ 20,655	\$ 11,944	\$ -
U.S. Government Agencies	16,219	-	8,991	7,228	-
Corporate Bonds	<u>7,536</u>	-	<u>1,967</u>	<u>5,569</u>	-
Total	56,354	\$ -	\$ <u>31,613</u>	\$ <u>24,741</u>	\$ -
Other Investments:					
Mutual Funds	<u>7,053</u>				
Total Investments	\$ <u>63,407</u>				

As of December 31, 2017, CMEEC's investments consisted of the following:

Investment Type	Fair Value	Investment Maturities (In Years)			
		N/A	Less Than 1	1 to 10	More Than 10
<b>Special Funds and Short-Term Investments</b>					
Interest-bearing investments:					
U.S. Government Securities	\$ 43,542	\$ -	\$ 15,348	\$ 28,194	\$ -
U.S. Government Agencies	17,922	-	5,901	12,021	-
Corporate Bonds	<u>7,382</u>	-	<u>3,228</u>	<u>4,154</u>	-
Total	68,846	\$ -	\$ <u>24,477</u>	\$ <u>44,369</u>	\$ -
Other Investments:					
Mutual Funds	<u>1,546</u>				
Total Investments	\$ <u>70,392</u>				

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

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Presented below is the rating of investments for each debt instrument type at fair value as of December 31, 2018:

<b>Average Rating</b>	<b>U.S. Government Securities</b>	<b>U.S. Government Agencies</b>	<b>Corporate Bonds</b>
AAA	\$ 32,599	\$ 16,219	\$ 2,846
AA1	-	-	1,270
AA2	-	-	1,075
AA3	-	-	983
A1	-	-	1,246
BAA1	-	-	116
	<u>\$ 32,599</u>	<u>\$ 16,219</u>	<u>\$ 7,536</u>

Presented below is the rating of investments for each debt instrument type at fair value as of December 31, 2017:

<b>Average Rating</b>	<b>U.S. Government Securities</b>	<b>U.S. Government Agencies</b>	<b>Corporate Bonds</b>
AAA	\$ 43,542	\$ 17,922	\$ 2,021
AA1	-	-	637
AA2	-	-	680
AA3	-	-	939
A2	-	-	122
A1	-	-	2,983
	<u>\$ 43,542</u>	<u>\$ 17,922</u>	<u>\$ 7,382</u>

### Fair Value of Financial Instruments

CMEEC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements); followed by quoted prices in inactive markets or for similar assets or with observable inputs (Level 2 measurements); and the lowest priority to unobservable inputs (Level 3 measurements).

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

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Presented below is the recurring fair value measurements for each investment type as of December 31, 2018:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt securities:				
U.S. Government Securities	\$ 32,599	\$ 32,599	\$ -	\$ -
U.S. Government Agencies	16,219	-	16,219	-
Corporate Bonds	7,536	-	7,536	-
Equity securities:				
Mutual Funds	<u>7,053</u>	<u>971</u>	<u>6,082</u>	<u>-</u>
Total Investments by Fair Value Level	<u>\$ 63,407</u>	<u>\$ 33,570</u>	<u>\$ 29,837</u>	<u>\$ -</u>

Presented below is the recurring fair value measurements for each investment type as of December 31, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt securities:				
U.S. Government Securities	\$ 43,542	\$ 43,542	\$ -	\$ -
U.S. Government Agencies	17,922	-	17,922	-
Corporate Bonds	7,382	-	7,382	-
Equity securities:				
Mutual Funds	<u>1,546</u>	<u>1,546</u>	<u>-</u>	<u>-</u>
Total Investments by Fair Value Level	<u>\$ 70,392</u>	<u>\$ 45,088</u>	<u>\$ 25,304</u>	<u>\$ -</u>

### Government and Agency Securities and Corporate Bonds

U.S. Treasury bills, notes and bonds are valued at the closing price reported in the active market in which the individual securities are traded. Other government and agency securities are valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings. Corporate bonds are valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings.

### Money Market and Mutual Funds

Money market and mutual funds are valued at the quoted price of shares held by CMEEC at year end.

For purposes of the preceding 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.

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

(Amounts Expressed in Thousands)

Of the total investments for the years ended December 31, 2018 and 2017, \$35,290 and \$39,144, respectively, are reflected as current assets on the statements of net position. These represent short-term investments and 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.

### 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, 2018. 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 custodial credit risk by defining the allowable investment terms, investments and maximum allocation to each asset class.

### Concentrations of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment with a single issuer. CMEEC’s investment policy places limits on the percentage of investments that may be held with any one issuer and varies by investment type.

## 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:

	2018		2017
CMEEC:			
Debt related deferrals	\$ 2,081	\$	3,526
Other deferrals	1,536		2,463
TRANSCO:			
Debt related deferrals	5,244		3,984
	\$ 8,861	\$	9,973

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

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

#### Change in Long-Term Liabilities

The following is a summary of changes in debt and long-term liabilities for the year ended December 31, 2018:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Bonds payable	\$ 99,755	\$ -	\$ 6,445	\$ 93,310	\$ 3,325
Bond premium	8,603	-	1,052	7,551	958
Total bonds payable	<u>108,358</u>	<u>-</u>	<u>7,497</u>	<u>100,861</u>	<u>4,283</u>
Other liabilities:					
Deferred compensation	967	-	125	842	-
Pierce decommissioning liability	408	8	-	416	-
Long-Term Liabilities	<u>\$ 109,733</u>	<u>\$ 8</u>	<u>\$ 7,622</u>	<u>\$ 102,119</u>	<u>\$ 4,283</u>

The following is a summary of changes in debt and long-term liabilities for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Bonds payable	\$ 106,115	\$ -	\$ 6,360	\$ 99,755	\$ 6,445
Bond premium	9,758	-	1,155	8,603	1,053
Total bonds payable	<u>115,873</u>	<u>-</u>	<u>7,515</u>	<u>108,358</u>	<u>7,498</u>
Other liabilities:					
Line of credit	10,000	-	10,000	-	-
Deferred compensation	1,095	-	128	967	-
Pierce decommissioning liability	404	4	-	408	-
Long-Term Liabilities	<u>\$ 127,372</u>	<u>\$ 4</u>	<u>\$ 17,643</u>	<u>\$ 109,733</u>	<u>\$ 7,498</u>

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

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### Bonds Payable

The debt service requirements for CMEEC's consolidated debt outstanding as of December 31, 2018 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,325	\$ 4,624	\$ 7,949
2020	3,385	4,472	7,857
2021	3,465	4,304	7,769
2022	3,550	4,130	7,680
2023	3,640	3,952	7,592
2024-2028	19,715	16,997	36,712
2029-2033	22,685	11,601	34,286
2034-2038	26,525	5,382	31,907
2039-2042	7,020	527	7,547
	<u>\$ 93,310</u>	<u>\$ 55,989</u>	<u>\$ 149,299</u>

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 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.

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 matured in 2018.

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, 2018 and 2017, is \$4,445 and \$4,961, 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.

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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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 \$93,310 long-term debt outstanding at December 31, 2018, \$17,328 is the responsibility of the nonmembers for their participation in the respective projects.

The premium amortization schedule is as follows:

<u>Year Ending December 31</u>	<u>Total</u>
2019	\$ 958
2020	856
2021	762
2022	673
2023	594
Thereafter	<u>3,708</u>
	<u>\$ 7,551</u>

### 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, 2018 and 2017. A fee of 0.35% is assessed on any unused balance. The line expires on April 30, 2021.

CMEEC also had 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, 2018 and 2017. A fee of 0.25% is assessed on any unused balance. The line expired 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 1.10% for the purpose of providing working capital needs to serve aggregation customers in Massachusetts. A fee of 0.35% is assessed on any unused balance. The available amount was reduced to \$10,000 in 2017 and was terminated effective April 2018. No balance was drawn or outstanding as of December 31, 2017.

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(Amounts Expressed in Thousands)

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On August 1, 2017, CMEEC established a line of credit with Bank of America with available amounts of \$20,000 bearing interest at LIBOR Market Index Rate. No balance was drawn or outstanding as of December 31, 2018 and 2017. A fee of 0.55% is assessed on any unused balance. The line expires on August 1, 2020.

Lines of credit have been established to provide for backup liquidity needs of CMEEC and can be used for any corporate purposes.

### Pierce Decommissioning Liability

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 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, CMEEC is 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, 2018, approximately \$416 has been collected from customers and is being maintained in reserve for the purpose of eventual retirement obligations.

## NOTE 7 - RETIREMENT PLANS

### National Rural Electric Cooperative Association Retirement Security Plan

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. Each co-op in the plan including CMEEC elects to participate in the plan. CMEEC can choose to withdraw from the RS Plan, subject to plan provisions that require them to fully fund its share of RS Plan liabilities before withdrawing. The RS Plan is sponsored and administered by NRECA and is a cost-sharing pension plan that has the characteristics described in paragraph 2 of GASB Statement No. 78.

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.

The total annual contribution is determined actuarially to be sufficient in funding the benefits of the RS Plan as a level percentage of covered payroll over the average expected remaining working lifetime of its participants. The amount is determined annually. This total annual contribution is allocated based on CMEEC's RS Plan provisions and participant demographics (in particular, the average age of participants and each participant's pay level). CMEEC must contribute annually in accordance with the terms of the RS Plan, and may amend certain benefit provisions changing the corresponding contribution level after the effective date of the amendment.

CMEEC contributions to the RS Plan in 2018 and in 2017 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 2018 and 2017 as a percent of covered payroll were 25.09% and 20.41%, respectively.

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

(Amounts Expressed in Thousands)

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CMEEC made contributions to the plan of \$942 in 2018 and \$635 in 2017 and had no amounts payable to the RS plan as of December 31, 2018 and 2017. Amounts contributed to the RS Plan for 2018 and 2017 were 100% of the contributions required by NRECA for each respective year. Average employees covered under the plan totaled 29.6 and 28.5 for the years ended December 31, 2018 and 2017, respectively. There have been no significant changes that affect the comparability of 2018 and 2017 contributions.

Plan benefits under the RS Plan follow a graduated benefit model where 1.9% of the participant's final average effective salary is multiplied by years of benefit service. Benefits are not adjusted for increases in the cost-of-living (COLA). Participants become eligible to begin collecting benefits upon the normal retirement date, which is considered to be the first day of the month coincident with or next following a participant's attainment of age 65. CMEEC may amend certain benefit terms of the plan, including benefit levels provided for each year of service, normal retirement age, COLA adjustments to retiree annuity payments, eligibility for participation, and required employee contributions to the plan. Other plan terms, such as vesting periods, forms of payment, and factors used to reduce benefits for early retirement and conversion of benefits to optional forms of payment, are governed at the overall plan level and cannot be adjusted by CMEEC (such provisions require approval by the NRECA board of directors).

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 94.2% funded on January 1, 2017 and 95.5% funded at January 1, 2016 based on the PPA funding target and PPA actuarial value of assets on those dates. The RS Plan must meet minimum funding requirements under ERISA, as determined by Internal Revenue Service regulations.

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.

The RS Plan must file annual reports with the U.S. Department of Labor (Form 5500) that include a copy of the RS Plan annual financial statements. An electronic copy of Form 5500, and the plan's annual financial statements, can be obtained by going to [www.efast.dol.gov](http://www.efast.dol.gov) and using the search tool (Employer Identification Number 530116145; Plan Number 333). Copies of the RS Plan's annual financial statements are also available to cooperative representatives by calling NRECA's Member Contact Center at 866.673.2299.

### **Defined Contribution Plan**

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 \$47 and \$37 for the years ended December 31, 2018 and 2017, respectively.

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(Amounts Expressed in Thousands)

### Other Post-Employment Benefits

CMEEC has certain post-employment contracts in which an annual annuity and post-retirement health care coverage is provided starting at retirement (at or after the age of 62) or after 10 years of service under the agreement. Actual benefits vary by individual agreement. The cost of these benefits are covered through fully funded insurance policies, with assets and associated liabilities valued at \$842 and \$967 at December 31, 2018 and 2017, respectively. The first payment was in March 2012. Payments continue through 2038.

### NOTE 8 - EQUITY DISTRIBUTIONS

Pursuant to terms under the power supply agreements, annually the Members are eligible for an equity distribution from CMEEC for any amount in excess of a 20% equity to debt ratio. During the years ended December 31, 2018 and 2017, the members collectively took distributions of \$8,701 and \$8,157, respectively.

### NOTE 9 - RELATED PARTY TRANSACTIONS

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

	2018		2017	
	Revenues from Related Parties	Accounts Receivable from Related Parties	Revenues from Related Parties	Accounts Receivable from Related Parties
<b>Members</b>				
Groton	\$ 32,588	\$ 5,320	\$ 34,520	\$ 6,133
Norwich	26,632	4,199	27,615	4,370
Jewett City	2,452	279	2,317	293
East Norwalk	5,546	459	5,698	533
South Norwalk	9,529	835	9,118	887
Bozrah	16,585	2,902	6,737	2,707
Wallingford*	-	-	1,536	80
	<u>\$ 93,332</u>	<u>\$ 13,994</u>	<u>\$ 87,541</u>	<u>\$ 15,003</u>

\*for the purposes of TRANSCO only.

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (Amounts Expressed in Thousands)

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### 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.

#### 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

As of December 31, 2018, CMEEC had accounts receivable balances greater than 10% of total accounts receivable for two nonmember customers.

### NOTE 12 - OPERATING LEASES

#### Pierce Project

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 \$329 and \$324 for the years ended December 31, 2018 and 2017, respectively.

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

#### Year Ending December 31

2019	\$	334
2020		339
2021		344
2022		349
2023		355
2024-2027		<u>1,409</u>
	\$	<u>3,130</u>

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

(Amounts Expressed in Thousands)

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.

### MicroGen Project

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). Lease expense was \$180 for each of the years ended December 31, 2018 and 2017.

Expected future payments under these operating leases are as follows:

### Year Ending December 31

2019	\$	180
2020		168
2021		122
2022		108
2023		108
Thereafter		<u>1,672</u>
	\$	<u>2,358</u>

### 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 (the MicroGen Project, formerly known as the 50 in 5 Project). Effective December 31, 2018, WED elected to cease participation in the MicroGen Project and is no longer entitled to its net benefit or responsible for its allocable share of cost in this project going forward. WED is entitled to its net benefit and is responsible for its allocable share of the costs of the Pierce Project. See also Note 14.

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 facilities. Also, according to the contract the cost of distribution facility construction and upgrades will

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(Amounts Expressed in Thousands)

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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. 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 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 provided wholesale power to the Hampshire Council of Governments (HCOG) through October 2017, a competitive supplier in Massachusetts under a purchase power agreement. The power being supplied to HCOG was utilized to serve several "aggregation" loads in Massachusetts and had various terms. After termination of the HCOG contract in October 2017, CMEEC continued to service one of the aggregation loads directly through the contract conclusion date of December 1, 2017. Termination of the Massachusetts aggregation load contracts resulted in write-downs of \$1,534 and \$999 for the years ended December 31, 2018 and 2017, respectively, which are included as a reduction of electric power supply revenues on the accompanying statements of revenues, expenses and changes in net position.

Effective March 4, 2016, CMEEC entered into a competitive elective service agreement with the town of Tewksbury, Massachusetts. Under the terms of the contract CMEEC was granted the exclusive right to provide all-requirements power supply to participating consumers within the town of Tewksbury through May of 2021. During the year ended December 31, 2018, CMEEC sold these rights to another competitive supplier resulting in additional costs of \$922 to facilitate the settlement of the contract. CMEEC expects to be able to recover these costs through the remainder of the contract, and the costs are included other current assets in the accompanying statement of net position.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

On November 8, 2018, indictments were returned by the United States Attorney grand jury in connection with an ongoing investigation involving two employees of CMEEC's leadership team, along with one current Board member and two former Board members. CMEEC has fully cooperated with the government during this investigation and is not as an organization part of the indictments. Effective November 9, 2018, the two employees were placed on unpaid administrative leave with no active role in CMEEC, to allow CMEEC to hire an outside special investigator to conduct an internal investigation. Pursuant to the CMEEC bylaws, the indicted active Board member has been removed from the CMEEC Board of Directors and Member Delegation effective November 9, 2018. As of March 20, 2019, the date that the financial statements were available to be issued, the status of the indictments is still pending.

# CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(Amounts Expressed in Thousands)

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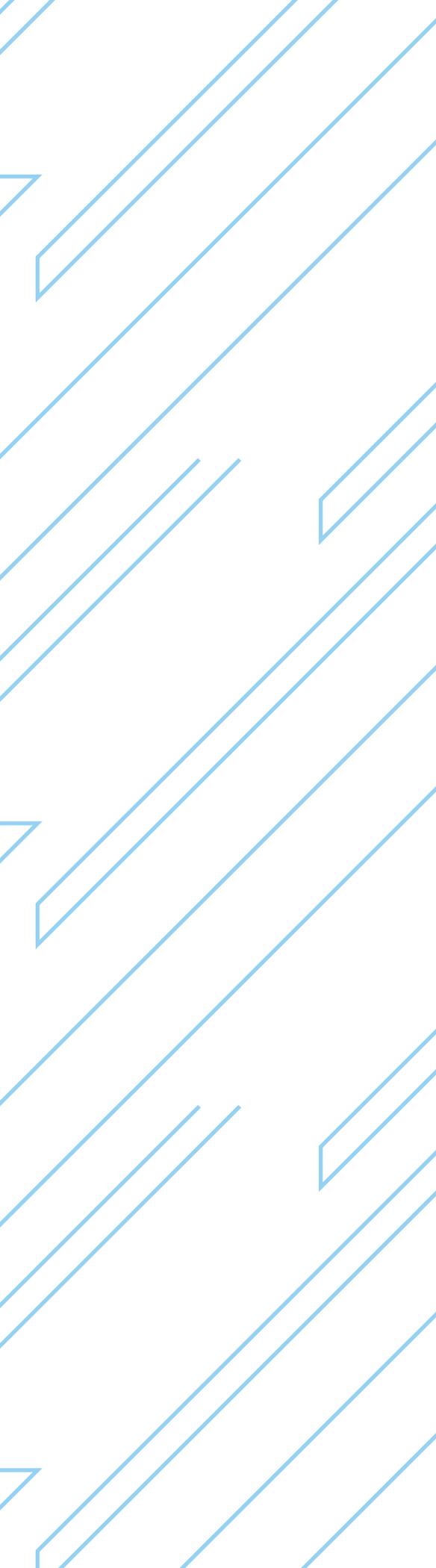
In September 2011, the Massachusetts Attorney General filed a complaint at FERC, seeking a reduction in the base Return on Equity (ROE) component of the Regional Network Service revenue requirements for all electric transmission owners, from the previously approved level of 11.14%. The final FERC decision, 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, 2018 is \$459, reflecting an accrual of \$790 less refund payments of \$331 through December 31, 2018. As of December 31, 2018, CMEEC has received \$833 of refunded transmission expense.

In December 2012, July 2014 and September 2016, hearings on subsequent complaints were held by FERC regarding the ROE for the 15-month periods following the aforementioned filing dates. In April 2017, the U.S. Federal Appeals Court vacated and remanded the FERC orders on the September 2011 complaint, which will have implications for the three other ROE complaint proceedings. In October 2017, a motion to dismiss all four of the ROE complaints was filed and remains pending. The motion alternatively requested that the FERC consolidate the four ROE complaints for decision and use expedited procedures to resolve them. The cases have not been resolved as of December 31, 2018.

WED has disputed administrative and general charges being allocated to them under the three contracts remaining in effect as of December 31, 2018 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 the arbitration process. Management has established a reserve as of December 31, 2018 that is expected to cover any potential liability from the resolution of this process.

CMEEC is involved in litigation with respect to certain matters and is subject to other claims that arise in the normal course of business. In the opinion of management, none of these matters is expected to have a materially adverse effect on the Company's financial position or results of operations.

Substantially beginning during the year ended December 31, 2016, CMEEC entered into a solar power purchase agreement with SolarCity Corporation (SolarCity). Under the terms of the agreement, CMEEC is obligated to purchase the power and any related environmental attributes generated by the local solar systems installed by SolarCity and operational beginning in late 2016. Under the terms of the contract the power and any additional benefits generated and purchased by CMEEC may be utilized by CMEEC or resold. Due to the variation expected monthly on the amount of power and related environmental attributes produced, no future obligations have been accounted for or disclosed.



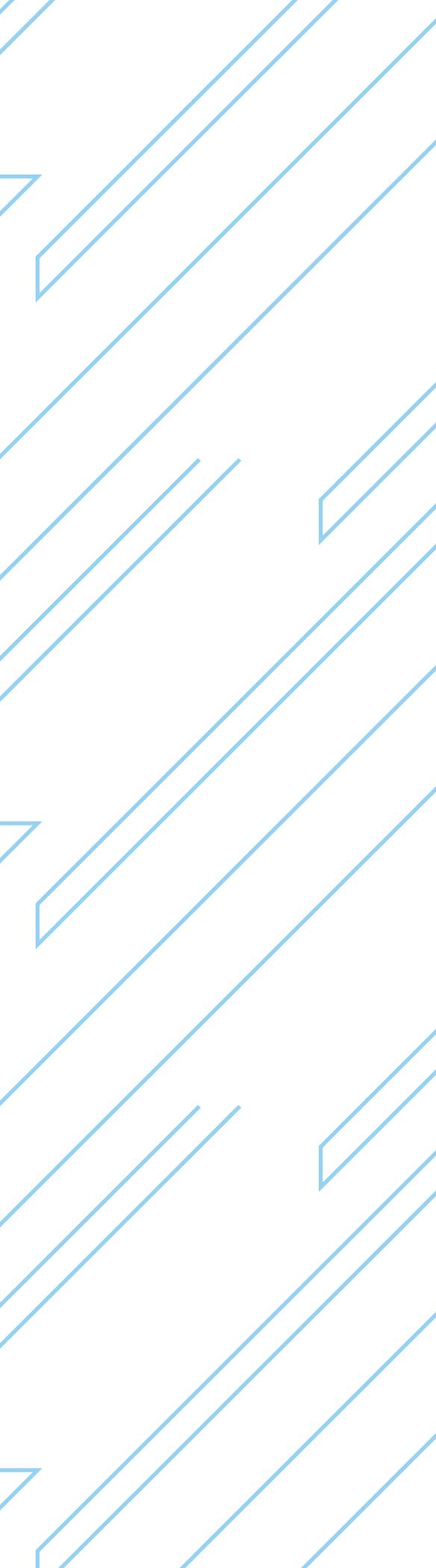
**Required  
Supplementary  
Information**

**CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION RETIREMENT SECURITY PLAN**  
**LAST TEN FISCAL YEARS**  
(In Thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined contribution	\$ 942	\$ 635	\$ 704	\$ 635	\$ 634	\$ 627	\$ 605	\$ 530	\$ 475	\$ 320
Contributions in relation to the actuarially determined contribution	<u>942</u>	<u>635</u>	<u>704</u>	<u>635</u>	<u>634</u>	<u>627</u>	<u>605</u>	<u>530</u>	<u>475</u>	<u>320</u>
Contribution Deficiency (Excess)	\$ <u>-</u>									

Notes to Schedule:

*Significant changes in plan contributions* - In 2009, 2010 and 2013 the contribution rates were increased to supplement a lower recognized investment return than the 8.5% expected annual return. In 2017 and 2018, the contribution rate was increased in order to improve the funded status of the plan and reach projected funded status of 100%.



## **Combining Schedules**

**CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE**

EXHIBIT A-1

**COMBINING SCHEDULE OF NET POSITION  
DECEMBER 31, 2018  
(In Thousands)**

	<u>CMEEC</u>	<u>TRANSCO</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>				
<b>Utility Plant and Property</b>				
Land	\$ 60	\$ -	\$ -	\$ 60
Intangible plant and property in service	861	-	-	861
General plant in service	94,118	52,943	-	147,061
Construction work in progress	42	-	-	42
	<u>95,081</u>	<u>52,943</u>	<u>-</u>	<u>148,024</u>
Less accumulated depreciation and amortization	45,802	14,296	-	60,098
Net utility plant and property	<u>49,279</u>	<u>38,647</u>	<u>-</u>	<u>87,926</u>
<b>Investment in Hydro Quebec</b>	<u>317</u>	<u>-</u>	<u>-</u>	<u>317</u>
<b>Investment in TRANSCO</b>	<u>32,633</u>	<u>-</u>	<u>(32,633)</u>	<u>-</u>
<b>Special Funds</b>				
Debt service funds	7,767	2,803	-	10,570
Conservation and load management fund	2,391	-	-	2,391
Economic development fund	1,888	-	-	1,888
Municipal Competitive Trust	17,547	-	-	17,547
Total special funds	<u>29,593</u>	<u>2,803</u>	<u>-</u>	<u>32,396</u>
<b>Current Assets</b>				
Cash and cash equivalents	15,508	1,957	-	17,465
Short-term investments	23,637	6,014	-	29,651
General reserve fund	815	-	-	815
Deposit for current debt service	5,120	519	-	5,639
Accounts receivable	6,760	29	-	6,789
Accounts receivable from related parties	13,994	603	(603)	13,994
Inventories	5,672	-	-	5,672
Other current assets	3,115	443	-	3,558
Total current assets	<u>74,621</u>	<u>9,565</u>	<u>(603)</u>	<u>83,583</u>
<b>Other Assets</b>				
Costs to be recovered from future billings	<u>3,617</u>	<u>5,244</u>	<u>-</u>	<u>8,861</u>
<b>Total Assets</b>	<u>\$ 190,060</u>	<u>\$ 56,259</u>	<u>\$ (33,236)</u>	<u>\$ 213,083</u>

(Continued on next page)

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

EXHIBIT A-1

COMBINING SCHEDULE OF NET POSITION (CONTINUED)

DECEMBER 31, 2018

(In Thousands)

	<u>CMEEC</u>	<u>TRANSCO</u>	<u>Eliminations</u>	<u>Total</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>				
<b>Current Liabilities</b>				
Current portion of long-term debt	\$ 4,194	\$ 89	\$ -	\$ 4,283
Accounts payable	14,005	451	(603)	13,853
Accrued liabilities	9,894	459	-	10,353
Accrued interest on long-term debt	1,804	519	-	2,323
Total current liabilities	<u>29,897</u>	<u>1,518</u>	<u>(603)</u>	<u>30,812</u>
<b>Other Liabilities</b>	842	-	-	842
<b>Long-Term Liabilities</b>				
Long-term debt, net of current portion	<u>74,470</u>	<u>22,108</u>	<u>-</u>	<u>96,578</u>
Total liabilities	<u>105,209</u>	<u>23,626</u>	<u>(603)</u>	<u>128,232</u>
<b>Rate Stabilization Funds</b>	<u>33,863</u>	<u>-</u>	<u>-</u>	<u>33,863</u>
<b>Conservation and Load Management Funds</b>	<u>2,391</u>	<u>-</u>	<u>-</u>	<u>2,391</u>
<b>Economic Development Fund</b>	<u>1,888</u>	<u>-</u>	<u>-</u>	<u>1,888</u>
<b>Municipal Competitive Trust</b>	<u>17,547</u>	<u>-</u>	<u>-</u>	<u>17,547</u>
<b>Asset Management Reserve Deferral</b>	<u>4,180</u>	<u>-</u>	<u>-</u>	<u>4,180</u>
<b>Net Position</b>				
Net investment in capital assets	(7,055)	(6,587)	-	(13,642)
Restricted for:				
Debt service	7,605	1,138	-	8,743
Unrestricted	<u>24,432</u>	<u>38,082</u>	<u>(32,633)</u>	<u>29,881</u>
Total net position	<u>24,982</u>	<u>32,633</u>	<u>(32,633)</u>	<u>24,982</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 190,060</u>	<u>\$ 56,259</u>	<u>\$ (33,236)</u>	<u>\$ 213,083</u>

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

EXHIBIT A-2

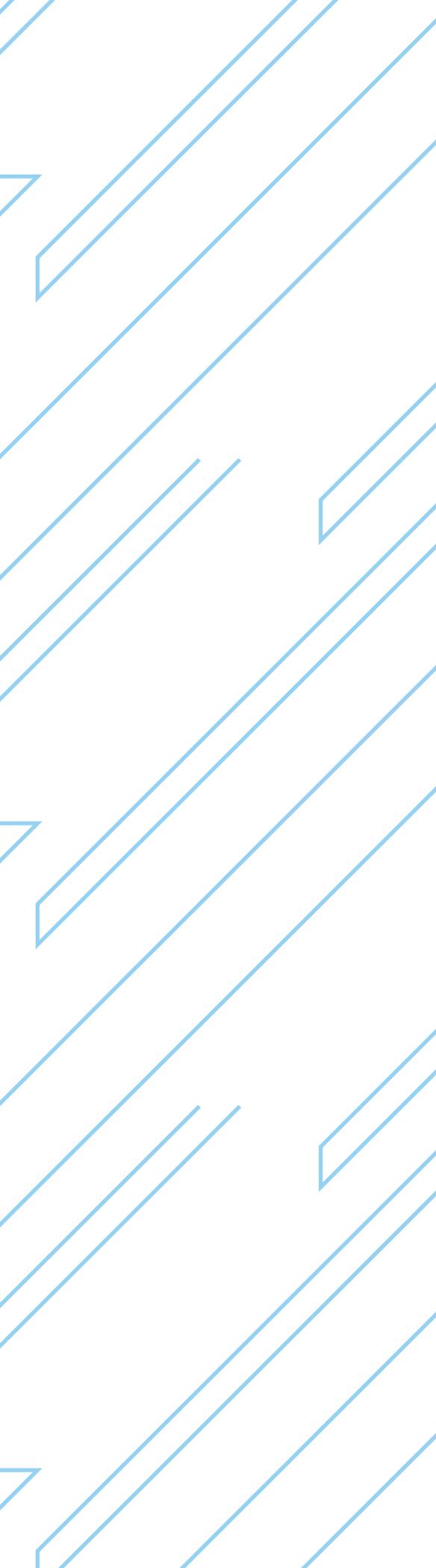
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands)

	<u>CMEEC</u>	<u>TRANSCO</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Operating Revenues</b>				
Electric power supply revenues	\$ 115,608	\$ -	\$ -	\$ 115,608
Electric transmission revenues	16,244	28,013	(28,013)	16,244
Uses of (additions to) rate stabilization funds and other	4,873	-	-	4,873
Total operating revenues	<u>136,725</u>	<u>28,013</u>	<u>(28,013)</u>	<u>136,725</u>
<b>Operating Expenses</b>				
Purchased power and generation costs	107,741	-	-	107,741
Transmission costs	11,474	25,495	(27,879)	9,090
Administrative and general	8,113	1,613	(1,613)	8,113
Depreciation and amortization	2,898	1,349	-	4,247
Total operating expenses	<u>130,226</u>	<u>28,457</u>	<u>(29,492)</u>	<u>129,191</u>
<b>Net Operating Income (Loss)</b>	<u>6,499</u>	<u>(444)</u>	<u>1,479</u>	<u>7,534</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest and investment income	370	130	(130)	370
Interest expense	(3,780)	(1,035)	-	(4,815)
Amortization of debt discount and premium, issuance expense and loss on reacquisition of debt	964	89	(89)	964
Other expense	(37)	-	-	(37)
Net nonoperating expense	<u>(2,483)</u>	<u>(816)</u>	<u>(219)</u>	<u>(3,518)</u>
<b>Change in Bond Expenses to be Recovered from Future Billings to Members</b>	<u>(1,571)</u>	<u>1,260</u>	<u>(1,260)</u>	<u>(1,571)</u>
<b>Net Income</b>	2,445	-	-	2,445
<b>Excess Equity Distribution to Members</b>	<u>(8,701)</u>	<u>-</u>	<u>-</u>	<u>(8,701)</u>
<b>Change in Net Position</b>	(6,256)	-	-	(6,256)
<b>Net Position at Beginning of Year</b>	<u>31,238</u>	<u>32,633</u>	<u>(32,633)</u>	<u>31,238</u>
<b>Net Position at End of Year</b>	<u>\$ 24,982</u>	<u>\$ 32,633</u>	<u>\$ (32,633)</u>	<u>\$ 24,982</u>

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR CMEEC POWER SUPPLY AND TRANSMISSION OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

(In Thousands)

	<b>CMEEC Power Supply Operations</b>	<b>CMEEC Transmission Operations</b>	<b>CMEEC Total</b>
<b>Operating Revenues</b>			
Electric power supply revenues	\$ 115,608	\$ -	\$ 115,608
Electric transmission revenues	2,392	13,852	16,244
Uses of (additions to) rate stabilization funds and other	5,542	(669)	4,873
Total operating revenues	<u>123,542</u>	<u>13,183</u>	<u>136,725</u>
<b>Operating Expenses</b>			
Purchased power and generation costs	107,741	-	107,741
Transmission costs	103	11,371	11,474
Administrative and general	8,113	-	8,113
Depreciation and amortization	2,898	-	2,898
Total operating expenses	<u>118,855</u>	<u>11,371</u>	<u>130,226</u>
<b>Net Operating Income</b>	<u>4,687</u>	<u>1,812</u>	<u>6,499</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest and investment income	307	63	370
Interest expense	(2,724)	(1,056)	(3,780)
Amortization of debt discount and premium, issuance expense and loss on reacquisition of debt	659	305	964
Other expense	(37)	-	(37)
Net nonoperating expense	<u>(1,795)</u>	<u>(688)</u>	<u>(2,483)</u>
<b>Change in Bond Expenses to be Recovered from Future Billings to Members</b>	<u>77</u>	<u>(1,648)</u>	<u>(1,571)</u>
<b>Net Income</b>	2,969	(524)	2,445
<b>Excess Equity Distribution to Members</b>	<u>(8,701)</u>	<u>-</u>	<u>(8,701)</u>
<b>Change in Net Position</b>	(5,732)	(524)	(6,256)
<b>Net Position at Beginning of Year</b>	<u>27,684</u>	<u>3,554</u>	<u>31,238</u>
<b>Net Position at End of Year</b>	<u>\$ 21,952</u>	<u>\$ 3,030</u>	<u>\$ 24,982</u>



**Independent  
Auditors' Report  
on Internal Control**

**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  
Connecticut Municipal Electric Energy Cooperative  
Norwich, Connecticut

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, 2018, 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 20, 2019.

**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 a 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 a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that 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 results 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 20, 2019