

**CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC
ENERGY COOPERATIVE D/B/A TRANSCO**

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

A COMPONENT UNIT OF CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

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Independent Auditors' Report

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Independent Auditors' Report

To the Board of Directors and Members
Connecticut Transmission Municipal Electric Energy Cooperative d/b/a TRANSCO

Report on the Financial Statements

We have audited the accompanying financial statements of the Connecticut Transmission Municipal Electric Energy Cooperative (TRANSCO) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Connecticut Transmission Municipal Electric Energy Cooperative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Connecticut Transmission Municipal Electric Energy Cooperative as of December 31, 2017 and 2016, 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

Management has omitted the management's discussion and analysis for the year ended December 31, 2017 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 29, 2018 on our consideration of Connecticut Transmission 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 Transmission 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 Transmission Municipal Electric Energy Cooperative's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
March 29, 2018

**Basic
Financial
Statements**

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

STATEMENTS OF NET POSITION

DECEMBER 31, 2017 AND 2016

(In Thousands)

	<u>2017</u>	<u>2016</u>
ASSETS		
Utility Plant and Property		
General plant in service	\$ 52,943	\$ 52,943
Less accumulated depreciation and amortization	12,947	11,598
Net utility plant and property	<u>39,996</u>	<u>41,345</u>
Special Funds		
Debt service funds	<u>2,748</u>	<u>2,726</u>
Current Assets		
Cash and cash equivalents	1,967	7,984
Short-term investments	6,001	-
Deposit for current debt service	518	518
Accounts receivable	44	29
Accounts receivable from related parties	815	830
Other current assets	453	452
Total current assets	<u>9,798</u>	<u>9,813</u>
Other Assets		
Costs to be recovered from future billings	<u>3,984</u>	<u>2,725</u>
Total Assets	<u>\$ 56,526</u>	<u>\$ 56,609</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 604	\$ 597
Accrued liabilities	485	486
Accrued interest on long-term debt	518	518
Total current liabilities	<u>1,607</u>	<u>1,601</u>
Long-Term Liabilities		
Long-term debt	<u>22,286</u>	<u>22,375</u>
Total liabilities	<u>23,893</u>	<u>23,976</u>
Net Position		
Net investment in capital assets	(7,433)	(8,337)
Restricted for:		
Debt service	1,138	1,138
Unrestricted	38,928	39,832
Total net position	<u>32,633</u>	<u>32,633</u>
Total Liabilities and Net Position	<u>\$ 56,526</u>	<u>\$ 56,609</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands)

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Electric transmission revenues	\$ 28,251	\$ 26,289
Operating Expenses		
Transmission costs	25,650	23,094
Administrative and general	1,602	1,621
Depreciation and amortization	1,349	1,349
Total operating expenses	<u>28,601</u>	<u>26,064</u>
Net Operating Income (Loss)	<u>(350)</u>	<u>225</u>
Nonoperating Revenues (Expenses)		
Interest expense	(998)	(1,034)
Amortization of debt discount and premium, issuance expense and loss on reacquisition of debt	<u>73</u>	<u>74</u>
Net nonoperating expense	<u>(925)</u>	<u>(960)</u>
Change in Bond Expenses to be Recovered from Future Billings to Members	<u>1,275</u>	<u>735</u>
Change in Net Position	-	-
Net Position at Beginning of Year	<u>32,633</u>	<u>32,633</u>
Net Position at End of Year	<u>\$ 32,633</u>	<u>\$ 32,633</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands)

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Cash received from customers and users	\$ 28,250	\$ 26,279
Cash paid to suppliers:		
Transmission costs	(25,644)	(22,948)
Operations and maintenance	<u>(1,602)</u>	<u>(1,621)</u>
Net cash provided by operating activities	<u>1,004</u>	<u>1,710</u>
Cash Flows from Capital and Related Financing Activities		
Interest paid	<u>(998)</u>	<u>(1,034)</u>
Cash Flows from Investing Activities		
Contributions to special funds	<u>(6,023)</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,017)	676
Cash and Cash Equivalents at Beginning of Year	<u>7,984</u>	<u>7,308</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,967</u>	<u>\$ 7,984</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ <u>(350)</u>	\$ <u>225</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,349	1,349
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	-	(25)
(Increase) decrease in other assets	(1)	15
Increase (decrease) in accounts payable and accrued liabilities	<u>6</u>	<u>146</u>
Total adjustments	<u>1,354</u>	<u>1,485</u>
Net Cash Provided by Operating Activities	<u>\$ 1,004</u>	<u>\$ 1,710</u>
Supplemental Disclosure of Cash Flow Information		
Noncash investing, capital and financing transactions:		
Amortization of debt discount and premium and issuance expenses	\$ 73	\$ 74
Change in bond expenses to be recovered through future billings	<u>1,259</u>	<u>720</u>
Net Noncash Investing, Capital and Financing Transactions	<u>\$ 1,332</u>	<u>\$ 794</u>

The accompanying notes are an integral part the of financial statements

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(Amounts Expressed in Thousands)

NOTE 1 - NATURE OF OPERATIONS

Organization

Connecticut Transmission Municipal Electric Energy Cooperative (TRANSCO) 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 Connecticut Municipal Electric Energy Cooperative (CMEEC) are Members of TRANSCO.

TRANSCO and CMEEC entered into a Comprehensive Management Service Agreement, which obligates CMEEC to pay all costs of TRANSCO to provide transmission services for its transmission purchasers, and TRANSCO to pay CMEEC the costs for comprehensive management services to prudently manage TRANSCO and to achieve the provision of transmission services for the transmission purchasers. See Note 7 for further information on this arrangement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

The accounting policies of TRANSCO conform to GAAP applicable to rate-regulated enterprises and reflect the effects of the ratemaking process in accordance with GAAP. Assuming a cost-of-service based regulatory structure, regulators may permit incurred costs, normally treated as expenses, to be deferred and recovered through future rates. Through their actions, regulators may also reduce or eliminate the value of an asset or create a liability. If any portion of TRANSCO's operations were no longer subject to the provisions under GAAP as a result of a change in the cost-of-service based regulatory structure, TRANSCO would be required to write off related regulatory assets and liabilities. Based on current regulation, TRANSCO believes that its use of regulatory accounting remains appropriate.

Utility Plant and Property

Transmission Project #1 plant and property is stated at CL&P historical cost plus FERC allowable transaction costs and tax gross up and is defined as assets with an initial cost of more than \$5,000 and an estimated life of more than a year. Depreciation of transmission plant in service is computed on the straight-line method over the FERC approved lives of the assets ranging from 38 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.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(Amounts Expressed in Thousands)

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.

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. TRANSCO maintains its cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. TRANSCO has not experienced any losses in such accounts and believes it is 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.

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, 2017 and 2016.

Costs to be Recovered from Future Billings

Costs to be recovered from future billings include unamortized debt discount or premium. They are 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.

Electric revenues are made up of three types of revenue. Revenue for TRANSCO Project #1 is the revenue realized by the ownership of the transmission lines owned by TRANSCO Project #1. The revenue for MEU Transmission is revenue realized by TRANSCO on behalf of the Municipal Electric Utilities (MEU's) who receive revenue for pool transmission facilities. Revenue for CMEEC Transmission is the revenue realized by TRANSCO for the transmission charges incurred on behalf of CMEEC customers from Independent System Operator - New England (ISO-NE), Local Network Services charges and TRANSCO administrative costs. This is in accordance with the Comprehensive Management Services Agreement between CMEEC and TRANSCO. Costs to be recovered from future billings reflects the matching of expenses to realized revenue.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(Amounts Expressed in Thousands)

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 TRANSCO'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 during the reporting periods. The key estimates in TRANSCO's financial statements are depreciation on general plant in service and costs to be recovered from future billings. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through March 29, 2018, which represents the date the financial statements were available to be issued.

NOTE 3 - UTILITY PLANT AND PROPERTY

Utility plant and property activity for the year ended December 31, 2017 consisted of the following:

	<u>Beginning</u>					<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>		<u>Balance</u>
Utility plant and property:						
General plant in service	\$ 52,943	\$ -	\$ -	\$ -	\$ -	\$ 52,943
Less accumulated depreciation	<u>11,598</u>	<u>1,349</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,947</u>
Utility Plant and Property, Net	<u>\$ 41,345</u>	<u>\$ (1,349)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,996</u>

Depreciation expense related to utility plant and property was \$1,349 for the year ended December 31, 2017.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016 (Amounts Expressed in Thousands)

Utility plant and property activity for the year ended December 31, 2016 consisted of the following:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending</u> <u>Balance</u>
Utility plant and property:					
General plant in service	\$ 52,943	\$ -	\$ -	\$ -	\$ 52,943
Less accumulated depreciation	<u>10,249</u>	<u>1,349</u>	<u>-</u>	<u>-</u>	<u>11,598</u>
Utility Plant and Property, Net	<u>\$ 42,694</u>	<u>\$ (1,349)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,345</u>

Depreciation expense related to utility plant and property was \$1,349 for the year ended December 31, 2016.

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, TRANSCO's deposit will not be returned. TRANSCO 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*, \$1,704 of TRANSCO's bank balance of \$1,954 was uninsured and uncollateralized.

Investments

Special funds and deposits for current debt service consist of U.S. government securities, municipal bonds, federal agency obligation and bank certificates of deposit in accordance with the provisions of bond resolutions, less any amounts considered to be cash or cash equivalents.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(Amounts Expressed in Thousands)

As of December 31, 2017, TRANSCO'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
Special Funds and Short-Term Investments					
Interest-bearing investments:					
U.S. Government Securities	\$ 8,097	\$ -	\$ 1,371	\$ 6,726	\$ -
U.S. Government Agencies	1,077	-	678	399	-
Total	9,174	\$ -	\$ 2,049	\$ 7,125	\$ -
Other Investments:					
Mutual Funds	93				
Total Investments	\$ 9,267				

As of December 31, 2016, TRANSCO'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
Special Funds and Short-Term Investments					
Interest-bearing investments:					
U.S. Government Securities	\$ 1,988	\$ -	\$ 346	\$ 1,642	\$ -
U.S. Government Agencies	1,074	-	-	1,074	-
Total	3,062	\$ -	\$ 346	\$ 2,716	\$ -
Other Investments:					
Mutual Funds	182				
Total Investments	\$ 3,244				

**CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY
COOPERATIVE D/B/A TRANSCO**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**
(Amounts Expressed in Thousands)

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

<u>Average Rating</u>	<u>U.S. Government Securities</u>	<u>U.S. Government Agencies</u>
AAA	\$ 1,988	\$ 1,472

Presented below is the rating of investments for each debt instrument type at fair value as of December 31, 2016:

<u>Average Rating</u>	<u>U.S. Government Securities</u>	<u>U.S. Government Agencies</u>
AAA	\$ 1,988	\$ 398
Not Rated	-	676
	<u>\$ 1,988</u>	<u>\$ 1,074</u>

Fair Value of Financial Instruments

TRANSCO 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 TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(Amounts Expressed in Thousands)

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	\$ 8,097	\$ 8,097	\$ -	\$ -
U.S. Government Agencies	1,077	-	1,077	-
Equity Securities:				
Mutual Funds	<u>93</u>	<u>93</u>	<u>-</u>	<u>-</u>
Total Investments by Fair Value Level	<u>\$ 9,267</u>	<u>\$ 8,190</u>	<u>\$ 1,077</u>	<u>\$ -</u>

Presented below is the recurring fair value measurements for each investment type as of December 31, 2016:

	<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	\$ 1,988	\$ 1,988	\$ -	\$ -
U.S. Government Agencies	1,074	-	1,074	-
Equity Securities:				
Mutual Funds	<u>182</u>	<u>182</u>	<u>-</u>	<u>-</u>
Total Investments by Fair Value Level	<u>\$ 3,244</u>	<u>\$ 2,170</u>	<u>\$ 1,074</u>	<u>\$ -</u>

Government and Agency Securities

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.

Money Market and Mutual Funds

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

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016 (Amounts Expressed in Thousands)

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. TRANSCO’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. TRANSCO’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, TRANSCO will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. TRANSCO’s investments are not exposed to custodial credit risk at December 31, 2017. Furthermore, TRANSCO, 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 Section 103(c). TRANSCO’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. TRANSCO’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 TRANSCO through future rates and consist of the following:

	<u>2017</u>	<u>2016</u>
Debt related deferrals	\$ 3,714	\$ 2,440
Other deferrals	<u>270</u>	<u>285</u>
	<u>\$ 3,984</u>	<u>\$ 2,725</u>

**CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY
COOPERATIVE D/B/A TRANSCO**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Amounts Expressed in Thousands)**

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, 2017:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 20,690	\$ -	\$ -	\$ 20,690	\$ -
Bond premium	<u>1,685</u>	<u>-</u>	<u>89</u>	<u>1,596</u>	<u>-</u>
Long-Term Liabilities	<u>\$ 22,375</u>	<u>\$ -</u>	<u>\$ 89</u>	<u>\$ 22,286</u>	<u>\$ -</u>

The following is a summary of changes in debt and long-term liabilities for the year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 20,690	\$ -	\$ -	\$ 20,690	\$ -
Bond premium	<u>1,775</u>	<u>-</u>	<u>90</u>	<u>1,685</u>	<u>-</u>
Long-Term Liabilities	<u>\$ 22,465</u>	<u>\$ -</u>	<u>\$ 90</u>	<u>\$ 22,375</u>	<u>\$ -</u>

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(Amounts Expressed in Thousands)

Bonds Payable

The debt service requirements for TRANSCO's consolidated debt outstanding as of December 31, 2017 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 1,035	\$ 1,035
2019	-	1,035	1,035
2020	-	1,034	1,034
2021	-	1,034	1,034
2022	-	1,034	1,034
2023-2027	-	5,170	5,170
2028-2032	3,140	4,946	8,086
2033-2037	8,775	3,072	11,847
2038-2042	8,775	878	9,653
	<u>\$ 20,690</u>	<u>\$ 19,238</u>	<u>\$ 39,928</u>

On May 15, 2012, TRANSCO issued \$20,690 of 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.

The 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.

NOTE 7 - RELATED PARTY TRANSACTIONS

Related parties consist of CMEEC and the member municipal utility departments that have representation on the Board of Directors of TRANSCO and CMEEC.

TRANSCO and CMEEC entered into a Comprehensive Management Service Agreement, which obligates CMEEC to pay all costs of TRANSCO to provide transmission services for its transmission purchasers, and TRANSCO to pay CMEEC the costs for comprehensive management services to prudently manage TRANSCO and to achieve the provision of transmission services for the transmission purchasers.

CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE D/B/A TRANSCO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(Amounts Expressed in Thousands)

NOTE 8 - CONTRACTS

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. The Town of Wallingford Electric Division 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.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

In September 2011, the Massachusetts Attorney General filed a complaint at FERC, seeking a reduction in the base Return on Equity (ROE) component of the Regional Network Service revenue requirements for all electric transmission owners, from the previously approved level of 11.14%. The final FERC decision on October 16, 2014 found 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 was 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, 2017 is \$459, reflecting an accrual of \$790 less refund payments of \$331 through December 31, 2017. The reserve is included in accrued liabilities on the accompanying statements of net position.

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, 2017.

**Independent
Auditors' Report
on Internal Control**



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

To the Board of Directors and Members
Connecticut Transmission Municipal Electric Energy Cooperative d/b/a TRANSCO

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 Transmission Municipal Electric Energy Cooperative, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Connecticut Transmission Municipal Electric Energy Cooperative's basic financial statements, and have issued our report thereon dated March 29, 2018.

Internal Control over Financial Reporting

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Connecticut Transmission 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 29, 2018