

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

**TOWN OF MIDDLETON
ELECTRIC LIGHT DEPARTMENT**

Report on Examination of the
Basic Financial Statements
and Additional Information
Year Ended December 31, 2021



TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Commissioners
Town of Middleton Electric Light Department
Middleton, Massachusetts

Opinion

We have audited the accompanying financial statements of the Middleton Electric Light Department (the "Department"), of the Town of Middleton, Massachusetts, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Department as of December 31, 2021, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules listed under the required supplementary information section in the accompanying table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Roselli Clark & Associates

Roselli, Clark and Associates
Certified Public Accountants
Woburn, Massachusetts
September 19, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the financial statements, the management of the Town of 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, 2021, and the results of operations for the year then ended.

Financial Highlights

- The Department's assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by approximately \$28.7 million (*total net position*).
- The Department's total net position increased by approximately \$2.6 million. Positive operations were primarily the result of investment income significantly exceeding anticipated budget amounts, unbudgeted contribution aid in construction, and actual operational expenses being significantly lower than budgeted appropriations.
- The total unrestricted net position at December 31, 2021, represents approximately 74.7% of the total combined operating and nonoperating expenses for 2021.

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 Postemployment 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.

Proprietary: Business-Type Fund – This is the singular fund maintained by the Department that accounts for and reports on the operations. The following statements and their applicable purposes are reported:

- The Statement of Net Position is designated to indicate our financial position as of a specific point in time.
- 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.
- 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 whether cash receipts from operating activities covered our operating expenses.

Fiduciary Fund – This consists solely of the Department’s OPEB Trust Fund. As of December 31, 2021, the Department had an accumulated OPEB net position held in trust balance of over \$1.84 million; this balance consisted solely of cash and investment assets.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided within these financial statements.

Other Information – In addition, this report also presents certain required supplementary information which includes the schedules of the Department’s proportionate share of the net pension liability, contributions to its pension plan, and the funding progress and contribution funding of its obligation to provide other postemployment benefits to its employees.

Financial Analysis

The condensed and comparative statement of net position is as follows:

| | 2021 | 2020 |
|---------------------------------------|---------------|---------------|
| <u>Assets</u> | | |
| Current and other assets | \$ 21,614,145 | \$ 18,744,570 |
| Noncurrent assets | 12,330,991 | 12,683,748 |
| Total assets | 33,945,136 | 31,428,318 |
| <u>Deferred Outflows of Resources</u> | 1,326,018 | 846,426 |
| <u>Liabilities</u> | | |
| Current liabilities | 1,796,053 | 1,165,157 |
| Long-term liabilities | 4,053,530 | 4,314,995 |
| Total liabilities | 5,849,583 | 5,480,152 |
| <u>Deferred Inflows of Resources</u> | 675,951 | 413,813 |
| <u>Net Position</u> | | |
| Net investment in capital assets | 12,250,619 | 12,598,411 |
| Unrestricted | 16,495,001 | 13,782,368 |
| Net Position | \$ 28,745,620 | \$ 26,380,779 |

Net position may serve over time as a useful indicator of the Department’s financial positions. The assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by approximately \$28.7 million (*total net position*).

This statement shows a total increase in net position of over \$2.6 million for the year ended December 31, 2021, compared with an increase of approximately \$1.9 million for the year ended December 31, 2020.

The Department is reporting annual pension expenses on an actuarially determined basis and recognize its share of the Essex Regional Retirement System’s unfunded liability in the financial statements. The Department is reporting a net pension liability of about \$4.0 million (compared to nearly \$4.2 million last year), deferred outflows of resources related to pensions of over \$0.8 million and deferred inflows of resources related to pensions of nearly \$0.4 million.

The Department recognizes annual OPEB financial activities on an actuarially determined basis and recognize the net OPEB asset in the financial statements. The Department is reporting a net OPEB asset of nearly \$0.08 million (compared to the \$0.08 million last year), deferred outflows of resources related to OPEB of over \$0.2 million and deferred inflows of resources related to OPEB of over \$0.4 million.

By far the largest portion (nearly \$12.3 million) of the Department's overall net position reflects its net investment in capital assets (e.g. land, buildings, infrastructure, vehicles, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The Department uses these capital assets to provide services to users; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt.

The condensed and comparative statement of revenues, expenses and changes in net position is as follows:

| | 2021 | 2020 |
|--------------------------------------------------|----------------------|----------------------|
| <u>Revenues</u> | | |
| Charges for services | \$ 13,680,584 | \$ 13,530,640 |
| Other revenues | 411,044 | 131,992 |
| Interest income | 833,839 | 821,542 |
| Total revenues | 14,925,467 | 14,484,174 |
| <u>Expenses</u> | | |
| Purchase power and production | 8,417,328 | 8,139,863 |
| Other expenses | 3,200,673 | 3,759,865 |
| Depreciation | 715,473 | 687,530 |
| Total expenses | 12,333,474 | 12,587,258 |
| Increase (decrease) in net position | 2,591,993 | 1,896,916 |
| Net position, beginning of year - as restated | 26,153,627 | 24,483,863 |
| Net position, end of year | <u>\$ 28,745,620</u> | <u>\$ 26,380,779</u> |

Revenues for 2021 were over \$14.9 million, an increase of over \$0.4 million (3.0%). The change in customer sales was materially similar year-to-year with a slight increase of over \$0.1 million; the majority of the remaining revenue increase was generated from non-recurring contribution aid in construction proceeds.

Expenses for 2021 were nearly \$12.3 million, a decrease of nearly \$0.3 million (2.0%). The primary activity resulting in this change was an increase in power costs. The purchase of power and production costs did increase by an immaterial amount; this trend is in-line with other similar municipal light departments within the Department's area. The cost reduction for other expenses is mostly attributed to a change the recognized costs associated with pension and OPEB benefits recorded in-line with Generally Accepted Accounting Principles.

Capital Assets & Debt Administration

Capital Assets – Total net capital assets were nearly \$12.3 million at December 31, 2021 and nearly \$12.2 million at December 31, 2020, a increase of nearly 0.6%. Capital assets include land, buildings, structures and improvements, equipment and furnishings and infrastructure. There were several additions in 2021, so additions were more than depreciation for the year resulting in the increase in net capital assets.

Long-Term Debt – The Department has no outstanding debt at December 31, 2021 nor was any debt outstanding during the year.

Economic Factors and Next Year's Budgets and Rates

- Unemployment rates across the Commonwealth have improved significantly and are now trending at pre-pandemic rates in some industries.
- The Department has established an appropriation budget of \$13.6 million for 2022 which is slightly less than the \$12.8 million budgeted for 2021.
- The Department did increase the rates for 2022 as follows:
 - PPAC for businesses by \$0.012/kWh (\$0.006 in July and \$0.006 in August).
 - Rate A Residential Rate in August:
 - Transmission Charge by \$0.0011/kWh
 - Distribution Charge by \$0.0012/kWh
 - Energy Charge by \$0.0103/kWh

Requests for Information

This financial report is designed to provide a general overview of the Town of 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:

Town of Middleton Electric Light Department
Attn: General Manager
197 North Main Street
Middleton, MA 01949

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

**STATEMENT OF NET POSITION
DECEMBER 31, 2021**

| | |
|---------------------------------------------|------------------------------------|
| Assets | |
| Current assets: | |
| Cash and cash equivalents - unrestricted | \$ 5,011,541 |
| Cash and cash equivalents - restricted | 273,109 |
| Investments | 11,462,036 |
| User charges receivable, net | 1,631,953 |
| Inventory | 690,534 |
| Prepaid expenses | 2,544,972 |
| Total current assets | <u>21,614,145</u> |
| Noncurrent assets: | |
| Net OPEB asset | 80,372 |
| Capital assets, net | 12,250,619 |
| Total noncurrent assets | <u>12,330,991</u> |
| Total Assets | <u>33,945,136</u> |
| Deferred Outflows of Resources | |
| Deferred outflows related to OPEB | 484,426 |
| Deferred outflows related to pensions | 841,592 |
| Total Deferred Outflows of Resources | <u>1,326,018</u> |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 978,312 |
| Customer deposits | 272,421 |
| Accrued expenses | 464,248 |
| Accrued compensated absences | 81,072 |
| Total current liabilities | <u>1,796,053</u> |
| Noncurrent liabilities: | |
| Accrued compensated absences | 81,072 |
| Net pension liability | 3,972,458 |
| Total noncurrent liabilities | <u>4,053,530</u> |
| Total Liabilities | <u>5,849,583</u> |
| Deferred Inflows of Resources | |
| Deferred inflows related to OPEB | 305,612 |
| Deferred inflows related to pensions | 370,339 |
| Total Deferred Inflows of Resources | <u>675,951</u> |
| Net Position | |
| Net investment in capital assets | 12,250,619 |
| Unrestricted | 16,495,001 |
| Total Net Position | <u><u>\$ 28,745,620</u></u> |

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
YEAR ENDED DECEMBER 31, 2021**

Operating Revenues

| | |
|--------------------------|----------------|
| Charges for services | \$ 13,680,584 |
| Other operating revenues | <u>411,044</u> |

| | |
|--------------------------|-------------------|
| Total operating revenues | <u>14,091,628</u> |
|--------------------------|-------------------|

Operating Expenditures

| | |
|--------------------------------|----------------|
| Purchased power and production | 8,417,328 |
| Other operating expenses | 2,957,420 |
| Depreciation | <u>715,473</u> |

| | |
|------------------------------|-------------------|
| Total operating expenditures | <u>12,090,221</u> |
|------------------------------|-------------------|

| | |
|--------------------------------|------------------|
| Operating Income (Loss) | <u>2,001,407</u> |
|--------------------------------|------------------|

Nonoperating Revenues (Expenses)

| | |
|--------------------------|------------------|
| Investment income | 833,839 |
| Payment in lieu of taxes | <u>(243,253)</u> |

| | |
|-----------------------------------------------|----------------|
| Total nonoperating revenues (expenses) | <u>590,586</u> |
|-----------------------------------------------|----------------|

| | |
|-------------------------------|-----------|
| Change in Net Position | 2,591,993 |
|-------------------------------|-----------|

| | |
|------------------------------------------------------|-------------------|
| Net Position, Beginning of Year - as restated | <u>26,153,627</u> |
|------------------------------------------------------|-------------------|

| | |
|----------------------------------|-----------------------------|
| Net Position, End of Year | <u><u>\$ 28,745,620</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
YEAR ENDED DECEMBER 31, 2021**

| | |
|------------------------------------------------------------------------------------------------------|----------------------------|
| Cash Flows from Operating Activities | |
| Cash received from customers | \$ 14,135,428 |
| Cash paid to suppliers | (9,512,279) |
| Cash paid to employees | <u>(1,894,602)</u> |
| Net Cash Provided by Operating Activities | <u>2,728,547</u> |
| Cash Flows from Noncapital Financing Activities | |
| Payment in lieu of taxes | <u>(243,253)</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>(243,253)</u> |
| Cash Flows from Investing Activities | |
| Interest on deposits and investments | 833,839 |
| Purchase and sales of investments (net) | <u>(1,347,698)</u> |
| Net Cash Provided by Capital and Related Financing Activities | <u>(513,859)</u> |
| Cash Flows from Capital and Related Financing Activities | |
| Capital expenditures | <u>(788,037)</u> |
| Net Cash Provided by Capital and Related Financing Activities | <u>(788,037)</u> |
| Net Change in Cash and Cash Equivalents | 1,183,398 |
| Cash and Cash Equivalents, Beginning of Year | <u>4,101,252</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 5,284,650</u></u> |
| Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities: | |
| Operating Income | \$ 2,001,407 |
| Adjustments to reconcile Operating Income to net cash provided by (used in) operating activities: | |
| Depreciation | 715,473 |
| Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources: | |
| Receivables | (8,152) |
| Prepaid expenses | (298,109) |
| Inventory | (32,218) |
| Net OPEB asset | 4,965 |
| Deferred outflows of resources | (479,592) |
| Accounts payable | 355,976 |
| Accrued expenses | 432,627 |
| Customer deposits | 51,952 |
| Compensated absences | (22,267) |
| Net pension liability | (255,653) |
| Deferred inflows of resources | <u>262,138</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 2,728,547</u></u> |

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

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2021

| | <u>Other Postemployment Benefits Trust Fund</u> |
|-------------------------------------------------|---------------------------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 6,710 |
| Mutual funds - fixed income | 969,717 |
| Mutual funds - equities | <u>863,632</u> |
| Total Assets | <u>1,840,059</u> |
| Liabilities | |
| | <u>-</u> |
| Total Liabilities | <u>-</u> |
| Net Position | |
| Held in trust for other postemployment benefits | <u>1,840,059</u> |
| Total Net Position | <u><u>\$ 1,840,059</u></u> |

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2021**

| | Other Postemployment Benefits Trust Fund |
|-----------------------------------------|------------------------------------------------|
| Additions | |
| Contributions: | |
| Employer | \$ 60,407 |
| Total contributions | 60,407 |
| Investment income: | |
| Investment income | 173,620 |
| Total investment income | 173,620 |
| Total Additions | 234,027 |
| Deductions | |
| Benefits paid | 60,407 |
| Total Deductions | 60,407 |
| Change in Net Position | 173,620 |
| Net Position - Beginning of Year | 1,666,439 |
| Net Position - End of Year | \$ 1,840,059 |

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

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2021

I. Summary of Significant Accounting Policies

The basic financial statements of the Department have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local governmental entities.

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.

The following is a summary of the more significant policies and practices used by the Department:

A. Reporting Entity and Regulation

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 five-person Board of Light Commissioners. The Department is presented as an enterprise fund in the Town of Middleton, Massachusetts' financial statements; however, they do not purport to, and do not, present fairly the financial position of the Town of Middleton, Massachusetts as of December 31, 2021, 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 provides electric light services for the territory within its boundaries. These services are funded almost entirely with user charges. 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.

B. Fund Financial Statements

All of the non-fiduciary activities of the Department are reported in proprietary fund type financial statements and include a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. The OPEB trust fund is presented as a fiduciary fund and includes a statement of net position, a statement of revenues, expenses and changes in net position.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity for others that may not be used for governmental programs.

The Department reports the following fiduciary funds:

Other Postemployment Benefits (OPEB) Trust Fund – is used to accumulate funds for future payments of other post-employment benefits for retirees such as health and life insurance.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Deposits and Investments – The Department's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Department are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of its investments is recognized as an increase or decrease to investment assets and investment income.

Investment Income – All investment income is part of the Department's proprietary fund except for fiduciary fund investment income which is retained in the trust fund.

Receivables – The Department bills its customers for electric usage on a monthly basis. These are recorded as accounts receivable and revenue when billed.

Inventories – Inventories are considered to be expenditures at the time of purchase. The Department has recorded an estimated amount of its materials and supplies inventory on hand at the end of the year in its financial statements.

Prepaid Expenses – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Most of the prepaid expense amount represents deposit used to facilitate timely payments of power supply invoices.

Other Postemployment Benefits – The Department has contributed and earned sufficient investment income to accumulate an actuarially determined surplus based on estimated future needs for providing such benefits to employees. Accordingly, the surplus is categorized as noncurrent assets on the statement of net position.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, and infrastructure (e.g., transformers, poles and other utility plant), are reported as noncurrent assets on the statement of net position.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The DPU requires that the Department depreciate its capital assets at a rate of up to 3%, with a rate up to 5% allowed with prior year DPU approval. The Department utilized a 3% rate for 2021. This depreciation method approximated GAAP.

Customer Deposits – The Department retains a deposit from certain customers based on the ownership status of the customer’s property. Deposits are returned, with interest, once the customer no longer requires electric service and had fully paid its charges to the Department.

Compensated Absences – Employees can carry over two weeks of vacation unless otherwise approved and the Department will buy back 25% of their accumulated sick leave over 150 days. Compensated absence liabilities are accrued when incurred.

Long-Term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. There was no such bond or notes payable items outstanding in 2021. The Department does report long-term obligations for employee compensated absences and net pension liability.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The Department only has two types of items that qualify for reporting as deferred outflows of resources reported on the statement of net position that relates to outflows from changes in the net pension and net other postemployment benefits liabilities. These outflows will be recognized in pension and benefits expense in future years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Department has two types of items which qualify for reporting in this category. These relate to inflows from changes in the net pension and net other postemployment benefits liabilities which will be recognized in pension and benefits expense in future years.

Net Position – Net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

Net position is reported as restricted when amounts are legally restricted by outside parties for a specific use. The Department has no restricted net position.

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, 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

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, 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.

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. If the 15th day falls on a non-business day, this discount is extended to the next business day.

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, Massachusetts based on an agreed predetermined calculation. During the year, the Department paid to the Town an amount of \$243,253 under this payment in lieu of tax agreement.

F. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

II. Detailed Notes

A. **Deposits and Investments**

State laws and regulations require the Department to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool ("the Pool"). In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Department did not enter into any repurchase agreements.

Separate accounts are maintained for the Department's depreciation fund and OPEB trust which are designations allowed per DPU regulations and state statutes. The depreciation fund is recorded as restricted cash and investments in the financial statements as it is available only to finance capital asset (utility Department) additions. Operating cash is pooled with Town funds in various Town bank accounts.

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At year-end, the carrying amount of the Department's segregated bank deposits was \$217,480 and the bank balance was 185,113. Of the Department's bank balance, all \$185,113 was covered by either federal depository insurance or by the depositors' insurance fund. In addition to segregated bank deposits, the Department had \$5,073,881 pooled with Town cash in Town bank accounts, which was considered uninsured.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Department may not be able to recover the full amount of its principal investment and/or investment earnings.

The Department's investments are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty.

Fair Value of Investments – The Department reports its investments at fair value. When actively quoted observable prices are not available, the Department generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The Department categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.
- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- *Level 3* – Inputs reflect the Department's best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the Department's investments carried at fair value on a recurring basis in the statement of net position at December 31, 2021:

| | Total | Fair Value Measurements Using | | |
|-----------------------------------------|---------------|-------------------------------|---------------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| Debt securities: | | | | |
| U.S. Government obligations | \$ 38,467 | \$ 25,757 | \$ 12,710 | \$ - |
| Municipal bonds | 231,410 | - | 231,410 | - |
| Corporate bonds | 58,015 | - | 58,015 | - |
| Exchange traded funds - fixed income | 10,905 | - | 10,905 | - |
| Mutual funds - open end | 800,000 | - | 800,000 | - |
| Mutual funds - fixed income | 6,832,972 | - | 6,832,972 | - |
| Negotiable certificates of deposit | 268,574 | - | 268,574 | - |
| Total debt securities | 8,240,343 | 25,757 | 8,214,586 | - |
| Equity securities: | | | | |
| Common stock | 949,591 | 949,591 | - | - |
| Mutual funds - equity | 3,951,561 | - | 3,951,561 | - |
| Total equity securities | 4,901,152 | 949,591 | 3,951,561 | - |
| Total investments by fair value level | 13,141,495 | \$ 975,348 | \$ 12,166,147 | \$ - |
| Mutual funds - money market | 153,890 | | | |
| Total investments measured a fair value | \$ 13,295,385 | | | |

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Bonds are classified in Level 2 and are valued using matrix pricing based on the securities' relationship to benchmark quoted prices. Bond and equity mutual funds are classified in Level 2 and are valued at the published fair value per share for each fund.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Such securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments, through fair value losses arising from increasing interest rates. The Department does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

At December 31, 2021, the Department's investments had the following maturities:

| Investments | Total | Time Until Maturity (Years) | | |
|--------------------------------------|---------------|-----------------------------|--------------|--------------|
| | | <1 | 1 - 5 | 6 - 10 |
| U.S. government obligations | \$ 38,467 | \$ - | \$ 34,926 | \$ 3,541 |
| Municipal bonds | 231,410 | - | 231,410 | - |
| Corporate bonds | 58,015 | 8,818 | 49,197 | - |
| Exchange traded funds - fixed income | 10,905 | - | 10,905 | - |
| Mutual funds - open end | 800,000 | 800,000 | - | - |
| Mutual funds - fixed income | 6,832,972 | - | 5,548,258 | 1,284,714 |
| Certificates of deposit | 268,574 | 10,332 | 158,071 | 100,171 |
| Total investments with maturities | 8,240,343 | \$ 819,150 | \$ 6,032,767 | \$ 1,388,426 |
| Other Investments | | | | |
| Equities | 949,591 | | | |
| Mutual funds - equity | 3,951,561 | | | |
| Mutual funds - money market | 153,890 | | | |
| Total other investments | 5,055,042 | | | |
| Total investments | \$ 13,295,385 | | | |

Concentration of Credit Risk – The Department does not place a limit on the amount that may be invested in any one issuer. The Department does not maintain balances in any single investment that would represent more than 5% of the Department’s total investments.

Risk – The Department has not adopted a formal policy related to credit risk.

At December 31, 2021, the credit quality ratings of the Department’s investments were as follows:

| Bond Ratings | Investments | | | | | |
|--------------|------------------------|-------------------|------------------|-----------------------|---------------------------|------------------------|
| | Government Obligations | Municipal Bonds | Corporate Bonds | Mutual Funds Open End | Mutual Funds Fixed Income | Certificate of Deposit |
| Aaa | \$ 38,467 | \$ 231,410 | \$ 4,394 | \$ 800,000 | \$ - | \$ - |
| A1 | - | - | 11,025 | - | - | - |
| A2 | - | - | 9,192 | - | - | - |
| Baa1 | - | - | 18,980 | - | - | - |
| Baa2 | - | - | 14,424 | - | - | - |
| Not rated | - | - | - | - | 6,832,972 | 268,574 |
| Totals | <u>\$ 38,467</u> | <u>\$ 231,410</u> | <u>\$ 58,015</u> | <u>\$ 800,000</u> | <u>\$ 6,832,972</u> | <u>\$ 268,574</u> |

B. Receivables

Department receivables as of year-end, including the applicable allowances for uncollectible accounts, are as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|---------------------------|---------------------|------------------------------|---------------------|
| Receivables: | | | |
| Customer user charges | \$ 1,648,419 | \$ (165,973) | \$ 1,482,446 |
| Other accounts receivable | 149,507 | - | 149,507 |
| Total | <u>\$ 1,797,926</u> | <u>\$ (165,973)</u> | <u>\$ 1,631,953</u> |

The Department also records amounts related to power used by customers but not billed at year end. Total unbilled revenue was \$188,886 as of December 31, 2021. This is recorded on a GAAP basis only and not by the Department in its internal records.

C. Prepaid Expenses

The Department reports amounts paid in advance to power providers as prepaid expenses. Most of these represent payments to facilitate timely payment of power invoices. At December 31, 2021, prepaid expenses totaled \$2,543,091.

D. Capital Assets

Capital assets for the year ended December 31, 2021, were as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---------------------------------------------|----------------------|-----------|-----------|-------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,219,868 | \$ - | \$ - | \$ 2,219,868 |
| Total capital assets not being depreciated | 2,219,868 | - | - | 2,219,868 |
| Capital assets being depreciated: | | | | |
| Buildings | 1,287,808 | 4,712 | (1,500) | 1,291,020 |
| Infrastructure | 19,417,114 | 751,984 | (232,999) | 19,936,099 |
| Vehicles, machinery and equipment | 3,144,165 | 31,341 | (239,500) | 2,936,006 |
| Total capital assets being depreciated | 23,849,087 | 788,037 | (473,999) | 24,163,125 |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,136,294) | (38,634) | 1,498 | (1,173,430) |
| Infrastructure | (11,826,149) | (582,513) | 233,001 | (12,175,661) |
| Vehicles, machinery and equipment | (928,457) | (94,326) | 239,500 | (783,283) |
| Total accumulated depreciation | (13,890,900) | (715,473) | 473,999 | (14,132,374) |
| Total capital assets being depreciated, net | 9,958,187 | 72,564 | - | 10,030,751 |
| Governmental activities capital assets, net | \$ 12,178,055 | \$ 72,564 | \$ - | \$ 12,250,619 |

E. Temporary Debt

The Department is authorized to borrow on a temporary basis to fund the following:

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

There was no temporary debt outstanding during 2021.

F. Long-Term Obligations

The Department issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. Bonds are direct obligations and pledge the full faith and credit of the Town. Additionally, the Department incurs various other long-term obligations relative to associated personnel costs.

The following reflects the current year activity in the long-term liability accounts:

| <u>Long-Term Obligations</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|------------------------------|------------------------------|---------------------|-----------------------|---------------------------|--------------------------------|
| Compensated absences | \$ 184,411 | \$ 23,836 | \$ (46,103) | \$ 162,144 | \$ 81,072 |
| Net pension liability | <u>4,228,111</u> | <u>1,424,560</u> | <u>(1,680,213)</u> | <u>3,972,458</u> | <u>-</u> |
| Total | <u>\$ 4,412,522</u> | <u>\$ 1,448,396</u> | <u>\$ (1,726,316)</u> | <u>\$ 4,134,602</u> | <u>\$ 81,072</u> |

The Department had no debt outstanding during 2021.

III. Other Information

A. Retirement System

Plan Description – The MELD contributes to the Essex Regional Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and administered by the Essex Regional Retirement Board. Stand-alone audited financial statements for the year ended December 31, 2020, were issued and may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers MA 01923.

Membership – Membership in the System as of December 31, 2020, was as follows:

| | |
|--------------------------------------------------------------------------------------------------------------------------------|--------------|
| Retired participants and beneficiaries receiving benefits | 1,510 |
| Inactive participants with a vested right to retirement benefits or entitled to a return of their employee contributions | 1,146 |
| Active participants | 2,420 |
| Total | <u>5,076</u> |

Benefit Terms – The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Membership in the System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Members of the System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform, with certain exceptions, from retirement system to retirement system. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year or five-year average annual rate of regular compensation, depending on the participant's date of hire. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

Contributions Requirements – The System has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040 (the System's current funding schedule allows for full funding by June 30, 2035). Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The MELD contributed \$386,410 to the System in fiscal year 2021, which was the actuarially determined contribution requirement for the year. The MELD's contributions as a percentage of covered payroll was approximately 25.5%.

Net Pension Liability – At December 31, 2021, the MELD reported a liability of \$2,408,703 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. These figures were updated by the independent actuary as of December 31, 2020. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System's benefit terms since the actuarial valuation.

The MELD's proportion of the net pension liability is based on a projection of the MELD's long-term share of contributions to the System relative to the projected contributions of all employers. The MELD's proportion was approximately 1.00082% at December 31, 2021.

Pension Expense – The MELD recognized \$256,563 in pension expense in the statement of revenues, expenses and changes in net position in fiscal year 2021.

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2021, the MELD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|----------------------------------------------------|--------------------------------------|-------------------------------------|
| Contributions made subsequent to measurement date | \$ 432,515 | \$ - |
| Changes in assumptions | 265,750 | - |
| Differences between expected and actual earnings | - | 295,553 |
| Changes in proportion differences | 142,893 | 71,380 |
| Differences between expected and actual experience | 434 | 3,406 |
| Totals | <u>\$ 841,592</u> | <u>\$ 370,339</u> |

The deferred outflows of resources and deferred inflows of resources are expected to be recognized in the MELD's pension expense as follows:

| Year Ended December 31, | Amount |
|----------------------------|-------------------|
| 2022 | \$ 484,048 |
| 2023 | 46,409 |
| 2024 | (42,267) |
| 2025 | (16,937) |
| Total | <u>\$ 471,253</u> |

Discount Rate – The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates and the member rate. Based on those assumptions, the Retirement 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.

Actuarial Valuation – The measurement of the System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2020, and used the following significant actuarial assumptions:

| | |
|----------------------------|-------------------------------------------------------------------------------------------------------------|
| Investment Rate of Return | Full prefunding: 7.3% per year, net of investment expenses |
| Discount Rate | 7.30% |
| Inflation | 2.75% |
| Salary Increases | 7.5% decreasing to 3.75% after 5 years of service |
| Cost of Living Adjustment | 2% of first \$14,000 in 2021 and 3% of first \$14,000 thereafter |
| Pre-Retirement Mortality | RP-2014 Employee Mortality Table projected generationally with Scale MP-2019 |
| Post-Retirement Mortality | RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale MP-2019 |
| Disabled Retiree Mortality | RP-2014 Healthy Annuitant Mortality Table set forward two years projected generationally with Scale MP-2019 |

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns 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 allocations and projected arithmetic real rates of return for each major asset class after deducting inflation, but before investment expenses, are summarized in the following table:

| Asset Class | Target Allocation | Expected Investment Rate of Return |
|----------------------------------------|-------------------|------------------------------------|
| Domestic Equity | 23.10% | 6.40% |
| International Developed Markets Equity | 14.40% | 6.60% |
| International Emerging Markets Equity | 5.80% | 8.40% |
| Core Fixed Income | 15.80% | 2.70% |
| High Yield Fixed Income | 7.40% | 6.20% |
| Private Equity | 12.40% | 10.20% |
| Real Estate | 8.30% | 6.00% |
| Timberland | 3.30% | 6.60% |
| Hedge Fund, GTAA, Risk Parity | 8.80% | 5.20% |
| Other | 0.70% | 0.00% |
| | <u>100.00%</u> | |

Sensitivity Analysis – The following presents the MELD’s proportionate share of the net pension liability calculated using the current discount rate as well as using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

| | Discount Rate | | | |
|-----------------------|---------------|--------------|--------------|--------------|
| | Current Rate | 1% lower | Current | 1% greater |
| Net Pension Liability | 7.30% | \$ 5,086,569 | \$ 3,972,458 | \$ 3,036,038 |

B. Risk Financing

The Department is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Department carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The Department participates in a health insurance risk pool administered by the Southeastern Massachusetts Health Group (the Group). The Group offers a variety of premium based plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the Group. In the event the Group is terminated, the Department would be obligated to pay its proportionate share of a deficit, should one exist.

C. Other Postemployment 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 ordinances. All benefits are provided through Department’s premium-based insurance program. The OPEB Plan does not issue an audited stand-alone financial report and is presented as a fiduciary fund in the Department’s financial statements.

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of December 30, 2021:

| | |
|--------------------|-----------|
| 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. Retirees contribute 40% of the set premium for medical insurance depending on the plan chosen. Additionally, they contribute 25% to dental insurance and 50% to life insurance. The remainder of the cost is funded by general revenues of the Department.

The Department currently contributes enough money to the Plan to exceed the annual required contribution. The costs of administering the OPEB Plan are paid by the Department. For the year ended December 31, 2021, the Department's average contribution rate was approximately 3.26% of covered payroll.

Net OPEB Liability (Asset) – The Department's net OPEB liability (asset) was measured as of December 31, 2021, using an actuarial valuation as of January 1, 2020. The components of the net OPEB liability (asset) of the Department as of December 31, 2021, were as follows:

| | |
|------------------------------------------------------------------------------|--------------------|
| Total OPEB Liability | \$ 1,759,687 |
| Plan fiduciary net position | <u>(1,840,059)</u> |
| Net OPEB liability (asset) | <u>\$ (80,372)</u> |
| Plan fiduciary net position as a a percentage of the total OPEB liability | 104.57% |

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 | 5.14%, net of OPEB plan investment expense, including inflation |
| Municipal Bond Rate | 2.25% |
| Single Equivalent Discount Rate | 5.25%, net of OPEB plan investment expense, including inflation |
| Inflation | 2.50% as of December 31, 2021 and for future periods |
| Health Care Trend Rate | 4.50% |
| Salary Increases | 3.00% annually as of December 31, 2021 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 generational with scale MP-2016 for males and females, set forward 1 year for females |
| Disability 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 |

Key assumption changes effective fiscal year ending December 31, 2021 –

The single equivalent discount rate was lowered from 5.50% to 5.25%, which resulted in an increase to the disclosed liability by \$130 thousand.

Discount Rate – The discount rate used to measure the total OPEB liability was 5.25% which remained unchanged from the previous year.

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:

| Asset Class | Target Allocation | Expected Investment Rate of Return |
|-----------------------------------------|-------------------|------------------------------------|
| Domestic Equity - Large Cap | 21.50% | 4.42% |
| Domestic Equity - Small/Mid Cap | 10.25% | 4.81% |
| International Equity - Developed Market | 0.00% | 4.91% |
| International Equity - Emerging Market | 5.00% | 5.58% |
| Domestic Fixed Income | 28.50% | 1.00% |
| International Fixed Income | 24.00% | 1.04% |
| Alternatives | 10.50% | 5.98% |
| Real Estate | 0.00% | 6.25% |
| Cash and Cash Equivalents | 0.25% | 0.00% |
| | <u>100.00%</u> | |
| Real rate of return | | 2.89% |
| Inflation assumption | | <u>2.50%</u> |
| Total nominal rate of return | | 5.39% |
| Investment expense | | <u>-0.25%</u> |
| Net investment return | | <u>5.14%</u> |

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:

| | Healthcare Trend Rate | | | |
|----------------------------|-----------------------|--------------|--------------|-------------|
| | Current | 1% Decrease | Current Rate | 1% Increase |
| Net OPEB Liability (Asset) | 4.50% | \$ (300,673) | \$ (80,372) | \$ 199,563 |

| | Discount Rate | | | |
|----------------------------|---------------|-------------|--------------|--------------|
| | Current | 1% Decrease | Current Rate | 1% Increase |
| Net OPEB Liability (Asset) | 5.25% | \$ 202,414 | \$ (80,372) | \$ (306,894) |

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, 2021:

| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (Asset) (a) - (b) |
|--------------------------------|--------------------------------|---------------------------------------|--------------------------------------------|
| Balances at December 31, 2020 | \$ 1,581,102 | \$ 1,666,439 | \$ (85,337) |
| Changes for the year: | | | |
| Service cost | 26,288 | - | 26,288 |
| Interest | 86,767 | - | 86,767 |
| Expected and actual experience | - | - | - |
| Change in assumptions | 125,937 | - | 125,937 |
| Employer contributions | - | 60,407 | (60,407) |
| Net investment earnings | - | 173,620 | (173,620) |
| Benefit payments withdrawn | - | (60,407) | 60,407 |
| Benefit payments | (60,407) | - | (60,407) |
| Net changes | 178,585 | 173,620 | 4,965 |
| Balances at December 31, 2021 | <u>\$ 1,759,687</u> | <u>\$ 1,840,059</u> | <u>\$ (80,372)</u> |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended December 31, 2020, the Department recognized OPEB expense of \$108,522. Deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2021, were reported as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|----------------------------------------------------|-----------------------------------|----------------------------------|
| Differences between actual and expected experience | \$ 97,494 | \$ 182,413 |
| Change of assumptions | 364,244 | - |
| Differences between expected and actual earnings | 22,688 | 123,199 |
| Totals | <u>\$ 484,426</u> | <u>\$ 305,612</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense (benefit) as follows:

| December 31, | Amount |
|--------------|-------------------|
| 2022 | \$ 79,591 |
| 2023 | 56,904 |
| 2024 | 33,890 |
| 2025 | 7,427 |
| 2026 | 1,002 |
| Total | <u>\$ 178,814</u> |

Investment Custody – In accordance with Massachusetts General Laws, the Department Treasurer is the custodian of the OPEB Plan and since the Department has not designated a Board of Trustees, the Department Treasurer is also the Trustee and as such is responsible for the general supervision of the management, investment and reinvestment of the OPEB Plan assets. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established in Chapter 203C and may, with the approval of the State Retiree Benefits Trust Fund Board of Trustees, be invested in the State Retiree Benefits Trust Fund established in Section 24 of Chapter 32A. OPEB Plan assets must be segregated from other funds and not be subject to the claims of any general creditor of the Department.

Investment Policy – The OPEB Plan follows the same investment policies that apply to all other Department Trust funds. Notably it can be invested in accordance with State Statutes that govern Trust investments including PRIM which is an external investment pool managed by the State.

Investment Rate of Return – For the year ended December 31, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 10.42%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Commitments and Contingencies

The Department is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at December 31, 2021, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Department at December 31, 2021.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Department expects such amounts, if any, to be immaterial.

The Department is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Department expects such amounts, if any, to be immaterial.

MMWEC

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.

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 (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act through the end of 2025.

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the company.

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 \$33,693,036 for the year ended December 31, 2021.

Other

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.

IV. Implementation of New GASB Pronouncements

Current Year Implementations –

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest costs incurred before the end of a construction period. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2020 (fiscal year 2021). The Department is currently evaluating whether adoption will have a material impact on the financial statements.

Future Year Implementations –

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. As amended, the provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2022). The Department is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to standardize the reporting of conduit debt obligations by issuers by clarifying the existing definition of conduit debt obligation, among other matters. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2021 (fiscal year 2022). The Department is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement was to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. This Statement eliminates the use of LIBOR as an appropriate benchmark interest rate for derivative instruments that hedge interest rate risk of taxable debt. As amended, the provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2022). The Department is currently evaluation adoption will have an impact on the financial statements.

In March 2020, the GASB issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issued related to public-private and public-public partnership arrangements. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The Department is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to address accounting for subscription-based information technology arrangements to government end users based on the standards established in Statement No. 87, as amended. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The Department is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2020, the GASB issued GASB Statement No. 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*. The objective of this Statement is to (1) increase consistency and comparability

related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2022). The Department is currently evaluating whether adoption will have a material impact on the financial statements.

IV. Restatement

As of December 31, 2020, the Department has begun recognizing an additional accrued expense for the annual pension assessment (which is calculated on a fiscal year ending June 30th annually). Additionally, the Department optioned to begin utilizing the pension reporting as of December 31, 2019, as its base measurement date for December 31, 2020, as allowed under Governmental Auditing Standards; this resulted in a restatement of the deferred outflows of resources relative to an additional contribution after measurement date relative to the fiscal year 2020 pension assessment. Additionally, the Department has modified its methodology with regards to calculating annual depreciation of capital assets to be similar to its statutorily required depreciation methodology which is in-line with the model utilized within the industry for financial statement reporting.

The following table illustrates the effect of the net position restatement:

| | |
|----------------------------------------------------------------------------------------------------|----------------------|
| Prior year Net Position as presented | \$ 26,380,779 |
| Restate: Change in depreciation model calculation | (420,357) |
| Restate: Additional accrual of pension assessment expense | (193,205) |
| Restate: Deferred outflow of resources - additional pension contribution after measurement date | <u>386,410</u> |
| Net Position as restated | <u>\$ 26,153,627</u> |

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED DECEMBER 31, 2021

SCHEDULE OF THE DEPARTMENT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

| | Year Ended December 31, | | | | | | |
|--------------------------------------------------------------------------------------------|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Proportion of the net pension liability | 1.001% | 1.003% | 0.999% | 1.054% | 0.997% | 0.997% | 0.966% |
| Proportionate share of the net pension liability | \$ 3,972,458 | \$ 4,228,111 | \$ 4,219,930 | \$ 3,965,220 | \$ 3,842,901 | \$ 3,842,901 | \$ 3,278,215 |
| Covered payroll | 1,512,850 | 1,515,049 | 1,473,686 | 1,488,658 | 1,390,838 | \$ 1,390,838 | \$ 1,153,368 |
| Proportionate share of the net pension liability as a percentage of its covered payroll | 262.6% | 279.1% | 286.4% | 266.4% | 276.3% | 276.3% | 284.2% |
| Plan fiduciary net position as a percentage of the total pension liability | 59.73% | 55.46% | 51.87% | 55.40% | 51.12% | 51.01% | 52.27% |

SCHEDULE OF THE DEPARTMENT'S CONTRIBUTIONS TO PENSION PLAN

| | Year Ended December 31, | | | | | | |
|-------------------------------------------------------------------------|-------------------------|------------|------------|------------|------------|------------|------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Actuarially determined contribution | \$ 386,410 | \$ 360,430 | \$ 338,807 | \$ 328,501 | \$ 288,945 | \$ 288,945 | \$ 251,202 |
| Contributions in relation to the actuarially determined contribution | 386,410 | 360,715 | 334,089 | 328,501 | 289,291 | 289,291 | 251,202 |
| Contribution deficiency (excess) | \$ - | \$ (285) | \$ 4,718 | \$ - | \$ (346) | \$ (346) | \$ - |
| Covered payroll | 1,512,850 | 1,515,049 | 1,473,686 | 1,488,658 | 1,390,838 | 1,390,838 | 1,153,368 |
| Contributions as a percentage of covered payroll | 25.5% | 23.8% | 22.7% | 22.1% | 20.8% | 20.8% | 21.8% |

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

See accompanying independent auditors' report.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB - UNAUDITED
YEAR ENDED DECEMBER 31, 2021**

SCHEDULE OF CHANGES IN NET OPEB (ASSET) LIABILITY AND RELATED RATIOS

| | December 31, | | | | |
|-------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| Total OPEB liability: | | | | | |
| Service cost | \$ 26,288 | \$ 22,119 | \$ 23,581 | \$ 20,324 | \$ 21,903 |
| Interest | 86,767 | 98,816 | 94,533 | 64,136 | 60,911 |
| Difference between expected and actual plan experience | - | (302,421) | - | 265,582 | - |
| Change in assumptions | 125,937 | 344,699 | - | 150,859 | - |
| Benefit payments | (60,407) | (47,083) | (59,143) | (48,656) | (18,784) |
| Net change in total OPEB liability | 178,585 | 116,130 | 58,971 | 452,245 | 64,030 |
| Total OPEB liability - beginning of year | 1,581,102 | 1,464,972 | 1,406,001 | 953,756 | 889,726 |
| Total OPEB liability - end of year (a) | <u>\$ 1,759,687</u> | <u>\$ 1,581,102</u> | <u>\$ 1,464,972</u> | <u>\$ 1,406,001</u> | <u>\$ 953,756</u> |
| Plan fiduciary net position: | | | | | |
| Contributions - employer | \$ 60,407 | \$ 647,083 | \$ 59,143 | \$ 348,656 | \$ 268,784 |
| Net investment income | 173,620 | 82,846 | 164,033 | (63,804) | 72,781 |
| Benefit payments | (60,407) | (47,083) | (59,143) | (48,656) | (18,784) |
| Net change in Plan fiduciary net position | 173,620 | 682,846 | 164,033 | 236,196 | 322,781 |
| Plan fiduciary net position - beginning of year | 1,666,439 | 983,593 | 819,560 | 583,364 | 260,583 |
| Plan fiduciary net position - end of year (b) | <u>\$ 1,840,059</u> | <u>\$ 1,666,439</u> | <u>\$ 983,593</u> | <u>\$ 819,560</u> | <u>\$ 583,364</u> |
| Net OPEB (asset) liability - end of year (a) - (b) | <u>\$ (80,372)</u> | <u>\$ (85,337)</u> | <u>\$ 481,379</u> | <u>\$ 586,441</u> | <u>\$ 370,392</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 104.57% | 105.40% | 67.14% | 58.29% | 61.16% |
| Covered-employee payroll | \$ 1,853,267 | \$ 1,799,288 | \$ 1,338,309 | \$ 1,299,329 | \$ 1,598,393 |
| Net OPEB liability as a percentage of covered-employee payroll | -4.34% | -4.74% | 35.97% | 45.13% | 23.17% |

Note: This schedule is 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 independent auditors' report.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB - UNAUDITED
YEAR ENDED DECEMBER 31, 2021**

SCHEDULE OF CONTRIBUTIONS - OPEB PLAN

| | December 31, | | | | |
|----------------------------------------------------------------------|---------------------------------------------|----------------------------------------------------------|-----------------|---------------------|---------------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| Actuarially-determined contribution | \$ 26,288 | \$ 18,177 | \$ 59,012 | \$ 63,488 | \$ 68,210 |
| Contributions in relation to the actuarially-determined contribution | 60,407 | 647,083 | 59,143 | 348,656 | 268,784 |
| Contribution deficiency (excess) | <u>\$ (34,119)</u> | <u>\$ (628,906)</u> | <u>\$ (131)</u> | <u>\$ (285,168)</u> | <u>\$ (200,574)</u> |
| Covered-employee payroll | \$ 1,853,267 | \$ 1,799,288 | \$ 1,338,309 | \$ 1,299,329 | \$ 1,598,393 |
| Contribution as a percentage of covered-employee payroll | 3.26% | 35.96% | 4.42% | 26.83% | 16.82% |
| Valuation date | January 1, 2020 | | | | |
| Investment rate of return | 5.14% | Net of OPEB plan investment expense, including inflation | | | |
| Municipal bond rate | 2.25% | | | | |
| Single equivalent discount rate | 5.25% | Net of OPEB plan investment expense, including inflation | | | |
| Inflation | 2.20% | As of December 31, 2021 and for future periods | | | |
| Healthcare cost trend rates | 4.50% | | | | |
| Salary increases | 3.00% | As of December 31, 2021 and for future periods | | | |
| Actuarial cost method | Individual Entry Age Normal | | | | |
| Asset valuation method | Market Value of Assets as of Reporting Date | | | | |

SCHEDULE OF INVESTMENT RETURNS - OPEB PLAN

| | December 31, | | | | |
|----------------------------------------------|--------------|-------|--------|--------|-------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| Annual money-weighted average rate of return | 10.42% | 8.42% | 20.01% | -8.66% | 6.79% |

Note: This 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 independent auditors' report.