



South Hadley
Electric Light
D E P A R T M E N T

FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED

DECEMBER 31, 2020 AND 2019

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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MeyersBrothersKalicka, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS STRATEGISTS

INDEPENDENT AUDITORS' REPORT

To the General Manager and the Municipal Light Board of
South Hadley Electric Light Department

Report on the Financial Statements

We have audited the accompanying financial statements of the South Hadley Electric Light Department (the "Department"), which comprise the proprietary fund statements of net position as of December 31, 2020 and 2019, and the related proprietary fund statements of revenues, expenses and changes in net position and cash flows for the years then ended, the fiduciary fund statements of net position as of December 31, 2020 and 2019, and the related fiduciary fund statements of changes in net position for the years then ended and the related notes to the financial statements (the "financial statements" or the "basic financial statements").

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Department as of December 31, 2020 and 2019, and the respective changes in financial position and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Department proprietary and fiduciary funds and do not purport to, and do not, present fairly the financial position of the Town of South Hadley, Massachusetts (the "Town") as of December 31, 2020 and 2019, and the changes in the Town's financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating expenses for the year ended December 31, 2020 and 2019, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion or provide any assurance on it.

Maureen Beothell Kalicka, P.C.

Holyoke, Massachusetts
June 24, 2021

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2020, 2019 AND 2018

Within this section of the South Hadley Electric Light Department's ("the Department") annual financial report, management provides a narrative discussion and analysis of the Department's financial activities as of and for the years ending December 31, 2020, 2019 and 2018. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures.

Overview of the Financial Statements

The Department is a self-supporting enterprise fund of the Town of South Hadley, Massachusetts that operates a retail electric power distribution system subject to regulation by the Federal Energy Regulatory Commission ("FERC") and the Massachusetts Department of Public Utilities ("DPU"). The Department's financial statements are presented in accordance with Accounting Principles Generally Accepted in the United States of America ("GAAP") using the economic resource measurement focus and the accrual basis of accounting. The Department operates and maintains its own sub-station, 92 miles of overhead lines, 4,150 poles, 55 miles of underground lines, 950 transformers, 1,900 streetlights, and services approximately 8,000 residential, commercial, industrial, and municipal customers.

The Statement of Net Position includes all of the Department's assets, deferred outflows, liabilities, and deferred inflows at a certain point in time. It provides information about the nature and magnitude of the Department's investments in resources and its obligations to creditors. This statement provides a basis for evaluating the capital structure and liquidity of the utility.

The following is a summary of the Department's net position at December 31, 2020, 2019 and 2018.

CONDENSED COMBINED STATEMENT OF NET POSITION			
	2020	2019	2018
ASSETS AND DEFERRED OUTFLOWS			
Current	\$ 13,288,926	\$ 15,205,681	\$ 15,285,211
Restricted	8,844,278	8,369,225	8,889,064
Non-current	490,786	489,286	627,051
Capital - Net	7,983,370	5,771,606	4,146,927
Deferred Outflows	1,813,887	1,495,579	1,090,953
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 32,421,247	\$ 31,331,377	\$ 30,039,206
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION			
Current	\$ 1,897,503	\$ 2,054,015	\$ 1,642,680
Long-Term	5,516,769	5,420,140	4,637,994
Deferred Inflows	1,496,736	446,239	443,971
Net Position			
Net Investment in Capital Assets	7,983,370	5,771,606	4,146,927
Restricted	8,358,469	7,907,866	8,458,064
Unrestricted	7,168,400	9,731,511	10,709,570
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	\$ 32,421,247	\$ 31,331,377	\$ 30,039,206

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2020, 2019 AND 2018

Overview of the Financial Statements (continued)

The Statement of Revenues, Expenses and Changes in Net Position includes all of the Department's revenues, expenses, capital contributions, and operating transfers for a discrete period in time. It provides information about the sources and magnitude of the Department's income and nature and magnitude of its expenses. This statement provides a basis for evaluating the financial performance of the utility.

The following is a summary of the Department revenues, expenses and changes in net position for the years ended December 31, 2020, 2019 and 2018.

CONDENSED COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
	2020	2019	2018
OPERATING REVENUES	\$ 14,065,187	\$ 13,862,340	\$ 14,664,720
OPERATING EXPENSES			
Cost of Power Sold	8,659,704	9,540,547	10,469,675
Distribution Expense	1,052,634	995,397	930,836
Customer Accounts Expense	701,853	578,471	456,774
General and Administrative Expense	2,764,607	2,397,653	1,946,816
Depreciation Expense	1,149,344	1,069,828	1,055,978
TOTAL OPERATING EXPENSES	14,328,142	14,581,896	14,860,079
OPERATING INCOME (LOSS)	(262,955)	(719,556)	(195,359)
NONOPERATING REVENUES (EXPENSES)	479,913	948,196	191,838
OTHER FINANCING SOURCES (USES)	(117,702)	(132,218)	(178,012)
CHANGE IN NET POSITION	\$ 99,256	\$ 96,422	\$ (181,533)

The Statement of Cash Flows includes all of the Department's cash receipts and cash expenditures for a discrete period in time. It provides information about the nature and magnitude of the Department's cash flows provided by and used in operating activities, financing activities, and investing activities. This statement also provides a basis for evaluating the financial performance of the utility as well as providing additional information necessary to explain the changes in the Department's net position.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2020, 2019 AND 2018

Overview of the Financial Statements (continued)

The following is a summary of the Department's sources and uses of cash for the years ended December 31, 2020, 2019 and 2018.

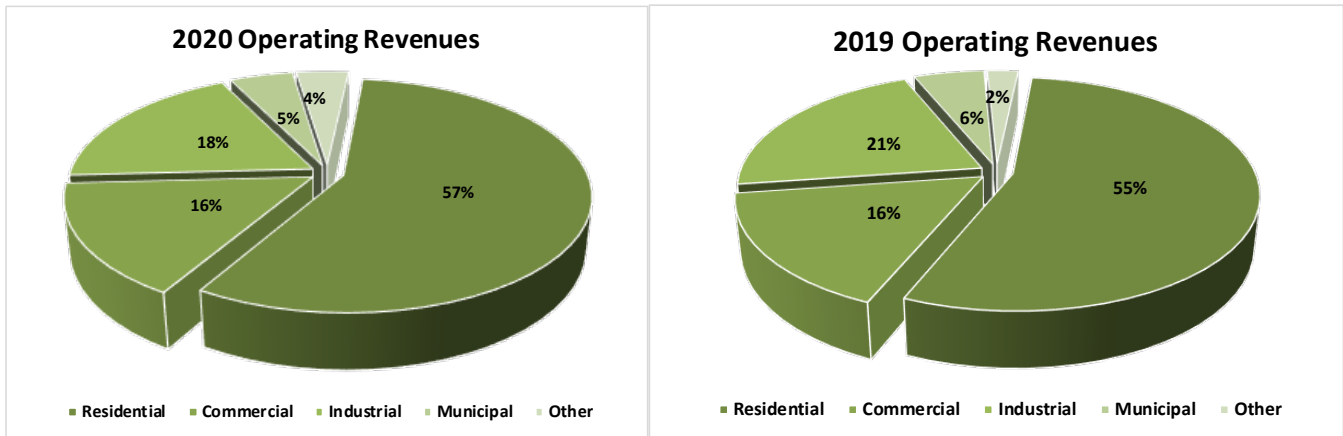
CONDENSED COMBINED STATEMENT OF CASH FLOWS			
	<u>2020</u>	<u>2019</u>	<u>2018</u>
CASH FLOW PROVIDED BY (USED IN):			
Operating Activities	\$ 1,109,267	\$ 347,410	\$ 687,994
Financing Activities	(3,454,079)	(2,662,465)	(845,960)
Investing Activities	1,111,161	3,523,559	9,402
NET INCREASE (DECREASE) IN CASH	<u>(1,233,651)</u>	<u>1,208,504</u>	<u>(148,564)</u>
CASH - BEGINNING	<u>5,038,384</u>	<u>3,829,880</u>	<u>3,978,444</u>
CASH - ENDING	<u>\$ 3,804,733</u>	<u>\$ 5,038,384</u>	<u>\$ 3,829,880</u>

Financial Highlights and Analysis

Sales of electricity for 2020 of \$13,556,115 decreased by \$30,917, or .23% from the prior year. kWh sales for 2020 of 107,788,444 decreased by 2,441,378, or 2.21% from the prior year. The decrease in revenues was primarily due to a decrease in power costs passed on to our customers and the overall decrease in kWh sold.

Other operating revenues for 2020 of \$509,072, which consists of equipment rentals, pole attachment fees, and fiber income increased by \$233,764 from the prior year.

The following provides a comparative distribution of operating revenues for the years ended December 31, 2020 and 2019.



SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

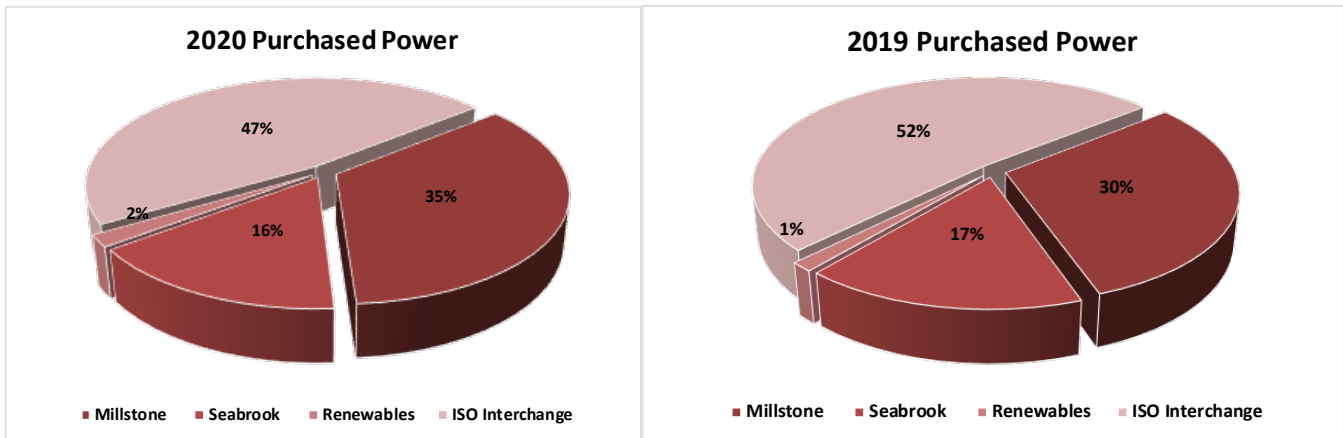
AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2020, 2019 AND 2018

Financial Highlights and Analysis (Continued)

The Department secures power for its customers through both purchased power agreements and open market acquisitions in an effort to stabilize power costs. The cost of power sold includes the costs associated with buying capacity, energy, and transmission.

The cost of power sold for 2020 of \$8,659,704, decreased by \$880,843, or 9.23% from the prior year. kWh purchases for 2020 of 110,150,467 decreased by 3,616,855 or 3.18% from the prior year. The decrease in costs were primarily due to changes in the wholesale market price of electricity and the overall decrease in kWh purchased.

The following provides a comparative distribution of the purchased power for the years ended December 31, 2020 and 2019.



Other operating expenses for 2020, excluding depreciation, of \$4,519,094 increased by \$547,573, or 13.79% from the prior year.

Nonoperating revenues (expenses) and other financing sources (uses), which consists of interest and investment earnings, other nonoperating expenses, gains or losses on capital assets dispositions, capital contributions and transfers to the Town, decreased by \$453,767 from the prior year.

Current assets, which consist of cash, the MLDM Reserve Trust, accounts receivable, inventory, and prepaid and other assets, decreased by \$1,916,755 from the prior year. The decrease was primarily due to normal fluctuations in cash, accounts receivable, inventory and prepaid and other assets and investments in capital assets.

Current liabilities, which consist of accounts payables, current portion of accrued compensated absences, customer deposits, and accrued liabilities, decreased by \$156,512 from the prior year. The decrease was primarily due to normal fluctuations in accounts payable, accrued liabilities and customer deposits.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2020, 2019 AND 2018

Financial Highlights and Analysis (Continued)

Restricted assets, which consist of customer deposits, the depreciation fund, the OPEB Liability Trust, and purchased power advances, increased by \$475,053 from the prior year. The increase was primarily due to earnings on invested funds.

Non-current assets, which consist of preliminary survey and investigation charges, increased by \$1,500.

Deferred outflows, which consist of pension and OPEB related costs applicable to future reporting periods, increased by \$318,308 over the prior year.

Long-term liabilities, which consist of the net pension liability, accrued compensated absences, other noncurrent liabilities, and other post-employment benefits, increased by \$96,629 from the prior year. The Department has no long-term debt service.

Deferred inflows, which consist of pension and OPEB related cost reductions applicable to future reporting periods, increased by \$1,050,497 over the prior year.

Net capital assets increased by \$2,211,764 from the prior year due to capital improvements made which were greater than the current provision for depreciation.

The following is a summary of the Department's capital assets at December 31, 2020, 2019 and 2018.

SUMMARY OF CAPITAL ASSETS			
	<u>2020</u>	<u>2019</u>	<u>2018</u>
CAPITAL ASSETS			
Distribution Plant	\$ 31,370,007	\$ 30,639,515	\$ 29,622,417
General Plant	10,050,687	7,671,945	6,038,514
Land	503,349	373,616	344,448
Construction-in-progress			54,720
TOTAL	<u>41,924,043</u>	<u>38,685,076</u>	<u>36,060,099</u>
ACCUMULATED DEPRECIATION	<u>33,940,673</u>	<u>32,913,470</u>	<u>31,913,172</u>
CAPITAL ASSETS - NET	<u>\$ 7,983,370</u>	<u>\$ 5,771,606</u>	<u>\$ 4,146,927</u>

The Department realized an overall increase in net position of \$99,256 and \$ 96,422 in 2020 and 2019, respectively. Cash flows from operating activity activities for both years were sufficient to cover operating expenses.

Additional information on all of the matters included in this report can be found in the accompanying financial statement and notes.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2020, 2019 AND 2018

Requests for Information

This financial report is designed to provide a general overview of the South Hadley Electric Light Department's finances for all those with an interest in the utility's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Financial Manager

South Hadley Electric Light Department

85 Main Street

South Hadley, Massachusetts 01075

**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
PROPRIETARY FUND**

**STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2020 AND 2019**

ASSETS AND DEFERRED OUTFLOWS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash - operation fund	\$ 2,581,656	\$ 4,076,344
MLDM Reserve Trust	8,021,948	8,874,160
Accounts receivable - net of allowance for uncollectible accounts of \$495,342 in 2020 and \$358,904 in 2019	535,825	319,973
Inventory	1,115,571	925,111
Prepaid expenses and other assets	1,033,926	1,010,093
Total Current Assets	<u>13,288,926</u>	<u>15,205,681</u>
RESTRICTED ASSETS		
Depreciation fund	6,265,453	5,950,160
Cash - customer deposits	485,809	461,359
Purchased power advances	1,098,573	1,080,787
Total Restricted Assets	<u>7,849,835</u>	<u>7,492,306</u>
NON-CURRENT ASSETS		
Preliminary survey and investigation charges	<u>490,786</u>	<u>489,286</u>
CAPITAL ASSETS		
Distribution plant	31,389,844	30,639,515
General plant	10,030,850	7,671,945
Land	503,349	373,616
Construction-in-progress	-	-
Total	<u>41,924,043</u>	<u>38,685,076</u>
Less: accumulated depreciation	<u>33,940,673</u>	<u>32,913,470</u>
Capital Assets - Net	<u>7,983,370</u>	<u>5,771,606</u>
DEFERRED OUTFLOWS		
Pension and OPEB related deferrals	<u>1,813,887</u>	<u>1,495,579</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 31,426,804</u></u>	<u><u>\$ 30,454,458</u></u>

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

PROPRIETARY FUND

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2020 AND 2019

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

	<u>2020</u>	<u>2019</u>
CURRENT LIABILITIES		
Accounts payable	\$ 1,074,994	\$ 1,285,972
Current portion of accrued compensated absences	185,191	133,003
Customer deposits	485,809	461,359
Accrued liabilities	151,509	173,681
Total Current Liabilities	<u>1,897,503</u>	<u>2,054,015</u>
LONG-TERM LIABILITIES		
Net pension liability	4,777,168	4,490,427
Accrued compensated absences	124,236	97,042
Other noncurrent liabilities	-	150,000
Net other post-employment benefits	615,365	682,671
Total Long-Term Liabilities	<u>5,516,769</u>	<u>5,420,140</u>
TOTAL LIABILITIES	<u>7,414,272</u>	<u>7,474,155</u>
DEFERRED INFLOWS		
Pension and OPEB related deferrals	674,186	295,249
Rate stabilization reserve	822,550	150,990
Total Deferred Inflows	<u>1,496,736</u>	<u>446,239</u>
NET POSITION		
Net investment in capital assets	7,983,370	5,771,606
Restricted	7,364,026	6,154,028
Unrestricted	7,168,400	10,608,430
Total Net Position	<u>22,515,796</u>	<u>22,534,064</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 31,426,804</u>	<u>\$ 30,454,458</u>

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
PROPRIETARY FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Residential	\$ 7,992,153	\$ 7,577,822
Commercial	2,201,510	2,274,657
Industrial	2,607,194	2,912,613
Municipal	692,841	762,613
Other	571,489	334,635
Total Operating Revenues	14,065,187	13,862,340
OPERATING EXPENSES		
Cost of power sold	8,659,704	9,540,547
Distribution expense	1,052,634	995,397
Customer accounts expense	701,853	578,471
General and administrative expense	2,764,607	2,397,653
Depreciation expense	1,149,344	1,069,828
Total Operating Expenses	14,328,142	14,581,896
OPERATING INCOME (LOSS)	(262,955)	(719,556)
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	337,657	640,531
Gain (Loss) on disposition of capital assets	24,732	169,259
Other nonoperating expenses	-	(5,000)
Net nonoperating revenues	362,389	804,790
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS OUT	99,434	85,234
CAPITAL CONTRIBUTIONS	62,298	45,282
TRANSFER TO TOWN	(180,000)	(177,500)
CHANGE IN NET POSITION	(18,268)	(46,984)
NET POSITION - BEGINNING	22,534,064	22,581,048
NET POSITION - ENDING	\$ 22,515,796	\$ 22,534,064

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 13,849,335	\$ 13,980,731
Payments to power suppliers	(8,802,584)	(9,460,455)
Payments to employees	(1,821,159)	(1,627,682)
Payments for other operations	(2,116,325)	(2,545,184)
Net cash provided by operating activities	<u>1,109,267</u>	<u>347,410</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Town	(180,000)	(177,500)
Nonoperating expense	-	(5,000)
Net cash used in noncapital financing activities	<u>(180,000)</u>	<u>(182,500)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(3,361,109)	(2,720,473)
Capital contributions	62,298	45,282
Proceeds from disposition of capital assets	24,732	195,226
Net cash used in capital and related financing activities	<u>(3,274,079)</u>	<u>(2,479,965)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment income	337,657	640,531
(Increase) decrease in investment - MLDM Reserve Trust	852,212	3,243,207
(Increase) decrease in investment - Depreciation fund	(78,708)	(360,179)
Net cash provided by investing activities	<u>1,111,161</u>	<u>3,523,559</u>
NET INCREASE (DECREASE) IN CASH	<u>(1,233,651)</u>	<u>1,208,504</u>
CASH - BEGINNING OF YEAR	<u>5,038,384</u>	<u>3,829,880</u>
CASH - END OF YEAR	<u>\$ 3,804,733</u>	<u>\$ 5,038,384</u>

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (loss)	\$ (262,955)	\$ (719,556)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,149,344	1,069,828
Changes in assets and liabilities:		
Purchased power advances	(17,786)	2,785
Accounts receivable	(215,852)	118,391
Inventory	(190,460)	(501,705)
Prepaid expenses and other assets	(23,833)	(551,219)
Preliminary survey and investigation charges	(1,500)	137,765
Pension and OPEB related deferrals	60,629	(553,350)
Accounts payable	(210,978)	370,470
Customer deposits	24,450	30,359
Accrued liabilities	(22,172)	8,914
Other noncurrent liabilities	(150,000)	(150,000)
Net pension liability	286,741	748,633
Accrued compensated absences	79,382	13,239
Net other post-employment benefits	(67,303)	171,866
Rate stabilization reserve	671,560	150,990
Net cash provided by operating activities	<u>\$ 1,109,267</u>	<u>\$ 347,410</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

The following accounts are considered to be cash for the statement of cash flows:

Depreciation fund (see Note 2)	\$ 737,268	\$ 500,681
Cash - customer deposits	485,809	461,359
Cash - operation fund	2,581,656	4,076,344
CASH - END OF YEAR	<u>\$ 3,804,733</u>	<u>\$ 5,038,384</u>

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

**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
 FIDUCIARY FUND
 STATEMENT OF NET POSITION
 AS OF DECEMBER 31, 2020 AND 2019**

ASSETS

	2020	2019
RESTRICTED ASSETS		
OPEB Liability Trust	\$ 994,443	\$ 876,919
TOTAL ASSETS	\$ 994,443	\$ 876,919

NET POSITION

NET POSITION		
Restricted for OPEB	\$ 994,443	\$ 876,919
TOTAL NET POSITION	\$ 994,443	\$ 876,919

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

**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
FIDUCIARY FUND
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
ADDITIONS		
Employer contributions	\$ 52,567	\$ 52,567
Interest and investment income	117,524	143,406
Total Additions	<u>170,091</u>	<u>195,973</u>
DEDUCTIONS		
Benefit payments	52,567	52,567
Total Deductions	<u>52,567</u>	<u>52,567</u>
CHANGE IN NET POSITION	117,524	143,406
TOTAL NET POSITION - BEGINNING	876,919	733,513
TOTAL NET POSITION - ENDING	<u>\$ 994,443</u>	<u>\$ 876,919</u>

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The South Hadley Electric Light Department (the "Department"), an enterprise fund of the Town of South Hadley, Massachusetts (the "Town"), provides electric services to residential, commercial, industrial, and municipal customers, substantially all of whom are located within the Town. The Department uses a proprietary fund to account for activities related to electric distribution operations and a fiduciary fund to account for activities related to other post-employment benefit funding.

Measurement Focus and Basis of Accounting

The Department's 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 when a liability is incurred, regardless of the timing of the related cash flows. The Department's accounting records are maintained in accordance with accounting principles generally accepted in the United States of America ("GAAP") for proprietary and fiduciary funds as promulgated by the Governmental Accounting Standards Board ("GASB") and generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the United States Federal Energy Regulatory Commission ("FERC").

Public Utility Regulation

Arrangements among the Department, outside agencies, and other utilities covering interconnections, interchange of electric power, and sales of utility property are subject to regulation by the FERC. The Department is subject to further regulation by the Massachusetts Department of Public Utilities ("DPU"). Under Massachusetts law, electric rates are set by the Municipal Light Board. While the DPU exercises general supervisory authority over the Department, rates are not subject to DPU approval.

Cash and Investments

Cash includes cash on hand, and cash on deposit with the Town, which is in the custody of and managed by the Town Treasurer, and cash held by Massachusetts Municipal Wholesale Electric Company ("MMWEC"). The Department considers all short-term investments with an original maturity date of 90 days or less to be cash. Cash, for purposes of the cash flow statement, consists of cash on hand and cash on deposit with the Town. Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. Dividend and interest income is recorded when declared. Massachusetts General Laws place limitations on the nature of deposits and investments available to the Department. Cash and investments, which are subject to legislation, regulation, or agreement that limit the use of such funds, are reflected as restricted assets.

Municipal Light Departments of Massachusetts Reserve Trust

The Municipal Light Departments of Massachusetts Reserve Trust ("MLDM Reserve Trust") was established by Massachusetts Municipal Wholesale Electric Company ("MMWEC") in anticipation of deregulation of the electric industry in Massachusetts. The Trust was established to help maintain the competitive position of its member utilities, in the face of increasing competition from investor-owned utilities, by providing a source of funds to be accessed as needed for extraordinary or unanticipated expenses such as unit outages, loss of load, and retail wheeling.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect. Management provides for uncollectable amounts through a charge against income based on its assessment of the status of individual accounts. Management is required to comply with the billing and termination procedures mandated by the DPU. No interest is charged on residential accounts. The Department obtains security interests as it deems appropriate.

Inventory

Inventory, which consists of poles and fixtures, conductors and devices, underground conduits, transformers, meters, and streetlights, is valued at the lower of cost or market using the first-in, first-out flow assumption.

Other Post-Employment Benefit Liability Trust

The Other Post-Employment Benefit Liability Trust ("OPEB Liability Trust") was established by the Department pursuant to Chapter 32B, Section 20 of the General Laws of the Commonwealth of Massachusetts. The Trust was established to maintain and accumulate funds for the payment of benefits related to the Department's other post-employment benefit obligations.

Purchased Power Advances

Under the terms of the Department's member agreement with Massachusetts Municipal Wholesale Electric Company, the Department is required to prepay various operating expenses and provide for certain working capital requirements for various projects that are operational. The Department charges items to expense when MMWEC indicates that an expense has been incurred.

Prepaid Expenses and Other Assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Other assets consist of a deposit maintained with the Department's insurance company.

Preliminary Survey and Investigation Charges

Preliminary survey and investigation charges represent costs related to capital asset construction and will be capitalized upon commencement of the project.

Capital Assets

Additions to and replacements of capital assets are recorded at cost. The estimated cost, less accumulated depreciation of capital assets retired is charged against revenue in the year of disposition. The cost of repairs and minor renewals is charged to expense as incurred. The fair market value of capital assets is evaluated annually and no adjustment for impairment was deemed necessary.

Deferred Outflow of Resources

The deferred outflow of resources, which consist of pension and OPEB deferred amounts, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Compensated Absences

The Department recognizes sick and vacation leave costs as they are earned. Employees earn 15 sick days per year and 10 to 30 vacation days per year depending on date of hire and length of service. Earned days not taken accumulate, subject to certain limitations.

Accounts Payable

Accounts payable include liabilities incurred in conjunction with purchased power costs, supplier payables, and unremitted sales tax collections.

Customer Deposits

The Department requires security deposits from certain residential, commercial, and industrial customers. These deposits, including accrued interest, are held in escrow and reflected as a liability in the financial statements.

Other Noncurrent Liabilities

Other noncurrent liabilities consist of claims or other liabilities payable in greater than one year.

Deferred Inflow of Resources

The deferred inflow of resources, which consist of pension and OPEB deferred amounts and a rate stabilization reserve, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that future time. A rate stabilization reserve was established to mitigate the effects of timing inherent in the operation of rate adjustment charges / credits. Amounts are transferred to or from the reserve on an event driven basis. An amount equal to the rate stabilization reserve is maintained in the Department's operation fund cash.

Net Position

The Department classifies net position into three components as follows:

Net Investment in Capital Assets – This component consists of capital assets net of accumulated depreciation, reduced by any related outstanding debt balance.

Restricted – This component consists of assets required to be segregated by bond agreement and or external parties. Such segregated assets are presented net of any related liabilities.

Unrestricted – This component consists of all assets and liabilities that do not meet the criteria for "Net Investment in Capital Assets" or "Restricted".

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Expenses

The Department distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the sale of electricity. Electric revenues are based on authorized rates applied to each customer's consumption of energy. They are recognized based on cycle billings rendered monthly and are not accrued for services delivered beyond such cycle billing dates. A six percent (6%) discount is offered to residential customers who pay within fifteen days of being billed. Discounts, which are recorded net against revenues, for the years ended December 31, 2020 and 2019 were \$457,110 and \$374,644, respectively. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Depreciation

Depreciation of capital assets is recorded on a straight-line basis using an annual rate of 3% of depreciable assets in accordance with DPU regulations.

Capital Contributions

Developer and customer funds received for system development and asset acquisitions are recorded as capital contributions in the period in which they are received.

Benefit Plans

The Department provides pension benefits through participation in the Hampshire County Contributory Retirement System and post-employment health and life insurance benefits through participation in the Town of South Hadley's Other Postemployment Benefit Plan.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could vary from those estimates.

Effect of New Accounting Standards on Current and Future Period Financial Statements

GASB has approved GASB Statement No. 87, *Leases*, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, GASB Statement No. 91, *Conduit Debt Obligations*, GASB Statement No. 92, *Omnibus 2020*, GASB Statement No. 93, *Replacement of Interbank Offered Rates*, GASB Statement No. 84, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, and GASB Statement No. 97, *Certain Component Unit 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*. When these statements become effective, application of these standards may restate portions of these financial statements.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

2. CASH and INVESTMENTS

The Department's cash and investments are segregated by purpose, recorded at fair value, and consist of both restricted and unrestricted assets.

The cash and investment balances at December 31, 2020 consisted of the following:

	<u>Cash</u>	<u>Investments</u>	<u>Statement Balance</u>
PROPRIETARY FUND			
Unrestricted			
Cash - operation fund	\$ 2,581,656	\$ -	\$ 2,581,656
MLDM Reserve Trust	328,677	7,693,271	8,021,948
Restricted			
Depreciation fund	737,268	5,528,185	6,265,453
Cash - customer deposits	485,809	-	485,809
Purchased power advances	623,127	475,446	1,098,573
FIDUCIARY FUND			
OPEB Liability Trust	19,469	974,974	994,443
TOTAL	<u>\$ 4,776,006</u>	<u>\$ 14,671,876</u>	<u>\$ 19,447,882</u>

The investment balances at December 31, 2020 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
PROPRIETARY FUND			
U.S Treasury Securities	\$ 2,420,207	\$ 2,422,682	\$ 2,475
U.S Agency Securities - Implicitly Guaranteed	5,117,528	5,121,932	4,404
Municipal Bonds	2,214,802	2,234,456	19,654
Corporate Bonds	2,606,403	2,694,223	87,820
Common Stock	995,127	1,113,644	118,517
Certificates of Deposit - Negotiable	105,699	109,965	4,266
FIDUCIARY FUND			
Mutual Funds - Bond Types	377,791	397,770	19,979
Mutual Funds - Equity Types	382,375	577,204	194,829
TOTAL	<u>\$ 14,219,932</u>	<u>\$ 14,671,876</u>	<u>\$ 451,944</u>

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

2. CASH and INVESTMENTS (CONTINUED)

The cash and investment balances at December 31, 2019 consisted of the following:

	<u>Cash</u>	<u>Investments</u>	<u>Statement Balance</u>
PROPRIETARY FUND			
Unrestricted			
Cash - operation fund	\$ 4,076,344	\$ -	\$ 4,076,344
MLDM Reserve Trust	90,116	8,784,044	8,874,160
Restricted			
Depreciation fund	516,095	5,434,065	5,950,160
Cash - customer deposits	461,359	-	461,359
Purchased power advances	519,970	560,817	1,080,787
FIDUCIARY FUND			
OPEB Liability Trust	22,029	854,890	876,919
TOTAL	<u>\$ 5,685,913</u>	<u>\$ 15,633,816</u>	<u>\$ 21,319,729</u>

The investment balances at December 31, 2019 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
PROPRIETARY FUND			
U.S Treasury Securities	\$ 2,271,658	\$ 2,284,182	\$ 12,524
U.S Agency Securities - Implicitly Guaranteed	9,093,052	9,102,857	9,805
Municipal Bonds	108,506	108,506	-
Corporate Bonds	911,537	939,431	27,894
Common Stock	956,504	1,111,004	154,500
Certificates of Deposit - Negotiable	1,237,159	1,248,362	11,203
FIDUCIARY FUND			
Mutual Funds - Bond Types	285,441	290,525	5,084
Mutual Funds - Equity Types	383,667	564,365	180,698
TOTAL	<u>\$ 15,247,524</u>	<u>\$ 15,649,232</u>	<u>\$ 401,708</u>

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

2. CASH and INVESTMENTS (CONTINUED)

Fair Value

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 used to measure the fair value of the 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.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in level 2 of the fair value hierarchy are valued using interest rate curves and credit spreads applied to the terms of the underlying instruments and consider the credit rating of the counterparty.

The Department's recurring fair value measurements as of December 31, 2020 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
PROPRIETARY FUND				
U.S Treasury Securities	\$ 2,422,682	\$ -	\$ -	\$ 2,422,682
U.S Agency Securities - Implicitly Guaranteed	-	5,121,932	-	5,121,932
Municipal Bonds	-	2,234,456	-	2,234,456
Corporate Bonds	-	2,694,223	-	2,694,223
Common Stock	1,113,644	-	-	1,113,644
Certificates of Deposit	-	109,965	-	109,965
FIDUCIARY FUND				
Mutual Funds - Bond Types	397,770	-	-	397,770
Mutual Funds - Equity Types	577,204	-	-	577,204
Total	\$ 4,511,300	\$ 10,160,576	\$ -	\$ 14,671,876

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

2. CASH and INVESTMENTS (CONTINUED)

Fair Value (Continued)

The Department's recurring fair value measurements as of December 31, 2019 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
PROPRIETARY FUND				
U.S Treasury Securities	\$ 2,284,182	\$ -	\$ -	\$ 2,284,182
U.S Agency Securities - Implicitly Guaranteed	-	9,102,857	-	9,102,857
Municipal Bonds	-	108,506	-	108,506
Corporate Bonds	-	939,431	-	939,431
Common Stock	1,111,004	-	-	1,111,004
Certificates of Deposit	-	1,248,362	-	1,248,362
FIDUCIARY FUND				
Mutual Funds - Bond Types	290,525	-	-	290,525
Mutual Funds - Equity Types	564,365	-	-	564,365
Total	\$ 4,250,076	\$ 11,399,156	\$ -	\$ 15,649,232

Custodial Credit Risk - Cash

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the Department's deposits may not be returned. The Department does not have a deposit policy for custodial risk. The Department, through the Town, maintains cash balances at various financial institutions located in Massachusetts. These balances are insured, subject to certain limitations, by the Federal Deposit Insurance Corporation. At certain times during the year, these cash balances may exceed the insurance limit. The amount by which the Department's cash balances may exceed the insurance limits at December 31, 2020 and 2019, has not been determined. The Department has not experienced any loss on such account and monitors the credit worthiness of the financial institutions through the Town Treasurer's Office.

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that, in the event of a failure by a counterparty to the transaction, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department does not have a policy for custodial credit risk, however, none of the Department's investments are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department, but not in the Department's name.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

2. CASH and INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that the fair value of an investment will be adversely affected by changes in market interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. While the Department does not have a formal policy for interest rate risk, it does vary the duration of investments within its portfolio as a means of managing the effects of this risk. Maturities of the Department's investments in U.S. Securities, Bonds, and Certificates of Deposit at December 31, 2020 were as follows:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>	<u>More Than 10 Years</u>
U.S Treasury Securities	\$ 2,422,682	\$ 943,085	\$ 932,946	\$ 546,651	\$ -
U.S Agency Securities -					
Implicitly Guaranteed	5,121,932	292,738	4,619,063	210,131	-
Municipal Bonds	2,234,456	269,243	932,664	1,032,549	-
Corporate Bonds	2,694,223	488,724	2,205,499	-	-
Certificates of Deposit	109,965	-	109,965	-	-
Total	\$ 12,583,258	\$ 1,993,790	\$ 8,800,137	\$ 1,789,331	\$ -

Maturities of the Department's investments in U.S. Securities, Bonds, and Certificates of Deposit at December 31, 2019 were as follows:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>	<u>More Than 10 Years</u>
U.S Treasury Securities	\$ 2,284,182	\$ 1,740,120	\$ 544,062	\$ -	\$ -
U.S Agency Securities -					
Implicitly Guaranteed	9,102,857	2,948,577	5,453,184	610,694	90,402
Municipal Bonds	108,506	-	108,506	-	-
Corporate Bonds	939,431	181,229	758,202	-	-
Certificates of Deposit	1,248,362	1,081,267	167,095	-	-
Total	\$ 13,683,338	\$ 5,951,193	\$ 7,031,049	\$ 610,694	\$ 90,402

Investments Highly Sensitive to Market Changes

The Department held investments in U.S. Agency Securities with market values of \$90,402 at December 31, 2019 bearing maturity dates in 2031.

Credit Risk

Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assigning of a rating by a nationally recognized statistical rating organization. The Department's investment policies require the investments within its portfolio to be investment grade.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

2. CASH and INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The Department's investments at December 31, 2020 and 2019 were rated as follows:

	2020			2019		
	Fair Value	Moody's Rating	S&P Rating	Fair Value	Moody's Rating	S&P Rating
U.S Agency Securities -						
Implicitly Guaranteed	\$ 5,121,932	Aaa	AAA to AA+	\$ 9,102,857	Aaa	AA+
Municipal Bonds	2,234,456	Aa1 to A2	AAA to A+	108,506	Aa3	AA-
Mutual Funds -						
Bond Types	397,770	NR	NR	290,525	NR	NR
Corporate Bonds	2,694,223	Aaa to Baa2	AAA to BBB	939,431	A1 to Baa	AA- to BBB
Certificates of Deposit	109,965	NR	NR	1,248,362	NR	NR
Total	\$ 10,558,346			\$ 11,689,681		

NR – not rated

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Department's investment in a single issuer. The Department's investment policies limit the magnitude of investment with any one single issuer (with the exception of the United States Government and its Agencies) to 5% of the portfolio value. The Department diversifies the investments within its portfolio as a means of managing the effects of this risk.

Investments in any one issuer that represent greater than 5% of total investments at December 31, 2020 include the U.S Treasury (17%), Federal Home Loan Bank (10%), and Federal Farm Credit Bank (20%).

Investments in any one issuer that represent greater than 5% of total investments at December 31, 2019 include the U.S. Treasury (15%), Federal Home Loan Bank (20%), Federal Farm Credit Bank (15%), Federal Home Loan Mortgage Corporation (12%), and Federal National Mortgage Association (9%).

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

3. CAPITAL ASSETS

Capital asset activity as of and for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
CAPITAL ASSETS BEING DEPRECIATED				
Distribution plant	\$ 30,639,515	\$ 872,470	\$ (122,141)	\$ 31,389,844
General plant	7,671,945	2,358,906		10,030,851
Totals	38,311,460	3,231,375	(122,141)	41,420,695
Less accumulated depreciattion	(32,913,470)	(1,149,344)	122,141	(33,940,673)
Total Capital Assets Being Depreciated - Net	<u>5,397,990</u>	<u>2,082,031</u>	<u>-</u>	<u>7,480,022</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	373,616	129,733		503,349
Construction in progress	-	-		-
Total Capital Assets Not Being Depreciated	<u>373,616</u>	<u>129,733</u>	<u>-</u>	<u>503,349</u>
CAPITAL ASSETS - NET	<u>\$ 5,771,606</u>	<u>\$ 2,211,764</u>	<u>\$ -</u>	<u>\$ 7,983,371</u>

Capital asset activity as of and for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
CAPITAL ASSETS BEING DEPRECIATED				
Distribution plant	\$ 29,622,417	\$ 1,086,628	\$ (69,530)	\$ 30,639,515
General plant	6,038,514	1,633,431		7,671,945
Totals	35,660,931	2,720,059	(69,530)	38,311,460
Less accumulated depreciattion	(31,913,172)	(1,069,828)	69,530	(32,913,470)
Total Capital Assets Being Depreciated - Net	<u>3,747,759</u>	<u>1,650,231</u>	<u>-</u>	<u>5,397,990</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	344,448	55,135	(25,967)	373,616
Construction in progress	54,720	-	(54,720)	-
Total Capital Assets Not Being Depreciated	<u>399,168</u>	<u>55,135</u>	<u>(80,687)</u>	<u>373,616</u>
CAPITAL ASSETS - NET	<u>\$ 4,146,927</u>	<u>\$ 1,705,366</u>	<u>\$ (80,687)</u>	<u>\$ 5,771,606</u>

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

4. RETIREMENT PLAN

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the 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. 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.

Plan Description

The Department participates in the Hampshire County Contributory Retirement System (the "System"), a cost sharing, multiple employer, defined benefit public employee retirement system ("PERS"). Eligible employees must participate in the System. As of January 1, 2020, the most recent actuarial valuation date, approximately 15 retirees and 21 active and inactive employees met the eligibility requirements. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The authority for amending these provisions rests with the Massachusetts Legislature. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 99 Industrial Drive, Northampton, Massachusetts 01060-2326.

Benefits Provided

The retirement plan provides pension benefits, deferred allowances, and death and disability benefits. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Department payroll on January 1, 1978, (3) voluntarily left Department employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity. Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

4. RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued)

less than 10 years of service get credited interest each year at a rate of 3.00% and do not forfeit any interest previously earned on contributions.

Funding Policy

Participants contribute a set percentage of their gross regular compensation annually. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation in excess of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5.00%
January 1, 1975 - December 31, 1983	7.00%
January 1, 1984 - June 30, 1996	8.00%
Beginning July 1, 1996	9.00%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission ("PERAC"). The Department's contribution to the System for the years ended December 31, 2020 and 2019 were \$588,470 and \$463,027, respectively, which were equal to its annual required contributions.

Actuarial Methods and Assumptions

The Department's net pension liability at December 31, 2020 was measured as of December 31, 2019 as determined by an actuarial valuation dated January 1, 2020. The Department's net pension liability at December 31, 2019 was measured as of December 31, 2018 as determined by an actuarial valuation dated January 1, 2018. The measurement dates for the total pension liability and valuation dates for the fiduciary net position were the same.

The measurement of the net pension liability for 2020 and 2019 was determined by an independent actuary using the entry age normal cost method. The assumptions used to measure the total pension liability included an inflation assumption of 3.00% per year, salary increases of 4.25% - 4.75% per year, and a post-retirement cost of living adjustment of 3.00% of the first \$13,000. The mortality assumptions were based on the RP-2000 Employees table (base year 2009, sex distinct) projected with Scale BB and generational mortality for non-disabled members. The forgoing table was set forward three years for disabled members.

GASB 68 requires an actuarial valuation as of the measurement date or the use of roll forward procedures to the measurement date of no more than 30 months and 1 day from the current fiscal year-end. The actuarial valuation report for the Hampshire County Retirement Plan used for the financial statements falls within the allowable date range.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

4. RETIREMENT PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return 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 percentages and by adding expected inflation. These best estimate ranges are combined to produce the long-term expected rate of return of 7.15% and 7.45% for 2020 and 2019, respectively.

The target allocation and best estimate of real rates of return for each major asset class for 2020 and 2019 is summarized in the following table:

Asset Class	2020		2019	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Cash	2.00%	-0.60%	1.00%	0.73%
Large Cap Equities	15.50%	5.00%	9.00%	4.61%
Small/Mid Cap Equities	4.50%	5.20%	6.00%	4.85%
International Equities (Unhedged)	16.50%	5.20%	11.00%	5.10%
International Equities (Hedged)	0.00%	5.34%	0.00%	5.34%
Emerging International Equities	6.00%	7.10%	6.00%	6.31%
Core Bonds	20.00%	2.00%	7.00%	1.42%
High-Yield Bonds	3.00%	3.40%	3.00%	2.91%
Bank Loans	3.00%	2.70%	3.00%	3.16%
Global Bonds (Unhedged)	0.00%	0.00%	3.00%	0.00%
EDM (Local Currency)	6.00%	3.20%	6.00%	4.13%
Private Equity	10.00%	8.80%	8.00%	6.55%
Private Debt	1.50%	5.40%	2.00%	5.10%
Real Estate	12.00%	3.30%	8.00%	3.40%
Hedged Funds	0.00%	3.88%	11.00%	3.88%
Global Asset Allocation	0.00%	4.17%	16.00%	4.17%
Totals	100.00%		100.00%	

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

4. RETIREMENT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for 2020 and 7.45% for 2019. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive 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.

Proportionate Share of Net Pension Liability

The following presents the Department's proportionate share of the Hampshire County Retirement System's net pension liability at December 31, 2020 and 2019:

	2020	2019
Proportionate share of net pension liability for the most recent measurement rate	\$ 4,777,168	\$ 4,490,427
Proportion of net pension liability for the most recent measurement date	2.3916%	2.0822%

The Departments proportionate share was determined based on covered payrolls. The period used to amortize the change in proportionate share was 5.1 years in 2020 and 2019.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Department's proportionate share of the net pension liability at December 31, 2020 and 2019, calculated using a discount rate of 7.15% for 2020 and 7.45% for 2019, as well as what it would be if it were calculated using a one percent lower and one percent higher rate:

	2020		2019	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.15%	\$ 6,323,834	6.45%	\$ 5,735,601
Current Rate	7.15%	\$ 4,777,168	7.45%	\$ 4,490,427
1% Increase	8.15%	\$ 3,471,262	8.45%	\$ 3,433,514

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

4. RETIREMENT PLAN (CONTINUED)

Net Pension Liability

The following presents the changes in net pension liability at December 31:

	2020	2019
Total Pension Liability		
Service cost	\$ 317,663	\$ 265,930
Interest	929,980	778,682
Differences between expected and actual experience	(158,333)	-
Changes in assumptions	490,018	-
Benefit payments, including refunds	(762,112)	(615,156)
	817,216	429,456
Net Change in Total Liability	817,216	429,456
Total Pension Liability - Beginning of Year	12,546,341	10,493,761
Total Pension Liability - End of Year	\$ 13,363,557	\$ 10,923,217
Plan Fiduciary Net Position		
Contributions - employer	\$ 558,470	\$ 463,027
Contributions - employees	199,338	168,726
Other additions	-	51
Net investment income	1,220,087	(191,899)
Benefit payments	(762,112)	(615,156)
Administrative expenses	(20,161)	(18,319)
	1,195,622	(193,570)
Net Change in Fiduciary Net Position	1,195,622	(193,570)
Plan Fiduciary Net Position - Beginning of Year	7,390,767	6,626,360
Plan Fiduciary Net Position - End of Year	\$ 8,586,389	\$ 6,432,790
Net Pension Liability		
Beginning of year - based on prior year proportions	\$ 4,490,427	\$ 3,741,794
Change in proportionate share	665,147	125,607
	5,155,574	3,867,401
Beginning of year - based on current year proportions	5,155,574	3,867,401
Net Pension Liability - End of Year	\$ 4,777,168	\$ 4,490,427

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

4. RETIREMENT PLAN (CONTINUED)

Pension Expense, Deferred Outflows and Deferred Inflows

For the years ended December 31, 2020 and 2019, the Department recognized pension expense of \$877,852 and \$815,058, respectively.

The following schedule presents information about the pension related deferred outflows and deferred inflows at December 31:

	2020	2019
DEFERRED OUTFLOWS		
Contributions subsequent to the measurement date	\$ 314,948	\$ 243,522
Changes in assumptions	488,113	126,290
Changes in proportionate share	838,523	470,568
Difference between expected and actual earnings on pension plan investments	-	376,296
Total Deferred Outflows	\$ 1,641,584	\$ 1,216,676
DEFERRED INFLOWS		
Differences between expected and actual experience rate	\$ (157,020)	\$ (38,388)
Changes in assumptions	(82,929)	(122,418)
Difference between expected and actual earnings on pension plan investments	(306,980)	-
Total Deferred Inflows	\$ (546,929)	\$ (160,806)

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

2021	\$ 198,253
2020	96,067
2023	173,606
2024	11,149
Thereafter	300,632
Total	\$ 779,707

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

5. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Department participates in the Town of South Hadley's Other Postemployment Benefit Plan, a single employer defined benefit plan. As of January 1, 2019, the most recent actuarial valuation date, approximately 21 retirees and 21 active and inactive employees met the eligibility requirements. Benefits, benefit levels, employee and employer contributions are governed by Massachusetts General Laws, Chapter 32. The Plan does not issue a separate financial report.

Benefits Provided

The Plan offers medical, dental, and life insurance coverage to all eligible retired employees. A retired employee hired on or after April 2, 2012 becomes eligible upon reaching age 60 with ten years of service. A retired employee hired before April 2, 2012 becomes eligible upon reaching age 55 with 10 years of service or upon completing 20 years of service.

Contributions

As of December 31, 2020, and 2019, a retired employee contributes 26% to 45% of stated premiums for their chosen medical plan, 100% of stated premiums for their chosen dental plan, and 50% of the premiums for a \$5,000 group term life insurance benefit. The Department contributes the remainder of the medical, dental and life insurance plan costs on a pay-as-you-go basis.

Rate of Return

For the year ended December 31, 2020 and 2019, the annual money-weighted rate of return on investments, net of investment expense, was 13.40% and 19.55%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Actuarial Methods and Assumptions

The Department's net OPEB liability at December 31, 2020 was measured as of December 31, 2020, as determined by an actuarial study dated January 1, 2019. The Department's net OPEB liability at December 31, 2019 was measured as of December 31, 2019, as determined by an actuarial study dated January 1, 2019. The measurement date for the total OPEB liability and valuation date for the fiduciary net position were the same.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

The measurement of the total OPEB liability for 2020 and 2019 was determined by an independent actuary using the entry age normal cost method. The assumptions used to measure the total OPEB liability included an inflation assumption of 2.50% per year and salary increases of 3.00% per year. Healthcare coverage assumptions include acceptance rates which were consistent with elections made by retiring employees in recent years. Mortality assumptions were based on the RP-2014 Employee Mortality Table projected generationally using scale MP-2016 for both males and females for non-disabled members. The forgoing table was set forward one year for disabled members. The healthcare cost trend assumptions are based on a trend rate of 4.50%.

The projected long-term real rate of return on OPEB plan investments was determined using a building block method, which considers historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions. These best estimate ranges, net of long-term inflation are combined to produce the long-term expected rate of return for 2020 and 2019 were 5.72% and 5.84%, respectively.

The target allocation and best estimate of arithmetic real rates of return for each major asset classes for 2020 and 2019 are summarized in the following table:

<u>Asset Class</u>	<u>2020</u>		<u>2019</u>	
	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	2.00%	0.00%	5.00%	0.00%
Domestic Equity - Large Cap	43.00%	4.90%	30.00%	4.80%
Domestic Equity - Small/Mid Cap	7.50%	5.40%	12.50%	5.29%
International Equities - Developed Markets	7.50%	5.32%	7.50%	5.45%
International Equities - Emerging Markets	0.00%	6.26%	0.00%	6.42%
Domestic Fixed Income	40.00%	1.40%	45.00%	2.05%
International Fixed Income	0.00%	1.30%	0.00%	3.00%
Real Estate	0.00%	6.25%	0.00%	6.50%
Alternatives	0.00%	6.32%	0.00%	6.25%
Totals	100.00%		100.00%	

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Discount Rate

The discount rate used to measure the total OPEB liability was 5.75% in 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that future employee and employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan employees. 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 OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Department's net OPEB liability at December 31, 2020 and 2019, calculated using a discount rate of 5.75%, as well as what it would be if it were calculated using a one percent lower and one percent higher rate.

	2020		2019	
	Discount Rate	Net OPEB Liability	Discount Rate	Net OPEB Liability
1% Decrease	4.75%	\$ 792,720	4.75%	\$ 854,493
Current Rate	5.75%	\$ 615,365	5.75%	\$ 682,671
1% Increase	6.75%	\$ 465,760	6.75%	\$ 537,734

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the Department's net OPEB liability at December 31, 2020 and 2019, calculated using a healthcare cost trend rate of 4.50%, as well as what it would be if it were calculated using a one percent lower and one percent higher rate.

	2020		2019	
	Healthcare Cost Trend Rate	Net OPEB Liability	Healthcare Cost Trend Rate	Net OPEB Liability
1% Decrease	3.50%	\$ 453,123	3.50%	\$ 525,531
Current Rate	4.50%	\$ 615,365	4.50%	\$ 682,671
1% Increase	5.50%	\$ 808,460	5.50%	\$ 869,694

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in Net OPEB Liability

The following presents the changes in net OPEB liability for the year ended December 31:

	2020	2019
Total OPEB Liability		
Service cost	\$ 41,792	\$ 40,166
Interest	90,622	72,368
Differences between expected and actual experience	(30,795)	133,260
Changes in assumptions		122,045
Benefit payments, including refunds	(51,401)	(52,567)
	50,218	315,272
Net Change in Total Liability	50,218	315,272
Total OPEB Liability - Beginning of Year	1,559,590	1,244,318
	\$ 1,609,808	\$ 1,559,590
Plan Fiduciary Net Position		
Employer contributions to the Trust	\$ 51,401	\$ 52,567
Benefit payments withdrawn from the Trust	(51,401)	(52,567)
Net investment income	117,524	143,406
Administrative expenses	-	-
	117,524	143,406
Net Change in Fiduciary Net Position	117,524	143,406
Plan Fiduciary Net Position - Beginning of Year	876,919	733,513
	\$ 994,443	\$ 876,919
Net OPEB Liability - Beginning of Year	\$ 682,671	\$ 510,805
Net OPEB Liability - End of Year	\$ 615,365	\$ 682,671

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense, Deferred Outflows and Deferred Inflows

For the years ended December 31, 2020 and 2019, the Department recognized OPEB expense of \$83,509 and \$91,757, respectively.

The following presents information about the OPEB related deferred outflows and deferred inflows at December 31:

	2020	2019
DEFERRED OUTFLOWS		
Changes in assumptions	\$ 92,347	\$ 126,316
Difference between expected and actual experience	79,956	106,608
Total Deferred Outflows	\$ 172,303	\$ 232,924
DEFERRED INFLOWS		
Difference between expected and actual experience	\$ (42,123)	\$ (51,774)
Difference between projected and actual earnings on OPEB plan investments	(85,134)	(36,690)
Total Deferred Inflows	\$ (127,257)	\$ (88,464)

Amounts reported as deferred outflows and deferred inflows related to OPEB will be recognized in the OPEB expense as follows:

2021	\$ 18,055
2022	35,543
2023	11,079
2024	(19,631)
Thereafter	-
Total	\$ 45,046

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

6. COMMITMENTS AND CONTINGENCIES

Massachusetts Municipal Wholesale Electric Company

The Town of South Hadley, acting through its Light 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 the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has the Nuclear Mix No 1 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 the Millstone Unit 3 nuclear unit extends to November 25, 2045.

On July 19, 2019, MMWEC sold its 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned 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 Light Department has entered into PSAs with MMWEC. Under the PSAs the Department is required to make certain payments to MMWEC payable solely from Municipal Light 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, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's 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 or 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. Also, the Millstone and Seabrook Project Participants are 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 until the end of 2025.

As of July 1, 2019, MMWEC has no debt service obligations outstanding relating to the Projects.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Massachusetts Municipal Wholesale Electric Company (Continued)

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

The annual capacity, fuel, and transmission costs (which include debt service, operations and maintenance, and decommissioning expenses as discussed above) associated with the Department's Project Capability of the Projects in which it participates for the years ended December 31, 2020 and 2019, were \$3,131,499 and \$3,274,535, respectively.

The Department, through MMWEC, has entered into an agreement with fourteen other Massachusetts municipal light plants to finance and construct a peaking plant. Management anticipates that this project will be completed. However, the termination of this agreement by fifty one percent of the participants holding two thirds of the ownership interest will result in all participants being subject to penalties and fees and the likelihood of a sufficient number of participants with sufficient ownership interest electing to terminate the agreement cannot be estimated at this time.

Coronavirus

The 2019 novel coronavirus ("COVID-19") has adversely affected and may continue to adversely affect economic activity globally, nationally, and locally. On March 10, 2020, the Governor of Massachusetts declared a state of emergency to support the Commonwealth's response to the outbreak of COVID-19. Management is currently assessing the impact of this declaration on the department.

Claims and Judgements

From time to time, the Department is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Department's legal counsel that the likelihood is remote that any such claim or proceeding will have a materially adverse effect on the Department's financial position or results of operations.

7. CONCENTRATIONS

Source of Labor Supply

Fifty percent of the Department's labor force is covered under a collective bargaining agreement between the South Hadley Electric Light Department and the International Brotherhood of Electrical Workers Local Union 455. The agreement expires June 30, 2021.

Major Customer

The department had one customer whose revenue individually represented 11% of the total revenue in 2019. Amounts due from this customer at December 31, 2019 was \$97,556.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

8. RISK MANAGEMENT

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. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of coverage in 2020, 2019, and 2018.

9. RELATED PARTY TRANSACTIONS

The Department provides electric sales and service to the Town. Total electric sales and service for the years ended December 31, 2020 and 2019 were \$570,801 and \$613,991, respectively. Amounts due from the town related to electric sales and services included in accounts receivable at December 31, 2020 and 2019 were \$1,444 and \$39, respectively.

The Department reimburses the Town for the cost of employee health and life insurance and for the estimated cost of administrative and other services rendered by the Town. The cost of employee health and life insurance is reflected as an administrative expense and the estimated cost of administrative services is reflected as a Transfer to Town. Amounts due to the Town related to reimbursements included in accounts payable at December 31, 2020 and 2019 were \$50,752 and \$267,666, respectively.

10. SUBSEQUENT EVENTS

In April 2021, the Department executed a note payable to MMWEC for \$12,000,000 for plant investment. The note is secured via power purchase agreements with MMWEC and is payable in monthly principal payments of \$40,000 plus interest at 2.79% beginning in April 2021 with a maturity date of March 2041.

Management has evaluated subsequent events through June 24, 2021, the date of which the financial statements were available to be issued.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

RETIREMENT PLAN

Schedule of Changes in Net Pension Liability and Related Ratios

Changes in assumptions – As part of the January 1, 2020 valuation, the discount rate was changed from 7.45% to 7.15%. As part of the January 1, 2018 valuation, the discount rate was changed from 7.50% to 7.45%.

Schedule of Proportionate Share of Net Pension Liability

The following schedules present the multi-year trend information regarding the Department's proportionate share of the Hampshire County Retirement System's net pension liability for the years ending December 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of net pension liability for the most recent measurement date	2.3916%	2.0822%	2.0416%	2.3129%	1.8110%	1.5959%
Proportionate share of net pension liability for the most recent measurement rate	\$ 4,777,168	\$ 4,490,427	\$ 3,741,794	\$ 4,058,779	\$ 3,761,021	\$ 2,976,687
Covered payroll for the most recent measurement date	\$ 2,043,090	\$ 1,668,583	\$ 1,546,558	\$ 1,452,169	\$ 1,465,393	\$ 1,274,741
Proportionate share of net pension liability (asset) as a percentage of covered payroll	233.82%	269.12%	241.94%	279.50%	256.66%	233.51%
Plan fiduciary net position as a percentage of the total pension liability	64.25%	58.89%	63.15%	55.61%	55.29%	58.08%

Schedule of Employer Contributions to the Pension Plan

The following schedules present the multi-year trend information regarding employer contributions to the plan for the years ending December 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 558,770	\$ 463,027	\$ 404,871	\$ 374,795	\$ 360,342	\$ 276,896
Contribution in relation to the actuarially determined contribution	558,770	463,027	404,871	374,795	360,342	276,896
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,043,090	\$ 2,043,090	\$ 1,753,088	\$ 1,546,557	\$ 1,457,169	\$ 1,465,393
Contribution as a percentage of covered employee payroll	27.35%	22.66%	23.09%	24.23%	24.73%	21.72%

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

OTHER POST-EMPLOYMENT BENEFIT PLANS

Schedule of Changes in Net OPEB Liability and Related Ratios:

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

	2020	2019	2018	2017	2016
Total OPEB Liability					
Service cost	\$ 41,792	\$ 40,166	\$ 34,695	\$ 30,944	\$ 30,942
Interest	90,622	72,368	68,019	67,503	71,255
Differences between expected and actual experience	(30,795)	133,260	-	(120,349)	-
Changes in assumptions		122,045	47,800	-	-
Benefit payments, including refunds	(51,401)	(52,567)	(61,941)	(58,106)	(45,495)
Net Change in Total Liability	50,218	315,272	88,573	(80,008)	56,702
Total OPEB Liability - Beginning of Year	1,559,590	1,244,318	1,155,745	1,235,753	1,179,051
Total OPEB Liability - End of Year	\$ 1,609,808	\$ 1,559,590	\$ 1,244,318	\$ 1,155,745	\$ 1,235,753
Plan Fiduciary Net Position					
Employer contributions to the Trust	\$ 51,401	\$ 52,567	\$ 61,941	\$ 58,106	\$ 45,495
Benefit payments withdrawn from the Trust	(51,401)	(52,567)	(61,941)	(58,106)	(45,495)
Net investment income	117,524	143,406	(31,929)	99,231	50,403
Administrative expenses	-	-	-	-	-
Net Change in Fiduciary Net Position	117,524	143,406	(31,929)	99,231	50,403
Plan Fiduciary Net Position - Beginning of Year	876,919	733,513	765,442	666,211	615,808
Plan Fiduciary Net Position - End of Year	\$ 994,443	\$ 876,919	\$ 733,513	\$ 765,442	\$ 666,211
Net OPEB Liability - Beginning of Year	\$ 682,671	\$ 510,805	\$ 390,303	\$ 569,542	\$ 563,243
Net OPEB Liability - End of Year	\$ 615,365	\$ 682,671	\$ 510,805	\$ 390,303	\$ 569,542
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	61.77%	56.23%	58.95%	66.23%	53.91%
Covered Employee Payroll	\$ 2,131,511	\$ 2,043,090	\$ 1,668,583	\$ 1,546,558	\$ 1,452,169
Net OPEB Liability as a Percentage of Covered Employee Payroll	28.87%	33.41%	30.61%	25.24%	39.22%
Annual Money Weighted Rate of Return on OPEB Plan Investments	13.40%	19.55%	-4.17%	14.89%	8.18%

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

Schedule of Changes in Net OPEB Liability and Related Ratios (continued):

Changes in assumptions – As part of the January 1, 2019 valuation, the inflation assumption was changed from 2.75% to 2.50% and the healthcare cost trend rate assumption was changed from 5.00% to 4.50%.

Schedule of Employer Contributions to the OPEB Plan

The following schedules present the multi-year trend information regarding employer contributions to the plan for the years ending December 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 71,081	\$ 85,817	\$ 70,956	\$ 61,730	\$ 45,495
Contribution in relation to the actuarially determined contribution	51,401	52,567	61,941	58,106	45,495
Contribution deficiency (excess)	<u>\$ 19,680</u>	<u>\$ 33,250</u>	<u>\$ 9,015</u>	<u>\$ 3,624</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,131,511	\$ 2,043,090	\$ 1,668,583	\$ 1,546,558	\$ 1,452,169
Contribution as a percentage of covered employee payroll	2.41%	2.57%	3.71%	3.76%	3.13%

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
OTHER INFORMATION (Unaudited)
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING EXPENSES		
Cost of Power Sold		
Purchased power	\$ 5,986,929	\$ 6,964,556
Transmission expense	2,423,847	2,189,537
Supplies and expense	248,928	386,454
Total Cost of Power Sold	<u>8,659,704</u>	<u>9,540,547</u>
Distribution Expense		
Salaries and wages	668,591	535,767
Supplies and expense	384,043	459,630
Total Distribution Expense	<u>1,052,634</u>	<u>995,397</u>
Customer Accounts Expense		
Salaries and wages	331,464	312,685
Supplies and expense	370,389	265,786
Total Customer Accounts Expense	<u>701,853</u>	<u>578,471</u>
General and Administrative Expense		
Salaries and wages	900,486	792,469
Supplies and expense	657,755	517,862
Pension and benefits	952,102	879,529
Insurance	111,659	90,095
Legal and consulting	126,822	105,899
General	15,783	11,799
Total General and Administrative Expense	<u>2,764,607</u>	<u>2,397,653</u>
Depreciation Expense		
Distribution and general plant	1,149,344	1,069,828
TOTAL OPERATING EXPENSES	<u><u>\$ 14,328,142</u></u>	<u><u>\$ 14,581,896</u></u>

See Independent Auditors' Report.