



Bill Fraher, CPA

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Financial Statements
and Required Supplementary Information

For the Year Ended December 31, 2020

(With Independent Auditor's Report Thereon)

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT
Financial Statements and Required Supplementary Information

Years Ended December 31, 2020
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Independent Auditor's Report

The Board of Light Commissioners
Town of Middleton, Massachusetts

Report on the Financial Statements

I have audited the accompanying financial statements of the Middleton Electric Light Department an enterprise fund of the Town of Middleton, Massachusetts, as of and for the year ended December 31, 2020, and the related notes to the 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of a 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 Department'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 Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Middleton Electric Light Department of the Town of Middleton, Massachusetts,

as of December 31, 2020, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

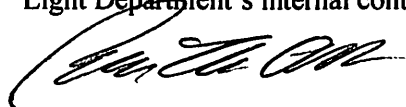
As discussed in Note 1, the financial statements present only the Middleton Municipal Light Plant and do not purport to, and do not, present fairly the financial position of the Town of Middleton, Massachusetts as of December 31, 2020, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 7 and the pension and OPEB schedules on pages 27 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing 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. I 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 regarding 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 obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated June 22, 2021 on my consideration of the Middleton Electric Light Department's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Middleton Electric Light Department's internal control over financial reporting and compliance.



Bill Fraher, CPA
June 22, 2021



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

The Board of Light Commissioners
Town of Middleton, Massachusetts

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Middleton Electric Light Department (the Department), an enterprise fund of the Town of Middleton, Massachusetts, as of and for the year ended December 31, 2020, and the related notes to the financial statements, and have issued my report thereon dated June 22, 2021.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Middleton Electric Light Department's internal control. Accordingly, I do not express an opinion on the effectiveness of the Middleton Electric Light Department's internal control.

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

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

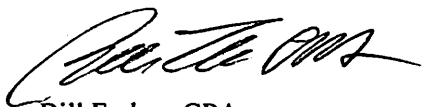
Compliance and Other Matters

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

I noted certain matters that I reported to management and Board of the Middleton Electric Light Department in a separate letter dated June 22, 2021.

Purpose of this Report

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



Bill Fraher, CPA
June 22, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the financial statements, the management of the Middleton Electric Light Department (the Department) provides a narrative discussion of the amounts that appear in the Department's Statement of Net Position, Statement of Revenues, Expense and Changes in Net Position and Statement of Cash Flows. This discussion is provided to present an overview of the Department's year end financial position for December 31, 2020 and the results of operations for the year then ended.

Overview of the Financial Statements

The Department's basic financial statements include two fund types, a proprietary fund type for all Department activity except for the Other Post-Employment Benefits (OPEB) trust fund, which is considered a fiduciary fund type. For both fund types, the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The proprietary fund includes a Statement of Net Position, Statement of Revenues, Expense and Changes in Net Position and Statement of Cash Flows. The fiduciary fund type presents a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. Notes follow these financial statements to present additional information on some of the amounts in the financial statements. Financial highlights from these statements are presented below.

- The Statement of Net Position is designated to indicate our financial position as of a specific point in time. At December 31, 2020, our net position is \$26,380,779, which is an increase of \$1,896,916 (7.7%) from the prior year amount of \$24,483,863. Of the total net position at December 31, 2020, \$12.6 million is the net investment in capital assets (\$12.5 million last year) and \$13.78 million is unrestricted (\$11.98 million last year).
- The Statement of Revenues, Expenses and Changes in Net Position shows our operating results and reveals how much, if any, profit was made for the year. This statement shows a total increase in net position (net income) of \$1,896,916 for the year ended December 31, 2020, compared with net income of \$2,289,122 for the year ended December 31, 2019. This slightly lower amount of income compared to last year was mostly due to a decrease in investment income due to market factors.
- The Statement of Cash Flows provides information about the cash receipts and cash payments during the year. A review of our Statement of Cash Flows indicates that cash receipts from operating activities adequately cover our operating expenses.
- The total OPEB liability at December 31, 2020 is \$1,581,102 and the net OPEB asset is \$85,337. At December 31, 2020, the Department has fully funded this liability. The OPEB trust balance at December 31, 2020 is \$1,666,439.
- The total Net Pension Liability (NPL) in the financial statements is \$4,228,111. The NPL is being amortized through increased assessments from the Essex Regional Retirement System with a target date of 2035 for full liability amortization.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary financial information is presented below.

Summary of Net Position

	<u>2019</u>	<u>2020</u>
Current Assets	\$17,490,300	\$18,744,570
Noncurrent Assets	<u>12,508,342</u>	<u>12,683,748</u>
Total Assets	<u>29,998,642</u>	<u>31,428,318</u>
Deferred Outflows	<u>830,280</u>	<u>846,426</u>
Current Liabilities	1,490,502	1,165,157
Noncurrent Liabilities	<u>4,782,277</u>	<u>4,314,995</u>
Total Liabilities	<u>6,272,779</u>	<u>5,480,152</u>
Deferred Inflows	<u>72,280</u>	<u>413,813</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	12,508,342	12,598,411
Unrestricted	<u>11,975,521</u>	<u>13,782,368</u>
Total Net Position	<u>\$24,483,863</u>	<u>\$26,380,779</u>

Larger changes are: 1) an increase in cash and investments due to net income; 2) a decrease in accounts payable due to year end timing; 3) a decrease in the net OPEB liability (now a net OPEB asset) due to current year contributions and 4) increase in net position due to current year results.

Summary of Changes in Net Position

	<u>2019</u>	<u>2020</u>
Operating Revenues	\$13,772,857	\$13,662,632
Operating Expenses	<u>12,484,064</u>	<u>12,357,258</u>
Operating Income	1,288,793	1,305,374
Nonoperating Revenues (Expenses)	<u>1,000,329</u>	<u>591,542</u>
Changes in Net Position	2,289,122	1,896,916
Beginning Net Position	<u>22,194,741</u>	<u>24,483,863</u>
Ending Net Position	<u>\$24,483,863</u>	<u>\$26,380,779</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

Operating revenues decreased, totaling \$13,772,857 for 2019 and \$13,662,632 for 2020, a decrease of 0.8%. Actual customer kilowatt hour sales to customers increased approximately 1.4% and overall revenue from customer charges increased 0.2%. The difference between the change in customer sales and the change in customer revenues is the year end unbilled revenue adjustment which decreased due to timing and year end weather changes. There were no rate changes in 2020. Other operating revenues decreased due to more outside project work performed by Department in 2019 than in 2020.

Operating expenses decreased from \$12,484,064 in 2019 to \$12,357,258 in 2020, a decrease of 1.0%. Most of this was due to a decrease in purchased power costs due to market prices offset by an increase in other expenses due to the OPEB trust contribution.

The Department saw its investment income decrease from \$1,176,429 in 2019 to \$821,542 in 2020 due to more favorable investment returns in 2019 (market factors).

Capital Assets & Debt Administration

Total net capital assets were \$12,508,342 at December 31, 2019 and \$12,598,411 at December 31, 2020, an increase of 0.7%. Capital assets include land, buildings, structures and improvements, equipment and furnishings and infrastructure. There were approximately \$800,000 in capital additions in 2020, the largest line improvements. Additions, net of retirements, were more than depreciation for the year resulting in the increase in net capital assets.

The Department has no outstanding debt at December 31, 2020 nor was any debt outstanding during the year.

Requests for Information

This financial report is designed to provide a general overview of the Middleton Electric Light Department's finances for all those interested in the Department's financial operations. Questions concerning any of the information in this report or requests for additional financial information should be addressed to:

Manager
Middleton Electric Light Department
Middleton, MA 01949

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT**Statement of Net Position****December 31, 2020****Assets****Current assets:**

Cash and cash equivalents - unrestricted	\$ 3,880,814
Cash and cash equivalents - restricted	220,438
Investments	10,114,338
User charges receivable, net	1,430,924
Other accounts receivable	61,226
Unbilled revenue	131,651
Inventory	658,316
Prepaid expenses	2,244,982
Other current assets	<u>1,881</u>

Total current assets 18,744,570

Noncurrent assets:

Other post-employment benefits	85,337
Capital assets, net	<u>12,598,411</u>

Total noncurrent assets 12,683,748

Total assets \$ 31,428,318

Deferred Outflows

Deferred outflows related to OPEB	355,556
Deferred outflows related to pensions	<u>490,870</u>

Total deferred outflows 846,426

Liabilities**Current Liabilities:**

Accounts payable	\$ 622,336
Customer deposits	220,469
Other current liabilities	<u>322,352</u>

Total current liabilities 1,165,157

Noncurrent liabilities:

Accrued compensated absences	86,884
Other post-employment benefits	0
Net pension liability	<u>4,228,111</u>

Total noncurrent liabilities 4,314,995

Total liabilities 5,480,152

Deferred Inflows

Deferred inflows related to OPEB	133,592
Deferred inflows related to pensions	<u>280,221</u>

Total deferred inflows 413,813

Net Position

Net investment in capital assets	12,598,411
Restricted	0
Unrestricted	<u>13,782,368</u>

Total net position \$ 26,380,779

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT**Statement of Revenues, Expenses and Changes in Net Position****For the Year Ended December 31, 2020**

Operating revenues:	
Charges for services	\$ 13,530,640
Other operating revenues	<u>131,992</u>
Total operating revenues	<u>13,662,632</u>
Operating expenditures:	
Purchased power and production	8,139,863
Other operating expenses	3,529,865
Depreciation	<u>687,530</u>
Total operating expenditures	<u>12,357,258</u>
Operating income	<u>1,305,374</u>
Nonoperating revenues (expenses):	
Investment income	821,542
Payment in lieu of taxes	<u>(230,000)</u>
Total nonoperating revenues (expenses)	<u>591,542</u>
Changes in net position	1,896,916
Net position, beginning of year	<u>24,483,863</u>
Net position, end of year	\$ <u><u>26,380,779</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT**Statement of Cash Flows****For the Year Ended December 31, 2020****Cash flows from operating activities:**

Cash received from customers	\$ 13,846,639
Cash paid to suppliers	(10,606,058)
Cash paid to employees	(1,849,644)
Payment in lieu of taxes (operating transfer)	<u>(230,000)</u>

Net cash provided by operating activities 1,160,937

Cash flows from investing activities:

Interest on deposits and investments	821,542
Purchase and sales of investments (net)	<u>(1,425,635)</u>

Net cash provided by capital and related financing activities: (604,093)

Cash flows from capital and related financing activities:

Capital expenditures and adjustment	<u>(777,599)</u>
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Net cash provided by capital and related financing activities: (777,599)

Net increase in cash and cash equivalents (220,755)

Cash and cash equivalents, beginning of year 4,322,007

Cash and cash equivalents, end of year \$ 4,101,252

Reconciliation of operating income to net cash provided**By operating activities:**

Operating income (loss)	\$ 1,305,374
Depreciation, bad debts & other	671,385
Payment in lieu of taxes (operating transfer)	(230,000)
(Increase)/Decrease in accounts receivable	44,208
(Increase)/Decrease in unbilled revenue	99,967
(Increase)/Decrease in inventory	(97,244)
(Increase)/Decrease in prepaid expenses	(96,322)
(Increase)/Decrease in net OPEB asset	(85,337)
Increase/(Decrease) in accounts payable	(414,241)
Increase/(Decrease) in customer deposits	39,832
Increase/(Decrease) in other current liabilities	49,065
Increase/(Decrease) in OPEB liability & related deferrals	(366,894)
Increase/(Decrease) in net pension liability & related deferrals	235,228
Increase/(Decrease) in other liabilities	<u>5,916</u>

Net cash provided by operating activities \$ 1,160,937

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Fiduciary Fund

Statement of Fiduciary Net Position

Year Ended December 31, 2020

	<u>OPEB Trust</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	152,577
Investments	\$ <u>1,513,862</u>
 Total assets	 <u>1,666,439</u>
 <u>Liabilities</u>	
Current Liabilities:	
Other Liabilities	\$ <u>-</u>
 Total liabilities	 <u>-</u>
 <u>Net Position</u>	
Held in trust for retiree insurance benefits	<u>1,666,439</u>
 Total net position	 <u><u>\$ 1,666,439</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT**Fiduciary Fund****Statement of Changes in Fiduciary Net Position****Year Ended December 31, 2020**

	<u>OPEB Trust Fund</u>
<u>Additions</u>	
Contributions:	
From Middleton Electric Light Department	\$ <u>647,083</u>
Total contributions	<u>647,083</u>
Investment income:	
Investment income	<u>82,846</u>
Total investment income	<u>82,846</u>
Total additions	<u>729,929</u>
<u>Deductions</u>	
Benefits	<u>47,083</u>
Total deductions	<u>47,083</u>
Change in net position	682,846
Net position - beginning of year	<u>983,593</u>
Net position - end of year	\$ <u><u>1,666,439</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

1. Summary of Significant Accounting Policies

A. Introduction

The Town of Middleton Electric Light Department (the Department) was incorporated in 1912. The Department operates under the provisions of Chapter 164 of the Massachusetts General Laws with an elected Board of Light Commissioners.

The Department complies with accounting principles generally accepted in the United States of America (GAAP). The Department's accounting records are required to conform to the accounting standards set by the Commonwealth of Massachusetts Department of Public Utilities (DPU), which differ from GAAP. Certain adjustments have been made to present the Department's financial statements in accordance with GAAP.

B. Reporting Entity

The financial statements present information only on activities of Town of Middleton Electric Light Department and do not purport to, and do not, present fairly the financial position of the Town of Middleton, Massachusetts as of December 31, 2020, and the changes in its financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. The Department is presented as an enterprise fund in the Town of Middleton, Massachusetts' financial statements.

C. Regulation and Operation

Under Massachusetts law, electric rates of the Department are set by the Board of Commissioners and may be changed once every three months. Rate schedules are filed with the DPU. While the DPU exercises general supervisory authority over the Department, rates are not subject to DPU approval. Rates must be set such that net earnings from operations do not exceed 8% of the cost of utility Department, unless prior year losses are being recaptured.

D. Basis of Accounting

I. Basis of Presentation

The financial condition and results of operations of the Department are presented as of and for the year ended December 31, 2020.

II. Basis of Accounting

The Department is considered a proprietary fund type. As such, the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The Department also distinguishes between operating and nonoperating revenues and expenses, based on whether the items relate to the primary operation of providing electric service. The Department's OPEB trust is considered a fiduciary fund type and uses the accrual basis of accounting.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

1. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

III. Cash Equivalents

For purposes of the statement of cash flows, the Department considers investments with original maturities of three months or less when purchased to be cash equivalents.

IV. Inventory

Inventory is carried at cost, calculated on an average cost basis.

V. Utility Department in Service

Utility Department in service is recorded at historical cost. Depreciation is calculated on a straight-line basis. Depreciation rates are as follows: buildings and structures - 50 years; utility Department infrastructure (poles, meters, transformers, etc.) - 20 to 33 years; other capital assets - 10 to 20 years.

If depreciation is greater than capital additions for the year, this amount is transferred by the Department from unrestricted cash to a segregated depreciation cash fund. This fund is utilized in accordance with DPU regulations for certain additions to utility Department in service. The Department charges maintenance costs to expense when incurred. Replacements and betterments are charged to utility Department when purchased or when placed in service, according to DPU requirements. At the time Department is retired, the cost of Department, less accumulated depreciation and any salvage value, is recorded as a reduction of the related accounts.

VI. Accrued Vacation and Sick Leave

Vacation time for Department employees varies from one to six weeks, based on years of service. In addition, employees are eligible to "buy back" a percentage of accrued sick time, subject to certain restrictions, at retirement. The total amount of accrued vacation and sick leave payable at December 31, 2020 is presented in the financial statements.

VII. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, proprietary and fiduciary fund statements may present deferred outflow and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will be recognized as an outflow (expense/ expenditure) at that time. Deferred inflows of resources represent acquisition of net position that applies to a future period and will be recognized as an inflow (revenue) at that time. In the financial statements, certain items related to the OPEB and net pension liability, if applicable, are presented as deferred inflows and outflows of resources.

VIII. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Essex Regional Retirement System (the System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose,

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

1. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

VIII. Pensions (continued)

benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

IX. Other Post-Employment Benefits

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

X. Operating Revenues

Revenues are based on rates established by the Department and are applied to customers' consumption of electricity. The Department utilizes a fuel cost adjustment, whereby fluctuations in the cost of power can be adjusted monthly on customer bills without a change to the basic rate structure. All customers are allowed a discount on a portion of their electric bill if paid within fifteen days which is recorded as revenue when forfeited.

XI. Taxes

The Department is exempt from state and federal income taxes and local property taxes. The Department pays an in lieu of tax payment to the Town of Middleton based on an annual vote by the Board of Commissioners.

XII. Use of Estimates

In preparing the Department's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Investments

Cash of the Department is in control of the Town Treasurer, as required by state law. State and local statutes place certain limitations on the nature of deposits and investments available to the Department. Cash and cash equivalents in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Separate accounts are maintained for the Department's depreciation fund, stabilization fund and customer meter deposits fund. Operating cash is pooled with Town funds in various Town bank accounts.

The Department also maintains depreciation, stabilization and OPEB funds, which are allowed per DPU regulations. Subject to certain restrictions, these amounts are available for general Department operations

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

2. Cash and Investments (continued)

and are included in the financial statements as unrestricted cash and cash equivalents. Customer meter deposits are presented as restricted cash and cash equivalents, as these amounts are available to the Department only if a customer account is terminated with an outstanding balance.

At year-end, the Department's carrying amount of segregated bank deposits was \$223,263. The bank balance of these Department segregated funds maintained by the Town Treasurer was \$229,913. In addition to the segregated funds, there was \$3,729,173 of operating cash pooled within various Town accounts. Bank deposits are pooled with, or in the same financial institution as, Town operating funds and, therefore, specific collateralization information on these amounts is not available. In addition to bank deposits, \$1,482 was invested with the Municipal Light Departments of Massachusetts Reserve Trust, an investment pool authorized under state statutes. This is considered part of cash equivalents in the financial statements.

At year-end, the investment balances for the Department were as follows:

<u>Type of Investment</u>	<u>Fair Value</u>
Equities	633,279
Certificates of deposit	436,555
Municipal bonds	492,563
Corporate bonds	986,834
Mutual funds	9,078,969
Money market funds (cash equivalents)	<u>298,960</u>
Total investments	<u>\$11,927,160</u>

Of the above amounts, maturities are as follows: 1) for certificates of deposit \$381,295 less than one year, and \$55,260 between two and five years; 2) for municipal bonds \$257,083 between one and two years, and \$235,481 between two and five years; 3) for corporate bonds \$656,865 between two and five years, and \$329,969 beyond five years.

The Municipal bonds are rated \$235,481 as AAA and \$257,082 as AA to A and corporate bonds are rated \$108,777 as AAA, \$767,079 as AA to A and \$110,978 are rated BBB by Standards and Poor's. Mutual funds, money market funds and certificates of deposit are not rated.

The Department holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Department's mission, the Department determines that disclosures related to these investments only need to be disaggregated by major type. The Department chooses a narrative format for the fair value disclosures. The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs use to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At December 31, 2020, US government securities, equities and mutual funds are categorized as Level 1 while certificates of deposit and bonds are categorized as Level 2.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

3. Accounts Receivable

The following is a summary of accounts receivable as of December 31, 2020.

	<u>2020</u>
Customer accounts receivable	\$1,596,080
Other accounts receivable	61,226
Purchased power credits receivable	-
Allowance for uncollectible accounts	<u>(165,156)</u>
 Total accounts receivable, net	 <u>\$1,492,150</u>

Of the total customer accounts receivable at December 31, 2020 of \$1,596,080, \$1,241,483 relates to the December 2020 power bills due from customers (due in January, 2021). The Department also has \$131,651 of unbilled charges at December 31, 2020.

4. Prepaid Expenses

At December 31, 2020, the Department has total prepaid expenses of \$2,244,982. Most of the prepaid expense amount represents deposits used to facilitate timely payments of certain monthly power invoices.

5. Capital Assets

The following is a summary of the Department's capital assets for the year ended December 31, 2020.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers and Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and land improvements	<u>\$2,219,869</u>	=	1	<u>2,219,868</u>
Total capital assets not being depreciated	<u>2,219,869</u>	=	1	<u>2,219,868</u>
 Capital assets being depreciated:				
Buildings and improvements	1,285,958	4,350	2,500	1,287,808
Equipment	3,116,676	31,989	4,500	3,144,165
Infrastructure	<u>18,766,854</u>	<u>742,135</u>	<u>91,875</u>	<u>19,417,114</u>
Total capital assets being depreciated	<u>23,169,488</u>	<u>788,474</u>	<u>98,875</u>	<u>23,849,087</u>
 Less accumulated depreciation for:				
Buildings and improvements	(657,114)	(25,746)	(2,500)	(680,360)
Equipment	(1,829,306)	(131,944)	(4,500)	(1,956,750)
Infrastructure	<u>(10,394,593)</u>	<u>(529,840)</u>	<u>(91,000)</u>	<u>(10,833,433)</u>
Total accumulated depreciation	<u>(12,881,013)</u>	<u>(687,530)</u>	<u>(98,000)</u>	<u>(13,470,543)</u>
 Capital assets being depreciated, net	 <u>10,288,475</u>	 <u>90,944</u>	 <u>875</u>	 <u>10,378,544</u>
 Total capital assets, net	 <u>\$12,508,344</u>	 <u>90,944</u>	 <u>875</u>	 <u>12,598,412</u>

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

6. Notes and Bonds Payable

The Department did not have any outstanding short or long-term debt during 2020. At December 31, 2020, the Department has no unauthorized and unissued debt.

7. Pension Plans

Plan Description: Department employees are provided with pensions through the Essex Regional Retirement System, a cost sharing, multiple employer defined benefit plans administered by the Essex Regional Retirement Board and regulated by the Massachusetts Public Employee Retirement Administration Commission (PERAC). Chapter 32 of the Massachusetts General Laws (MGL) grants the authority to establish and amend benefit terms. The System issues an annual public report and audited financial statements that can be obtained at essexregional.com.

Benefits Terms: Membership in the System is mandatory for all full-time employees and non-seasonal employees who, in general, regularly work more than twenty hours per week.

The System provides retirement, disability and death benefits. Benefit payments are based on a member's age, length of creditable service, level of compensation and group classification. Retirement benefits are determined as follows. For employees hired prior to April 2, 2012, the system provides for retirement benefits up to a maximum of 80% of a member's highest three-year average annual rate of compensation. For employees hired on or after April 2, 2012, it is a maximum of 80% of a member's highest consecutive five-year average or, if greater, during the last five years (consecutive or not) preceding retirement. Employees may elect early retirement after 20 years of service or at any time after attaining age 55 (age 60 if hired on or after April 2, 2012) with 10 years eligible service.

System members who become permanently and totally disabled may be eligible to receive a disability retirement allowance. Disability benefits are based on several factors, including the member's age, compensation, veteran status, years of service and whether or not the disability is work related. In addition, certain death benefits exist for beneficiaries who die in active service.

Cost of living adjustments (COLAs) granted between 1981 and 1997 are the responsibility of the Commonwealth. Beginning in 1998, funding COLAs became the responsibility of the System.

Contributions: Chapter 32 of MGL governs the contributions of plan members and member employers. Employees contribute 5% of regular compensation if employed prior to January 1, 1975; 7% if first employed from January 1, 1975 to December 31, 1983; 8% of the first \$30,000 and 10% thereafter if first employed on or after January 1, 1984; and 9% of the first \$30,000 and 11% thereafter if first employed on or after January 1, 1998. The Department's contribution reflects its share of the system-wide actuarial determined contribution, in accordance with Chapter 32 Section 22D of MGL, apportioned among all System employers based on an annual employer normal cost and amortization payments to pay the unfunded net pension liability in full by fiscal year 2035. Contributions to the System by the Department for the year ended December 31, 2020 were \$373,377.

Return of Contributions: Employee contributions may be returned to the participants upon leaving Department employment prior to retirement, within certain age and length of employment restrictions, as prescribed by the Massachusetts General Laws.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

7. Pension Plans (continued)

Net Pension Liability, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2020, the Department reported a liability of \$4,228,111 for its proportionate share of the net pension liability. The net pension liability was measured at December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020 rolled back to December 31, 2019. There were no material changes made in this update to the actuarial assumptions or to the retirement terms since the last actuarial valuation. The Department's proportion of the net pension liability was based on a projection of the Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2019, the Department's proportion was 1.003464%.

For the year ended December 31, 2020, the Department recognized pension expense of \$524,175. At December 31, 2020 the Department reported deferred outflows as follows: \$580 for difference between expected and actual experience, \$422,589 for changes in assumptions and \$67,701 for changes in proportion and differences between employer contributions and proportionate share of contributions and reported deferred inflows as follows: \$157,644 difference between actual and projected investment earnings \$20,094 for the difference between expected and actual experience and \$102,483 for changes in proportion and differences between employer contributions and proportionate share of contributions. This amount will be recognized in pension expense as follows:

Fiscal year ended December 31:	
2021	\$105,668
2022	\$68,665
2023	\$62,562
2024	(\$26,246)

Actuarial Assumptions: The total pension liability in the January 1, 2020 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal Cost Method
Inflation rate	2.75%
COLA adjustments	2% of the first \$14,000 of a member's retirement allowance is assumed for 2020, 3% thereafter
Investment rate of return	7.3% per annum
Salary increases	Based on years of service, ranging from 7.5% at zero years of service decreasing to 3.75% after 5 years of service

Mortality rates were based on the following: for pre-retirement, the RP-2014 Mortality Table projected generationally with scale MP-2019; for healthy retiree, RP-2014 Healthy Annuitant Mortality Table projected generationally with scale MP-2019; and disabled retiree RP-2014 Healthy Annuitant Mortality Table, set forward two years, projected generationally with scale MP-2019.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

7. Pension Plans (continued)

The long-term rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	21.0%	6.15%
International developed equities	13.0%	6.78%
International emerging equities	5.0%	8.65%
Core fixed income	15.0%	1.11%
High yield fixed income	8.0%	3.51%
Private equity	13.0%	9.99%
Real estate	10.0%	4.33%
Commodities	4.0%	4.13%
Hedge funds/other	11.0%	3.68%
Total	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.3%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that contributions will be made at the actuarially determined contribution rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the Department's proportionate share of the net pension liability of the System calculated using the discount rate of 7.3%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.3%) or 1-percentage-point higher (8.3%) than the current rate:

<u>1% Decrease (6.3%)</u>	<u>Current Discount Rate (7.3%)</u>	<u>1% Increase (8.3%)</u>
\$5,317,109	\$4,228,111	\$3,312,740

8. Other Post-Employment Benefits (OPEB)

The Department administers a single-employer defined benefit healthcare plan (the "OPEB Plan"). The OPEB Plan provides health, dental and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with Section 20 of Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law and Department ordinance. All benefits are provided through the Department's premium-based insurance program. The OPEB Plan does not issue a stand-alone financial report and is presented as a fiduciary fund in the Department's financial statements.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

8. Other Post-Employment Benefits (OPEB) (continued)

With respect to OPEB plan reporting, GASB issued GASB Statement No.'s 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, and Statement No, 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Reporting requirements for governments who administer an OPEB plan as defined under the accounting standard are required to present disclosures under both GASB 74 and GASB 75.

GASB 74 requires specific disclosures and required supplementary information that relate directly to the fiduciary fund in which the OPEB Plan is recorded. GASB 75 address disclosures related to the net OPEB liability (asset) required to be recorded by the government in its applicable financial statements. A number of these disclosures are identical, especially if the same measurement date is used for both GASB 74 and GASB 75. When different measurement dates are used, differences in assumptions and calculations will result.

OPEB Plan disclosures that impact the Department's net OPEB liability (asset) using a measurement date of December 31, 2020 are summarized as follows:

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of December 31, 2020:

Active employees	13
Inactive employees	8
Total	<u>21</u>

Contributions – The contribution requirements of OPEB Plan members and the Department are established and may be amended by the Department. Currently, members receiving these benefits contribute at a 40% of the cost of the plan. The remainder of the cost is funded by general revenues of the Department. The Department currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the OPEB Plan are paid by the Department. For the year ended December 31, 2020, the Department's average contribution rate was approximately 35.96% of covered-employee payroll.

Net OPEB Liability (Asset) – The Department's net OPEB liability (asset) was measured as of December 31, 2020 using an actuarial valuation as of January 1, 2020. The components of the net OPEB liability (asset) of the Department at December 31, 2020 were as follows:

Total OPEB Liability	\$ 1,581,102
Plan fiduciary net position	<u>(1,666,439)</u>
Net OPEB liability (asset)	<u>\$ (85,337)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	105.40%

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

8. Other Post-Employment Benefits (OPEB) (continued)

The total OPEB liability in the most recent actuarial valuation was determined using the following key actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Investment rate of return	5.43%, net of OPEB plan investment expense, including inflation.
Municipal bond rate	1.93% as of December 31, 2020
Discount Rate	5.5%, net of OPEB plan investment expense including inflation.
Inflation	2.5% annually as of December 31, 2020 and for future periods
Health Care Trend Rate	4.5%
Salary Increases	3.00% annually as of December 31, 2020 and for future periods
Pre-Retirement Mortality	RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females set forward 1 year for females
Post-Retirement Mortality	RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females set forward 1 year for females
Disabled Mortality	RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females set forward 1 year
Actuarial Cost Method	Individual entry age normal

Discount Rate – The discount rate used to measure the total OPEB liability was 5.5%. The major changes in assumptions from the prior year were a change in the discount rate from 6.75% to 5.5%, the health care trend rate was updated to 4.5% and the mortality tables were updated.

Investment Custody - In accordance with the Department's irrevocable trust, the Trust is administered by a five-member Board of Trustees consisting of the five members of the Board of Commissioners. Per state statutes, the Town Treasurer is the custodian of the OPEB Plan assets. The Trustees are responsible for the general supervision of the management, investment and reinvestment of the OPEB Plan assets. OPEB Plan assets must be segregated from other funds and not be subject to the claims of any general creditor of the Department.

Long Term Expected Rate of Return – The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return were as reflected in the following table:

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

8. Other Post-Employment Benefits (OPEB) (continued)

Asset Class	Target Allocation	Expected Investment Rate of Return
Domestic Equity - Large Cap	24.00%	4.90%
Domestic Equity - Small/Mid Cap	12.50%	5.40%
International Equity - Developed Market	0.00%	5.32%
International Equity - Emerging Market	0.00%	6.26%
Domestic Fixed Income	38.00%	1.40%
International Fixed Income	4.50%	1.30%
Alternatives	11.75%	6.32%
Real Estate	0.00%	6.25%
Cash	9.25%	0.00%
	100.00%	
Real rate of return		3.18%
Inflation assumption		2.50%
 Total nominal rate of return		 5.68%
Investment expense		-0.25%
Net investment return		5.43%

Sensitivity Analyses – The following presents the Department’s net OPEB liability (asset) as well as what the Department’s net OPEB liability (asset) would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate as well as if the healthcare cost trend rates are 1% lower or higher than the current healthcare cost trend rates:

	Discount Rate		
	1% Decrease (4.5%)	Trend Rate (5.5%)	1% Increase (6.5%)
Net OPEB Liability (Asset)	\$ 226,167	\$ (85,337)	\$ (231,645)
	Health Care Rate		
	1% Decrease (3.5%)	Current (4.5%)	1% Increase (5.5%)
Net OPEB Liability (Asset)	\$ (279,872)	\$ (85,337)	\$ 160,741

Changes in the Net OPEB Liability (Asset) – The following table summarizes the changes in the net OPEB liability (asset) for the year ended December 31, 2020:

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

8. Other Post-Employment Benefits (OPEB) (continued)

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at January 1, 2020	\$ 1,464,972	\$ 983,593	\$ 481,379
Changes for the year:			
Service cost	22,119	-	22,119
Interest	98,816	-	98,816
Difference between expected and actual experience	(302,421)	-	(302,421)
Changes in assumptions	344,699		344,699
Net investment income	-	82,846	(82,846)
Employer contributions	-	647,083	(647,083)
Benefit payments withdrawn from trust	-	(47,083)	47,083
Benefit payments	(47,083)	-	(47,083)
Net changes	116,130	682,846	(566,716)
Balances at December 31, 2020	\$ 1,581,102	\$ 1,666,439	\$ (85,337)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended December 31, 2020, the Department recognized OPEB expense of \$76,870. Deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2020 were reported as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Changes of assumptions	\$ -	\$ 355,556
Differences between projected and actual investment earnings	30,691	-
Differences between actual and expected experience	102,901	-
	\$ 133,592	\$ 355,556

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB (net outflow of \$221,964) will be recognized in OPEB expense (benefit) as follows:

December 31	
2021	\$ 72,502
2022	72,504
2023	49,817
2024	26,803
2025	338
	\$ 221,964

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

9. Commitments

The Department is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC). MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC operates the Stony Brook Intermediate Project and Stony Brook Peaking Project, both fossil-fueled power Departments. MMWEC has the Nuclear Mix One project, Nuclear Project Three, Nuclear Project Four, Nuclear Project Five and Project Six, which comprise an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. The operating license for Seabrook Station extends to March 15, 2050. The operating license for Millstone Unit 3 extends to November 25, 2045. On July 19, 2019, MMWEC sold its 3.7% interest in the W.F. Wyman Unit No. 4 plant, owned and operated by its majority owner, FPL Energy Wyman IV, LLC

MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other Utilities (Project Participants) under Power Sales Agreements (PSAs). The Department has entered into PSAs with MMWEC. Under the PSAs, the Department is required to make certain payments to MMWEC solely from Department revenues. Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project. In addition, should a Project Participant fail to make payment when due, other Projects Participants may be required to increase (step-up) their payments and correspondingly their Participants' share of Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs. Each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension and interruption of the output of the Project(s).

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

At December 31, 2020, MMWEC has no debt service obligations outstanding relating to the Projects. MMWEC is involved in various legal actions, the outcome of which, in the opinion of MMWEC management, will not have a material adverse effect on the financial position of MMWEC.

The total capital expenditures and annual capacity, fuel and transmission costs (which include debt service and decommissioning expenses discussed above) associated with the Department's Project Capability of the Projects in which it participates was \$34,732,873 for the year ended December 31, 2020.

10. Power Contracts

The Department purchases its power through contracts with various power suppliers, including MMWEC. These contracts are subject to certain market factors. Based on current market conditions, the Department anticipates some stability to its power cost expenses over the next few years.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Notes to Financial Statements
Years Ended December 31, 2020

11. Contingencies

Numerous lawsuits may be pending or threatened against the Department, which arose from the ordinary course of operations, including actions commenced and claims asserted against it for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. The Department's attorney estimates that potential claims, not covered by insurance, resulting from such litigation, would not materially affect the financial statements.

12. Implementation of new GASB Statements

During fiscal year 2020, the Department implemented the following GASB pronouncements:

- GASB Statement #95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*, which was required to be implemented in fiscal year 2020. Due to COVID-19 restrictions, this Statement delayed the implementation date requirements of various GASB Statements and other guidance.

In future fiscal years, the Department will implement the following GASB pronouncements:

- GASB Statement #84 – *Fiduciary Activities*, which is required to be implemented in fiscal year 2021. The Department is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #87 – *Leases*, which is required to be implemented in fiscal year 2023. The Department is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in fiscal year 2022. The Department is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, which is required to be implemented in fiscal year 2021. The Department is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #91 – *Conduit Debt Obligations*, which is required to be implemented in fiscal year 2023. The Department is currently evaluating the impact of this will have on its financial statements.
- GASB Statement #92 – *Omnibus 2020*, which is required to be implemented in fiscal year 2021 or 2023, depending on the provision. The Department is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #93 – *Replacement of Interbank Offered Rates*, which is required to be implemented in fiscal year 2023. The Department is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #94 – *Public-Private and Public-Public Partnerships of Availability Payment Arrangements*, which is required to be implemented in fiscal year 2024. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #96 – *Subscription-Based Information Technology Arrangements*, which is required to be implemented in fiscal year 2024. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #97 – *Certain Component Unit Criteria, and accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, which is required to be implemented in fiscal year 2023. The Town is currently evaluating the possible impact of this will have on its financial statements.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

Required Supplementary Information

Department's Participation in the Essex Regional Retirement System

Town of Middleton Electric Light Department's Proportionate Share of the System's Net Pension Liability

	<u>Proportion of the net pension liability (asset)</u>	<u>Proportionate share of the net pension liability (asset)</u>	<u>Covered payroll</u>	<u>Net pension liability as a percentage of covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
December 31, 2019	1.003%	\$4,228,111	\$1,515,049	286.3%	55.46%
December 31, 2018	0.999%	\$4,219,930	\$1,473,686	286.3%	51.87%
December 31, 2017	1.054%	\$3,965,220	\$1,488,658	266.4%	55.40%
December 31, 2016	0.997%	\$3,842,901	\$1,390,838	276.3%	51.12%
December 31, 2015	0.997%	\$3,842,901	\$1,390,838	276.3%	51.01%
December 31, 2014	0.966%	\$3,278,215	\$1,153,368	284.3%	52.27%

Town of Middleton Electric Light Department's Schedule of Contributions

	<u>Actuarially Determined Contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
December 31, 2020	\$360,430	\$360,715	(\$285.00)	\$1,515,049	23.81%
December 31, 2019	\$338,807	\$334,089	\$4,718.00	\$1,473,686	22.67%
December 31, 2018	\$328,501	\$328,501	\$0.00	\$1,488,658	22.07%
December 31, 2017	\$288,945	\$289,291	(\$346.00)	\$1,390,838	20.80%
December 31, 2016	\$288,945	\$289,291	(\$346.00)	\$1,390,838	20.80%
December 31, 2015	\$251,202	\$251,202	\$0.00	\$1,153,368	21.78%

The above schedules are required for ten years. Additional years will be presented as they become available.

See notes to the required supplementary information

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT
Required Supplementary Information
Schedules of Changes in Net OPEB Liability and Related Ratios

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Total OPEB Liability</u>				
Service cost	\$ 22,119	23,581	20,324	21,903
Interest on total OPEB liability	98,816	94,533	64,136	60,911
Changes of assumptions	344,699	-	150,859	-
Difference between expected and actual plan experience	(302,421)	-	265,582	-
Changes in benefit terms	-	-	-	-
Benefit payments, including refunds of member contributions	<u>(47,083)</u>	<u>(59,143)</u>	<u>(48,656)</u>	<u>(18,784)</u>
Net change in total OPEB liability	116,130	58,971	452,245	64,030
Total OPEB liability - beginning of year	<u>1,464,972</u>	<u>1,406,001</u>	<u>953,756</u>	<u>889,726</u>
Total OPEB liability - end of year	<u>\$ 1,581,102</u>	<u>1,464,972</u>	<u>1,406,001</u>	<u>953,756</u>
<u>Plan Fiduciary Net Position</u>				
Earnings from plan investments	<u>82,846</u>	<u>164,033</u>	<u>(63,804)</u>	<u>72,781</u>
Net investment income (loss)	82,846	164,033	(63,804)	72,781
Employer contributions	647,083	59,143	348,656	268,784
Benefit payments	(47,083)	(59,143)	(48,656)	(18,784)
Administrative expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fiduciary plan net position	682,846	164,033	236,196	322,781
Plan fiduciary net position - beginning of year	<u>983,593</u>	<u>819,560</u>	<u>583,364</u>	<u>260,583</u>
Plan fiduciary net position - end of year	<u>\$ 1,666,439</u>	<u>983,593</u>	<u>819,560</u>	<u>583,364</u>
Net OPEB liability (asset)	<u>\$ (85,337)</u>	<u>481,379</u>	<u>586,441</u>	<u>370,392</u>
Plan fiduciary net position as% of total OPEB liability (asset)	105.40%	67.14%	58.29%	61.16%
Department's Employee Covered Payroll	\$1,799,288	\$1,338,309	\$1,299,329	\$1,598,393
Plan net OPEB liability (asset) as a percentage of covered payroll	(4.74%)	35.97%	45.13%	23.17%
Single discount rate to calculate plan liabilities	5.50%	6.75%	6.75%	6.75%

These schedules are required for ten years. Additional years will be presented as they become available.

See notes to the Department's financial statements and required supplementary information for a summary of significant actuarial methods and assumptions.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT**Required Supplementary Information****SCHEDULE OF CONTRIBUTIONS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially-determined contribution	\$ 18,177	\$ 59,012	\$ 63,488	\$ 68,210
Contributions in relation to the actuarially-determined contribution	<u>(647,083)</u>	<u>(59,143)</u>	<u>(348,656)</u>	<u>(268,784)</u>
Contribution deficiency (excess)	<u>\$ (628,906)</u>	<u>\$ (131)</u>	<u>\$ (285,168)</u>	<u>\$ (200,574)</u>
Covered-employee payroll	<u>\$ 1,799,288</u>	<u>\$ 1,338,309</u>	<u>\$ 1,299,329</u>	<u>\$ 1,598,393</u>
Contribution as a percentage of covered-employee payroll	<u>35.96%</u>	<u>4.42%</u>	<u>26.83%</u>	<u>16.82%</u>

SCHEDULE OF INVESTMENT RETURNS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	8.42%	20.01%	(8.66%)	6.79%

Note: These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See notes to the Department's financial statements and required supplementary information for a summary of significant actuarial methods and assumptions.

Town of Middleton Municipal Light Department
Notes to the Required Supplementary Information
June 30, 2020

Note A – Pension Plan Schedules

A. Schedule of the Department's Proportionate Share of the Net Pension Liability

The Schedule of the Department's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

B. Schedule of Department's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The Department may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the Department based on covered payroll.

C. Changes in Assumptions

The following assumption changes were reflected in the January 1, 2020 actuarial valuation:

- Investment rate of return changed from 7.5% to 7.3%.
- Mortality tables were updated.

E. Changes in Plan Provisions

There were no plan provision changes in the January 1, 2020 actuarial valuation.

Town of Middleton Municipal Light Department
Notes to the Required Supplementary Information
June 30, 2020

Note B – Other Post-Employment Schedules

The Department administers a single-employer defined benefit healthcare plan (“The OPEB Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Department’s group health insurance plan, which covers both active and retired members.

A. Schedule of Changes - Department’s Net Other Postemployment Benefit Liability and Related Ratios

The Schedule of Changes in the Department’s Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan’s total OPEB liability, changes in the Plan’s net position, and ending net OPEB liability (asset). It also demonstrates the Plan’s net position as a percentage of the total liability and the Plan’s net other postemployment benefit liability as a percentage of covered employee payroll.

B. Schedule of the Department’s Contributions

The Schedule of the Department’s Contributions includes the Department’s annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered employee payroll. The Department is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered payroll.

C. Schedule of Investment Return

The Schedule of Investment Return includes the money-weighted investment return on the Plan’s other postemployment assets, net of investment expense.

D. Changes in Assumptions

The following assumption changes were reflected in the January 1, 2020 actuarial valuation:

- Investment rate of return changed from 6.75% to 5.5%.
- Mortality tables were updated.
- The expected long-term medical trend was updated to 4.5%.

E. Changes in Plan Provisions

There were no plan provision changes in the January 1, 2020 actuarial valuation.