

Massachusetts Municipal Wholesale Electric Company

Financial Statements
and
Supplementary Information

Years Ended December 31, 2019 and 2018

Massachusetts Municipal Wholesale Electric Company

FINANCIAL STATEMENTS Years Ended December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Massachusetts Municipal Wholesale Electric Company
Ludlow, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Massachusetts Municipal Wholesale Electric Company and its fiduciary funds, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Massachusetts Municipal Wholesale Electric Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Massachusetts Municipal Wholesale Electric Company'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 Massachusetts Municipal Wholesale Electric Company'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 Massachusetts Municipal Wholesale Electric Company and its fiduciary funds as of December 31, 2019 and 2018, and the respective 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.

As discussed in Note 1, Massachusetts Municipal Wholesale Electric Company adopted the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations* effective January 1, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Debt Service Coverage Calculation, which is the responsibility of management, as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion or provide any assurance on it.

Baker Tilly Vorichaw Krause, LLP

Madison, Wisconsin
March 31, 2020

Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)
Years Ended December 31, 2019 and 2018

The following discussion and analysis of the Massachusetts Municipal Wholesale Electric Company (MMWEC) provides an overview and analysis of MMWEC's financial performance during the years ended December 31, 2019 and 2018. This discussion and analysis should be read in conjunction with MMWEC's financial statements and the accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts formed to be a joint action agency to develop a bulk power supply for its member Massachusetts cities and towns having municipal electric systems (Members) and other utilities. Among other things, MMWEC is authorized to construct, own or purchase ownership interests in energy facilities and to issue revenue bonds for such purposes. MMWEC's ownership interest in energy generation facilities is through various Projects. Pursuant to its General Bond Resolution (GBR), the bonds of any bond issue relating to a Project are secured solely by revenues derived from that Project. Project revenues are derived primarily from Power Sales Agreements (PSAs) with MMWEC's Members and other utilities that are Participants in a Project (Project Participants). MMWEC's bulk power supply program consists of power purchase arrangements, power brokering services, related planning and other financial services.

MMWEC has a fiduciary responsibility over two defined benefit pension plans that are provided to its employees and has included fiduciary financial statements and disclosures for these pension plans.

The accounting records of MMWEC are maintained using the Governmental Accounting Standards Board (GASB), the Uniform System of Accounts of the 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. 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.

MMWEC's financial statements include the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows, Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. The Balance Sheets report year-end assets and liabilities based on the original cost adjusted for any depreciation, amortization or unrealized gains/losses as appropriate. The Statements of Revenues, Expenses and Changes in Net Position present MMWEC's operating revenues and expenses incurred as a result of MMWEC's business activity. The Statements of Cash Flows report the cash provided and used for operating activities, as well as investing activities and capital and noncapital related financing activities. The Statements of Fiduciary Net Position report the financial resources available for future benefits for MMWEC's administrative and union pension plans. The Statements of Changes in Fiduciary Net Position reflect the additions, deductions and net increase or decrease in net position held in trust for pension benefits.

MMWEC FINANCIAL ANALYSIS

An analysis of MMWEC's financial position begins with the review of the Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows. A summary of MMWEC's Condensed Balance Sheets is presented in Table 1. The Condensed Statements of Revenues, Expenses and Changes in Net Position are summarized in Table 2 and the Condensed Statements of Cash Flows is summarized in Table 3.

Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)
Years Ended December 31, 2019 and 2018

MMWEC FINANCIAL ANALYSIS...continued

Table 1
Condensed Balance Sheets

	<u>2019</u>	Restated <u>2018</u>	<u>2017</u>
		(In Thousands)	
Current assets, less current portions of designated and restricted special funds	\$ 78,952	\$ 100,863	\$ 110,328
Restricted special funds, including interest receivable and current portion of restricted special funds	36,661	85,112	93,378
Other assets	361,883	287,384	243,089
Capital assets	543,713	544,922	570,002
Deferred outflows of resources	<u>79,456</u>	<u>83,475</u>	<u>3,422</u>
Total assets and deferred outflows of resources	<u>\$ 1,100,665</u>	<u>\$ 1,101,756</u>	<u>\$ 1,020,219</u>
Current liabilities, less current maturities of long-term debt and accrued interest	\$ 148,776	\$ 175,093	\$ 135,678
Long-term debt, net of premiums, including current maturities and accrued interest	43,772	26,504	31,414
Noncurrent liabilities	253,888	262,530	259,612
Deferred Inflow of resources	<u>654,229</u>	<u>637,629</u>	<u>593,515</u>
Total liabilities and deferred inflows of resources	<u>\$ 1,100,665</u>	<u>\$ 1,101,756</u>	<u>\$ 1,020,219</u>

Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)
Years Ended December 31, 2019 and 2018

MMWEC FINANCIAL ANALYSIS...continued

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2019	Restated 2018 (In Thousands)	2017
Operating revenues	\$ 228,328	\$ 264,632	\$ 234,463
Depreciation expense	20,798	16,675	17,678
Other operating expenses	<u>220,245</u>	<u>251,760</u>	<u>229,043</u>
Total operating expenses	<u>241,043</u>	<u>268,435</u>	<u>246,721</u>
Operating income (loss)	(12,715)	(3,803)	(12,258)
Investment income (loss)	27,653	(1,082)	14,793
Interest and amortization expense	(1,415)	(1,841)	(1,104)
Gain on disposition of property	1,044	-	-
(Increase) Decrease in amounts payable under terms of the power sales agreements	<u>(14,567)</u>	<u>6,726</u>	<u>(1,431)</u>
Total non-operating income (expenses)	<u>12,715</u>	<u>3,803</u>	<u>12,258</u>
Change in net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Table 3
Condensed Statements of Cash Flows

	2019	Restated 2018 (In Thousands)	2017
Net cash provided by operating activities	\$ 13,715	\$ 19,640	\$ 15,853
Net cash provided by (used in) investing activities	9,610	(37,450)	76,832
Net cash used in capital and related financing activities	(14,637)	(8,840)	(71,559)
Net cash provided by (used in) noncapital financing activities	<u>(28,675)</u>	<u>21,967</u>	<u>4,543</u>
Net change in cash and cash equivalents	(19,987)	(4,683)	25,669
Cash and cash equivalents – beginning of year	<u>73,662</u>	<u>78,345</u>	<u>52,676</u>
Cash and cash equivalents – end of year	<u>\$ 53,675</u>	<u>\$ 73,662</u>	<u>\$ 78,345</u>

Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)
Years Ended December 31, 2019 and 2018

BALANCE SHEETS

The majority of MMWEC's Balance Sheet consists of the financial activity relating to various Projects, representing ownership interests in various electric generation facilities for which MMWEC has corresponding PSAs with each Project Participant. MMWEC's joint ownership interests are shown in Note 13 – Project Joint Ownership Agreements in the accompanying notes of the accompanying financial statements.

Comparison of 2018 Financial Results to 2017 Financial Results

Current assets, excluding the current portions of restricted and designated funds, decreased by \$9.5 million.

Cash and temporary investments increased by \$10.0 million, driven by an increase of \$5.8 million in operating cash for in the MMWEC service company, due to construction funds held as fiduciary agent for the Berkshire Cooperative and an increase of \$4.2 million in the nuclear Project and Stony Brook accounts, due to timing of payments to vendors and receipts from Participants and debt reserves that were released from restricted funds in 2018 due to the maturity of all Project Three and Five bonds as of July 1, 2018.

The increase in accounts receivable and unbilled revenue of \$4.0 million is chiefly attributable to an increase in pooled financing receivables (\$5.6 million) due to additional Member funding requests through this program in 2018. This increase was offset by a decrease of \$1.6 million in Project accounts due to increased volume of forward capacity market (FCM) credits pending return to participants in 2018 due to market price increases and zonal restriction of FCM self-supply option effective in 2018.

Inventories decreased \$7.5 million primarily due to fuel used during 2018 for generation without offsetting replacement purchases for Stony Brook Intermediate, Peaking and Wyman Projects.

Current and noncurrent restricted special funds, including related interest receivable, decreased by \$8.3 million, primarily driven by decreases in Seabrook and Millstone bond reserves of \$22.8 million due to bond retirements in 2018, offset by an increase of \$9.8 million in pooled loan reserve requirements and program funds for loans issued in 2018 and an increase of \$4.7 million in Project Six bond reserves due to bond principal and interest collections from Participants in 2018.

Other assets increased by \$44.3 million from 2017 to 2018, reflecting increases in designated funds (\$33.7 million) primarily due to reclassification of investments due to the maturity of outstanding bonds and collections for future Project capital expenditures and maintenance outages and increases in accounts receivable considered long term (\$15.8 million), offset by decreases in nuclear decommissioning trust funds and pension assets (\$5.2 million) due to investment performance and market valuation of assets, which was lower as of December 31, 2018 than in 2017.

In 2018, total capital assets had a net decrease of \$25.1 million due primarily to the change in asset retirement obligation guidance, offset by the purchases of nuclear fuel of \$10.4 million offset by continued depreciation of \$17.1 million and continued amortization of \$10.1 million.

Deferred outflows of resources increased by \$80.0 million due to the change in asset retirement obligation guidance (\$80.5) offset by decreases in deferrals of losses on pension assets (\$0.8 million) and by fuel oil cash flow hedges in 2018 (\$0.4 million).

The \$39.4 million increase in current liabilities, excluding current maturities of long-term debt and accrued interest, was attributable to additional loans issued through MMWEC's pooled loan program in 2018 (net \$23 million), increased advances by Members for new generating facilities and Project operating expenses in advance of outages (\$8.7 million) and increased accounts payable and accrued expenses (\$8.7 million) due to timing of vendor payments.

Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)
Years Ended December 31, 2019 and 2018

BALANCE SHEETS...continued

Comparison of 2018 Financial Results to 2017 Financial Results...continued

Long-term debt, including current maturities and accrued interest, decreased by \$4.9 million primarily due to principal payments made and maturities of long-term debt during 2018.

Other noncurrent liabilities, excluding long-term debt, increased \$2.9 million due to accretion of asset retirement obligations and additional collections made for power purchase working capital due to capacity market price increases.

Deferred inflows of resources increased by \$44.1 million due to increased amounts payable under the terms of the PSAs (\$48.1 million), which include temporary offsets of unbilled expenses, such as depreciation, unrealized gains/losses, and bond payment activity, offset by decreases in deferred gain on pension assets (\$2.3 million) continued amortization of deferred gain on extinguishment of debt (\$0.1 million) and decreased pension regulatory credit (\$1.6 million).

Comparison of 2019 Financial Results to 2018 Financial Results

Current assets, excluding the current portions of restricted and designated funds, decreased by \$21.9 million.

Cash and temporary investments decreased by \$14.5 million, largely due to less cash being held in bank accounts and increased cash held in investment accounts, classified as noncurrent designated funds on the balance sheet.

The decrease in accounts receivable and unbilled revenue of \$10.0 million is chiefly attributable to a lower capacity prices in 2019 than in the prior year and continued depressed energy prices the last quarter of 2019 than in the prior year, reducing outstanding invoice amounts.

Inventories increased \$960,000 primarily due the lower of cost or market allowance offset by fuel used during 2019 for generation without offsetting replacement purchases for Stony Brook Intermediate and Peaking Projects, and the sale of fuel for Wyman Project.

Current and noncurrent restricted special funds, including related interest receivable, decreased by \$48.5 million, primarily driven by decreases in Seabrook bond reserves of \$44.0 million due to bond retirements in 2019 and pooled loan funds of \$4.5 million being used during the year.

Other assets increased by \$75.4 million from 2018 to 2019, reflecting increases in designated funds (\$39.4 million) primarily due to reclassification of investments due to the maturity of outstanding bonds and collections for future Project capital expenditures and maintenance outages, increases in nuclear decommissioning trust funds and pension assets (\$28.4 million) due to investment performance and market valuation of assets, which was higher as of December 31, 2019 than in 2018. In addition, lead owner advances increased \$900,000 due to actual costs coming in under budgeted billings. Non-current accounts receivable increased \$6.7 million due to increased activity in MMWEC's pooled loan program.

Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)
Years Ended December 31, 2019 and 2018

BALANCE SHEETS...continued

Comparison of 2019 Financial Results to 2018 Financial Results...continued

In 2019, total capital assets had a net decrease of \$1.2 million due primarily to the sale of Wyman and continued depreciation and amortization of \$11.2 offset by capital asset additions and construction work in progress reclassifications \$10.0 million.

Deferred outflows of resources decreased by \$4.0 million due to the lower deferrals of losses on pension assets (\$1.3 million) and asset retirement obligations (\$2.7 million).

The \$26.3 million decrease in current liabilities, excluding current maturities of long-term debt and accrued interest, was attributable to the refinancing of short-term loans issued through MMWEC's pooled loan program (net \$27.9 million) into fixed long-term debt and decreased accounts payable and accrued expenses (\$8.8 million) due to timing of vendor payments, offset by increased advances by Members for Project operating expenses in advance of outages (\$10.4 million) considered as current.

Long-term debt, including current maturities and accrued interest, increased by \$17.2 million primarily due to issuing long-term debt related to MMWEC's pooled loan program offset by principal payments made and maturities of long-term debt during 2019.

Other noncurrent liabilities, excluding long-term debt, decreased \$8.6 million due to the release of asset retirement obligations related to Wyman offset by accretion of asset retirement obligations related to Seabrook and Millstone and decreased member and participant advances classified as long-term on the Balance Sheet.

Deferred inflows of resources increased by \$16.6 million due to increases in deferred gain on pension assets (\$2.9 million), amounts payable under the terms of the PSAs (\$13.8 million), which include temporary offsets of unbilled expenses, such as depreciation, unrealized gains/losses, and bond payment activity, offset by continued amortization of deferred gain on extinguishment of debt (\$57,000) and decreased pension regulatory credit (\$81,000).

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The majority of MMWEC's Statements of Revenues, Expenses and Changes in Net Position consist of the financial activity relating to revenues and expenses from power purchases and the 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 MMWEC's actual costs relating to the Projects, including debt service. Thus, MMWEC'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 MMWEC incurs relating to a Project vary.

Comparison of 2018 Financial Results to 2017 Financial Results

For 2018, revenue increased by \$30.2 million due to higher generation across all Projects and higher overall operating costs for purchase power.

Purchased power expenses increased by \$21.8 million during 2018 as compared to 2017 primarily due to increases in capacity and transmission charges and higher average energy prices in 2018 driven by a period of extremely low temperatures in early January 2018 and extremely high temperatures in early September 2018, whereas in the prior year, temperatures were more moderate overall.

Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)
Years Ended December 31, 2019 and 2018

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION...continued

Comparison of 2018 Financial Results to 2017 Financial Results...continued

The \$4.6 million increase in fuel used in electric generation was driven by increased generation at Stony Brook Intermediate, Peaking, Millstone, Seabrook and Wyman due to extreme temperatures in early January and early September 2018, which caused the fossil fuel burning units to run and the timing of maintenance and refueling outages for Millstone and Seabrook.

Other operating expense decreased \$8.5 million primarily driven by lower service administrative costs and lead owner administration costs on Projects in 2018 (due to focus on maintenance outages) offset in part by increased operating costs in service company due to increased Cooperative and service work order activity (rental generator program, distributed generation projects, other emerging tech-related initiatives) and the change in asset retirement obligation guidance.

Maintenance expense was level from the prior year. There was increased maintenance expense for Stony Brook Intermediate of \$ 2.4 million due to a major outage in the fall 2018. Seabrook also had increased maintenance expense of \$0.6 million due to an outage in 2017 and 2018, additional expenses due to 2018 outage and switchyard upgrade. These increases were offset by decreased maintenance expense for Millstone of \$2.4 million because there was no 2018 outage, however, there was a fall outage in 2017. Peaking maintenance expenses decreased by \$0.6 million due to major transformer replacement work in 2017, which elevated the prior year costs. Outage in 2018 for Peaking was routine maintenance.

In 2018, depreciation expense decreased \$1.0 million, as a result of depreciation from fixed asset additions, offset by retirements during 2018 and the change in asset retirement obligation guidance.

Taxes other than income was level from 2017 to 2018.

Investment income, which is a result of varying fund balances and interest rates, decreased by \$15.9 million in 2018, due to market losses on the decommissioning funds offset by interest income. Interest income was higher in 2018 than 2017 due to increased interest rates and account balances.

Interest expense was level from the prior year. Lower interest costs incurred in 2018 as a result of reduced long-term debt balances due to scheduled principal payments and maturities were offset by increased interest on short-term borrowings.

Amortization expense decreased by \$0.7 million due to continued amortization of premiums and gains associated with various bond issues.

The increase in amounts payable under terms of the PSAs is primarily due to unrealized losses on the decommissioning funds offset by ongoing bond payments made during the period and is discussed in Notes 1 and 7 of the accompanying financial statements.

Comparison of 2019 Financial Results to 2018 Financial Results

For 2019, revenue decreased by \$36.3 million due to lower capacity and energy prices and lower generation across all Projects, except Seabrook. MMWEC's share of Wyman in July 2019 and no further revenues were generated.

Purchased power expenses decreased by \$14.8 million during 2019 as compared to 2018 primarily due to decreases in capacity rates and lower locational marginal pricing, driven by moderate temperatures and reduced demand.

Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)
Years Ended December 31, 2019 and 2018

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION...continued

Comparison of 2019 Financial Results to 2018 Financial Results...continued.

The \$12.9 million decrease in fuel used in electric generation was driven by decreased generation at Stony Brook Intermediate and Peaking, Millstone, and Wyman due to a milder year in 2019 compared to 2018's extreme temperatures in early January and early September, offset by increased generation at Seabrook, as Seabrook had an outage in 2018.

Other operating expense decreased \$832,000 primarily driven by lower lead owner administration costs on Projects in 2019.

Maintenance expense decreased \$2.7 million from the prior year due to less significant maintenance outage work at Stony Brook and no maintenance outage at Seabrook in 2019, while there was a Seabrook outage in 2018.

In 2019, depreciation expense increased \$4.1 million, as a result of depreciation from fixed asset additions and asset retirement obligations, offset by retirements during 2019. Taxes other than income were essentially level from 2018 to 2019.

Investment income, which is a result of varying fund balances and interest rates, increased by \$28.7 million in 2019, primarily due to market gains on decommissioning and pension assets and an overall increased interest rate environment and account balances in the current year as opposed to the prior year.

Interest expense increased \$609,000 due to interest on additional long-term debt issued in 2019 for the Pooled Loan program, offset by lower interest costs incurred in 2019 than 2018 as a result of reduced short-term debt and nuclear project long-term debt due to scheduled principal payments and maturities.

Amortization expense decreased by \$183,000 due to continued amortization of premiums and gains associated with various bond issues.

On July 17, 2019, MMWEC sold its full ownership interest in Wyman 4, resulting in a gain on the sale of property of \$1.0 million.

The increase in amounts payable under terms of the PSAs is primarily due to unrealized losses on the decommissioning funds offset by ongoing bond payments made during the period and is discussed in Notes 1 and 7 of the accompanying financial statements.

STATEMENTS OF CASH FLOWS

For purposes of the Statements 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 decreased by \$4.7 million from 2017 to 2018. This is primarily due to performance of investments during 2018 offset by decreased principal payments on long term debt. Cash and cash equivalents decreased by \$20.0 million from 2018 to 2019. This is primarily due to principal payments on short term debt.

Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)
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DEBT SERVICE COVERAGE

For the PSAs' contract years ended June 30, 2019 and June 30, 2018, MMWEC met the GBR debt service coverage requirements for all of MMWEC's Projects. In accordance with the provisions of MMWEC's GBR, MMWEC covenants that it will fix, revise and collect rates, tolls, rents and other fees and charges sufficient to produce revenues to pay all Project operating and maintenance expenses as well as principal, premium, if any, and interest on the Bonds associated with each Project. Revenues for each Project, which include applicable interest earnings from investments associated with funds required to be maintained by the GBR, are required to equal 1.10 times the annual debt service for the PSA contract year ending June 30, after deduction of certain operating and maintenance expenses and exclusive of depreciation. Further details can be found in the Supplementary Information to the financial statements.

DEBT RATINGS

During 2019, following their annual credit review of MMWEC, two major credit rating agencies rated the MMWEC bonds as follows:

Investment Type	Standard & Poor's	Fitch Ratings
Project No. 6, Series 2011	A-	Not rated
Project No. 6, Series One	A-	A+

MMWEC PROJECT OPERATIONS

The following tables provide operating information for the MMWEC Projects for the corresponding years for which financial information and analysis was presented above. See Note 13 – Project Joint Ownership Agreements in the accompanying financial statements for additional information.

MMWEC Project Operations January 1 through December 31, 2019, unless otherwise noted

	Stony Brook Intermediate	Stony Brook Peaking	Seabrook	Millstone 3	Wyman
Availability	93.40%	94.84%	100.00%	82.52%	99.04%
Capacity Factor	1.47%	0.11%	99.93%	81.15%	0.01%
Generation MWH	40,617	1,521	1,264,408	455,649	12

Note: Wyman numbers are reported January 1 through June 30, 2019.

The capacity factor represents the percentage of electricity actually produced as compared with potential production.

Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)
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MMWEC PROJECT OPERATIONS...continued

MMWEC Project Operations January 1 through December 31, 2018

	<u>Stony Brook Intermediate</u>	<u>Stony Brook Peaking</u>	<u>Seabrook</u>	<u>Millstone 3</u>	<u>Wyman</u>
Availability	84.40%	95.82%	92.37%	100.00%	91.37%
Capacity Factor	3.44%	0.47%	92.18%	100.84%	2.50%
Generation MWH	93,920	6,617	1,166,443	515,128	4,858

CONTACT INFORMATION

This financial report is designed to provide a general overview of MMWEC's finances. Questions or requests for additional information should be addressed to MMWEC Attn: Director of Financial Reporting & Corporate Technology, 327 Moody Street, Ludlow, Massachusetts 01056.

Massachusetts Municipal Wholesale Electric Company

Balance Sheet
December 31, 2019 and 2018
(In Thousands)

	2019	Restated 2018
ASSETS		
Current assets:		
Cash and temporary investments	\$ 6,008	\$ 20,531
Accounts receivable	21,875	35,371
Unbilled revenues	22,211	18,763
Inventories	25,754	24,794
Prepaid expenses	3,104	1,404
Current portion of restricted special funds	36,549	64,030
Current portion of designated funds	5,590	6,553
Total current assets	<u>121,091</u>	<u>171,446</u>
Noncurrent assets:		
Restricted assets:		
Restricted special funds	-	20,862
Interest receivable	112	220
Nuclear decommissioning trust	143,521	119,440
Net pension asset	5,730	1,455
Noncurrent charges:		
Designated funds	167,433	128,244
Designated funds interest receivable	744	483
Long-term accounts receivable	22,522	15,809
Other noncurrent charges	16,343	15,400
Total noncurrent assets	<u>356,405</u>	<u>301,913</u>
Capital assets:		
In service	1,402,151	1,382,832
Accumulated depreciation	(899,657)	(890,322)
Construction work in progress	19,763	29,054
Nuclear fuel, net of amortization	21,456	23,358
Total capital assets	<u>543,713</u>	<u>544,922</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on pension asset	1,541	2,910
Deferred asset retirement obligations	77,915	80,565
Total deferred outflows of resources	<u>79,456</u>	<u>83,475</u>
Total assets and deferred outflows of resources	<u>\$ 1,100,665</u>	<u>\$ 1,101,756</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 7,937	\$ 12,896
Member and participant advances	119,470	109,112
Short-term debt	620	28,476
Accrued expenses	20,749	24,609
Current liabilities payable from restricted assets:		
Accrued interest payable	398	705
Current maturities of long-term debt, net of premiums	3,504	8,699
Total current liabilities	<u>152,678</u>	<u>184,497</u>
Noncurrent liabilities:		
Long-term debt, net of premiums and current maturities	39,870	17,100
Asset retirement obligations	159,018	159,888
Long-term member and participant advances	94,870	102,642
Total noncurrent liabilities	<u>293,758</u>	<u>279,630</u>
DEFERRED INFLOWS OF RESOURCES		
Pension regulatory credit	2,833	2,914
Amounts payable under terms of the power sales agreements	647,873	634,123
Deferred gain on pension asset	3,523	535
Deferred gain on extinguishment of debt, net of amortization	-	57
Total deferred inflows of resources	<u>654,229</u>	<u>637,629</u>
Total liabilities and deferred inflows of resources	<u>\$ 1,100,665</u>	<u>\$ 1,101,756</u>

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

Massachusetts Municipal Wholesale Electric Company

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2019 and 2018

(In Thousands)

	2019	Restated 2018
Operating revenues:		
Revenues	\$ 228,328	\$ 264,632
Operating expenses:		
Fuel used in electric generation	9,879	22,756
Purchased power	158,053	172,898
Other operating	37,655	38,487
Maintenance	10,512	13,259
Depreciation	20,798	16,675
Taxes other than income	4,146	4,360
	241,043	268,435
Operating income (loss)	(12,715)	(3,803)
Non-operating revenues (expenses):		
Investment income (loss)	27,653	(1,082)
Interest expense on long-term debt	(1,513)	(2,122)
Amortization of premium	41	96
Amortization of gain on extinguishment of debt	57	185
Gain on sale of property	1,044	-
Decrease (Increase) in amounts payable under terms of the power sales agreements	(14,567)	6,726
Total non-operating revenues (expenses)	12,715	3,803
Change in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	\$ -	\$ -

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

Massachusetts Municipal Wholesale Electric Company

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

(In Thousands)

	2019	Restated 2018
Cash flows from operating activities:		
Received from sales to members and participants	\$ 236,046	\$ 274,223
Return of sale proceeds to participants	(1,797)	-
Paid to suppliers for goods and services	(210,732)	(244,708)
Paid to employees	(9,802)	(9,875)
Net cash provided by operating activities	<u>13,715</u>	<u>19,640</u>
Cash flows from investing activities:		
Purchases of investments	(345,386)	(379,641)
Proceeds from sales and maturities of investments	350,039	339,727
Investment income (loss) received	4,957	2,464
Net cash provided by (used in) investing activities	<u>9,610</u>	<u>(37,450)</u>
Cash flows from capital and related financing activities:		
Construction expenditures and purchases of nuclear fuel	(31,491)	(1,852)
Gain on sale of assets	1,797	-
Proceeds from issuance of long-term debt	26,300	-
Principal payments on long-term debt	(8,684)	(5,117)
Decommissioning trust payments	(1,558)	(1,142)
Interest payments on long-term debt	(1,001)	(729)
Net cash used in capital and related financing activities	<u>(14,637)</u>	<u>(8,840)</u>
Cash flows from noncapital financing activities:		
Proceeds from issuance of short-term debt	15,115	36,950
Principal payments on short-term debt	(42,971)	(13,893)
Interest payments on short-term debt	(819)	(1,090)
Net cash provided by (used in) noncapital financing activities	<u>(28,675)</u>	<u>21,967</u>
Net change in cash and cash equivalents	<u>(19,987)</u>	<u>(4,683)</u>
Cash and cash equivalents, beginning of year	<u>73,662</u>	<u>78,345</u>
Cash and cash equivalents, end of year	<u>\$ 53,675</u>	<u>\$ 73,662</u>

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

Massachusetts Municipal Wholesale Electric Company

Statements of Cash Flows...continued
 Years Ended December 31, 2019 and 2018
 (In Thousands)

	2019	Restated 2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ (12,715)	\$ (3,803)
Noncash items included in operating income:		
Depreciation	20,798	16,675
Amortization of nuclear fuel and asset retirement obligations	10,208	8,416
Revision of asset retirement obligation	-	(111)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	15,644	(18,668)
Unbilled revenues	(3,448)	1,012
Inventories	(1,732)	7,479
Prepaid expenses	(1,700)	141
Net pension asset	(4,275)	3,741
Long term accounts receivable	(8,861)	13,661
Other deferred charges	(897)	(1,103)
Increase (decrease) in:		
Accounts payable	(4,959)	6,077
Member and participant advances	2,635	14,237
Accrued expenses	(3,860)	1,566
Long term member and participant advances	(49)	(651)
Pension regulatory liability	(81)	(1,564)
Amounts payable under terms of the power sales agreement	-	54,844
Changes in deferred outflows of resources	3,772	(81,567)
Changes in deferred inflows of resources	3,235	(742)
Net cash provided by operating activities	<u>\$ 13,715</u>	<u>\$ 19,640</u>
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and temporary investments	\$ 6,008	\$ 20,531
Total restricted and designated funds	209,572	219,689
Total cash and investments	<u>215,580</u>	<u>240,220</u>
Less - investments included in restricted and designated funds and decommissioning trust	<u>(161,905)</u>	<u>(166,558)</u>
Total cash and cash equivalents	<u>\$ 53,675</u>	<u>\$ 73,662</u>
Supplemental disclosures of cash flow information:		
Noncash investing, capital and financing transactions:		
Amortization of debt premiums	<u>\$ 41</u>	<u>\$ 96</u>
Amortization of gain on extinguishment of debt	<u>\$ 57</u>	<u>\$ 185</u>

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

Massachusetts Municipal Wholesale Electric Company

Fiduciary Financial Statements

December 31, 2019 and 2018

(In Thousands)

STATEMENTS OF FIDUCIARY NET POSITION

	2019	2018
ASSETS		
Investments at fair value:		
Mutual funds	\$ 29,026	\$ 23,312
Guaranteed income funds	988	1,555
Total investments	<u>30,014</u>	<u>24,867</u>
Net position available for pension benefits	<u>\$ 30,014</u>	<u>\$ 24,867</u>

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	2019	2018
ADDITIONS		
Employer contributions	<u>\$ 750</u>	<u>\$ 394</u>
Investment activity:		
Interest and dividends	29	51
Total investment activity	<u>29</u>	<u>51</u>
Total additions	<u>779</u>	<u>445</u>
DEDUCTIONS		
Benefits paid directly to participants	2,182	3,393
Administrative expenses	20	21
	<u>2,202</u>	<u>3,414</u>
Investment activity:		
Net depreciation in fair value of investments	(6,570)	866
Total investment activity	<u>(6,570)</u>	<u>866</u>
Total deductions	<u>(4,368)</u>	<u>4,280</u>
Net increase (decrease) in net position	5,147	(3,835)
Net position available for pension benefits, beginning of year	<u>24,867</u>	<u>28,702</u>
Net position available for pension benefits, end of year	<u>\$ 30,014</u>	<u>\$ 24,867</u>

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

Reporting Entity/Nature of Business

The Massachusetts Municipal Wholesale Electric Company (MMWEC) is a public corporation and a political subdivision of the Commonwealth of Massachusetts formed to be a joint action agency to develop a bulk power supply for its member Massachusetts cities and towns having municipal electric systems (Members) and other utilities, both public and private. Among other things, MMWEC is authorized to construct, own, or purchase ownership interests in energy facilities and to issue revenue bonds for such purposes. MMWEC's ownership interests in energy generation facilities are through various Projects (Note 13 – Project Joint Ownership Agreements). Pursuant to its General Bond Resolution (GBR), the bonds of any bond issue relating to a Project are secured solely by revenues derived from that Project. Project revenues are derived primarily from Power Sales Agreements (PSAs) with MMWEC's Members and other utilities who are Participants in a Project (Project Participants). MMWEC's bulk power supply program consists of power purchase arrangements, power brokering services, planning and financial services, and the Projects relating to generating facilities built and operated either by MMWEC or other entities.

A Massachusetts city or town having a municipal electric system, authorized by majority vote of the city or town, may become a Member of MMWEC by applying for admission and agreeing to comply with the terms and conditions of membership as MMWEC By-Laws may require. As of December 31, 2019 and 2018, twenty (20) Massachusetts cities and towns having municipal electric systems were Members.

MMWEC has determined it has a fiduciary responsibility over two defined benefit pension plans that are provided to its employees. The financial statement presentation includes business-type activities and the fiduciary fund financial statements for the defined benefit pension plans.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting records of MMWEC are maintained using the Governmental Accounting Standards Board (GASB), the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Generally Accepted Accounting Principles of the United States of America (GAAP) using the economic resources measurement focus and the accrual basis of accounting. Application of the accounting methods for regulatory operations is also included in these financial statements. This accounting guidance relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process, which is governed by the Board of Directors.

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources

Cash and Investments

For purposes of the Statements of Cash Flows, cash equivalents are cash and investments having an original maturity of three months or less from the date of acquisition. Unrestricted cash and cash equivalents are presented within cash and temporary investments in the accompanying Balance Sheets. Restricted cash and cash equivalents are presented within the current or long-term portion of restricted special funds in the accompanying Balance Sheets.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources ...continued

Cash and Investments...continued

MMWEC has adopted an investment policy, which is approved annually by MMWEC's Board of Directors as required by MMWEC's GBR. Although certain cash and temporary investment amounts used for power purchases and working capital requirements of MMWEC are not subject to the provisions of the GBR, they are subject to the provisions of the investment policy.

Investments are stated at fair value, as defined under fair value measurements above. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the Statements of Revenues, Expenses and Changes in Net Position as increases or decreases in investment income.

Through its investment policy, MMWEC is restricted to investing in certain types of securities and investments, which are:

- a. Direct obligations of the United States of America
- b. Bonds, debentures, notes or other indebtedness issued by various federal agencies
- c. New housing authority bonds issued by public agencies or municipalities
- d. Bonds or notes issued by states and municipalities that are rated in one of the two highest rated categories by rating agencies
- e. Bank time deposits
- f. Repurchase agreements
- g. Federal funds or bankers acceptances
- h. Investment agreements

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Based on the validity of contracts and collection history, an allowance for doubtful accounts is not considered necessary. Should these circumstances change, an allowance for doubtful accounts would be provided for those accounts receivable considered to be uncollectible at the end of the year, and the bad debts would be written off against the allowance when identified.

Other accounts receivable are considered long-term, as of December 31, 2019 and 2018, long-term accounts receivable were \$22.5 million and \$13.6 million, respectively.

Unbilled Revenue

Unbilled revenues are revenues that are not yet billed under the MMWEC Member and Participant agreements and other power arrangements and represent a portion of December services rendered that are collectible in January of the subsequent year.

Prepaid Expenses

Prepaid expenses represent insurance premiums, property taxes, payment in lieu of taxes and other similar contracts and arrangements paid in the current fiscal year benefiting future periods.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources ...continued

Inventories

Fuel oil and spare parts inventories are valued at the lower of cost or market and recorded and accounted for by the average cost method. At December 31, 2019 and 2018, total fuel oil inventory was at \$11.3 million and \$10.3 million, respectively, and spare parts inventory amounted to \$14.5 million and \$14.5 million, respectively.

Adjustments resulting from valuation of inventory are operating costs charged to fuels used in electric generation on the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Restricted Funds

MMWEC's practice is to use restricted funds on hand before using unrestricted funds when an expense is incurred for purposes for which both restricted and unrestricted funds are available.

Nuclear Decommissioning Trust

As required by the Nuclear Regulatory Commission (NRC) and respective state statutes and/or regulations, as well as MMWEC's own determinations, MMWEC has funded trust funds maintained by external trustees to provide for the estimated future decommissioning activities of Millstone Unit 3 and Seabrook Station. The balances at December 31, 2019 and 2018 for Millstone Unit 3 were \$57.9 million and \$47.8 million, respectively, and for Seabrook Station were of \$85.7 million and \$71.6 million, respectively, and are stated at fair value and are included in restricted assets and amounts recoverable (payable) under terms of the PSAs on the Balance Sheets. Decommissioning balances for the Seabrook Station include funds in the New Hampshire Nuclear Decommissioning Trust and in an escrow account into which payments are made by MMWEC as a funding assurance mechanism. Depending on future circumstances, the funds held in the escrow account will be placed either in the Decommissioning Trust Fund for Seabrook Station, or will be returned to MMWEC, per order of the Nuclear Decommissioning Financing Committee of the State of New Hampshire.

Net Pension Asset

The Massachusetts Municipal Wholesale Electric Company Pension Plans (Plans) are two single-employer, defined benefit pension plans administered by MMWEC. One plan covers union employees (Union Plan) and the other plan covers non-union employees (Administration Plan). All full-time active administration employees hired before December 1, 2006, and all full-time active union employees hired before January 1, 2008 are covered by their respective plans. At December 31, 2019 and 2018, the net pension asset was \$5.7 million and \$1.5 million, respectively. The calculation and related assumptions of the net pension asset and terms of the Plans are discussed in Note 12 – Benefit Plans.

Designated Funds

Designated funds are held by MMWEC for a specific internal use.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources ...continued

Other Noncurrent Charges

MMWEC advances both Millstone Unit 3 and Seabrook Station operating and capital expenditures based on budgeted levels. These advances are reduced when actual expenditures are incurred. At December 31, 2019 and 2018 these advances totaled \$15.8 million and \$14.9 million, respectively and are included in other noncurrent charges on the Balance Sheets. The remaining balance of noncurrent charges is primarily comprised of MMWEC's equity investment in Hydro-Quebec Phase II interconnection as described in Note 15 - Contracts and Commitments.

Capital Assets – In Service

Capital assets – in service are generally defined by MMWEC as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets of MMWEC are recorded at cost at the date of acquisition. MMWEC capitalizes interest as an element of the cost of electric plant and nuclear fuel in process. The amount of interest capitalized is based on the cost of debt, including amortization of premiums, related to each Project, net of investment gains and losses, and interest income derived from unexpended restricted special funds. MMWEC capitalized no interest costs for the years ended December 31, 2019 and 2018, respectively.

Provisions for depreciation are computed using the straight-line method based on estimated useful lives for the underlying assets at Stony Brook and the administrative and general office on MMWEC's site (Service). Seabrook Station, Millstone and Wyman are depreciated based on the group life basis. The lives are as follows:

Stony Brook

Building	25 years
Building improvements	20 years
Equipment	20-30 years
Computer equipment and vehicles	3-4 years

Service

Office equipment and software	3-8 years
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Other Generation Facilities

Seabrook Station	60 years
Millstone Unit 3	60 years
W.F. Wyman No. 4	51 years

On March 12, 2019, NextEra Energy Seabrook, LLC, the lead owner of Seabrook Station, received approval from the Nuclear Regulatory Commission to extend Seabrook Station's operating license for an additional 20 years to 2050.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources ...continued

Construction Work in Progress

Construction work in progress is stated at cost. Any internal costs that are capitalized are limited to those costs that can be directly identified with the design, engineering or construction of a specific Project and do not include any costs related to production, general corporate overhead or similar activities. Depreciation of these costs will commence once placed in service.

Nuclear Fuel

Nuclear fuel, net of amortization, includes MMWEC's ownership interest in spent nuclear fuel, fuel in reactor, in stock and in process for both Millstone Unit 3 and Seabrook Station. The cost of nuclear fuel is amortized to fuel used in electric generation for each nuclear unit based on the relationship of energy produced in the current period to total expected energy production for fuel in the reactor. Fuel amortization expense of \$9.5 million as of December 31, 2019 and \$10.1 million as of December 31, 2018, respectively, is included in operating expense on the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Fuel used in electric generation includes the annual assessment, under the Energy Policy Act of 1992, for the cost of decontamination and decommissioning of uranium enrichment plants operated by the U.S. Department of Energy (DOE). This assessment was discontinued as of May 15, 2014. In addition, a provision for fuel disposal costs is included in fuel used in electric generation based upon disposal contracts with the DOE. MMWEC, along with all of the other joint owners of both Millstone Unit 3 and Seabrook Station, has filed claims against the DOE in the United States Court of Claims for partial breach of the disposal contracts with the DOE.

As the DOE has agreed in principle to settlements in regard to ongoing costs incurred related to the disposal contracts, accounts receivable related to these ongoing cost settlements have been recorded at December 31, 2019 and 2018 in the amount of \$183,000 and \$190,000, respectively. During 2018, no cost settlements were received by MMWEC, however during 2019, \$762,000 was refunded to MMWEC for costs incurred related to spent fuel facilities and disposal.

Deferred Outflows of Resources

Deferred outflows of resources are comprised of pension-related amounts and asset retirement obligations.

Accounts Payable and Accrued Expenses

At December 31, 2019, accounts payable and accrued liabilities total \$29.1 million which include \$7.9 million related to standard operating supplier and vendor accounts payable; \$17.7 million for power purchase accruals; \$398,000 for accrued interest on long term debt; and \$3.1 million for other miscellaneous accounts payable and accrued liabilities.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources ...continued

Accounts Payable and Accrued Expenses...continued

At December 31, 2018, accounts payable and accrued liabilities total \$38.2 million which include \$12.9 million related to standard operating supplier and vendor accounts payable; \$19.9 million for power purchase accruals; \$705,000 for accrued interest on long term debt; and \$4.7 million for other miscellaneous accounts payable and accrued liabilities.

Member and Participant Advances and Reserves

MMWEC maintains numerous operating reserves and advances from its Members and Project Participants in accordance with the PSAs, Power Purchase Agreements (PPAs) and other contractual arrangements. Member and Participant advances that are considered current liabilities were \$119.5 million and \$109.1 million for the years ended December 31, 2019 and 2018, respectively.

Other Member and Participant reserves for 2019 and 2018, which are considered long-term, were \$94.9 million and \$102.6 million, respectively. A reconciliation of the beginning and ending aggregate carrying amount of long-term Member and Participant Advances for the years ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Long-term member and participant advances, beginning of year	\$ 102,642	\$ 97,772
Additions	352	6,227
Deletions	<u>(8,124)</u>	<u>(1,357)</u>
Long-term member and participant advances, end of year	<u>\$ 94,870</u>	<u>\$ 102,642</u>

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources ...continued

Asset Retirement Obligations

MMWEC has implemented GASB Statement No. 83 "Certain Asset Retirement Obligations" (GASB 83) and has applied the statement as of December 31, 2018. MMWEC identified certain asset retirement obligations (AROs), which are primarily associated with the decommissioning of MMWEC's ownership interest in Millstone Unit 3 and Seabrook Station and Wyman 4. A reconciliation of the beginning and ending aggregate AROs at current value, as adjusted for the implementation of GASB 83, for the years ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Asset retirement obligations, beginning of year	\$ 159,888	\$ 161,840
Change due to adoption of GASB 83	-	(1,952)
Change due to sale of Wyman 4	<u>(870)</u>	<u>-</u>
Asset retirement obligations, end of year	<u>\$ 159,018</u>	<u>\$ 159,888</u>

The recognition of the AROs at current value also results in a corresponding deferred outflow of resources. A reconciliation of the beginning and ending aggregate deferred outflow of resources related to AROs for the years ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Deferred outflow of resources - AROs, beginning of year	\$ 80,565	\$ -
Change due to adoption of GASB 83	-	83,215
Amortization	<u>(2,650)</u>	<u>(2,650)</u>
Deferred outflow of resources - AROs, end of year	<u>\$ 77,915</u>	<u>\$ 80,565</u>

Amortization expense is included in depreciation expenses in the Statements of Revenues, Expenses and Changes in Net Position. MMWEC's AROs, other than those associated with these assets, are not significant.

Long-term Obligations

Long-term debt and other obligations are reported as noncurrent liabilities. Bond premiums are amortized over the life of the bonds using the effective interest method. The balance at year end for premiums is shown as an increase to long-term debt in the liability section of the accompanying Balance Sheets.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources ...continued

Deferred Inflows of Resources

Deferred inflows of resources are comprised of pension-related amounts and deferred gain on extinguishment of debt. Gains on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Amounts Payable Under Terms of the Power Sales Agreements

Billings to Project Participants are structured to recover costs in accordance with the PSAs, which generally provide for billing debt service, operating expenses and reserve requirements. Expenses are reflected in the Statements of Revenues, Expenses and Changes in Net Position in accordance with GAAP. The timing difference between amounts billed and expensed is charged, or credited, to amounts recoverable (payable) under terms of the PSAs.

The principal differences include depreciation, fuel amortization, costs associated with canceled Projects (or assets abandoned within a Project), asset retirement obligations, cost of refinancing, billing for certain interest, reserves, net unrealized gains or losses on investments and other costs. In accordance with the PSAs, these amounts have been offset in amounts payable under terms of the PSAs on the Balance Sheets. The December 31, 2019 and 2018 amounts payable balances of \$647.9 million and \$634.1 million, respectively, reflect the Statements of Revenues, Expenses and Changes in Net Position net increase of \$14.6 million and net decrease of \$6.7 million for the years then ended.

Revenues and Expenses

Revenues

Operating revenues include electric sales for resale provided through MMWEC's bulk power supply program. Revenues consist, in significant part, of billings under the PSAs, PPAs, and other power arrangements, net of debt service refunds to participants. MMWEC also records service revenues by providing its Members with power supply planning and related services, which are billed pursuant to the MMWEC Service Agreement or the All-Requirements Bulk Power Sales Agreement. Revenues related to financing and other activities are reflected as non-operating.

Revenues are comprised of the following:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Electric sales for resale	\$ 220,369	\$ 259,976
Service and other	<u>7,959</u>	<u>4,656</u>
	<u>\$ 228,328</u>	<u>\$ 264,632</u>

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

Taxes

Chapter 775 of the Massachusetts Acts of 1975 (the Act) specifically exempts MMWEC from paying any taxes upon its income, existence or franchise, and any revenues from the transfer or sale of bonds issued by MMWEC. Chapter 775 exempts real and personal property situated within the Commonwealth from property taxation. However, the Act requires MMWEC to pay an amount in lieu of property taxes with respect to MMWEC assets in Massachusetts to any governmental body authorized to levy local taxes in Massachusetts. MMWEC pays an amount in lieu of property taxes for its interest in the Stony Brook Peaking and Intermediate fossil-fuel burning plants located in Ludlow, Massachusetts.

MMWEC pays property taxes for its ownership interest in Millstone Unit 3 located in Waterford, Connecticut, Seabrook Station, which is mostly located in Seabrook, New Hampshire and Wyman Unit 4 fossil-fuel burning plant, which is located in Yarmouth, Maine. In addition, MMWEC pays taxes for electric generation related to Millstone Unit 3.

Gain on sale of property

On July 17, 2019, MMWEC sold its full ownership interest in Wyman 4, resulting in a gain on the sale of property of \$1.0 million. The gain on the sale was recorded against MMWEC's amounts payable under terms of the power sales agreements. MMWEC made the gross sale proceeds available to the Wyman 4 Project Participants for distribution through checks or billing credits, resulting in a reduction of amounts payable under terms of the power sales agreement. As a result of the sale, MMWEC ceased accounting for operating activity of Wyman 4 after June 30, 2019. MMWEC maintains cash and investments for Wyman that were previously collected from Wyman Participants for operating reserves and working capital. MMWEC will distribute the remaining cash and investments to the Wyman Participants once the potential for claims from the seller has expired.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the financial statements. Estimates are used for, but not limited to, the selection of the useful lives of capital assets, provision necessary for contingent liabilities, accrued expenses, asset retirement obligations and other similar charges. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

Comparative Data

Certain prior year data has been reclassified to conform to the current year's presentation with no impact on Net Position.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

Implementations of New Accounting Principles

In 2019, MMWEC implemented GASB 83, which addresses accounting and reporting for certain asset retirement obligations. Previously the accounting and financial reporting for AROs was in compliance with Financial Accounting Standards Board (FASB) ASC 410, "Asset Retirement and Environmental Obligations". Due to the implementation of GASB 83, certain prior year data has been revised to conform to the current year's presentation with no impact on net position.

The following show the impact to the Balance Sheets and Statements of Revenue, Expenses and Changes in Net Position:

	As Previously Reported 2018	Implementation of GASB 83	As Restated 2018
	(In Thousands)		
Balance Sheet Items Affected			
Capital asset	\$ 1,430,351	\$ (47,519)	\$ 1,382,832
Accumulated depreciation	(910,740)	20,417	890,323
Asset retirement obligations	(170,178)	10,291	(159,887)
Amounts payable under terms of the power sales agreement	(570,369)	(63,754)	(634,123)
Deferred outflow on asset retirement obligation	-	80,566	80,566
Statement of Revenues, Expenses and Changes in Net Position Items Affected			
Other operating	46,522	(8,035)	38,487
Depreciation	17,549	(874)	16,675
Decrease in amounts payable under terms of the power sales agreements	(15,635)	8,909	6,726

In March 2018, the GASB issued statement No. 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. This standard was implemented in 2019 with no impact to the Balance Sheets and Statements of Revenue, Expenses and Changes in Net Position.

Effect of Future Accounting Standards on Current Period Financial Statements

GASB has approved Statement No. 87, *Leases*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 91, *Debt Conduit Obligations*, and Statement No. 92, *Omnibus 2020*. When they become effective, application of these standards may restate portions of these financial statements.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

2. CASH AND INVESTMENTS

MMWEC's cash and investments (exclusive of the fiduciary funds and decommissioning trust) were comprised of the following at December 31:

Type of Investment or Cash Equivalent	2019		2018		Associated Risks
	Carrying Value	Bank & Investment Value	Carrying Value	Bank & Investment Value	
	(In Thousands)				
Cash and Cash Equivalents:					
Government Money Market Funds	\$ 4,823	\$ 4,823	\$ 6,909	\$ 6,909	Custodial Credit Risk
U.S. Treasury Bills	20,600	20,600	25,096	25,096	Credit Risk, Interest Rate Risk
U.S. Treasury Notes	7,110	7,110	1,367	1,367	Credit Risk, Interest Rate Risk
U.S. Agency Bonds	10,462	10,462	140	140	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Agency Discount Notes	-	-	5,423	5,423	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
Municipal Bonds	2,002	2,002	3,149	3,149	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
Deposits	8,678	8,622	21,580	21,501	Custodial Credit Risk
Total Cash and Cash Equivalents	<u>53,675</u>	<u>53,619</u>	<u>63,664</u>	<u>63,585</u>	
Other Investments:					
U.S. Treasury Bills	15,231	15,231	11,516	11,516	Credit Risk, Interest Rate Risk
U.S. Treasury Notes	26,878	26,878	17,939	17,939	Credit Risk, Interest Rate Risk
U.S. Agency Bonds	116,125	116,125	135,903	135,903	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Agency Discount Notes	364	364	3,200	3,200	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
Municipal Bonds	3,307	3,307	7,998	7,998	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
Total Other Investments	<u>161,905</u>	<u>161,905</u>	<u>176,556</u>	<u>176,556</u>	
Totals	<u>\$ 215,580</u>	<u>\$ 215,524</u>	<u>\$ 240,220</u>	<u>\$ 240,141</u>	

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

2. CASH AND INVESTMENTS...continued

MMWEC's investments in the Decommissioning Trust are held by independent trustees. Investments are limited to those defined by the investment policy, and are comprised of the following at December 31:

Type of Investment or Cash Equivalent	2019		2018		Associated Risks
	Carrying Value	Bank & Investment Value	Carrying Value	Bank & Investment Value	
	(In Thousands)				
Cash and Cash Equivalents:					
Money Market Fund	\$ 15,507	\$ 15,507	\$ 12,018	\$ 12,018	Custodial Credit Risk
Total Cash and Cash Equivalents	15,507	15,507	12,018	12,018	
Other Investments:					
Mutual Funds - equity	59,090	59,090	51,305	51,305	Credit Risk, Concentration of Credit Risk
FPL Minority Owner Trust	32,610	32,610	23,479	23,479	Credit Risk, Interest Rate Risk, Concentration of Credit Risk, Credit Risk, Concentration of Credit Risk
Common stock - equities	14,224	14,224	10,820	10,820	Credit Risk, Interest Rate Risk, Concentration of Credit Risk
US Treasury securities	6,872	6,872	7,901	7,901	Credit Risk, Interest Rate Risk, Concentration of Credit Risk
Corporate Bonds	10,163	10,163	8,727	8,727	Credit Risk, Interest Rate Risk, Concentration of Credit Risk
US Agency Securities	3,659	3,659	4,369	4,369	Credit Risk, Interest Rate Risk, Concentration of Credit Risk
Municipal Bonds	1,172	1,172	616	616	Credit Risk, Interest Rate Risk, Concentration of Credit Risk
Mutual Funds - fixed	224	224	205	205	Credit Risk, Concentration of Credit Risk
Total Other Investments	128,014	128,014	107,422	107,422	
Totals	\$ 143,521	\$ 143,521	\$ 119,440	\$ 119,440	

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

2. CASH AND INVESTMENTS...continued

MMWEC's investments in the defined benefit pension plans fiduciary funds are held by an independent trustee. Investments are limited to those defined by the investment policy, and are comprised of the following at December 31:

Type of Investment or Cash Equivalent	2019		2018		Associated Risks
	Carrying Value	Bank & Investment Value	Carrying Value	Bank & Investment Value	
(In Thousands)					
Other Investments:					
Mutual Funds - equity	\$ 25,909	\$ 25,909	\$ 20,284	\$ 20,284	Credit Risk, Concentration of Credit Risk
Mutual Funds - bonds	3,118	3,118	3,028	3,028	Credit Risk, Interest Rate Risk, Concentration of Credit Risk
Guaranteed Income Account	988	988	1,555	1,555	Credit Risk, Concentration of Credit Risk
Total Other Investments	<u>\$ 30,015</u>	<u>\$ 30,015</u>	<u>\$ 24,867</u>	<u>\$ 24,867</u>	

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on methods and inputs as outlined below. No investments are reported at amortized cost. The difference between the bank and investment value and carrying value is due to outstanding checks and/or deposits in transit.

MMWEC Custodial Credit Risk

Deposits and Money Market Funds

Custodial credit risk is the risk that, in the event of a financial institution failure, MMWEC's deposits may not be returned to MMWEC. The aggregate amount of noninterest bearing and interest bearing accounts are insured by the FDIC up to at least \$250,000. There was \$13.2 million and \$28.2 million uninsured and uncollateralized bank balances subject to custodial credit risk at December 31, 2019 and 2018, respectively. There was \$14.8 million and \$11.3 million uninsured and uncollateralized decommissioning trust balances subject to custodial credit risk at December 31, 2019 and 2018, respectively.

MMWEC's investment policy and decommissioning trust investment policy do not address custodial credit risk.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MMWEC will not be able to recover the value of its investment or collateral securities that are in the possession of the custodians.

At December 31, 2019 and 2018, all investments were held in MMWEC's name by custodians consisting of the Bond Fund Trustee (as defined in the GBR), or MMWEC's depository bank.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

2. CASH AND INVESTMENTS...continued

Custodial Credit Risk...continued

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, MMWEC's investments were rated as follows:

Investments Type	Fair Value		Credit Rating
	2019	2018	
	(In Thousands)		
U.S. Agency	\$ 126,951	\$ 144,666	AAA - AA+
Municipal Bonds	5,309	11,147	AAA - AA+
U.S. Treasuries	69,819	55,918	AAA
Totals	<u>\$ 202,079</u>	<u>\$ 211,731</u>	

MMWEC's investment policy addresses credit risk by defining allowable investments and a maximum allocation to each asset class.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of MMWEC's investment in a single issuer.

At December 31, 2019 and 2018, MMWEC's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio	
		2019	2018
Federal National Mortgage Assn.	U.S. Agency Securities	10.60%	7.95%
Federal Farm Credit Bank	U.S. Agency Securities	12.76%	9.46%
Federal Home Loan Bank	U.S. Agency Securities	25.48%	27.83%
Federal Home Loan Mortgage	U.S. Agency Securities	9.83%	14.83%

MMWEC's investment policy minimizes concentration of credit risk in a single issuer by diversification of investment types using the following maximum limits, which are established for MMWEC's total portfolio at December 31, 2019 and 2018, as follows:

Repurchase Agreements	10%
Certificates of Deposits	10%
U.S. Treasury Securities	100%
U.S. Agencies	65%
Municipal Securities	20%

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements
Years Ended December 31, 2019 and 2018

2. CASH AND INVESTMENTS...continued

Concentration of Credit Risk...continued

Deviation from the approved portfolio limits requires written authorization and approval from the MMWEC Board of Directors.

In accordance with the investment policy for the decommissioning trust, exposure to concentration of credit risk is managed through diversification by limiting investments to no more than 5% of the total portfolio's value in one single issuer, with the exception of fixed income permissible direct investments listed below:

Foreign Securities	10%
Mortgage-backed Securities	25%
Individual Corporate Sector	20%

In accordance with the investment guidelines for the defined benefit pension fiduciary funds, assets should be invested to provide a rate of return sufficient to meet the investment assumptions inherent in the actuarial projection for the plans.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

At December 31, 2019, the maturities of MMWEC's investments were as follows:

Investment Type	Fair Value	Maturity In Years		
		Less than 1	1 – 5	Over 5
(In Thousands)				
U.S. Treasury Securities	\$ 69,819	\$ 67,698	\$ 1,700	\$ 421
U.S. Agency Securities	126,951	50,165	68,270	8,516
Municipal Bonds	<u>5,309</u>	<u>5,309</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 202,079</u>	<u>\$ 123,172</u>	<u>\$ 69,970</u>	<u>\$ 8,937</u>

At December 31, 2018, the maturities of MMWEC's investments were as follows:

Investment Type	Fair Value	Maturity In Years		
		Less than 1	1 – 5	Over 5
(In Thousands)				
U.S. Treasury Securities	\$ 55,918	\$ 52,755	\$ 2,761	\$ 402
U.S. Agency Securities	144,666	18,424	122,292	3,950
Municipal Bonds	<u>11,147</u>	<u>5,891</u>	<u>5,256</u>	<u>-</u>
Totals	<u>\$ 211,731</u>	<u>\$ 77,070</u>	<u>\$ 130,309</u>	<u>\$ 4,352</u>

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements
Years Ended December 31, 2019 and 2018

2. CASH AND INVESTMENTS...continued

Interest Rate Risk...continued

MMWEC's investment policy specifies that MMWEC shall seek to maximize the return on investments consistent with requirements for safety, minimization of risk and liquidity. Monies will not be invested for terms in excess of the projected use of funds nor exceed an average life of ten years.

Decommissioning Trust - Credit Risk and Interest Rate Risk

As of December 31, 2019, MMWEC's decommissioning trust investments were rated as follows:

Investment Type	Credit Rating	Fair Value	Maturity In Years		
			Less than 1	1 – 5	Over 5
(In Thousands)					
U.S. Treasuries	n/a	\$ 6,872	\$ 1,326	\$ 3,372	\$ 2,174
Corporate Bonds	AAA - BBB-, n/a	10,163	645	4,954	4,564
U.S. Agency Securities	AAA, n/a	3,658	-	34	3,624
Municipal Bonds	AAA - A-, n/a	1,172	66	188	918
Totals		<u>\$ 21,865</u>	<u>\$ 2,037</u>	<u>\$ 8,548</u>	<u>\$ 11,280</u>

As of December 31, 2018, MMWEC's decommissioning trust investments were rated as follows:

Investment Type	Credit Rating	Fair Value	Maturity In Years		
			Less than 1	1 – 5	Over 5
(In Thousands)					
U.S. Treasuries	n/a	\$ 7,901	\$ 1,440	\$ 3,819	\$ 2,643
Corporate Bonds	AAA - BBB, n/a	8,727	506	3,628	4,592
U.S. Agency Securities	AAA, n/a	4,369	-	15	4,354
Municipal Bonds	AA+ - A-, n/a	616	-	66	550
Totals		<u>\$ 21,613</u>	<u>\$ 1,946</u>	<u>\$ 7,528</u>	<u>\$ 12,139</u>

Investments held in mutual funds and common stock are not rated and do not have a specified maturity date. MMWEC's decommissioning trust investment policy does not address credit risk or interest rate risk.

Fiduciary Funds - Credit Risk and Interest Rate Risk

MMWEC's investments in the defined benefit pension fiduciary funds were rated as follows at December 31:

Investment Type	Fair Value		Credit Rating	Maturity Date
	2019	2018		
(In Thousands)				
Mutual Funds - bonds	\$ 3,118	\$ 3,028	BBB+	Less than 1 year

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

2. CASH AND INVESTMENTS...continued

Fiduciary Funds - Credit Risk and Interest Rate Risk...continued

Investments held in equity mutual funds and guaranteed income account are not rated and do not have a specified maturity date. MMWEC's fiduciary fund investment policy does not address credit risk or interest rate risk.

Investment Income

For the year ended December 31, 2019, net unrealized gains on investments totaled \$16.7 million. For the year ended December 31, 2018, net unrealized losses on investments totaled \$6.4 million. The net unrealized losses and gains are excluded from operating revenue and are reported within investment income on the Statements of Revenues, Expenses and Changes in Net Position.

During the years ended December 31, 2019 and 2018, investment income (loss) consisted of interest income, realized gains/(losses) and unrealized gains/(losses) as follows:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Interest income:		
Unrestricted funds	\$ 1,207	\$ 422
Restricted funds	1,491	1,133
Designated funds	2,089	1,091
Decommissioning funds	<u>6,269</u>	<u>2,710</u>
Total interest income	<u>11,056</u>	<u>5,356</u>
Realized gains (losses):		
Unrestricted funds	(33)	-
Restricted funds	(83)	8
Designated funds	(6)	-
Decommissioning funds	<u>-</u>	<u>-</u>
Net realized gains	<u>(122)</u>	<u>8</u>
Unrealized gains (losses):		
Restricted funds	76	(79)
Designated funds	390	6
Decommissioning funds	<u>16,253</u>	<u>(6,373)</u>
Net unrealized gains	<u>16,719</u>	<u>(6,446)</u>
Total investment income (loss)	<u>\$ 27,653</u>	<u>\$ (1,082)</u>

3. RESTRICTED AND DESIGNATED ASSETS

Mandatory segregations of assets are presented as restricted funds. Such segregations are required by bond agreements and other external parties.

Segregations of assets determined internally by MMWEC management are presented as designated funds.

Numerous restricted funds are required by the GBR pursuant to which MMWEC issued its long-term debt. The restricted funds are invested in accordance with the provisions of the GBR. Certain working capital and other funds are not mandated by the GBR and are classified as restricted funds, they are invested in accordance with the provisions of the investment policy under the GBR.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

3. RESTRICTED AND DESIGNATED ASSETS...continued

The composition of restricted and designated fund is as follows for the year ended December 31:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
<u>Restricted Funds</u>		
Bond Fund Interest, Principal and Retirement Accounts to pay principal and interest on bonds	\$ -	\$ 3,721
Bond Fund Reserve Account set at the maximum annual interest obligation to make up any deficiencies in the Bond Fund Interest, Principal and Retirement Account	-	8,243
Reserve and Contingency Fund to make up deficiencies in the Bond Funds and pay for repairs and extraordinary costs	-	7,565
Revenue Fund to receive revenues and disburse them to the Bond Funds and other funds	-	24,492
Funds obtained from terminated power purchase contract	5,132	6,668
Working Capital Funds to maintain funds to cover operating expenses	22,330	20,171
Pooled loan lines of credit	<u>9,199</u>	<u>14,252</u>
Total Restricted Funds and Interest Receivable	<u>36,661</u>	<u>85,112</u>
Less – current portion	(36,549)	(64,030)
Interest receivable	<u>(112)</u>	<u>(220)</u>
Total Restricted Funds, Long-term	<u>\$ -</u>	<u>\$ 20,862</u>
<u>Nuclear Decommissioning Funds</u>		
Nuclear decommissioning funds	<u>\$ 143,521</u>	<u>\$ 119,440</u>
<u>Designated Funds</u>		
Capital Reserve Fund to pay Nuclear Capital Expenditures	\$ -	\$ 1,888
Other Funds for indemnification or purchase of insurance, funds contributed for an agreement where MMWEC acts as agent and long-term investments for the Nuclear Mix No. 1, Nuclear Project 3,4,and 5 Intermediate, Peaking and Wyman Projects and fuel line of credit	<u>173,767</u>	<u>133,392</u>
Designated Funds and Interest Receivable	173,767	135,280
Less - current portion	(5,590)	(6,553)
Interest receivable	<u>(744)</u>	<u>(483)</u>
Total Designated Funds, Long-Term	<u>\$ 167,433</u>	<u>\$ 128,244</u>

For financial reporting purposes, interest receivable has been disclosed separately on the Balance Sheets.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2019 and 2018 is as follows:

	Balance 1/1/2019	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 12/31/2019
(In Thousands)				
Capital assets not being depreciated:				
Land	\$ 3,869	\$ -	\$ -	\$ 3,869
Capital assets being depreciated:				
Plant in service	1,378,963	29,049	(9,730)	1,398,282
Less - accumulated depreciation	<u>890,322</u>	<u>18,146</u>	<u>(8,811)</u>	<u>899,657</u>
Net plant	<u>\$ 492,510</u>	<u>\$ 10,903</u>	<u>\$ (919)</u>	<u>\$ 502,494</u>

	Balance 1/1/2018	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 12/31/2018
(In Thousands)				
Capital assets not being depreciated:				
Land	\$ 3,869	\$ -	\$ -	\$ 3,869
Capital assets being depreciated:				
Plant in service	1,419,868	7,095	(48,000)	1,378,963
Less - accumulated depreciation	<u>893,662</u>	<u>17,556</u>	<u>(20,896)</u>	<u>890,322</u>
Net plant	<u>\$ 530,075</u>	<u>\$ (10,461)</u>	<u>\$ (27,104)</u>	<u>\$ 492,510</u>

A summary of changes in construction work in progress for 2019 and 2018 is as follows:

Year	Balance at January 1,	Additions	Transfers to In Service	Balance at December 31,
(In Thousands)				
2019	<u>\$ 29,054</u>	<u>\$ 3,544</u>	<u>\$ (12,835)</u>	<u>\$ 19,763</u>
2018	<u>\$ 16,884</u>	<u>\$ 12,450</u>	<u>\$ (280)</u>	<u>\$ 29,054</u>

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

4. CHANGES IN CAPITAL ASSETS...continued

A summary of changes in nuclear fuel for 2019 and 2018 is as follows:

Year	Balance at January 1,	Additions	Deletions	Amortization	Balance at December 31,
			(In Thousands)		
2019	\$ 23,358	\$ 10,208	\$ (2,582)	\$ (9,528)	\$ 21,456
2018	\$ 23,043	\$ 10,369	\$ -	\$ (10,054)	\$ 23,358

5. SHORT-TERM DEBT

MMWEC maintains a \$25.0 million loan facility which allows for borrowings by MMWEC to finance, temporarily, certain power purchases made by MMWEC for resale to the Members and other municipal systems under various power contracts between MMWEC and the municipal systems (Power Contracts). Borrowings attributable to a Power Contract under this loan facility are secured by the following: a lien on and/or security interest in all proceeds of any loans prior to disbursement by MMWEC, all amounts payable to MMWEC by the Power Contract Participants under the Power Contract, and earnings from MMWEC's temporary investments of such proceeds and amounts payable. The amount payable by a Power Contract Participant with respect to a Power Contract is limited to the amount allocated to that Participant.

At December 31, 2019 and 2018, there was \$21,400 and \$21,400, respectively, outstanding under the loan facility. During 2019 and 2018, the maximum outstanding balance under the line of credit was \$3.6 million and \$2.7 million, respectively. The interest rate for the borrowings under this line of credit is at MMWEC's election prior to the last day of any interest period of either the LIBOR rate plus 1.50% per annum, or at a variable rate selected by MMWEC, which is either the prime rate or the BBA LIBOR Daily Floating Rate plus 1.50%. In addition, a commitment fee of .250% per annum is charged on the unused portion of the loan facility based on the average daily principal amount of the borrowing outstanding. This loan facility expires December 13, 2020. MMWEC has historically renewed this line of credit annually.

MMWEC also maintains a \$15.0 million revolving line of credit for the purpose of financing purchases of fuel oil and selling such fuel oil from the Stony Brook Fuel Oil Project to the Intermediate and Peaking Projects. Borrowings under this line of credit are secured by the following: a lien on and/or security interest in all proceeds of any borrowings prior to disbursement by MMWEC, all amounts payable by the Intermediate and Peaking Projects to the Stony Brook Fuel Oil Project for fuel oil, and all earnings from MMWEC's investments of any such proceeds and amounts payable to the bank. There were no borrowings outstanding under the loan facility as of December 31, 2019 and 2018. During 2019 and 2018, the maximum outstanding balance under the line of credit was \$0 and \$0, respectively. The interest rate for the borrowings under this line of credit is at MMWEC's election prior to the last day of any interest period of either the LIBOR rate plus 1.50% per annum, or at a variable rate selected by MMWEC, which is either the prime rate or the BBA LIBOR Daily Floating Rate plus 1.50%. If no such selection is made, the variable rate is in effect.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

5. SHORT-TERM DEBT...continued

In addition, a commitment fee of .250% per annum is charged on the unused portion of the loan facility based on the average daily principal amount of the borrowing outstanding. This line of credit expires December 13, 2020. MMWEC has historically renewed this line of credit annually.

In 2014, MMWEC established a \$50.0 million short term revolving facility for the purpose of borrowing funds to either make loans to Members to finance the acquisition of various utility assets, or to purchase various utility assets to be leased to Members. In March 2017, MMWEC converted a portion of the short-term debt outstanding under the Pooled Loan Program to individual term loans for each of the three Members in the Program. At December 31, 2019 and 2018, the outstanding balance under this line of credit was \$0.6 million and \$28.5 million, respectively. The maximum outstanding balance during 2019 and 2018 was \$28.4 million and \$28.6 million, respectively. Subject to certain tax and default events, the interest rate for the borrowings under the line of credit is set at a rate per annum equal to the sum of (i) 70% of the LIBOR daily floating rate plus (ii) 1.15%. At December 31, 2019 and 2018, the outstanding borrowings are at 2.4395% and 2.9157%, respectively. In addition, a commitment fee of .250% per annum is charged on the unused portion of the revolving loan facility based on the average daily principal amount of the borrowing outstanding. On December 15, 2017, this loan facility was amended to \$42.5 million. On September 11, 2018, this loan facility was amended to \$30.2 million. On March 22, 2019, this loan facility was amended to \$2.0 million. This loan facility expires March 22, 2020.

The following short-term debt activity occurred in 2019 and 2018:

Year	Balance at January 1,	Additions	Deletions	Balance at December 31,
(In Thousands)				
2019	\$ 28,476	\$ 15,115	\$ (42,971)	\$ 620
2018	\$ 5,419	\$ 36,950	\$ (13,893)	\$ 28,476

6. LONG-TERM DEBT

General Bond Resolution and Power Supply System Revenue Bonds

MMWEC issued separate issues of Bonds for each Project, which are payable solely from, and secured solely by, the revenues derived from the Project to which such issue relates, plus available funds pledged under the GBR for the Bonds of such issues. The revenues derived from each Project are used solely to provide for the payment of the Bonds of any Bond issue relating to such Project, and to pay MMWEC's cost of owning and operating such Project, and are not used to provide for the payment of the Bonds of any Bond issue relating to any other Project.

Pursuant to all of the Project PSAs, each Project Participant is obligated to pay its share of the actual costs relating to the Project's generating units, and its share of all principal, premium and interest associated with the Bonds for the Projects in which the Project Participant has a PSA, and for which the Project Participant is obligated to set rates at levels sufficient to pay such costs. These obligations are not contingent upon the operational status of the Project's units.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements
Years Ended December 31, 2019 and 2018

6. LONG-TERM DEBT...continued

General Bond Resolution and Power Supply System Revenue Bonds...continued

MMWEC's issuance of debt, other than obligations with a maturity of less than one year, requires authorization by the Massachusetts Department of Public Utilities.

Series 2011 Revenue Bonds

Interest on the Series 2011 bonds dated June 2011 is payable in semi-annual installments on January 1 and July 1. The Series 2011 bonds bear interest at a fixed rate ranging from 4.0% to 5.0% for the various issues. The Series 2011 bonds were fully retired July 1, 2019.

Series One Revenue Bonds

The Series One bonds dated November 2001 of each issue are subject to redemption at the option of MMWEC, in whole or in part, at a redemption price of 100% of the principal amount. The interest rates on the Series One variable rate Bonds may be converted, at the option of MMWEC, to a daily, weekly, flexible, term or fixed mode. The realized interest rate on the Series One variable rate Bonds during 2019 and 2018 was 4.18% and 2.87%, respectively. The Series One bonds were fully redeemed in February 2019.

At December 31, 2019 and 2018, the portion of long-term debt comprised of serial and variable-rate bonds is as follows:

<u>Issue - Bonds</u>	<u>Net Interest Cost</u>	<u>December 31,</u>	
		<u>2019</u>	<u>2018</u>
		(In Thousands)	
Project No. 6, Series 2011 (Original Issue \$36,180)	3.10%	\$ -	\$ 5,260
Project No. 6, Series One (Original Issue \$52,100)	Variable	-	1,850
Long-term debt		-	7,110
Unamortized premium			41
Less: Current maturities, including unamortized premiums			(7,151)
Total Long-Term Debt, net of premiums and current maturities		<u>\$ -</u>	<u>\$ -</u>

The following summarizes changes in long-term bonds debt, net of premiums, for 2019 and 2018:

<u>Bonds</u>	<u>Balance at January 1,</u>	<u>Additions</u>	<u>Payments</u>	<u>Amortization of Premium</u>	<u>Balance at December 31,</u>
<u>Year</u>	(In Thousands)				
2019	<u>\$ 25,799</u>	<u>\$ -</u>	<u>\$ (25,758)</u>	<u>\$ (41)</u>	<u>\$ -</u>
2018	<u>\$ 31,013</u>	<u>\$ -</u>	<u>\$ (5,117)</u>	<u>\$ (97)</u>	<u>\$ 25,799</u>

Interest paid for long-term bond debt during 2019 and 2018 was \$279,000 and \$729,000, respectively.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

6. LONG-TERM DEBT...continued

Term Notes from Direct Borrowings

Pooled Loan Program Bond Series 2017A

In March 2017, MMWEC converted a portion of the short-term debt outstanding under the Pooled Loan Program to individual term loans from direct borrowings for three Members in the Program. The loans issued totaled \$20.2 million with fixed interest rates ranging between 3.05% and 3.15% and terms ranging between ten and fifteen years. Principal, interest and any fees associated with the loans are payable solely by each Member for which each loan was issued and the Member assets secure

Pooled Loan Program Bond Series 2019A

In March 2019, MMWEC converted a portion of the short-term debt outstanding under the Pooled Loan Program to a note from direct borrowings for five Members in the Program. The note issued totaled \$26.3 million with a fixed interest rate of 3.20% and a fifteen year term. Principal, interest and any fees associated with the note are payable solely by each Member for which the note was issued.

Per the borrowing agreements, MMWEC maintains reserves equal to 10% of the principal on the outstanding bonds, which can be accessed by the issuer in the event of default. At December 31, 2019 and 2018, the portion of long-term debt comprised of term notes from direct borrowings is as follows:

<u>Issue - Notes from direct borrowings</u>	Net Interest Cost	December 31,	
		2019	2018
		(In Thousands)	
Pooled Loan Program Bond Series 2017A - Term Note	3.05% - 3.15%	\$ 17,100	\$ 18,648
Pooled Loan Program Bond Series 2019A - Note	3.20%	26,274	-
Total Debt		43,374	18,648
Less: Current maturities		(3,504)	(1,548)
Total Long-Term Debt		<u>\$ 39,870</u>	<u>\$ 17,100</u>

The following is a summary of total debt service requirements for long-term debt outstanding at December 31, 2019:

	<u>Notes from Direct Borrowings</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(In Thousands)		
2020	\$ 3,504	\$ 1,339	\$ 4,843
2021	3,566	1,222	4,788
2022	3,630	1,109	4,739
2023	3,696	988	4,684
2024	3,765	871	4,636
2025-2029	17,743	2,538	20,281
2030-2032	7,470	487	7,957
Totals	<u>\$ 43,374</u>	<u>\$ 8,554</u>	<u>\$ 51,928</u>

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

6. LONG-TERM DEBT...continued

Long-Term Debt Issues...continued

The following summarizes changes in long-term notes from direct borrowings for 2019 and 2018:

<u>Year</u>	<u>Balance at January 1,</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at December 31,</u>
	(In Thousands)			
2019	\$ 18,648	\$ 26,300	\$ (1,574)	\$ 43,374
2018	\$ 20,195	\$ -	\$ (1,547)	\$ 18,648

Interest paid for notes from direct borrowings during 2019 and 2018 was \$1.0 million and \$0.6 million, respectively.

7. AMOUNTS PAYABLE UNDER TERMS OF THE POWER SALES AGREEMENTS

Differences between amounts billed to Members and Project Participants and revenues and expenses recognized are included in amounts payable under the terms of the power sales agreements. These differences are made up of debt service collections, net of amounts returned to Participants, capital expenditures funded through reserve billings and unbilled operating and non-operating expenses and revenues. A summary of the items included in amounts payable in the future under the terms of the power sales contract for the years ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Beginning balance - January 1	\$ 634,123	\$ 586,004
Unbilled operating and nonoperating expenses and revenues:		
Depreciation/amortization	(12,606)	(83,929)
Accretion	645	80,997
Financing costs	691	36
GASB 83 Adoption	-	41,095
Amortization of bond premiums and discounts	41	96
Fuel inventory loss due to market adjustment	2,042	(285)
Realized and unrealized gains and interest income	23,482	(3,806)
Lease revenue	38	38
Capital funded through reserve billings	11,289	9,104
Decommissioning fund contributions, net of fees	1,559	1,143
Gain on disposition of property	(9,027)	-
Debt service collections:		
Principal on long-term debt billed (returned)	(4,404)	3,630
Ending Balance - December 31	<u>\$ 647,873</u>	<u>\$ 634,123</u>

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

8. FAIR VALUE MEASUREMENT

MMWEC records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Fair value is defined in Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

As a basis for considering market participant assumptions in fair value measurements, Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- **Level 1** inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities and U.S. Government Treasury securities are examples of Level 1 inputs.
- **Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Government agency and mortgage-backed securities are examples of Level 2 inputs.
- **Level 3** inputs are unobservable inputs that reflect MMWEC's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

Valuation methods of the primary fair value measurements disclosed below are as follows:

- The majority of investments in equity securities are valued using Level 1 measurements. Investments in equity securities are typically valued at the closing price in the principal active market. For equity securities, these markets include published exchanges such as the National Association of Securities Dealers Automated Quotations and the New York Stock Exchange.
- Most investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.
- Commodity derivatives, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using level 1 inputs. Options included in this category are those with an identical strike price quoted through a clearinghouse.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. MMWEC's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

8. FAIR VALUE MEASUREMENT...continued

The following table presents fair value balances and their levels within the fair value hierarchy as of December 31, 2019 and 2018:

MMWEC	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investments and Cash Equivalents								
	(In Thousands)							
U.S. Treasury Bills	\$ 35,831	-	-	\$ 35,831	\$ 36,612	-	-	\$ 36,612
U.S. Treasury Notes	33,988	-	-	33,988	19,306	-	-	19,306
U.S. Agency Bonds	-	126,587	-	126,587	-	136,043	-	136,043
U.S. Agency Discount Notes	-	364	-	364	-	8,623	-	8,623
Municipal Bonds	-	5,309	-	5,309	-	11,147	-	11,147
Investments and Cash Equivalents	<u>\$ 69,819</u>	<u>\$ 132,260</u>	<u>\$ -</u>	<u>\$ 202,079</u>	<u>\$ 55,918</u>	<u>\$ 155,813</u>	<u>\$ -</u>	<u>\$ 211,731</u>
Decommissioning								
	(In Thousands)							
Investments and Cash Equivalents								
Mutual Funds-Equity	-	\$ 59,090	-	\$ 59,090	-	\$ 51,305	-	\$ 51,305
FPL Minority Owner Trust	32,610	-	-	32,610	23,479	-	-	23,479
Common Stock-Equity	14,224	-	-	14,224	10,820	-	-	10,820
U.S. Treasury Securities	6,872	-	-	6,872	7,901	-	-	7,901
Corporate Bonds	-	10,163	-	10,163	-	8,727	-	8,727
U.S. Agency Securities	-	3,659	-	3,659	-	4,369	-	4,369
Municipal Bonds	-	1,172	-	1,172	-	616	-	616
Mutual Funds-Fixed	-	224	-	224	-	205	-	205
Investments and Cash Equivalents	<u>\$ 53,706</u>	<u>\$ 74,308</u>	<u>\$ -</u>	<u>\$ 128,014</u>	<u>\$ 42,200</u>	<u>\$ 65,222</u>	<u>\$ -</u>	<u>\$ 107,422</u>
Fiduciary Funds								
	(In Thousands)							
Investments and Cash Equivalents								
Mutual Funds-Equity	-	\$ 25,909	-	\$ 25,909	-	\$ 20,284	-	\$ 20,284
Mutual Funds-Fixed	-	3,118	-	3,118	-	3,028	-	3,028
Investments and Cash Equivalents	<u>\$ -</u>	<u>\$ 29,027</u>	<u>\$ -</u>	<u>\$ 29,027</u>	<u>\$ -</u>	<u>\$ 23,312</u>	<u>\$ -</u>	<u>\$ 23,312</u>

9. LABOR AGREEMENTS

At December 31, 2019, approximately 29% of MMWEC's 79 employees work under collective bargaining agreements, whose existing labor agreements expire on December 31, 2022. At December 31, 2018, approximately 29% of MMWEC's 78 employees work under collective bargaining agreements.

10. POOLED LOAN PROGRAM

In 2014, MMWEC began a Pooled Loan Program which enables MMWEC to borrow funds to either make loans to Members that would be used by the utility to finance the acquisition of various utility assets, or purchase and own various utility assets that would be leased to member utilities. The Program utilizes a short term revolving loan facility to provide initial funding of the loans and leases, as described in Note 5 – Short-term Debt. In March 2017, MMWEC converted a portion of the short-term debt outstanding under the Pooled Loan Program to individual term loans for three Members in the program.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

10. POOLED LOAN PROGRAM...continued

MMWEC issues Promissory Notes to Members who borrow funds under this program and the interest and any fees associated with the Notes are payable solely by each Member who utilizes the program funds for their portion of the funds used. As of December 31, 2019, total loans receivable of \$25.1 million are included in accounts receivable on the accompanying Balance Sheet, of which \$2.6 million is classified short term accounts receivable and \$22.5 million is classified as long term accounts receivable. As of December 31, 2018, total loans receivable of \$25.7 million are included in accounts receivable on the accompanying Balance Sheet, of which \$12.0 million is classified short term accounts receivable and \$13.7 million is classified as long term accounts receivable. The accounts receivable relate to six and five Members as of December 31, 2019 and 2018, respectively.

11. LEASES

During 2018, MMWEC entered into contracts with three Members which qualify as capital leases. Under the contracts, MMWEC acts as lessor of certain generating facilities to each Member. The generating facilities were placed in service during 2019 and are included in capital assets on the accompanying Balance Sheet.

The following is a summary of total future minimum lease payments at December 31, 2019:

	(In Thousands)
2020	\$ 1,288
2021	1,260
2022	1,257
2023	1,254
2024	1,251
2025-2029	5,559
2030-2034	1,803
Totals	<u>\$ 13,672</u>

12. BENEFIT PLANS

Defined Benefit Plans

The Massachusetts Municipal Wholesale Electric Company Pension Plans (Plans) are two single-employer, defined benefit pension plans administered by MMWEC. One plan covers union employees (union plan) and the other plan covers non-union employees (administration plan). All full-time active administration employees hired before December 1, 2006, and all full-time active union employees hired before January 1, 2008 are covered by their respective plans. The Plans provide a defined benefit to employees based on years of service and average earnings. The Plans provide retirement, disability, and death benefits to plan members and beneficiaries. Administrative or union employees hired after these dates qualify for a Defined Contribution plan as described below. Certain other financial information concerning the plans, in addition to the information contained here, is provided annually to plan participants. No standalone financial statements are issued for the Plans.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

12. BENEFIT PLANS...continued

Defined Benefit Plans...continued

Plan participants providing the basis of the actuarial valuations used to calculate, as of the measurement dates, the net pension liability for the years ended December 31, were:

Status	Administrative		Union	
	2019	2018	2019	2018
Active	19	23	7	9
Terminated vested	24	24	15	13
Retirees and beneficiaries	23	21	4	4
	<u>66</u>	<u>68</u>	<u>26</u>	<u>26</u>

All MMWEC employees are eligible to make a voluntary contribution in accordance with prescribed annual dollar limits to a deferred compensation plan sponsored by the Commonwealth of Massachusetts. The deferred compensation plan is maintained pursuant to Section 457(b) of the Internal Revenue Code and the General Laws of Massachusetts.

MMWEC's net pension asset at December 31, 2019 and 2018 was measured as of December 31, 2019 and 2018, respectively. The total pension liability used to calculate the net pension asset was determined by actuarial valuations as of January 1, 2019 and 2018 rolled forward using generally accepted actuarial procedures to the December 31, 2019 and 2018, measurement dates, respectively.

MMWEC recorded \$0.8 million and \$2.0 million in pension expense related to these Plans for the years ended December 31, 2019 and 2018, respectively, which are included in other operating expenses on the accompanying Statements of Revenues, Expenses and Changes in Net Position.

The annual contribution was determined as part of the January 1 actuarial valuation using the entry age normal with frozen initial liability cost method. All contributions to the plans are authorized by the Board of Directors and made by MMWEC. Since 2008, MMWEC has targeted its contributions with the goal of establishing a funding ratio of approximately 100%, giving consideration to actuarial information and budget controls. The actuarial assumptions for both Plans included a 7.0% investment rate of return, a discount rate of 7.0% on Plan liabilities and a 3.0% projected salary increase. Mortality rates for the Administrative Plan were based on the RP-2014 White Collar Employee Annuitant Table for Males or Females, as appropriate, projected using Scale MP-2018 generational improvements from 2006. Mortality rates for the Union Plan were based on the RP-2014 Blue Collar Table for Males or Females, as appropriate, projected using Scale MP-2018 generational improvements from 2006.

The long-term expected rate of return on Plan investments was determined based on a blend of historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions, developed on a geometric basis.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

12. BENEFIT PLANS...continued

Defined Benefit Plans...continued

MMWEC's change in net pension asset for the years ended December 31, 2019 and 2018 are as follows:

	Administration Plan		Union Plan	
	2019	2018	2019	2018
<u>Total pension liability</u>	(In Thousands)			
Service cost	\$ 124	\$ 130	\$ 79	\$ 96
Interest cost	1,251	1,271	335	312
Difference between expected and actual experience	991	1,037	(188)	(142)
Changes of assumptions	190	(31)	271	200
Changes of benefit terms	-	426	-	-
Benefit payments	(1,558)	(3,347)	(622)	(46)
Net change in total pension liability	998	(514)	(125)	420
Total pension liability, beginning of period	18,522	19,036	4,890	4,470
Total pension liability, end of period	<u>\$ 19,520</u>	<u>\$ 18,522</u>	<u>\$ 4,765</u>	<u>\$ 4,890</u>
<u>Plan fiduciary net position</u>				
Employer contributions	\$ 500	\$ 275	\$ 250	\$ 119
Net investment income	5,590	(709)	1,008	(106)
Benefit payments	(1,558)	(3,347)	(622)	(46)
Administrative expenses	(10)	(11)	(10)	(10)
Net change in fiduciary net position	4,522	(3,792)	626	(43)
Fiduciary net position, beginning of period	20,270	24,062	4,597	4,640
Fiduciary net position, end of period	<u>24,792</u>	<u>20,270</u>	<u>5,223</u>	<u>4,597</u>
Net pension (asset) liability, end of period	<u>\$ (5,272)</u>	<u>\$ (1,748)</u>	<u>\$ (458)</u>	<u>\$ 293</u>

The assumed allocation and expected real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	Administrative		Union	
	Target Asset Allocation	Long Term Expected Rate of Return	Target Asset Allocation	Long Term Expected Rate of Return
Fixed income	11.00%	2.00%	27.00%	2.00%
Mutual Funds	89.00%	7.50%	73.00%	8.60%
Total investments	<u>100.00%</u>		<u>100.00%</u>	

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

12. BENEFIT PLANS...continued

Defined Benefit Plans...continued

The following table presents the sensitivity of net pension (asset) liability calculation to a 1% increase and 1% decrease in the discount rate to measure the total pension (asset) liability:

	Administrative		Union	
	2019	2018	2019	2018
<u>Discount rate</u>	(In Thousands)			
1% decrease - 6.0%	\$ (3,444)	\$ 155	\$ (88)	\$ 668
Current discount rate - 7.0%	(5,272)	(1,748)	(458)	293
1% increase - 8.0%	(6,837)	(3,376)	(780)	(34)

The following table presents information about the pension-related deferred outflows and inflows of resources at December 31:

	Administration Plan			
	2019		2018	
<u>Deferred outflows (inflows) of resources</u>	(In Thousands)			
Difference between expected and actual experience	\$ 908	\$ -	\$ 809	\$ -
Changes of assumptions	121	(8)	-	(39)
Difference between projected and actual earnings on plan investments	-	(2,746)	1,015	-
Total deferred outflows (inflows) of resources	<u>\$ 1,029</u>	<u>\$ (2,754)</u>	<u>\$ 1,824</u>	<u>\$ (39)</u>

	Union Plan			
	2019		2018	
<u>Deferred outflows (inflows) of resources</u>	(In Thousands)			
Difference between expected and actual experience	\$ 55	\$ (343)	\$ 210	\$ (474)
Changes of assumptions	457	(9)	650	(22)
Difference between projected and actual earnings on plan investments	-	(417)	226	-
Total deferred outflows (inflows) of resources	<u>\$ 512</u>	<u>\$ (769)</u>	<u>\$ 1,086</u>	<u>\$ (496)</u>

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

12. BENEFIT PLANS...continued

Defined Benefit Plans...continued

The following table presents the future amortization of pension-related deferred outflows (inflows) of resources, which will be recognized in pension expense, at December 31:

	<u>Administration</u>	<u>Union</u>
	(In Thousands)	
2020	\$ (36)	\$ 68
2021	(475)	(136)
2022	(373)	(51)
2023	(841)	(138)
2024	-	-
	<u>\$ (1,725)</u>	<u>\$ (257)</u>

The Required Supplementary Information following the Notes to the Financial Statements presents additional multiyear trend information demonstrating the components of change in the net pension liability from year to year, as well as trends in related statistical information and employer contributions to the Plans.

Defined Contribution Plan

In 2007, MMWEC established a defined contribution (DC) pension plan in compliance with Section 401 (a) of the Internal Revenue Code for non-union employees hired after December 1, 2006 and for union employees hired after January 1, 2008. Thereafter, all new employees are no longer eligible to participate in MMWEC Defined Benefit plans. Under the DC plan, MMWEC contributes 6% of an employee's base salary and matches 50% of employee contributions to the defined contribution plan up to a maximum employee contribution of 6%. For the years ended December 31, 2019 and 2018, MMWEC contributed \$337,000 and \$322,000 and the employees contributed \$6,000 and \$1,000, respectively.

Employee Savings Plan

MMWEC contributes to an employee savings plan administered by a mutual insurance company. All eligible full-time employees meeting the service and eligibility requirements participate in this plan. Under the provisions of the plan, MMWEC's contributions are vested immediately. For the years ended December 31, 2019 and 2018, MMWEC contributed \$52,000 and \$62,000, respectively, and the employees contributed \$100,000 and \$109,000, respectively. All employees eligible or participating in the DC pension plan established in 2007 are not eligible to participate in the employee savings plan.

Benefit provisions of all plans are determined and authorized by the MMWEC Board of Directors.

13. PROJECT JOINT OWNERSHIP AGREEMENTS

MMWEC's power supply capacity includes ownership interests in the Stony Brook Peaking and Stony Brook Intermediate Units, both of which MMWEC operates. MMWEC is a nonoperating joint owner in the W.F. Wyman Unit No. 4, Millstone Unit 3 and Seabrook Station. On July 17, 2019, MMWEC sold its full ownership interest in Wyman 4.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

13. PROJECT JOINT OWNERSHIP AGREEMENTS...continued

Electric plant in service and construction work in progress also includes assets related to MMWEC's service company operations, which totaled \$27.4 million and \$17.3 million at December 31, 2019 and 2018, respectively.

The following is a summary of the balances by Project included in electric plant in service and construction work in progress, as well as MMWEC's share of capability in megawatts (MW).

Projects	Facility and MMWEC Share of Capability in MW	Amount as of December 31,	
		2019	2018
(In Thousands)			
Peaking Project	Stony Brook	172.7	
Intermediate Project	Stony Brook	321.3	
Wyman Project	W.F. Wyman No. 4	22.4	
Nuclear Project No. 3	Millstone Unit 3	39.5	
Nuclear Mix No. 1	Millstone Unit 3	19.8	
Nuclear Mix No. 1	Seabrook Station	2.0	
Nuclear Project No. 4	Seabrook Station	54.0	
Nuclear Project No. 5	Seabrook Station	13.7	
Project No. 6	Seabrook Station	74.7	
Totals			

2019	2018
\$ 59,723	\$ 59,250
179,031	178,093
-	8,854
148,043	150,554
60,543	61,802
10,106	10,617
299,311	312,907
81,082	84,523
556,645	575,476
<u>\$ 1,394,484</u>	<u>\$ 1,442,076</u>

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

14. RELATED PARTY TRANSACTIONS

MMWEC, together with Massachusetts municipal utility systems, has formed six cooperatives under Massachusetts General Laws to conduct business for the mutual benefit of the members of the cooperatives. The following is a summary of each Cooperative and the associated Cooperative members and purpose for each Cooperative.

<u>Cooperative Name</u>	<u>Other Cooperative Members</u>	<u>Year Founded</u>	<u>Cooperative Purpose</u>
Southwest Cooperative Corporation	Westfield Gas & Electric Light Department (WG&E)	2006	Financing, constructing and operating a natural gas pipeline to provide natural gas transportation service to WG&E
Massachusetts Municipal Light Department Wind Energy Cooperative Corporation	Princeton Municipal Light Department and Templeton Municipal Light Department	2007	Financing, owning, constructing and operating wind generation facilities located in the town of Princeton & Templeton
Berkshire Wind Power Cooperative Corporation	Sixteen municipal light departments	2008	Financing, owning, constructing and operating wind turbines and ancillary equipment located in Hancock and Lanesborough, Massachusetts
Massachusetts Municipal Light Department Solar Energy Cooperative Corporation	West Boylston Municipal Light Plant	2008	Financing, owning, constructing and operating a solar energy production facility in West Boylston, Massachusetts
Wakefield Municipal Cooperative Corporation	Wakefield Municipal Gas & Light Department	2012	Financing, constructing, purchasing, owning, leasing, maintaining and operating real and personal property located in Wakefield
Massachusetts Clean Energy Cooperative Corporation	Holyoke Gas & Electric Department (HG&E)	2013	Purchasing, acquiring, generating, transforming, distributing, selling, reselling, supplying and providing energy, telecommunications, or any related products or service and financing, owning, leasing or otherwise acquiring, holding, using and improving interests therein for the benefit of HG&E

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

14. RELATED PARTY TRANSACTIONS...continued

Pursuant to contracts, MMWEC provides accounting, financial, power supply and administrative services to all six of these cooperatives. As such, although MMWEC is a member of each cooperative and has one representative on the Board of each cooperative, MMWEC has no rights to the entities' assets nor has management oversight of the six cooperatives. Thus, the entities are not required to be reported as component units of MMWEC under rules established GASB 61, *The Financial Reporting Entity*.

MMWEC billed a total of \$841,000 and \$633,000 for MMWEC services and outside professional services during 2019 and 2018, respectively, for all cooperatives. At December 31, 2019 and 2018, \$92,000 and \$183,000 was due to MMWEC from all cooperatives.

15. CONTRACTS AND COMMITMENTS

Letter of Credit

MMWEC has posted a letter of credit in the amount of \$9.0 million with a power counterparty in order to meet its collateral obligations under the bilateral agreement with the counterparty.

Long-Term Contracts – Cooperatives

MMWEC has contracts with each Cooperative described in Note 14 – Related Party Transactions, whereby MMWEC is to serve as the Cooperative's agent in the sale of power, transportation or lease to the municipal utility systems. The sale agreements between MMWEC and the Cooperatives are offset in each case by a purchase agreement between the Cooperative and the municipal utility systems, the revenues and expenses associated with these agreements are not included in the accompanying Statements of Revenues, Expenses and Changes in Net Position and are disclosed below.

<u>Contract</u>	2019	2018
	(In Thousands)	
Transportation Agreement between MMWEC and the Southwest Cooperative Corporation	\$ 540	\$ 540
Power Sales Agreement between MMWEC and the Massachusetts Municipal Light Department Wind Energy Cooperative Corporation	223	280
Power Sales Agreement between MMWEC and the Berkshire Wind Power Cooperative Corporation	5,830	6,687
Power Sales Agreement between MMWEC and the Massachusetts Municipal Light Department Solar Energy Cooperative Corporation	115	109
Lease Agreement between MMWEC and the Wakefield Municipal Cooperative Corporation	219	179
Power Sales Agreement between MMWEC and the Massachusetts Clean Energy Cooperative Corporation	63	(111)
Total	\$ 6,990	\$ 7,684

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

15. **CONTRACTS AND COMMITMENTS**...continued

Long-Term Contracts – Power Purchases

MMWEC entered into agreements for participation in the transmission interconnection between New England utilities and the Hydro-Quebec electric system near Sherbrooke, Quebec (Phase I), which began commercial operation in October 1986. The New England portion of the interconnection was constructed at a total cost of approximately \$140.0 million, of which 3.65% (or initially \$5.0 million) was MMWEC's share to support Phase I. In 1990, MMWEC's participation share in Phase I changed to 3.45% (or initially \$4.8 million). MMWEC also entered into similar agreements for participation in the interconnection between New England utilities and the Hydro-Quebec electric system. This agreement is for the expansion of the Hydro-Quebec interconnection (Phase II), which went into commercial operation in November 1990. MMWEC's Phase II equity investment is approximately 0.6% (or initially \$3.3 million). MMWEC has corresponding agreements with certain of its Members and another utility to recover MMWEC's share of the costs associated with the Phase II interconnection. Beginning in 1995, capital refunds from Phase II have been received, reducing MMWEC's total equity investment. In March 2017, MMWEC made a required equity contribution of \$147,700. The equity balance of \$182,000 at December 31, 2019 and 2018, is included in other noncurrent charges on the Balance Sheet.

On a limited basis, MMWEC may enter into agreements providing financial assurance to third parties. At December 31, 2019 and 2018, there were no outstanding guarantees related to its equity interest in the Hydro-Quebec transmission companies. Management believes that the likelihood MMWEC would be required to perform or otherwise incur any significant losses associated with this guarantee is remote.

In 2013, MMWEC entered into a twenty-year power purchase agreement with Clement Dam Hydroelectric LLC, Franklin Power LLC, Greggs Falls Hydroelectric Associates LP, Pembroke Hydro Associates LP and HDI Associates I Partnership for 100% of the output of five hydroelectric generating facilities in New Hampshire with a combined nominal rating at 11.53 MW, effective January 1, 2014. This resource has been subscribed to by thirteen Members. Power purchased under this contract totaled \$2.1 million and \$2.2 million for the years ended December 31, 2019 and 2018, respectively.

Also, in 2013, MMWEC entered into a twenty-five year power purchase agreement with Hancock Wind LLC for 73.5% of the output of a wind generating facility in Hancock County, Maine (Hancock Facility) with a nominal rating at 51 MW. This resource has been subscribed to by seventeen Members. The Hancock Facility began commercial operations on December 14, 2016. The total power purchased under this contract was \$5.8 million and \$4.9 million for the years ended December 31, 2019 and 2018, respectively.

Claims and Judgments

MMWEC is involved in various legal actions. Management believes that the ultimate resolution of litigation in which MMWEC is currently involved will not have a material, adverse effect on the financial position of MMWEC.

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

16. RISK MANAGEMENT

MMWEC is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. There were no settled claims in any of the past three years. There has been no material decrease in insurance coverage of MMWEC in the past year.

Nuclear Insurance

The Price-Anderson Act (the Act), a federal statute, mandates an industry-wide program of liability insurance for nuclear facilities. The \$375.0 million primary layer of insurance for the liability has been purchased in the commercial insurance market. Secondary coverage is to be provided through an assessment on each of the currently licensed nuclear units in the United States of approximately \$137.6 million, not to exceed \$20.5 million per incident in any year. The assessment is to be adjusted for inflation every five years. Under the Act, MMWEC's ownership interests in Millstone Unit 3 and Seabrook Station could result in a maximum assessment of approximately \$6.6 million and \$16.0 million, respectively, limited to payments of \$1.3 million and \$2.5 million per incident per year, respectively. Originally enacted in 1957, the Act has been renewed several times and in July 2005, Congress extended the Act until the end of 2025, as part of the Energy Policy Act of 2005.

Insurance has been purchased from Nuclear Electric Insurance Limited (NEIL) to cover the cost of repair, replacement, decontamination or premature decommissioning of utility property resulting from insured occurrences at Millstone Unit 3 and Seabrook Station. The NEIL insurance is subject to retroactive assessments if losses exceed the accumulated funds available to the insurer. MMWEC is potentially subject to a \$1.3 million and \$2.5 million assessment for its participation in Millstone Unit 3 and Seabrook Station, respectively, for excess property damage, decontamination and premature decommissioning.

17. CONCENTRATION OF CREDIT RISK / SIGNIFICANT CUSTOMERS

Credit risk represents the risk of loss that would occur if customers do not meet their financial obligations to MMWEC. Concentration of credit risk occurs when significant customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

As of December 31, 2019, MMWEC had two municipal customers who were considered significant customers, which accounted for approximately \$37.8 million (16%) and \$34.9 million (15%) of MMWEC revenues in 2019. In 2018, MMWEC had two municipal customers who were considered significant customers, which accounted for approximately \$40.5 million (15%) and \$37.9 million (14%) of MMWEC revenues in 2018. As of December 31, 2019, one municipal customers had significant account receivable balances of \$3.2 million (18%). At December 31, 2018, three municipal customers had significant account receivable balances of \$3.4 million (14%), \$3.3 million (14%), and \$2.4 million (10%).

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

18. ENVIRONMENTAL AND OTHER ISSUES

Nothing has come to management's attention concerning any material pollution liability claims made during 2019 and 2018 or outstanding as of December 31, 2019 and 2018.

MMWEC has established a trust fund to enhance its Directors' and Officers' liability coverage. The purpose of the trust fund is to make available funds for the purchase of Directors' and Officers' liability insurance and/or as a supplement to insurance for indemnification of the Directors or Officers. At December 31, 2019 and 2018, MMWEC has \$10.6 million and \$10.6 million, respectively, recorded in designated funds related to the trust fund with a corresponding liability in the same amount, representing advances from Members.

MMWEC has a guaranty with ISO New England, Inc. (ISO-NE) with respect to certain MMWEC Members' financial assurance obligations to ISO-NE. These Members do not have credit ratings and MMWEC provides financial assurances for their transactions in ISO-NE. MMWEC's financial assurance is backed by the NEPEX Account Agreement between MMWEC and each of these Members. Pursuant to the NEPEX Account Agreement, each Member has an absolute and unconditional obligation to pay MMWEC for its respective ISO-NE transactions. Management believes that the likelihood MMWEC would be required to perform or otherwise incur any significant losses associated with this guarantee is remote.

19. SEGMENT INFORMATION

MMWEC issues separate revenue bonds for each Project, which are payable solely from, and secured solely by, the revenues derived from the Project to which such bond issue relates, plus available funds pledged under the GBR for the bonds of such issues. Each Project operates various electric generation facilities, as shown in Note 13 – Project Joint Ownership Agreements. Following is a summary of the financial information for each Project.

CONDENSED BALANCE SHEET	2019	Restated 2018
	NUCLEAR PROJ. 6	NUCLEAR PROJ. 6
	(In Thousands)	
Assets:		
Advances from projects	\$ 8	\$ (56)
Other current assets	7,195	31,896
Noncurrent assets	83,962	62,578
Capital assets, net	240,776	244,295
Deferred outflows of resources:	32,640	33,716
Total assets and deferred outflows of resources:	<u>364,581</u>	<u>372,429</u>
Liabilities:		
Current liabilities	32,125	37,965
Noncurrent liabilities	64,742	64,563
Deferred inflows of resources:	267,714	269,901
Total liabilities and deferred inflows of resources:	<u>364,581</u>	<u>372,429</u>

Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

19. SEGMENT INFORMATION...continued

	2019	Restated 2018
	NUCLEAR PROJ. 6	NUCLEAR PROJ. 6
	(In Thousands)	
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues	\$ 12,073	\$ 23,257
Depreciation	(8,545)	(7,314)
Other operating expenses	<u>(13,298)</u>	<u>(16,647)</u>
Operating loss	<u>(9,770)</u>	<u>(704)</u>
Non-operating revenues (expenses):		
Investment loss	7,684	(840)
Interest expense on long-term debt	(142)	(327)
Other nonoperating expenses	98	195
Decrease in amounts payable under terms of the power sales agreements	<u>2,130</u>	<u>1,676</u>
Total non-operating revenues	<u>9,770</u>	<u>704</u>
Change in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	<u>\$ -</u>	<u>\$ -</u>
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided by (used in):		
Operating activities	\$ 4,984	\$ (4,056)
Investing activities	17,172	(19,631)
Capital and related financing activities	<u>(16,915)</u>	<u>8,366</u>
Net change in cash and cash equivalents	5,241	(15,321)
Cash and cash equivalents, beginning of year	<u>3,675</u>	<u>18,996</u>
Cash and cash equivalents, end of year	<u>\$ 8,916</u>	<u>\$ 3,675</u>

20. SUBSEQUENT EVENTS

MMWEC has evaluated subsequent events through March 31, 2020, the date which the financial statements were available to be issued, and did not note any additional subsequent events requiring recording or disclosure in the financial statements for the year ended December 31, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

Massachusetts Municipal Wholesale Electric Company

Required Supplementary Information (Unaudited)
Years Ended December 31, 2019 and 2018

The following schedules present Administration Plan multiyear trend information that demonstrates the components of change in the net pension (asset) liability from year-to-year, as well as trends in related statistical information. Information is present related to all periods for which the required data is available. Amounts presented are determined as of the measurement date of the net pension liability for the following years ended December 31:

	Administrative Plan					
	2019	2018	2017	2016	2015	2014
<u>Total pension liability</u>						
	(In Thousands)					
Service cost	\$ 124	\$ 130	\$ 155	\$ 139	\$ 191	\$ 210
Interest cost	1,251	1,271	1,433	1,401	1,353	1,156
Difference between expected and actual experience	991	1,037	602	(391)	748	26
Changes of assumptions	190	(31)	(73)	1,395	(200)	1,789
Changes in benefit terms	-	426	-	-	-	-
Benefit payments	(1,558)	(3,347)	(4,078)	(1,789)	(1,275)	(313)
Net change in total pension liability	998	(514)	(1,961)	755	817	2,868
Total pension liability, beginning of period	18,522	19,036	20,997	20,242	19,425	16,556
Total pension liability, end of period	<u>19,520</u>	<u>18,522</u>	<u>19,036</u>	<u>20,997</u>	<u>20,242</u>	<u>19,424</u>
<u>Plan fiduciary net position</u>						
Employer contributions	\$ 500	\$ 275	\$ 361	\$ 174	\$ 480	\$ 877
Net investment income	5,590	(709)	3,807	1,303	314	1,593
Benefit payments	(1,558)	(3,347)	(4,078)	(1,789)	(1,275)	(313)
Administrative expenses	(10)	(11)	(16)	(19)	(16)	(16)
Net change in fiduciary net position	4,522	(3,792)	74	(331)	(497)	2,141
Fiduciary net position, beginning of year	20,270	24,062	23,988	24,319	24,816	22,675
Fiduciary net position, end of year	<u>24,792</u>	<u>20,270</u>	<u>24,062</u>	<u>23,988</u>	<u>24,319</u>	<u>24,816</u>
Net pension (asset) liability, end of period	<u>\$ (5,272)</u>	<u>\$ (1,748)</u>	<u>\$ (5,026)</u>	<u>\$ (2,991)</u>	<u>\$ (4,077)</u>	<u>\$ (5,392)</u>
Plan fiduciary net position as a percentage of the total pension liability	127.01%	109.44%	126.40%	114.25%	120.14%	127.76%
Covered -employee payroll	\$ 1,874	\$ 2,060	\$ 2,354	\$ 2,371	\$ 2,785	\$ 3,104
Net pension (asset) liability as a percentage of covered -employee payroll	(281.35%)	(84.86%)	(213.48%)	(126.19%)	(146.30%)	(173.60%)
Annual money-weighted rate of return	29.11%	(3.05%)	17.09%	5.73%	1.28%	6.93%

Massachusetts Municipal Wholesale Electric Company

Required Supplementary Information (Unaudited)
Years Ended December 31, 2019 and 2018

The following schedules present Union Plan multiyear trend information that demonstrates the components of change in the net pension (asset) liability from year-to-year, as well as trends in related statistical information. Information is present related to all periods for which the required data is available. Amounts presented are determined as of the measurement date of the net pension liability for the following years ended December 31:

	2019	2018	2017	2016	2015	2014
	Union Plan (In Thousands)					
<u>Total pension liability</u>						
Service cost	\$ 79	\$ 96	\$ 109	\$ 89	\$ 106	\$ 106
Interest cost	335	312	299	327	340	338
Difference between expected and actual experience	(188)	(142)	(128)	(764)	709	226
Changes of assumptions	271	200	(15)	1,238	(52)	191
Changes in benefit terms	-	-	-	-	-	-
Benefit payments	(623)	(46)	(46)	(1,302)	(1,281)	(856)
Net change in total pension liability	(126)	420	219	(412)	(178)	5
Total pension liability, beginning of period	4,890	4,470	4,251	4,663	4,841	4,836
Total pension liability, end of period	4,764	4,890	4,470	4,251	4,663	4,841
<u>Plan fiduciary net position</u>						
Employer contributions	\$ 250	\$ 119	\$ 657	\$ 197	\$ 118	\$ 255
Net investment income	1,008	(106)	626	194	104	416
Benefit payments	(623)	(46)	(45)	(1,302)	(1,281)	(856)
Administrative expenses	(10)	(10)	(10)	(10)	(10)	(10)
Net change in fiduciary net position	625	(43)	1,228	(921)	(1,069)	(195)
Fiduciary net position, beginning of year	4,597	4,640	3,412	4,333	5,402	5,597
Fiduciary net position, end of year	5,222	4,597	4,640	3,412	4,333	5,402
Net pension (asset) liability, end of period	\$ (458)	\$ 293	\$ (170)	\$ 839	\$ 330	\$ (561)
Plan fiduciary net position as a percentage of the total pension liability	109.61%	94.02	103.81%	80.27%	92.91%	111.59%
Covered -employee payroll	\$ 609	\$ 776	\$ 903	\$ 1,067	\$ 1,232	\$ 1,210
Net pension (asset) liability as a percentage of covered -employee payroll	(75.24%)	37.69%	(18.86%)	78.59%	26.83%	(46.38%)
Annual money-weighted rate of return	23.75%	(2.24%)	17.46%	5.61%	2.21%	7.77%

Massachusetts Municipal Wholesale Electric Company

Required Supplementary Information (Unaudited)
Years Ended December 31, 2019 and 2018

The following schedules present multiyear trend information regarding employer contributions to the Plans. Information is presented related to all periods for which the required data is available. The amounts presented are determined as of the years ended December 31:

Administration Plan						
Year	Actuarial Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll	
(In Thousands)						
2019	\$ 485	\$ 500	\$ (15)	\$ 1,874	26.68%	
2018	56	275	(219)	2,060	13.35%	
2017	435	361	74	2,354	15.31%	
2016	334	174	159	2,371	7.35%	
2015	1	480	(479)	2,785	17.24%	
2014	48	877	(829)	3,104	28.25%	

Union Plan						
Year	Actuarial Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll	
(In Thousands)						
2019	\$ 132	\$ 250	\$ (118)	\$ 609	41.07%	
2018	110	119	(9)	776	15.33%	
2017	233	658	(425)	903	72.78%	
2016	175	197	(22)	1,067	18.48%	
2015	123	118	5	1,232	9.57%	
2014	65	255	(190)	1,210	21.10%	

Massachusetts Municipal Wholesale Electric Company

Required Supplementary Information (Unaudited)
Years Ended December 31, 2019 and 2018

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest valuation follows:

	<u>Administration Plan</u>	<u>Union Plan</u>
Valuation date	1/1/2019	1/1/2019
Actuarial cost method	Entry Age Normal with Frozen Initial Liability	Entry Age Normal with Frozen Initial Liability
Amortization method	Level dollar open	Level dollar open
Remaining amortization period	30 years	30 years
Asset valuation method	Fair Market Value	Fair Market Value
Actuarial assumptions:		
Investment rate of return	7.0%	7.0%
Projected salary increases	3.0%	3.0%
Cost-of-living adjustments	N/A	N/A
Mortality	RP-2014 White Collar Employee Annuitant Table for Males or Females, as appropriate, projected using Scale MP-2018 generational improvements from 2006	RP-2014 Blue Collar Employee Annuitant Table for Males or Females, as appropriate, projected using Scale MP-2018 generational improvements from 2006

There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, in the use of different assumptions or other factors that significantly affected trends from year to year in the amounts reported in the required supplementary information above.

SUPPLEMENTARY INFORMATION

Massachusetts Municipal Wholesale Electric Company

Project Balance Sheet

December 31, 2019

(In Thousands)

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJ. 6	PEAKING	INTERMEDIATE	WYMAN	TOTAL
ASSETS										
Current assets:										
Cash and temporary investments	\$ 4,044	\$ 188	\$ 226	\$ 49	\$ 364	\$ 369	\$ 6	\$ 421	\$ 341	\$ 6,008
Accounts receivable	13,613	596	1,049	1,931	493	2,671	346	1,183	(7)	21,875
Unbilled revenues	22,211	-	-	-	-	-	-	-	-	22,211
Inventories	-	107	-	2,854	722	3,953	1,696	16,422	-	25,754
Advances to (from) projects	294	(17)	(26)	(32)	(16)	8	(136)	(86)	11	-
Prepaid expenses	2,247	121	230	146	37	202	29	92	-	3,104
Current portion of restricted special funds	36,549	-	-	-	-	-	-	-	-	36,549
Current portion of designated funds	2,691	-	-	-	-	-	-	147	2,752	5,590
Total current assets	81,649	995	1,479	4,948	1,600	7,203	1,941	18,179	3,097	121,091
Noncurrent assets:										
Restricted assets:										
Restricted special funds	-	-	-	-	-	-	-	-	-	-
Interest receivable	112	-	-	-	-	-	-	-	-	112
Nuclear decommissioning trust	-	20,526	38,542	32,013	8,103	44,337	-	-	-	143,521
Net pension asset	5,272	-	-	-	-	-	-	458	-	5,730
Noncurrent charges:										
Designated funds	10,222	10,409	16,552	22,543	5,760	34,376	14,344	53,227	-	167,433
Designated funds interest receivable	87	18	55	109	30	148	68	221	8	744
Long-term accounts receivable	22,522	-	-	-	-	-	-	-	-	22,522
Other noncurrent charges	182	2,130	3,969	3,683	931	5,101	18	329	-	16,343
Total noncurrent assets	38,397	33,083	59,118	58,348	14,824	83,962	14,430	54,235	8	356,405
Capital assets:										
In service	21,040	68,912	144,780	296,645	80,407	552,953	59,272	178,142	-	1,402,151
Accumulated depreciation	(6,398)	(42,620)	(93,256)	(167,749)	(45,904)	(324,307)	(57,265)	(162,158)	-	(899,657)
Construction work in progress	6,390	1,737	3,263	2,666	675	3,692	451	889	-	19,763
Nuclear fuel, net of amortization	-	1,951	3,433	6,092	1,542	8,438	-	-	-	21,456
Total capital assets	21,032	29,980	58,220	137,654	36,720	240,776	2,458	16,873	-	543,713
DEFERRED OUTFLOWS OF RESOURCES										
Deferred loss on pension asset	1,029	-	-	-	-	-	-	512	-	1,541
Deferred asset retirement obligation	-	5,848	9,895	23,567	5,965	32,640	-	-	-	77,915
Total deferred outflows of resources	1,029	5,848	9,895	23,567	5,965	32,640	-	512	-	79,456
Total assets and deferred outflows of resources	\$ 142,107	\$ 69,906	\$ 128,712	\$ 224,517	\$ 59,109	\$ 364,581	\$ 18,829	\$ 89,799	\$ 3,105	\$ 1,100,665
LIABILITIES										
Current liabilities:										
Accounts payable	\$ 2,935	\$ 80	\$ 28	\$ 1,780	\$ 452	\$ 2,470	\$ 34	\$ 158	\$ -	\$ 7,937
Member and Participant advances	25,363	8,608	14,684	19,794	5,202	28,900	4,537	10,774	1,608	119,470
Short-term debt	620	-	-	-	-	-	-	-	-	620
Accrued expenses	18,836	20	-	546	138	755	130	324	-	20,749
Current liabilities payable from restricted assets:										
Accrued interest payable	398	-	-	-	-	-	-	-	-	398
Current maturities of long-term debt	3,504	-	-	-	-	-	-	-	-	3,504
Total current liabilities	51,656	8,708	14,712	22,120	5,792	32,125	4,701	11,256	1,608	152,678
Noncurrent liabilities:										
Long-term debt	39,870	-	-	-	-	-	-	-	-	39,870
Asset retirement obligations	-	13,204	22,834	46,618	11,799	64,563	-	-	-	159,018
Long-term member and participant advances, net of current maturities	42,666	5	-	129	33	179	2,667	49,191	-	94,870
Total noncurrent liabilities	82,536	13,209	22,834	46,747	11,832	64,742	2,667	49,191	-	293,758
DEFERRED INFLOWS OF RESOURCES										
Pension regulatory credit	2,790	-	-	-	-	-	-	43	-	2,833
Amounts payable under terms of the power sales agreements										
Deferred gain on pension asset	2,371	47,989	91,166	155,650	41,485	267,714	11,461	28,540	1,497	647,873
Total deferred inflows of resources	2,754	-	-	-	-	-	-	769	-	3,523
Total deferred inflows of resources	7,915	47,989	91,166	155,650	41,485	267,714	11,461	29,352	1,497	654,229
Total liabilities and deferred inflows of resources	\$ 142,107	\$ 69,906	\$ 128,712	\$ 224,517	\$ 59,109	\$ 364,581	\$ 18,829	\$ 89,799	\$ 3,105	\$ 1,100,665

Massachusetts Municipal Wholesale Electric Company

Project Statement of Cash Flows

Year Ended December 31, 2019

(In Thousands)

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT PROJ. 6	PEAKING	INTERMEDIATE	WYMAN	TOTAL
Cash flows from operating activities:										
Received from sales to members and participants	\$ 167,176	\$ 6,456	\$ 11,752	\$ 14,506	\$ 3,725	\$ 14,466	\$ 3,442	\$ 13,169	\$ 1,354	\$ 236,046
Return of sale proceeds to participants	-	-	-	-	-	-	-	-	(1,797)	(1,797)
Paid to suppliers for goods and services	(161,058)	(6,287)	(11,989)	(6,809)	(1,815)	(9,482)	(1,703)	(10,658)	(931)	(210,732)
Paid to employees	(4,506)	-	-	-	-	-	(1,032)	(4,264)	-	(9,802)
Net cash provided by (used in) operating activities	1,612	169	(237)	7,697	1,910	4,984	707	(1,753)	(1,374)	13,715
Cash flows from investing activities:										
Purchases of investments	(188,937)	(8,932)	(35,019)	(15,926)	(3,938)	(37,046)	(12,612)	(34,096)	(8,880)	(345,386)
Proceeds from sales and maturities of investments	172,004	9,209	35,073	16,232	4,594	53,297	13,117	37,501	9,012	350,039
Interest received	760	359	616	495	126	921	342	1,252	86	4,957
Net cash provided by (used in) investing activities	(16,173)	636	670	801	782	17,172	847	4,657	218	9,610
Cash flows from capital and related financing activities:										
Construction expenditures and purchases of nuclear fuel	(10,101)	(808)	(1,121)	(6,523)	(1,652)	(9,036)	(474)	(938)	(838)	(31,491)
Gain on sale of assets	-	-	-	-	-	-	-	-	1,797	1,797
Proceeds from issuance of long-term debt	26,300	-	-	-	-	-	-	-	-	26,300
Principal payments on long-term debt	(1,574)	-	-	-	-	(7,110)	-	-	-	(8,684)
Decommissioning trust payments	-	(218)	(408)	(353)	(89)	(490)	-	-	-	(1,558)
Interest payments on long-term debt	(722)	-	-	-	-	(279)	-	-	-	(1,001)
Net cash provided by (used in) capital and related financing activities	13,903	(1,026)	(1,529)	(6,876)	(1,741)	(16,915)	(474)	(938)	959	(14,637)
Cash flows from noncapital financing activities:										
Proceeds from issuance of short-term debt	15,115	-	-	-	-	-	-	-	-	15,115
Principal payments on short-term debt	(42,971)	-	-	-	-	-	-	-	-	(42,971)
Interest payments on short-term debt	(782)	-	-	-	-	-	(6)	(31)	-	(819)
Net cash provided by (used in) noncapital financing activities	(28,638)	-	-	-	-	-	(6)	(31)	-	(28,675)
Net change in cash and cash equivalents	(29,296)	(221)	(1,096)	1,622	951	5,241	1,074	1,935	(197)	(19,987)
Cash and cash equivalents, beginning of year	49,668	2,659	2,857	3,138	948	3,675	684	9,492	541	73,662
Cash and cash equivalents, end of year	\$ 20,372	\$ 2,438	\$ 1,761	\$ 4,760	\$ 1,899	\$ 8,916	\$ 1,758	\$ 11,427	\$ 344	\$ 53,675
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:										
Operating income (loss)	\$ 1,761	\$ (645)	(1,404)	\$ (2,632)	\$ (734)	\$ (9,770)	\$ 126	\$ 560	\$ 23	\$ (12,715)
Noncash items included in operating income:										
Depreciation	1,195	1,192	2,337	4,973	1,321	8,545	146	1,051	38	20,798
Amortization of nuclear fuel and accretion of ARO	-	931	1,639	2,895	733	4,010	-	-	-	10,208
Revision of asset retirement obligation	-	-	-	-	-	-	-	-	-	-
Changes in assets, liabilities and deferred outflows and inflows:										
(Increase) decrease in:										
Accounts receivable	16,379	51	17	(303)	(151)	104	(209)	(251)	7	15,644
Unbilled revenues	(3,448)	-	-	-	-	-	-	-	-	(3,448)
Inventories	-	2	-	44	12	61	217	(1,776)	(292)	(1,732)
Prepaid expenses	(1,718)	1	1	9	2	12	(3)	(8)	4	(1,700)
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Net pension asset	(3,524)	-	-	-	-	-	-	(751)	-	(4,275)
Long term accounts receivable	(8,861)	-	-	-	-	-	-	-	-	(8,861)
Other deferred charges	-	84	201	(446)	(113)	(617)	3	(9)	-	(897)
Increase (decrease) in:										
Accounts payable	847	(1,215)	(2,389)	(436)	(110)	(602)	17	(878)	(193)	(4,959)
Member and participant advances	(2,204)	(451)	(1,019)	2,827	761	2,225	342	1,065	(911)	2,635
Accrued expenses	(2,339)	(1)	-	(11)	(8)	(60)	68	(1,459)	(50)	(3,860)
Other noncurrent liabilities	-	-	-	-	-	-	-	(49)	-	(49)
Pension regulatory liability	14	-	-	-	-	-	-	(95)	-	(81)
Amounts payable under terms of the power sales agreements	-	-	-	-	-	-	-	-	-	-
Changes in deferred outflows of resources	609	220	380	777	197	1,076	-	513	-	3,772
Changes in deferred inflows or resources	2,901	-	-	-	-	-	-	334	-	3,235
Net cash provided by (used in) operating activities	\$ 1,612	\$ 169	\$ (237)	\$ 7,697	\$ 1,910	\$ 4,984	\$ 707	\$ (1,753)	\$ (1,374)	\$ 13,715

Massachusetts Municipal Wholesale Electric Company

Combining Fiduciary Financial Statements

December 31, 2019 and 2018

(In Thousands)

STATEMENTS OF FIDUCIARY NET POSITION

	Administrative Plan		Union Plan		Total Fiduciary Funds	
	2019	2018	2019	2018	2019	2018
ASSETS						
Investments at fair value:						
Mutual funds	\$ 24,484	\$ 19,757	\$ 4,542	\$ 3,555	\$ 29,026	\$ 23,312
Guaranteed income funds	308	513	680	1,042	988	1,555
Total investments	<u>24,792</u>	<u>20,270</u>	<u>5,222</u>	<u>4,597</u>	<u>30,014</u>	<u>24,867</u>
Net position available for pension benefits	<u>\$ 24,792</u>	<u>\$ 20,270</u>	<u>\$ 5,222</u>	<u>\$ 4,597</u>	<u>\$ 30,014</u>	<u>\$ 24,867</u>

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	Administrative Plan		Union Plan		Total Fiduciary Funds	
	2019	2018	2019	2018	2019	2018
ADDITIONS						
Employer contributions	\$ 500	\$ 275	\$ 250	\$ 119	\$ 750	\$ 394
Investment activity:						
Net appreciation in fair value of investments	-	-	-	-	-	-
Interest and dividends	8	20	21	31	29	51
Total investment activity	<u>8</u>	<u>20</u>	<u>21</u>	<u>31</u>	<u>29</u>	<u>51</u>
Total additions	<u>508</u>	<u>295</u>	<u>271</u>	<u>150</u>	<u>779</u>	<u>445</u>
DEDUCTIONS						
Benefits paid directly to participants	1,558	3,347	624	46	2,182	3,393
Administrative expenses	10	11	10	10	20	21
	<u>1,568</u>	<u>3,358</u>	<u>634</u>	<u>56</u>	<u>2,202</u>	<u>3,414</u>
Investment activity:						
Net depreciation in fair value of investments	(5,582)	729	(988)	137	(6,570)	866
Total deductions	<u>(4,014)</u>	<u>4,087</u>	<u>(354)</u>	<u>193</u>	<u>(4,368)</u>	<u>4,280</u>
Net increase (decrease) in net position	4,522	(3,792)	625	(43)	5,147	(3,835)
Net position available for pension benefits, beginning of year	<u>20,270</u>	<u>24,062</u>	<u>4,597</u>	<u>4,640</u>	<u>24,867</u>	<u>28,702</u>
Net position available for pension benefits, end of year	<u>\$ 24,792</u>	<u>\$ 20,270</u>	<u>\$ 5,222</u>	<u>\$ 4,597</u>	<u>\$ 30,014</u>	<u>\$ 24,867</u>

OTHER INFORMATION

Massachusetts Municipal Wholesale Electric Company

Debt Service Coverage Calculation
 Years Ended December 31, 2019 and 2018
 (In Thousands)

NET REVENUE AVAILABLE FOR DEBT SERVICE

In accordance with the provisions of MMWEC's GBR, MMWEC covenants that it shall fix, revise and collect rates, tolls, rents and other fees and charges sufficient to produce revenues to pay all Project operating and maintenance expenses, and principal, premium, if any, and interest on the Bonds. Revenues for each Project, which include applicable interest earnings from investments, are required to equal 1.10 times the annual debt service for each contract year ending June 30, after deduction of certain operating and maintenance expenses and exclusive of depreciation. As such, amounts included in the table below do not reflect December 31 balances. For the contract years ended June 30, 2019 and 2018, MMWEC met the GBR debt service coverage requirements for all of MMWEC's Projects.

	2019	2018
Revenues	\$ 23,137	\$ 29,703
Other billings	-	-
Reserve and contingency fund billings	679	400
Total	23,816	30,103
Less – operating and maintenance expenses	16,489	25,701
Available revenues net of expenses	\$ 7,327	\$ 4,402
Debt service requirement	\$ 6,647	\$ 4,002
Coverage (110% required)	110%	110%