



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, 2021 AND 2020

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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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

Opinion

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, 2021 and 2020, 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, 2021 and 2020, 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").

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 2020, 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.

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.

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, 2021 and 2020, 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.

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 opinions. 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.

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, 2021 and 2020, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any form of assurance thereon.

Maureen Beothell Kallista, P.C.

Holyoke, Massachusetts
June 23, 2022

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

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 ended December 31, 2021, 2020 and 2019. 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") a retail telecommunications system. 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, 153 miles of overhead and underground lines, 4,170 poles, 970 transformers, 1,900 streetlights, 91 miles of overhead and underground fiber optic cable, and services approximately 8,000 residential, commercial, industrial, and municipal customers.

The Statement of Net Position includes all 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, 2021, 2020 and 2019.

CONDENSED COMBINED STATEMENT OF NET POSITION			
	2021	2020	2019
ASSETS AND DEFERRED OUTFLOWS			
Current	\$ 16,183,567	\$ 13,288,926	\$ 15,205,681
Restricted	16,350,299	8,844,278	8,369,225
Non-current	490,786	490,786	489,286
Capital - Net	10,080,381	7,983,370	5,771,606
Deferred Outflows	2,037,449	2,256,897	1,778,531
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 45,142,482	\$ 32,864,257	\$ 31,614,329
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION			
Current	\$ 2,191,194	\$ 1,897,503	\$ 2,054,015
Long-Term	16,448,807	5,516,769	5,420,140
Deferred Inflows	2,907,603	1,939,746	729,191
Net Position			
Net Investment in Capital Assets	4,541,115	7,983,370	5,771,606
Restricted	9,778,256	8,358,469	7,907,866
Unrestricted	9,275,507	7,168,400	9,731,511
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	\$ 45,142,482	\$ 32,864,257	\$ 31,614,329

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

Overview of the Financial Statements (continued)

The Statement of Revenues, Expenses and Changes in Net Position includes all 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's revenues, expenses, and changes in net position for the years ended December 31, 2021, 2020 and 2019.

CONDENSED COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
	2021	2020	2019
OPERATING REVENUES	\$ 15,068,483	\$ 14,065,187	\$ 13,862,340
OPERATING EXPENSES			
Cost of Power Sold	9,121,654	8,659,704	9,540,547
Distribution Expense	1,324,241	1,052,634	995,397
Customer Accounts Expense	433,737	701,853	578,471
General and Administrative Expense	2,963,028	2,764,607	2,397,653
Depreciation Expense	1,242,624	1,149,344	1,069,828
TOTAL OPERATING EXPENSES	15,085,284	14,328,142	14,581,896
OPERATING INCOME (LOSS)	(16,801)	(262,955)	(719,556)
NONOPERATING REVENUES (EXPENSES)	243,034	479,913	948,196
OTHER FINANCING SOURCES (USES)	(141,594)	(117,702)	(132,218)
CHANGE IN NET POSITION	\$ 84,639	\$ 99,256	\$ 96,422

The Statement of Cash Flows includes all 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’S DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

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, 2021, 2020 and 2019.

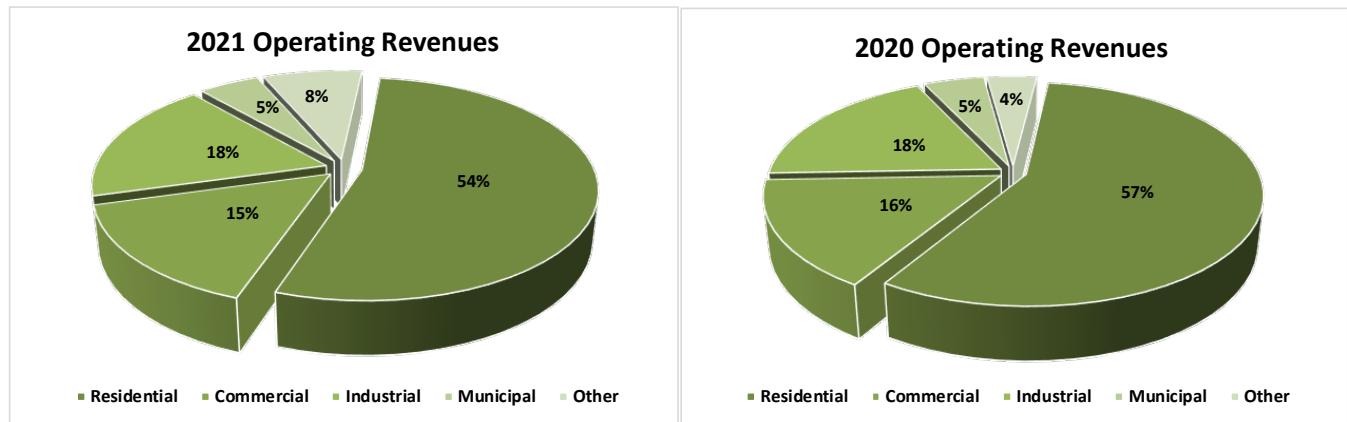
CONDENSED COMBINED STATEMENT OF CASH FLOWS			
	<u>2021</u>	<u>2020</u>	<u>2019</u>
CASH FLOW PROVIDED BY (USED IN):			
Operating Activities	\$ 3,206,331	\$ 1,109,267	\$ 347,410
Financing Activities	7,953,238	(3,454,079)	(2,662,465)
Investing Activities	(6,144,514)	1,111,161	3,523,559
NET INCREASE (DECREASE) IN CASH	<u>5,015,055</u>	<u>(1,233,651)</u>	<u>1,208,504</u>
CASH - BEGINNING	3,804,733	5,038,384	3,829,880
CASH - ENDING	<u>\$ 8,819,788</u>	<u>\$ 3,804,733</u>	<u>\$ 5,038,384</u>

Financial Highlights and Analysis

Sales of electricity for 2021 of \$13,898,516 increased by \$341,401, or 2.53% from the prior year. kWh sales for 2021 of 109,800,939 increased by 2,012,495, or 1.87% from the prior year. The increase in revenues was primarily due to an increase in power costs passed on to our customers and the overall increase in kWh sold.

Other operating revenues for 2021 of \$1,169,967, which consists of equipment rentals, pole attachment fees, and telecommunication income increased by \$660,895 from the prior year.

The following provides a comparative distribution of operating revenues for the years ended December 31, 2021 and 2020.



SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)

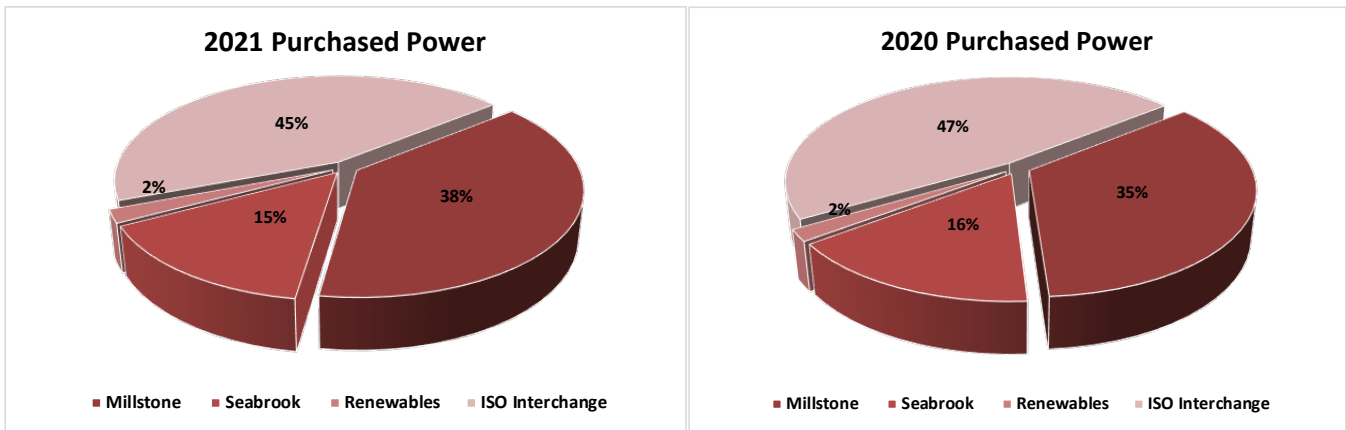
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 2020 AND 2019

Financial Highlights and Analysis (Continued)

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

The cost of power sold for 2021 of \$9,121,654, increased by \$461,950, or 5.33% from the prior year. kWh purchases for 2021 of 112,712,176 increased by 2,561,709 or 2.33% from the prior year. The increase 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, 2021 and 2020.



Other operating expenses for 2021, excluding depreciation, of \$4,721,006 increased by \$201,912, or 4.47% 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 \$260,771 from the prior year.

Current assets, which consist of cash, the MLDM Reserve Trust, accounts receivable, inventory, and prepaid and other assets, increased by \$2,894,641 from the prior year. The increase 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, increased by \$293,691 from the prior year. The increase was primarily due to normal fluctuations in accounts payable, accrued liabilities and customer deposits.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

Financial Highlights and Analysis (Continued)

Restricted assets, which consist of customer deposits, the depreciation fund, the note payable escrow fund, the OPEB Liability Trust, and purchased power advances, increased by \$7,506,021 from the prior year. The increase was primarily due to unexpended note payable proceeds.

Non-current assets, which consist of preliminary survey and investigation charges, were unchanged from the prior year.

Deferred outflows, which consist of pension and OPEB related costs applicable to future reporting periods, decreased by \$219,448 over the prior year.

Long-term liabilities, which consist of notes payable, net pension liability, accrued compensated absences, other noncurrent liabilities, and other post-employment benefits, increased by \$10,932,038 from the prior year. The increase was primarily due to a new loan.

Deferred inflows, which consist of pension and OPEB related cost reductions applicable to future reporting periods, increased by \$967,857 over the prior year.

Net capital assets increased by \$2,097,011 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, 2021, 2020 and 2019.

SUMMARY OF CAPITAL ASSETS			
	2021	2020	2019
CAPITAL ASSETS			
Distribution Plant	\$ 32,429,089	\$ 31,370,007	\$ 30,639,515
General Plant	12,242,405	10,050,687	7,671,945
Land	503,349	503,349	373,616
TOTAL	<u>45,174,843</u>	<u>41,924,043</u>	<u>38,685,076</u>
ACCUMULATED DEPRECIATION	35,094,462	33,940,673	32,913,470
CAPITAL ASSETS - NET	<u>\$ 10,080,381</u>	<u>\$ 7,983,370</u>	<u>\$ 5,771,606</u>

The Department realized an overall increase in net position of \$84,639 and \$ 99,256 in 2021 and 2020, respectively. Cash flows from operating activities for both years were sufficient to cover operating expenses.

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

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

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, 2021 AND 2020

ASSETS AND DEFERRED OUTFLOWS

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash - operation fund	\$ 6,733,819	\$ 2,581,656
MLDM Reserve Trust	7,960,124	8,021,948
Accounts receivable - net of allowance for uncollectible accounts of \$344,195 in 2021 and \$495,342 in 2020	128,100	535,825
Inventory	1,310,000	1,115,571
Prepaid expenses and other assets	51,524	1,033,926
Total Current Assets	<u>16,183,567</u>	<u>13,288,926</u>
RESTRICTED ASSETS		
Depreciation fund	7,566,749	6,265,453
Cash - customer deposits	471,309	485,809
Notes payable escrow fund	6,100,734	-
Purchased power advances	1,086,796	1,098,573
Total Restricted Assets	<u>15,225,588</u>	<u>7,849,835</u>
NON-CURRENT ASSETS		
Preliminary survey and investigation charges	<u>490,786</u>	<u>490,786</u>
CAPITAL ASSETS		
Distribution plant	32,429,089	31,389,844
General plant	12,242,405	10,030,850
Land	503,349	503,349
Total	<u>45,174,843</u>	<u>41,924,043</u>
Less: accumulated depreciation	<u>35,094,462</u>	<u>33,940,673</u>
Capital Assets - Net	<u>10,080,381</u>	<u>7,983,370</u>
DEFERRED OUTFLOWS		
Pension and OPEB related deferrals	<u>2,037,449</u>	<u>2,256,897</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 44,017,771</u>	<u>\$ 31,869,814</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, 2021 AND 2020

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES		
Accounts payable	\$ 1,049,892	\$ 1,074,994
Current portion of notes payable	480,000	-
Current portion of accrued compensated absences	180,112	185,191
Customer deposits	471,309	485,809
Accrued liabilities	9,881	151,509
Total Current Liabilities	<u>2,191,194</u>	<u>1,897,503</u>
LONG-TERM LIABILITIES		
Notes payable	11,160,000	-
Net pension liability	4,325,890	4,777,168
Accrued compensated absences	154,333	124,236
Net other post-employment benefits	808,584	615,365
Total Long-Term Liabilities	<u>16,448,807</u>	<u>5,516,769</u>
TOTAL LIABILITIES	<u>18,640,001</u>	<u>7,414,272</u>
DEFERRED INFLOWS		
Pension and OPEB related deferrals	1,178,804	1,117,196
Rate stabilization reserve	1,728,799	822,550
Total Deferred Inflows	<u>2,907,603</u>	<u>1,939,746</u>
NET POSITION		
Net investment in capital assets	4,541,115	7,983,370
Restricted	8,653,545	7,364,026
Unrestricted	9,275,507	7,168,400
Total Net Position	<u>22,470,167</u>	<u>22,515,796</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 44,017,771</u>	<u>\$ 31,869,814</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, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Residential	\$ 8,078,077	\$ 7,992,153
Commercial	2,312,147	2,201,510
Industrial	2,699,293	2,607,194
Municipal	750,493	692,841
Other	1,228,473	571,489
Total Operating Revenues	15,068,483	14,065,187
OPERATING EXPENSES		
Cost of power sold	9,121,654	8,659,704
Distribution expense	1,324,241	1,052,634
Customer accounts expense	433,737	701,853
General and administrative expense	2,963,028	2,764,607
Depreciation expense	1,242,624	1,149,344
Total Operating Expenses	15,085,284	14,328,142
OPERATING INCOME (LOSS)	(16,801)	(262,955)
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	318,300	337,657
Gain (Loss) on disposition of capital assets	40,133	24,732
Interest expense	(245,667)	-
Net nonoperating revenues	112,766	362,389
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS OUT	95,965	99,434
CAPITAL CONTRIBUTIONS	38,406	62,298
TRANSFER TO TOWN	(180,000)	(180,000)
CHANGE IN NET POSITION	(45,629)	(18,268)
NET POSITION - BEGINNING	22,515,796	22,534,064
NET POSITION - ENDING	\$ 22,470,167	\$ 22,515,796

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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 15,476,208	\$ 13,849,335
Payments to power suppliers	(9,104,647)	(8,802,584)
Payments to employees	(1,896,779)	(1,821,159)
Payments for other operations	(1,268,450)	(2,116,326)
Net cash provided by operating activities	<u>3,206,332</u>	<u>1,109,266</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Town	(180,000)	(180,000)
Net cash used in noncapital financing activities	<u>(180,000)</u>	<u>(180,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(3,339,634)	(3,361,109)
Proceeds from notes payable	12,000,000	-
Payments on notes payable	(360,000)	-
Interest expense	(245,667)	-
Capital contributions	38,406	62,298
Proceeds from disposition of capital assets	40,133	24,732
Net cash provided by (used in) capital and related financing activities	<u>8,133,238</u>	<u>(3,274,079)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment income	318,300	337,657
(Increase) decrease in investment - Note payable escrow	(6,100,734)	-
(Increase) decrease in investment - MLDM Reserve Trust	61,824	852,212
(Increase) decrease in investment - Depreciation fund	(423,904)	(78,708)
Net cash provided by (used in) investing activities	<u>(6,144,514)</u>	<u>1,111,161</u>
NET INCREASE (DECREASE) IN CASH	5,015,056	(1,233,652)
CASH - BEGINNING OF YEAR	3,804,732	5,038,384
CASH - END OF YEAR	<u>\$ 8,819,788</u>	<u>\$ 3,804,732</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, 2021 AND 2020

	2021	2020
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (loss)	\$ (16,801)	\$ (262,955)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,242,624	1,149,344
Provision for uncollectible accounts	-	-
Cumulative change in accounting principle (as restated)	-	-
Changes in assets and liabilities:		
Purchased power advances	11,777	(17,786)
Accounts receivable	407,725	(215,852)
Inventory	(194,429)	(190,460)
Prepaid expenses and other assets	982,402	(23,833)
Preliminary survey and investigation charges	-	(1,500)
Pension and OPEB related deferrals	281,056	60,629
Accounts payable	(25,102)	(210,978)
Customer deposits	(14,500)	24,450
Accrued liabilities	(141,628)	(22,173)
Other noncurrent liabilities	-	(150,000)
Net pension liability	(451,278)	286,741
Accrued compensated absences	25,018	79,382
Net other post-employment benefits	193,219	(67,303)
Rate stabilization Reserve	906,249	671,560
Net cash provided by operating activities	\$ 3,206,332	\$ 1,109,266

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)	\$ 1,614,660	\$ 737,268
Cash - customer deposits	471,309	485,809
Cash - operation fund	6,733,819	2,581,656
CASH - END OF YEAR	\$ 8,819,788	\$ 3,804,733

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, 2021 AND 2020**

ASSETS

	2021	2020
RESTRICTED ASSETS		
OPEB Liability Trust	\$ 1,124,711	\$ 994,443
TOTAL ASSETS	\$ 1,124,711	\$ 994,443

NET POSITION

NET POSITION		
Restricted for OPEB	\$ 1,124,711	\$ 994,443
TOTAL NET POSITION	\$ 1,124,711	\$ 994,443

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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ADDITIONS		
Employer contributions	\$ 65,193	\$ 51,401
Interest and investment income	130,268	117,524
Total Additions	<u>195,461</u>	<u>168,925</u>
DEDUCTIONS		
Benefit payments	65,193	51,401
Total Deductions	<u>65,193</u>	<u>51,401</u>
CHANGE IN NET POSITION	130,268	117,524
TOTAL NET POSITION - BEGINNING	994,443	876,919
TOTAL NET POSITION - ENDING	<u>\$ 1,124,711</u>	<u>\$ 994,443</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, 2021 AND 2020

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 and telecommunication 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 (MLDM) 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, 2021 AND 2020

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.

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.

Note Payable Escrow Fund

The note payable escrow fund was established by the Department pursuant to a pooled loan agreement with MMWEC. Under the terms of that agreement, funds equivalent to the amount of unexpended loan proceeds and 10% of the annual debt service obligations are held and invested by MMWEC for the benefit of the Department.

Other Post-Employment Benefit (OPEB) 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.

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.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Accounts Payable

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

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.

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, 2021 AND 2020

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, net of discounts, rendered monthly and are not accrued for services delivered beyond such cycle billing dates. Discounts for the years ended December 31, 2021 and 2020 were \$416,831 and \$457,110, 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. 92, *Omnibus 2020*, GASB Statement No. 94, *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.

Comparative Data

Certain amounts in the prior year financial statements have been reclassified to conform to the current year financial statement presentation. The reclassifications had no effect on the reported net position or change in net position.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021 consisted of the following:

	<u>Cash</u>	<u>Investments</u>	<u>Statement Balance</u>
PROPRIETARY FUND			
Unrestricted			
Cash - operation fund	\$ 6,733,819	\$ -	\$ 6,733,819
MLDM Reserve Trust	184,393	7,775,731	7,960,124
Restricted			
Depreciation fund	1,614,660	5,952,089	7,566,749
Cash - customer deposits	471,309	-	471,309
Note Payable Escrow Fund	134,384	5,966,350	6,100,734
Purchased power advances	691,824	394,972	1,086,796
FIDUCIARY FUND			
OPEB Liability Trust	11,565	1,113,146	1,124,711
TOTAL	<u>\$ 9,841,954</u>	<u>\$ 21,202,288</u>	<u>\$ 31,044,242</u>

The investment balances at December 31, 2021 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Gain (Loss)</u>
PROPRIETARY FUND			
U.S Treasury Securities	\$ 6,729,752	\$ 6,695,540	\$ (34,212)
U.S Agency Securities - Implicitly Guaranteed	7,168,601	7,125,858	(42,743)
Municipal Bonds	2,789,990	2,485,312	(304,678)
Corporate Bonds	2,147,970	2,181,324	33,354
Common Stock	1,148,673	1,492,344	343,671
Certificates of Deposit - Negotiable	106,604	108,764	2,160
FIDUCIARY FUND			
Mutual Funds - Bond Types	495,209	499,881	4,672
Mutual Funds - Equity Types	409,006	613,265	204,259
TOTAL	<u>\$ 20,995,805</u>	<u>\$ 21,202,288</u>	<u>\$ 206,483</u>

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

2. CASH and INVESTMENTS (CONTINUED)

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, 2021 AND 2020

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, 2021 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
PROPRIETARY FUND				
U.S Treasury Securities	\$ 6,695,540	\$ -	\$ -	\$ 6,695,540
U.S Agency Securities - Implicitly Guaranteed	-	7,125,858	-	7,125,858
Municipal Bonds	-	2,485,312	-	2,485,312
Corporate Bonds	-	2,181,324	-	2,181,324
Common Stock	1,492,344	-	-	1,492,344
Certificates of Deposit	-	108,764	-	108,764
FIDUCIARY FUND				
Mutual Funds - Bond Types	499,881	-	-	499,881
Mutual Funds - Equity Types	613,265	-	-	613,265
Total	<u>\$ 9,301,030</u>	<u>\$ 11,901,258</u>	<u>\$ -</u>	<u>\$ 21,202,288</u>

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

2. CASH and INVESTMENTS (CONTINUED)

Fair Value (Continued)

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	<u>\$ 4,511,300</u>	<u>\$ 10,160,576</u>	<u>\$ -</u>	<u>\$ 14,671,876</u>

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, 2021 and 2020, 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, 2021 AND 2020

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, 2021 were as follows:

	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
U.S Treasury Securities	\$ 6,695,540	\$ 833,613	\$ 5,451,430	\$ 410,497	\$ -
U.S Agency Securities - Implicitly Guaranteed	7,125,858	1,659,480	4,909,791	556,587	-
Municipal Bonds	2,485,312	770,457	756,674	958,181	-
Corporate Bonds	2,181,324	501,090	1,680,234	-	-
Certificates of Deposit	108,764	108,764	-	-	-
Total	\$ 18,596,798	\$ 3,873,404	\$ 12,798,129	\$ 1,925,265	\$ -

Maturities of the Department's investments in U.S. Securities, Bonds, and Certificates of Deposit at December 31, 2020 were as follows:

	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
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	\$ -

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, 2021 AND 2020

2. CASH and INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The Department's investments at December 31, 2021 and 2020 were rated as follows:

	2021			2020		
	Fair Value	Moody's Rating	S&P Rating	Fair Value	Moody's Rating	S&P Rating
U.S Agency Securities -						
Implicitly Guaranteed	\$ 7,125,858	Aaa	AAA to AA+	\$ 5,121,932	Aaa	AA+
Municipal Bonds	2,485,312	Aa1 to A2	AAA to A+	2,234,456	Aa3	AA-
Mutual Funds -						
Bond Types	499,881	NR	NR	397,770	NR	NR
Corporate Bonds	2,181,324	Aaa to Baa2	AAA to BBB	2,694,223	A1 to Baa	AA- to BBB
Certificates of Deposit	108,764	NR	NR	109,965	NR	NR
Total	\$ 12,401,139			\$ 10,558,346		

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, 2021 include the U.S. Treasury (32%), Federal Home Loan Bank (7%), Federal Farm Credit Bank (19%), and Federal Home Loan Mortgage Corporation (5%).

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%).

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

3. CAPITAL ASSETS

Capital asset activity as of and for the year ended December 31, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
CAPITAL ASSETS BEING DEPRECIATED				
Distribution plant	\$ 31,389,844	\$ 1,128,080	\$ (88,835)	\$ 32,429,089
General plant	10,030,850	2,211,555		12,242,405
Totals	41,420,694	3,339,635	(88,835)	44,671,494
Less accumulated depreciattion	(33,940,673)	(1,242,624)	88,835	(35,094,462)
Total Capital Assets Being Depreciated - Net	<u>7,480,021</u>	<u>2,097,011</u>	<u>-</u>	<u>9,577,032</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	503,349	-		503,349
Construction in progress	-	-		-
Total Capital Assets Not Being Depreciated	<u>503,349</u>	<u>-</u>	<u>-</u>	<u>503,349</u>
CAPITAL ASSETS - NET	<u>\$ 7,983,370</u>	<u>\$ 2,097,011</u>	<u>\$ -</u>	<u>\$ 10,080,381</u>

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	2,358,905		10,030,850
Totals	38,311,460	3,231,375	(122,141)	41,420,694
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>7,480,021</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>\$ 7,983,370</u>

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021 AND 2020

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 contributions to the System for the years ended December 31, 2021 and 2020 were \$673,557 and \$588,470, respectively, which were equal to its annual required contributions.

Actuarial Methods and Assumptions

The Department's net pension liability at December 31, 2021 was measured as of December 31, 2020 as determined by an actuarial valuation dated January 1, 2020. 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 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 2021 and 2020 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, 2021 AND 2020

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% for 2021 and 2020.

The target allocation and best estimate of real rates of return for each major asset class for 2021 and 2020 is summarized in the following table:

Asset Class	2021		2020	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Cash	2.00%	-0.60%	2.00%	-0.60%
Large Cap Equities	15.50%	5.00%	15.50%	5.00%
Small/Mid Cap Equities	4.50%	5.20%	4.50%	5.20%
International Equities (Unhedged)	16.50%	5.20%	16.50%	5.20%
International Equities (Hedged)	0.00%	5.34%	0.00%	5.34%
Emerging International Equities	6.00%	7.10%	6.00%	7.10%
Core Bonds	20.00%	0.20%	20.00%	2.00%
High-Yield Bonds	3.00%	3.40%	3.00%	3.40%
Bank Loans	3.00%	2.70%	3.00%	2.70%
Global Bonds (Unhedged)	0.00%	0.00%	0.00%	0.00%
EDM (Local Currency)	6.00%	3.20%	6.00%	3.20%
Private Equity	10.00%	8.80%	10.00%	8.80%
Private Debt	1.50%	5.40%	1.50%	5.40%
Real Estate	12.00%	3.30%	12.00%	3.30%
Hedged Funds	0.00%	3.88%	0.00%	3.88%
Global Asset Allocation	0.00%	4.17%	0.00%	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, 2021 AND 2020

4. RETIREMENT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for 2021 and 2020. 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, 2021 and 2020:

	2021	2020
Proportionate share of net pension liability for the most recent measurement rate	\$ 4,325,890	\$ 4,777,168
Proportion of net pension liability for the most recent measurement date	2.4299%	2.3916%

The Department's proportionate share was determined based on covered payrolls. The period used to amortize the change in proportionate share was 7.12 years in 2021 and 2020.

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, 2021 and 2020, calculated using a discount rate of 7.15% for 2021 and 2020, as well as what it would be if it were calculated using a one percent lower and one percent higher rate:

	2021		2020	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.15%	\$ 6,425,052	6.15%	\$ 6,323,834
Current Rate	7.15%	\$ 4,325,890	7.15%	\$ 4,777,168
1% Increase	8.15%	\$ 3,526,823	8.15%	\$ 3,471,262

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

4. RETIREMENT PLAN (CONTINUED)

Net Pension Liability

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

	2021	2020
Total Pension Liability		
Service cost	\$ 346,547	\$ 317,663
Interest	967,524	929,980
Differences between expected and actual experience		(158,333)
Changes in assumptions		490,018
Benefit payments, including refunds	(784,378)	(762,112)
	529,693	817,216
Net Change in Total Liability		
Total Pension Liability - Beginning of Year	13,577,451	12,546,341
	\$ 14,107,144	\$ 13,363,557
Plan Fiduciary Net Position		
Contributions - employer	\$ 673,557	\$ 558,470
Contributions - employees	209,760	199,338
Other additions	-	-
Net investment income	979,890	1,220,087
Benefit payments	(784,378)	(762,112)
Administrative expenses	(21,396)	(20,161)
	1,057,433	1,195,622
Net Change in Fiduciary Net Position		
Plan Fiduciary Net Position - Beginning of Year	8,723,821	7,390,767
	\$ 9,781,254	\$ 8,586,389
Net Pension Liability		
Beginning of year - based on prior year proportions	\$ 4,777,168	\$ 4,490,427
Change in proportionate share	76,462	665,147
	4,853,630	5,155,574
Beginning of year - based on current year proportions		
Net Pension Liability - End of Year	\$ 4,325,890	\$ 4,777,168

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

4. RETIREMENT PLAN (CONTINUED)

Pension Expense, Deferred Outflows and Deferred Inflows

For the years ended December 31, 2021 and 2020, the Department recognized pension expense of \$634,514 and \$877,852, respectively.

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

	2021	2020
DEFERRED OUTFLOWS		
Contributions subsequent to the measurement date	\$ 358,609	\$ 314,948
Changes in assumptions	359,918	488,113
Changes in proportionate share	676,650	838,523
Difference between expected and actual earnings on pension plan investments	274,333	412,357
Total Deferred Outflows	\$ 1,669,510	\$ 2,053,941
DEFERRED INFLOWS		
Differences between expected and actual experience rate	\$ (117,319)	\$ (157,020)
Changes in assumptions	(43,440)	(82,929)
Difference between expected and actual earnings on pension plan investments	(814,099)	(719,337)
Total Deferred Inflows	\$ (974,858)	\$ (959,286)

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

2022	\$ 387,632
2023	106,562
2024	(55,895)
2025	72,194
2026	149,979
Thereafter	34,180
Total	\$ 694,652

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021, the most recent actuarial valuation date, approximately 21 retirees and 22 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, 2021, and 2020, 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 40% 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 years ended December 31, 2021 and 2020, the annual money-weighted rate of return on investments, net of investment expense, was 13.10% and 13.40%, 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, 2021 was measured as of December 31, 2021, as determined by an actuarial study dated January 1, 2021. 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 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, 2021 AND 2020

5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

The measurement of the total OPEB liability for 2021 and 2020 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. The forgoing table was set forward one year for females and for disabled members in 2021 and for disabled members in 2020. 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 2021 and 2020 were 5.18% and 5.72%, respectively.

The target allocation and best estimate of arithmetic real rates of return for each major asset classes for 2021 and 2020 are summarized in the following table:

<u>Asset Class</u>	<u>2021</u>		<u>2020</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	1.00%	0.00%	2.00%	0.00%
Domestic Equity - Large Cap	39.00%	4.42%	43.00%	4.90%
Domestic Equity - Small/Mid Cap	8.25%	4.81%	7.50%	5.40%
International Equities - Developed Markets	7.25%	4.91%	7.50%	5.32%
International Equities - Emerging Markets	0.00%	5.58%	0.00%	6.26%
Domestic Fixed Income	35.00%	1.00%	40.00%	1.40%
International Fixed Income	9.50%	1.04%	0.00%	1.30%
Real Estate	0.00%	6.25%	0.00%	6.25%
Alternatives	0.00%	5.98%	0.00%	6.32%
Totals	<u>100.00%</u>		<u>100.00%</u>	

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Discount Rate

The discount rate used to measure the total OPEB liability was 5.25% in 2021 and 5.75% in 2020. 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, 2021 and 2020, calculated using a discount rate of 5.25% and 5.75%, respectively as well as what it would be if it were calculated using a one percent lower and one percent higher rate.

	2021		2020	
	Discount Rate	Net OPEB Liability	Discount Rate	Net OPEB Liability
1% Decrease	4.25%	\$ 1,057,495	4.75%	\$ 792,720
Current Rate	5.25%	\$ 808,584	5.75%	\$ 615,365
1% Increase	6.25%	\$ 604,181	6.75%	\$ 465,760

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, 2021 and 2020, 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.

	2021		2020	
	Healthcare Cost Trend Rate	Net OPEB Liability	Healthcare Cost Trend Rate	Net OPEB Liability
1% Decrease	3.50%	\$ 590,707	3.50%	\$ 453,123
Current Rate	4.50%	\$ 808,584	4.50%	\$ 615,365
1% Increase	5.50%	\$ 1,073,434	5.50%	\$ 808,460

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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:

	2021	2020
Total OPEB Liability		
Service cost	\$ 43,772	\$ 41,792
Interest	93,233	90,622
Differences between expected and actual experience	(49,487)	(30,795)
Changes in assumptions	301,162	-
Benefit payments, including refunds	(65,193)	(51,401)
	323,487	50,218
Net Change in Total Liability		
Total OPEB Liability - Beginning of Year	1,609,808	1,559,590
	\$ 1,933,295	\$ 1,609,808
Plan Fiduciary Net Position		
Employer contributions to the Trust	\$ 65,193	\$ 51,401
Benefit payments withdrawn from the Trust	(65,193)	(51,401)
Net investment income	130,268	117,524
Administrative expenses	-	-
	130,268	117,524
Net Change in Fiduciary Net Position		
Plan Fiduciary Net Position - Beginning of Year	994,443	876,919
	\$ 1,124,711	\$ 994,443
Net OPEB Liability - Beginning of Year	\$ 615,365	\$ 682,671
Net OPEB Liability - End of Year	\$ 808,584	\$ 615,365

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense, Deferred Outflows and Deferred Inflows

For the years ended December 31, 2021 and 2020, the Department recognized OPEB expense of \$88,100 and \$83,509, respectively.

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

	2021	2020
DEFERRED OUTFLOWS		
Changes in assumptions	\$ 299,308	\$ 92,347
Difference between expected and actual experience	53,304	79,956
Difference between projected and actual earnings on OPEB plan investments	15,327	30,653
Total Deferred Outflows	\$ 367,939	\$ 202,956
DEFERRED INFLOWS		
Difference between expected and actual experience	\$ (58,067)	\$ (42,123)
Difference between projected and actual earnings on OPEB plan investments	(145,879)	(115,787)
Total Deferred Inflows	\$ (203,946)	\$ (157,910)

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

2022	\$ 69,793
2023	45,329
2024	14,619
2025	34,252
Thereafter	-
Total	\$ 163,993

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

6. NOTES PAYABLE

Notes payable at December 31, 2021 and 2020 consisted of the following:

	2021	2020
Note payable to MMWEC, secured by the revenues of the Department. Payable in monthly installments of \$40,000 plus interest at 2.75% for the first 10 years and at the FHLB amortizing rate plus 2.5% multiplied by a tax-exempt factor of 68.86% for the next 10 years, matures March 2041.	\$ 11,640,000	\$ -
Less: current portion	(480,000)	-
Long-term notes payable	\$ 11,160,000	\$ -

Future principal and interest payments on long-term notes payable are as follows:

Years Ending	Principal	Interest	Total
2022	\$ 480,000	\$ 324,546	\$ 804,546
2023	480,000	311,163	791,163
2024	480,000	298,595	778,595
2025	480,000	284,396	764,396
2026	480,000	271,013	751,013
2007-2031	2,400,000	1,154,982	3,554,982
2032-2036	2,400,000	820,628	3,220,628
2037-2041	4,440,000	432,678	4,872,678
Total	\$ 11,640,000	\$ 3,898,001	\$ 15,538,001

Interest maturities calculated based on interest rate in effect at December 31, 2021.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

7. 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 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.

The Light Department is also a participant in MMWEC Project 2015A, a capacity reliability resource in Peabody, Massachusetts. Project 2015A is under construction as of December 31, 2021.

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 are being funded through monthly Project billings, as needed. 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.

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.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Massachusetts Municipal Wholesale Electric Company (Continued)

Total capital expenditures and annual capacity, fuel, and transmission costs (which include debt service, operations and maintenance, and decommissioning expenses as discussed above), and the amount of required debt service payments (if applicable) under the PSAs, associated with the Department's Project Capability of the Projects in which it participates for the years ended December 31, 2021 and 2020 are as follows:

<u>Projects</u>	<u>Share</u>	<u>Capital Expenditures 2021</u>	<u>Annual Capacity, Fuel and Transmission Costs</u>	
			<u>2021</u>	<u>2020</u>
Nuclear Project No. 3 - Millstone	18.01%	\$ 27,288,254	\$ 2,384,233	\$ 2,144,374
Nuclear Project No. 4 - Seabrook	7.40%	22,495,392	847,811	926,792
Nuclear Project No. 5 - Seabrook	1.88%	1,544,064	55,328	60,333
Project 2015A - Capacity Resource	10.91%	3,444,224	-	-
		<u>\$ 54,771,934</u>	<u>\$ 3,287,372</u>	<u>\$ 3,131,499</u>

<u>Years Ending</u>	<u>Debt Service Project 2015A</u>
2022	\$ 321,577
2023	321,577
2024	467,312
2025	466,490
2026	465,995
2027-2031	2,324,754
2032-2036	2,321,068
2037-2041	2,319,223
2042-2046	2,312,111
2047-2051	2,305,291
<u>TOTAL</u>	<u>\$ 13,625,398</u>

Coronavirus

The COVID-19 outbreak in the United States has caused significant business disruption. While this disruption is expected to be temporary, there is considerable uncertainty surrounding the duration, timing, and overall impact of this situation. Management continues to monitor the overall impact on the Department's business operations. Any related financial impact to the department cannot be reasonably estimated at this time.

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2024.

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 2021, 2020, and 2019.

9. RELATED PARTY TRANSACTIONS

The Department provides electric and telecommunications service to the Town. Total sales to the Town for the years ended December 31, 2021 and 2020 were \$745,203 and \$632,101, respectively. Amounts due from the Town related to sales included in accounts receivable at December 31, 2021 and 2020 were \$2,399 and \$1,444, 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, 2021 and 2020 were \$39,921 and \$50,752, respectively.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 23, 2022, 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, 2021 AND 2020

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:

	2021	2020	2019	2018	2017	2016	2015
Proportion of net pension liability for the most recent measurement date	2.4299%	2.3916%	2.0822%	2.0416%	2.3129%	1.8110%	1.5959%
Proportionate share of net pension liability for the most recent measurement rate	\$ 4,325,890	\$ 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	\$ 2,131,511	\$ 2,043,090	\$ 1,753,088	\$ 1,546,557	\$ 1,457,146	\$ 1,465,393	\$ 1,274,741
Proportionate share of net pension liability (asset) as a percentage of covered payroll	202.95%	233.82%	256.14%	241.94%	278.54%	256.66%	233.51%
Plan fiduciary net position as a percentage of the total pension liability	69.34%	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:

	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 784,378	\$ 558,770	\$ 463,027	\$ 429,738	\$ 363,635	\$ 337,338	\$ 278,338
Contribution in relation to the actuarially determined contribution	784,378	558,770	463,027	429,738	363,635	337,338	278,338
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 2,131,511	\$ 2,043,090	\$ 1,753,088	\$ 1,546,557	\$ 1,457,146	\$ 1,465,393	\$ 1,274,741
Contribution as a percentage of covered employee payroll	36.80%	27.35%	26.41%	27.79%	24.96%	23.02%	21.83%

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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:

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total OPEB Liability						
Service cost	\$ 43,772	\$ 41,792	\$ 40,166	\$ 34,695	\$ 30,944	\$ 30,942
Interest	93,233	90,622	72,368	68,019	67,503	71,255
Differences between expected and actual experience	(49,487)	(30,795)	133,260	-	(120,349)	-
Changes in assumptions	301,162	-	122,045	47,800	-	-
Benefit payments, including refunds	(65,193)	(51,401)	(52,567)	(61,941)	(58,106)	(45,495)
Net Change in Total Liability	323,487	50,218	315,272	88,573	(80,008)	56,702
Total OPEB Liability - Beginning of Year	1,609,808	1,559,590	1,244,318	1,155,745	1,235,753	1,179,051
Total OPEB Liability - End of Year	<u>\$ 1,933,295</u>	<u>\$ 1,609,808</u>	<u>\$ 1,559,590</u>	<u>\$ 1,244,318</u>	<u>\$ 1,155,745</u>	<u>\$ 1,235,753</u>
Plan Fiduciary Net Position						
Employer contributions to the Trust	\$ 65,193	\$ 51,401	\$ 52,567	\$ 61,941	\$ 58,106	\$ 45,495
Benefit payments withdrawn from the Trust	(65,193)	(51,401)	(52,567)	(61,941)	(58,106)	(45,495)
Net investment income	130,268	117,524	143,406	(31,929)	99,231	50,403
Administrative expenses	-	-	-	-	-	-
Net Change in Fiduciary Net Position	130,268	117,524	143,406	(31,929)	99,231	50,403
Plan Fiduciary Net Position - Beginning of Year	994,443	876,919	733,513	765,442	666,211	615,808
Plan Fiduciary Net Position - End of Year	<u>\$ 1,124,711</u>	<u>\$ 994,443</u>	<u>\$ 876,919</u>	<u>\$ 733,513</u>	<u>\$ 765,442</u>	<u>\$ 666,211</u>
Net OPEB Liability - Beginning of Year	<u>\$ 615,365</u>	<u>\$ 682,671</u>	<u>\$ 510,805</u>	<u>\$ 390,303</u>	<u>\$ 569,542</u>	<u>\$ 563,243</u>
Net OPEB Liability - End of Year	<u>\$ 808,584</u>	<u>\$ 615,365</u>	<u>\$ 682,671</u>	<u>\$ 510,805</u>	<u>\$ 390,303</u>	<u>\$ 569,542</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	58.18%	61.77%	56.23%	58.95%	66.23%	53.91%
Covered Employee Payroll	\$ 2,310,478	\$ 2,131,511	\$ 2,043,090	\$ 1,753,088	\$ 1,546,557	\$ 1,457,146
Net OPEB Liability as a Percentage of Covered Employee Payroll	35.00%	28.87%	33.41%	29.14%	25.24%	39.09%
Annual Money Weighted Rate of Return on OPEB Plan Investments	13.10%	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, 2021 AND 2020

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 2021 valuation, the discount rate was changed from 5.75% to 5.25% and the long-term expected rate of return was changed from 5.72% to 5.18%. 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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 80,006	\$ 71,081	\$ 85,817	\$ 70,956	\$ 61,730	\$ 45,495
Contribution in relation to the actuarially determined contribution	65,193	51,401	52,567	61,941	58,106	45,495
Contribution deficiency (excess)	<u>\$ 14,813</u>	<u>\$ 19,680</u>	<u>\$ 33,250</u>	<u>\$ 9,015</u>	<u>\$ 3,624</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,310,478	\$ 2,131,511	\$ 2,043,090	\$ 1,753,088	\$ 1,546,557	\$ 1,457,146
Contribution as a percentage of covered employee payroll	2.82%	2.41%	2.57%	3.53%	3.76%	3.12%

SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
OTHER INFORMATION (Unaudited)
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING EXPENSES		
Cost of Power Sold		
Purchased power	\$ 6,069,176	\$ 5,986,929
Transmission expense	2,812,664	2,423,847
Supplies and expense	239,814	248,928
Total Cost of Power Sold	<u>9,121,654</u>	<u>8,659,704</u>
Distribution Expense		
Salaries and wages	658,822	668,591
Supplies and expense	665,419	384,043
Total Distribution Expense	<u>1,324,241</u>	<u>1,052,634</u>
Customer Accounts Expense		
Salaries and wages	336,426	331,464
Supplies and expense	97,311	370,389
Total Customer Accounts Expense	<u>433,737</u>	<u>701,853</u>
General and Administrative Expense		
Salaries and wages	926,549	900,486
Supplies and expense	853,224	673,538
Pension and benefits	843,491	952,102
Insurance	130,756	111,659
Legal and consulting	209,008	126,822
Total General and Administrative Expense	<u>2,963,028</u>	<u>2,764,607</u>
Depreciation Expense		
Distribution and general plant	1,242,624	1,149,344
TOTAL OPERATING EXPENSES	<u>\$ 15,085,284</u>	<u>\$ 14,328,142</u>

See Independent Auditors' Report.