



# 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, 2023 AND 2022**

**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT**  
**FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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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 statement of net position as of December 31, 2023 and 2022, 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 statement of net position as of December 31, 2023 and 2022, and the related fiduciary fund statement 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, 2023 and 2022, 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, 2023 and 2022, and the changes in the Town's financial position or its cash flows for the years 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 years ended December 31, 2023 and 2022, 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.

*Maquet Brothers Kalicka, P.C.*

Holyoke, Massachusetts  
June 27, 2024

## SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

#### AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021

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, 2023, 2022 and 2021. 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"), and 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, 200 miles of overhead and underground lines, 4,190 poles, 975 transformers, 1,900 streetlights, 200 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, 2023, 2022 and 2021.

CONDENSED COMBINED STATEMENT OF NET POSITION			
	2023	2022	2021
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
Current	\$ 17,526,393	\$ 16,274,433	\$ 16,183,567
Restricted	9,817,533	12,511,829	16,350,299
Non-current	490,786	490,786	490,786
Capital - Net	15,490,716	12,005,655	10,080,381
Deferred Outflows	3,860,339	2,291,623	2,037,449
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 47,185,767</b>	<b>\$ 43,574,326</b>	<b>\$ 45,142,482</b>
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>			
Current	\$ 2,427,289	\$ 2,380,760	\$ 2,191,194
Long-Term	16,761,926	15,133,301	16,448,807
Deferred Inflows	2,671,777	1,894,819	2,907,603
Net Position			
Net Investment in Capital Assets	5,153,688	4,093,391	4,541,115
Restricted	9,087,952	8,886,984	9,778,256
Unrestricted	11,083,135	11,185,071	9,275,507
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>	<b>\$ 47,185,767</b>	<b>\$ 43,574,326</b>	<b>\$ 45,142,482</b>

# SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021**

### 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, 2023, 2022 and 2021.

CONDENSED COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
	2023	2022	2021
<b>OPERATING REVENUES</b>	\$ 19,516,780	\$ 19,011,917	\$ 15,068,483
<b>OPERATING EXPENSES</b>			
Cost of Power Sold	9,957,765	10,623,478	9,121,654
Distribution Expense	1,477,975	1,406,726	1,324,241
Customer Accounts Expense	678,150	676,463	433,737
General and Administrative Expense	5,322,237	3,161,848	2,963,028
Depreciation Expense	1,415,424	1,340,145	1,242,624
<b>TOTAL OPERATING EXPENSES</b>	<b>18,851,551</b>	<b>17,208,660</b>	<b>15,085,284</b>
<b>OPERATING INCOME (LOSS)</b>	<b>665,229</b>	<b>1,803,257</b>	<b>(16,801)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	<b>608,051</b>	<b>(1,152,134)</b>	<b>243,034</b>
<b>OTHER FINANCING SOURCES (USES)</b>	<b>(113,951)</b>	<b>(80,555)</b>	<b>(141,594)</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 1,159,329</b>	<b>\$ 570,568</b>	<b>\$ 84,639</b>

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, 2023, 2022 AND 2021**

#### 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, 2023, 2022 and 2021.

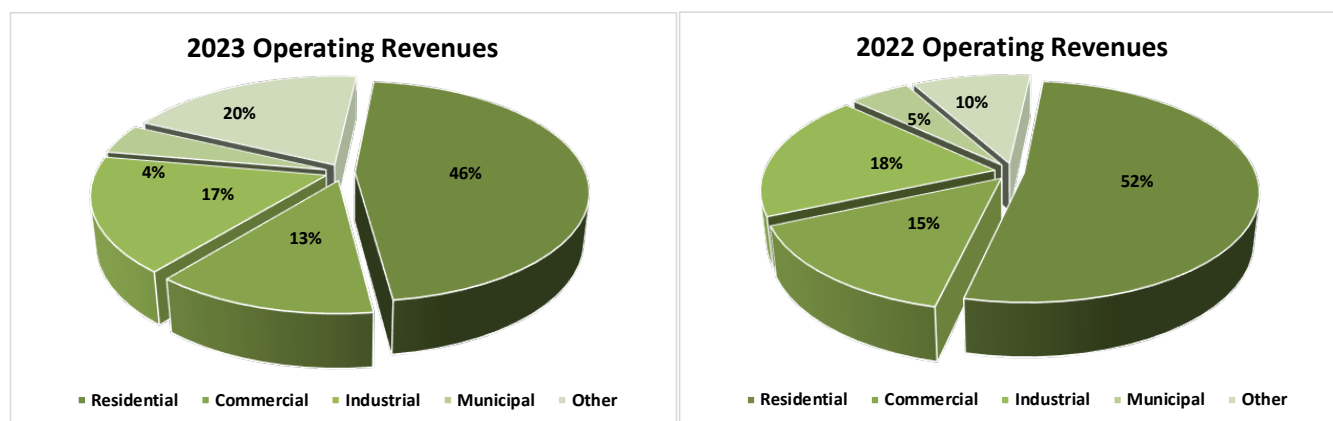
CONDENSED COMBINED STATEMENT OF CASH FLOWS			
	2023	2022	2021
<b>CASH FLOW PROVIDED BY (USED IN):</b>			
Operating Activities	\$ 3,450,222	\$ 732,640	\$ 3,206,331
Financing Activities	(5,737,859)	(4,125,225)	7,953,238
Investing Activities	2,698,891	3,134,115	(6,144,514)
<b>NET INCREASE (DECREASE) IN CASH</b>	411,254	(258,470)	5,015,055
<b>CASH - BEGINNING</b>	8,561,318	8,819,788	3,804,733
<b>CASH - ENDING</b>	<u>\$ 8,972,572</u>	<u>\$ 8,561,318</u>	<u>\$ 8,819,788</u>

#### Financial Highlights and Analysis

Sales of electricity for 2023 of \$16,372,920 decreased by \$851,041 or 4.94% from the prior year. kWh sales for 2023 of 107,740,426 decreased by 3,673,757, or 3.30% from the prior year. The decrease in revenues was primarily due to a decrease in power costs and unrealized investment income passed on to our customers and the overall decrease in kWh sold.

Other operating revenues for 2023 of \$3,143,860, which consists of equipment rentals, pole attachment fees, and telecommunication income increased by \$1,355,904 from the prior year.

The following provides a comparative distribution of operating revenues for the years ended December 31, 2023 and 2022.





**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

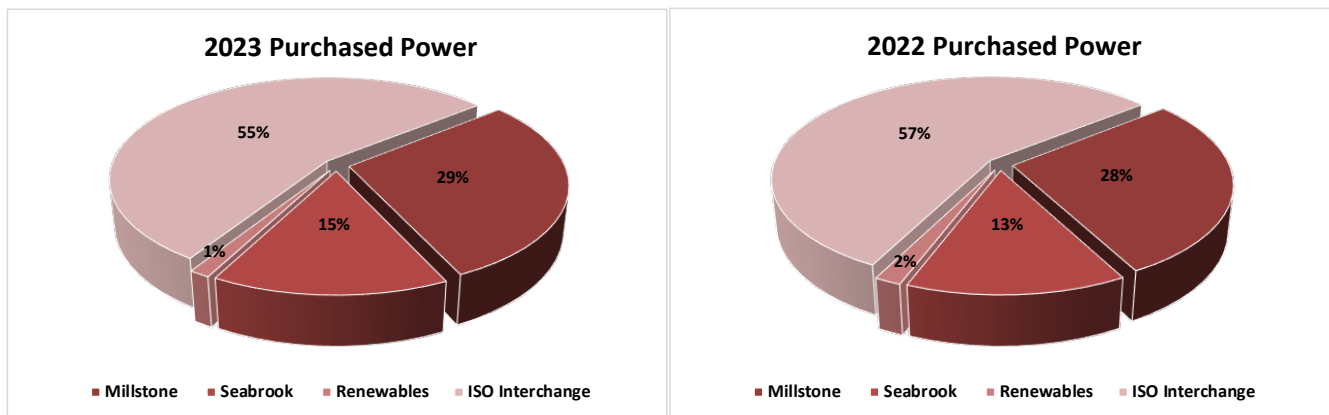
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021**

**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 2023 of \$9,957,765, decreased by \$665,713, or 6.27% from the prior year. kWh purchases for 2023 of 109,682,011 decreased by 5,302,450 or 4.61% 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, 2023 and 2022.



Other operating expenses for 2023, excluding depreciation, of \$7,478,342 increased by \$2,233,305, or 42.58% 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, increased by \$1,726,789 from the prior year.

Current assets, which consist of cash, the MLDM Reserve Trust, accounts receivable, inventory, and prepaid and other assets, increased by \$1,251,960 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 \$46,529 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, 2023, 2022 AND 2021**

#### **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, decreased by \$2,694,296 from the prior year. The decrease was primarily due to the use of 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, increased by \$1,568,716 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 \$1,628,625 from the prior year. The increase was primarily due an increase in pension liability.

Deferred inflows, which consist of pension and OPEB related cost reductions and a rate stabilization reserve applicable to future reporting periods, increased by \$776,958 over the prior year.

Net capital assets increased by \$3,485,061 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, 2023, 2022 and 2021.

<b>SUMMARY OF CAPITAL ASSETS</b>			
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>CAPITAL ASSETS</b>			
Distribution Plant	\$ 34,853,807	\$ 33,219,180	\$ 32,429,089
General Plant	16,379,125	13,961,636	12,242,405
Land	503,349	503,349	503,349
<b>TOTAL</b>	<b>51,736,281</b>	<b>47,684,165</b>	<b>45,174,843</b>
<b>ACCUMULATED DEPRECIATION</b>	<b>36,245,565</b>	<b>35,678,510</b>	<b>35,094,462</b>
<b>CAPITAL ASSETS - NET</b>	<b>\$ 15,490,716</b>	<b>\$ 12,005,655</b>	<b>\$ 10,080,381</b>

The Department realized an overall increase in net position of \$1,159,329 and \$570,568 in 2023 and 2022, 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, 2023, 2022 AND 2021**

**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, 2023 AND 2022**

**ASSETS AND DEFERRED OUTFLOWS**

	<b>2023</b>	<b>2022</b>
<b>CURRENT ASSETS</b>		
Cash - operation fund	\$ 7,756,575	\$ 6,803,111
MLDM Reserve Trust	7,824,152	7,457,019
Accounts receivable - net of allowance for uncollectible accounts of \$406,696 in 2023 and \$367,953 in 2022	544,912	489,303
Inventory	1,280,383	1,405,867
Prepaid expenses and other assets	120,371	119,133
<b>Total Current Assets</b>	<b>17,526,393</b>	<b>16,274,433</b>
<b>RESTRICTED ASSETS</b>		
Depreciation fund	6,879,294	6,858,766
Cash - customer deposits	386,609	377,109
Notes payable escrow fund	342,972	3,247,736
Purchased power advances	1,122,465	1,059,981
<b>Total Restricted Assets</b>	<b>8,731,340</b>	<b>11,543,592</b>
<b>NON-CURRENT ASSETS</b>		
Preliminary survey and investigation charges	490,786	490,786
<b>CAPITAL ASSETS</b>		
Distribution plant	34,853,807	33,219,180
General plant	16,379,125	13,961,636
Land	503,349	503,349
<b>Total</b>	<b>51,736,281</b>	<b>47,684,165</b>
Less: accumulated depreciation	36,245,565	35,678,510
<b>Capital Assets - Net</b>	<b>15,490,716</b>	<b>12,005,655</b>
<b>DEFERRED OUTFLOWS</b>		
Pension and OPEB related deferrals	3,860,339	2,291,623
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 46,099,574</b>	<b>\$ 42,606,089</b>

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, 2023 AND 2022****LIABILITIES, DEFERRED INFLOWS, AND NET POSITION**

	<b>2023</b>	<b>2022</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,348,841	\$ 1,305,418
Current portion of notes payable	480,000	480,000
Current portion of accrued compensated absences	192,287	201,785
Customer deposits	386,609	377,109
Accrued liabilities	19,552	16,448
<b>Total Current Liabilities</b>	<b>2,427,289</b>	<b>2,380,760</b>
<b>LONG-TERM LIABILITIES</b>		
Notes payable	10,200,000	10,680,000
Net pension liability	5,488,551	3,197,824
Accrued compensated absences	181,415	178,985
Net other post-employment benefits	891,960	1,076,492
<b>Total Long-Term Liabilities</b>	<b>16,761,926</b>	<b>15,133,301</b>
<b>TOTAL LIABILITIES</b>	<b>19,189,215</b>	<b>17,514,061</b>
<b>DEFERRED INFLOWS</b>		
Pension and OPEB related deferrals	1,313,537	1,676,598
Rate stabilization reserve	1,358,240	218,221
<b>Total Deferred Inflows</b>	<b>2,671,777</b>	<b>1,894,819</b>
<b>NET POSITION</b>		
Net investment in capital assets	5,153,688	4,093,391
Restricted	8,001,759	7,918,747
Unrestricted	11,083,135	11,185,071
<b>Total Net Position</b>	<b>24,238,582</b>	<b>23,197,209</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 46,099,574</b>	<b>\$ 42,606,089</b>

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 POSTION**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>OPERATING REVENUES</b>		
Residential	\$ 9,033,394	\$ 9,879,246
Commercial	2,521,417	2,800,301
Industrial	3,297,087	3,537,202
Municipal	854,795	940,195
Other	3,810,087	1,854,973
<b>Total Operating Revenues</b>	<b>19,516,780</b>	<b>19,011,917</b>
<b>OPERATING EXPENSES</b>		
Cost of power sold	9,957,765	10,623,478
Distribution expense	1,477,975	1,406,726
Customer accounts expense	678,150	676,463
General and administrative expense	5,322,217	3,161,848
Depreciation expense	1,415,444	1,340,145
<b>Total Operating Expenses</b>	<b>18,851,551</b>	<b>17,208,660</b>
<b>OPERATING INCOME (LOSS)</b>	<b>665,229</b>	<b>1,803,257</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and investment income (loss)	733,498	(696,409)
Gain (Loss) on disposition of capital assets	67,760	25,295
Interest expense	(311,163)	(324,546)
<b>Net nonoperating revenues (expenses)</b>	<b>490,095</b>	<b>(995,660)</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS OUT</b>	<b>1,155,324</b>	<b>807,597</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>66,049</b>	<b>99,445</b>
<b>TRANSFER TO TOWN</b>	<b>(180,000)</b>	<b>(180,000)</b>
<b>CHANGE IN NET POSITION</b>	<b>1,041,373</b>	<b>727,042</b>
<b>NET POSITION - BEGINNING</b>	<b>23,197,209</b>	<b>22,470,167</b>
<b>NET POSITION - ENDING</b>	<b>\$ 24,238,582</b>	<b>\$ 23,197,209</b>

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, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 19,461,171	\$ 18,650,714
Payments to power suppliers	(10,108,119)	(10,421,061)
Payments to employees	(2,534,784)	(2,230,264)
Payments for other operations	(3,368,046)	(5,266,749)
<b>Net cash provided by operating activities</b>	<u>3,450,222</u>	<u>732,640</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfer to Town	(180,000)	(180,000)
<b>Net cash used in noncapital financing activities</b>	<u>(180,000)</u>	<u>(180,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(4,900,505)	(3,265,419)
Payments on notes payable	(480,000)	(480,000)
Interest expense	(311,163)	(324,546)
Capital contributions	66,049	99,445
Proceeds from disposition of capital assets	67,760	25,295
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(5,557,859)</u>	<u>(3,945,225)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and investment income (loss)	733,498	(696,409)
(Increase) decrease in investment - Note payable escrow	2,904,764	2,852,998
(Increase) decrease in investment - MLDM Reserve Trust	(367,133)	503,105
(Increase) decrease in investment - Depreciation fund	(572,238)	474,421
<b>Net cash provided by (used in) investing activities</b>	<u>2,698,891</u>	<u>3,134,115</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	411,254	(258,470)
<b>CASH - BEGINNING OF YEAR</b>	8,561,318	8,819,788
<b>CASH - END OF YEAR</b>	<u>\$ 8,972,572</u>	<u>\$ 8,561,318</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, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 665,229	\$ 1,803,257
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,415,444	1,340,145
Changes in assets and liabilities:		
Purchased power advances	(62,484)	26,815
Accounts receivable	(55,609)	(361,203)
Inventory	125,484	(95,867)
Prepaid expenses and other assets	(1,238)	(67,609)
Pension and OPEB related deferrals	(1,931,777)	243,620
Accounts payable	43,423	255,526
Customer deposits	9,500	(94,200)
Accrued liabilities	3,104	6,567
Net pension liability	2,290,727	(1,128,066)
Accrued compensated absences	(7,068)	46,325
Net other post-employment benefits	(184,532)	267,908
Rate stabilization reserve	1,140,019	(1,510,578)
<b>Net cash provided by operating activities</b>	<u><u>\$ 3,450,222</u></u>	<u><u>\$ 732,640</u></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)	\$ 829,388	\$ 1,381,098
Cash - customer deposits	386,609	377,109
Cash - operation fund	7,756,575	6,803,111
<b>CASH - END OF YEAR</b>	<u><u>\$ 8,972,572</u></u>	<u><u>\$ 8,561,318</u></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, 2023 AND 2022**

**ASSETS**

	<u><b>2023</b></u>	<u><b>2022</b></u>
<b>RESTRICTED ASSETS</b>		
OPEB Liability Trust	\$ 1,086,193	\$ 968,237
<b>TOTAL ASSETS</b>	<u><u>\$ 1,086,193</u></u>	<u><u>\$ 968,237</u></u>

**NET POSITION**

<b>NET POSITION</b>		
Restricted for OPEB	\$ 1,086,193	\$ 968,237
<b>TOTAL NET POSITION</b>	<u><u>\$ 1,086,193</u></u>	<u><u>\$ 968,237</u></u>

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, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<b>ADDITIONS</b>		
Employer contributions	\$ 59,840	\$ 59,256
Interest and investment income (loss)	117,956	(156,474)
<b>Total Additions</b>	<u>177,796</u>	<u>(97,218)</u>
<b>DEDUCTIONS</b>		
Benefit payments	59,840	59,256
<b>Total Deductions</b>	<u>59,840</u>	<u>59,256</u>
<b>CHANGE IN NET POSITION</b>	117,956	(156,474)
<b>TOTAL NET POSITION - BEGINNING</b>	<u>968,237</u>	<u>1,124,711</u>
<b>TOTAL NET POSITION - ENDING</b>	<u><u>\$ 1,086,193</u></u>	<u><u>\$ 968,237</u></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, 2023 AND 2022**

### **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 and telecommunications 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, 2023 AND 2022**

#### **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, 2023 AND 2022**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Deferred Outflow of Resources**

The deferred outflow of resources, which consists 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.

##### **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, 2023 AND 2022**

#### **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 and telecommunication services. 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, 2023 and 2022 were \$390,128 and \$410,189, 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. 99, *Omnibus 2022*, GASB Statement 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement 62*, GASB Statement 101, *Compensated Absences*, and GASB Statement 102, *Certain Risk Disclosures*. When these statements (or portions thereof) 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, 2023 AND 2022**

### 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, 2023 consisted of the following:

	<u>Cash</u>	<u>Investments</u>	<u>Statement Balance</u>
<b>PROPRIETARY FUND</b>			
<b>Unrestricted</b>			
Cash - operation fund	\$ 7,756,575	\$ -	\$ 7,756,575
MLDM Reserve Trust	207,507	7,616,645	7,824,152
<b>Restricted</b>			
Depreciation fund	829,388	6,049,906	6,879,294
Cash - customer deposits	386,609	-	386,609
Note Payable Escrow Fund	149,273	193,699	342,972
Purchased power advances	751,998	370,467	1,122,465
<b>FIDUCIARY FUND</b>			
OPEB Liability Trust	11,859	1,074,334	1,086,193
<b>TOTAL</b>	<u>\$ 10,093,209</u>	<u>\$ 15,305,051</u>	<u>\$ 25,398,260</u>

The investment balances at December 31, 2023 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
<b>PROPRIETARY FUND</b>			
U.S Treasury Securities	\$ 2,548,765	\$ 2,508,123	\$ (40,642)
U.S Agency Securities - Implicitly Guaranteed	6,756,316	6,555,276	(201,040)
Municipal Bonds	1,261,327	1,150,037	(111,290)
Mutual Funds - Bond Types	46,770	41,191	(5,579)
Corporate Bonds	2,686,396	2,683,766	(2,630)
Common Stock	1,074,284	1,292,324	218,040
<b>FIDUCIARY FUND</b>			
U.S Agency Securities - Implicitly Guaranteed	423,502	423,621	119
Corporate Bonds	49,925	50,046	121
Mutual Funds - Bond Types	54,605	49,705	(4,900)
Mutual Funds - Equity Types	396,544	550,962	154,418
<b>TOTAL</b>	<u>\$ 15,298,434</u>	<u>\$ 15,305,051</u>	<u>\$ 6,617</u>



# SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

### 2. CASH and INVESTMENTS (CONTINUED)

The cash and investment balances at December 31, 2022 consisted of the following:

	<u>Cash</u>	<u>Investments</u>	<u>Statement Balance</u>
<b>PROPRIETARY FUND</b>			
<b>Unrestricted</b>			
Cash - operation fund	\$ 6,803,111	\$ -	\$ 6,803,111
MLDM Reserve Trust	384,851	7,072,168	7,457,019
<b>Restricted</b>			
Depreciation fund	1,381,098	5,477,668	6,858,766
Cash - customer deposits	377,109	-	377,109
Note Payable Escrow Fund	125,539	3,122,197	3,247,736
Purchased power advances	508,028	551,953	1,059,981
<b>FIDUCIARY FUND</b>			
OPEB Liability Trust	15,521	952,716	968,237
<b>TOTAL</b>	<u>\$ 9,595,257</u>	<u>\$ 17,176,702</u>	<u>\$ 26,771,959</u>

The investment balances at December 31, 2022 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
<b>PROPRIETARY FUND</b>			
U.S Treasury Securities	\$ 6,482,559	\$ 6,264,857	\$ (217,702)
U.S Agency Securities - Implicitly Guaranteed	5,872,043	5,472,154	(399,889)
Municipal Bonds	1,567,140	1,382,054	(185,086)
Corporate Bonds	1,780,399	1,691,138	(89,261)
Common Stock	1,128,912	1,413,783	284,871
<b>FIDUCIARY FUND</b>			
Mutual Funds - Bond Types	504,797	429,164	(75,633)
Mutual Funds - Equity Types	417,767	523,552	105,785
<b>TOTAL</b>	<u>\$ 17,753,617</u>	<u>\$ 17,176,702</u>	<u>\$ (576,915)</u>

# SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

### 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, 2023 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>PROPRIETARY FUND</b>				
U.S Treasury Securities	\$ 2,508,123	\$ -	\$ -	\$ 2,508,123
U.S Agency Securities -				
Implicitly Guaranteed	-	6,555,276	-	6,555,276
Municipal Bonds	-	1,150,037	-	1,150,037
Mutual Funds - Bond Types	41,191	-	-	41,191
Corporate Bonds	-	2,683,766	-	2,683,766
Common Stock	1,292,324	-	-	1,292,324
<b>FIDUCIARY FUND</b>				
U.S Agency Securities -				
Implicitly Guaranteed	-	423,621	-	423,621
Corporate Bonds	-	50,046	-	50,046
Mutual Funds - Bond Types	49,705	-	-	49,705
Mutual Funds - Equity Types	550,962	-	-	550,962
<b>Total</b>	<u>\$ 4,442,305</u>	<u>\$ 10,862,746</u>	<u>\$ -</u>	<u>\$ 15,305,051</u>

# SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

### 2. CASH and INVESTMENTS (CONTINUED)

#### Fair Value (Continued)

The Department's recurring fair value measurements as of December 31, 2022 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>PROPRIETARY FUND</b>				
U.S Treasury Securities	\$ 6,264,857	\$ -	\$ -	\$ 6,264,857
U.S Agency Securities -				
Implicitly Guaranteed	-	5,472,154	-	5,472,154
Municipal Bonds	-	1,382,054	-	1,382,054
Corporate Bonds	-	1,691,138	-	1,691,138
Common Stock	1,413,783	-	-	1,413,783
<b>FIDUCIARY FUND</b>				
Mutual Funds - Bond Types	429,164	-	-	429,164
Mutual Funds - Equity Types	523,552	-	-	523,552
<b>Total</b>	<u>\$ 8,631,356</u>	<u>\$ 8,545,346</u>	<u>\$ -</u>	<u>\$ 17,176,702</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, 2023 and 2022, has not been determined. The Department has not experienced any loss on such accounts 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, 2023 AND 2022**

### 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 and Municipal and Corporate Bonds at December 31, 2023 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	\$ 2,508,123	\$ 842,262	\$ 1,665,861	\$ -	\$ -
U.S Agency Securities - Implicitly Guaranteed	6,978,897	2,455,831	4,423,616	99,450	-
Municipal Bonds	1,150,037	99,397	680,598	370,042	-
Corporate Bonds	2,733,812	195,911	1,982,660	555,241	-
Total	<u>\$ 13,370,869</u>	<u>\$ 3,593,401</u>	<u>\$ 8,752,735</u>	<u>\$ 1,024,733</u>	<u>\$ -</u>

Maturities of the Department's investments in U.S. Securities and Municipal and Corporate Bonds at December 31, 2022 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	\$ 6,264,857	\$ 3,790,494	\$ 2,474,363	\$ -	\$ -
U.S Agency Securities - Implicitly Guaranteed	5,472,154	1,217,701	3,914,648	339,805	-
Municipal Bonds	1,382,054	365,784	522,947	493,323	-
Corporate Bonds	1,691,138	235,213	1,455,925	-	-
Total	<u>\$ 14,810,203</u>	<u>\$ 5,609,192</u>	<u>\$ 8,367,883</u>	<u>\$ 833,128</u>	<u>\$ -</u>

#### 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, 2023 AND 2022

### 2. CASH and INVESTMENTS (CONTINUED)

#### Credit Risk (Continued)

The Department's investments at December 31, 2023 and 2022 were rated as follows:

	2023			2022		
	Fair Value	Moody's Rating	S&P Rating	Fair Value	Moody's Rating	S&P Rating
U.S Agency Securities - Implicitly Guaranteed	\$ 6,978,897	Aaa	AA+	\$ 5,472,154	Aaa	AA+
Municipal Bonds	1,150,037	Aa1 to A2	AAA to A+	1,382,054	Aa1 to A2	AAA to A+
Mutual Funds - Bond Types	90,896	NR	NR	429,164	NR	NR
Corporate Bonds	2,733,812	Aaa to Baa2	AAA to BBB	1,691,138	A1 to Baa2	A+ to BBB
Total	<u>\$ 10,953,642</u>			<u>\$ 8,974,510</u>		

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, 2023 include the U.S. Treasury (16%), Federal Home Loan Bank (25%), and Federal Home Loan Mortgage Corporation (16%).

Investments in any one issuer that represent greater than 5% of total investments at December 31, 2022 include the U.S. Treasury (36%), Federal Home Loan Bank (18%), Federal Home Loan Mortgage Corporation (6%), and Federal National Mortgage Association (5%).

# SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

### 3. CAPITAL ASSETS

Capital asset activity as of and for the year ended December 31, 2023 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>CAPITAL ASSETS BEING DEPRECIATED</b>				
Distribution plant	\$ 33,219,180	\$ 2,406,514	\$ (771,887)	\$ 34,853,807
General plant	13,961,636	2,493,991	(76,502)	16,379,125
Totals	47,180,816	4,900,505	(848,389)	51,232,932
Less accumulated depreciation	(35,678,510)	(1,415,444)	848,389	(36,245,565)
<b>Total Capital Assets Being Depreciated - Net</b>	<b>11,502,306</b>	<b>3,485,061</b>	<b>-</b>	<b>14,987,367</b>
<b>CAPITAL ASSETS NOT BEING DEPRECIATED</b>				
Land	503,349	-	-	503,349
<b>Total Capital Assets Not Being Depreciated</b>	<b>503,349</b>	<b>-</b>	<b>-</b>	<b>503,349</b>
<b>CAPITAL ASSETS - NET</b>	<b>\$ 12,005,655</b>	<b>\$ 3,485,061</b>	<b>\$ -</b>	<b>\$ 15,490,716</b>

Capital asset activity as of and for the year ended December 31, 2022 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>CAPITAL ASSETS BEING DEPRECIATED</b>				
Distribution plant	\$ 32,429,089	\$ 1,546,188	\$ (756,097)	\$ 33,219,180
General plant	12,242,405	1,719,231	-	13,961,636
Totals	44,671,494	3,265,419	(756,097)	47,180,816
Less accumulated depreciation	(35,094,462)	(1,340,145)	756,097	(35,678,510)
<b>Total Capital Assets Being Depreciated - Net</b>	<b>9,577,032</b>	<b>1,925,274</b>	<b>-</b>	<b>11,502,306</b>
<b>CAPITAL ASSETS NOT BEING DEPRECIATED</b>				
Land	503,349	-	-	503,349
<b>Total Capital Assets Not Being Depreciated</b>	<b>503,349</b>	<b>-</b>	<b>-</b>	<b>503,349</b>
<b>CAPITAL ASSETS - NET</b>	<b>\$ 10,080,381</b>	<b>\$ 1,925,274</b>	<b>\$ -</b>	<b>\$ 12,005,655</b>

## **SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT**

### **NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

#### **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, 2022, the most recent actuarial valuation date, approximately 22 retirees and 25 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, 2023 AND 2022**

#### **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, 2023 and 2022 were \$850,787 and \$742,462, respectively, which were equal to its annual required contributions.

##### **Actuarial Methods and Assumptions**

The Department's net pension liability at December 31, 2023 was measured as of December 31, 2022 as determined by an actuarial valuation dated January 1, 2022. The Department's net pension liability at December 31, 2022 was measured as of December 31, 2021 as determined by an actuarial valuation dated January 1, 2022. 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 2023 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 2.40% per year, salary increases of 4.25% - 4.75% per year, and no post-retirement cost of living adjustment. The mortality assumptions were based on the RP-2014 Blue Collar table projected generationally with Scale MP-2020, for non-disabled members. The forgoing table was set forward one year for disabled members.

The measurement of the net pension liability for 2022 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 2.40% per year, salary increases of 4.25% - 4.75% per year, and no post-retirement cost of living adjustment. The mortality assumptions were based on the RP-2014 Blue Collar table projected generationally with Scale MP-2020, for non-disabled members. The forgoing table was set forward one year for disabled members.



# SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

### 4. RETIREMENT PLAN (CONTINUED)

#### **Actuarial Methods and Assumptions (Continued)**

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.

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 6.90% for 2023 and 7.15% for 2022.

The target allocation and best estimate of real rates of return for each major asset class for 2023 and 2022 is summarized in the following table:

Asset Class	2023		2022	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Cash	2.00%	0.00%	2.00%	0.00%
Domestic Equity	22.00%	4.50%	22.00%	3.90%
International Equities - Developed Markets	11.00%	4.30%	11.00%	4.00%
International Equities - Emerging Markets	6.00%	7.00%	6.00%	6.30%
Core Bonds	11.00%	2.10%	11.00%	0.70%
Private Equity	18.00%	7.60%	18.00%	7.70%
Value Added Fixed Income - Public	12.00%	5.20%	12.00%	4.00%
Real Estate	18.00%	3.10%	18.00%	3.60%
<b>Totals</b>	<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, 2023 AND 2022**

### 4. RETIREMENT PLAN (CONTINUED)

#### **Discount Rate**

The discount rate used to measure the total pension liability was 6.90% for 2023 and 2022. 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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Proportionate share of net pension liability for the most recent measurement rate	\$ 5,488,551	\$ 3,197,824
Proportion of net pension liability for the most recent measurement date	2.7406%	2.5530%

The Department's proportionate share was determined based on covered payrolls. The period used to amortize the change in proportionate share was 7.08 years in 2023 and 2022.

#### **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, 2023 and 2022, calculated using a current discount rate of 6.90% for 2023 and 2022, as well as what it would be if it were calculated using a one percent lower and one percent higher rate:

	<u>2023</u>		<u>2022</u>	
	<u>Discount Rate</u>	<u>Net Pension Liability</u>	<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% Decrease	5.90%	\$ 7,419,340	5.90%	\$ 5,098,436
Current Rate	6.90%	\$ 5,488,551	6.90%	\$ 3,197,824
1% Increase	7.90%	\$ 3,783,455	7.90%	\$ 1,803,641

# SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

### 4. RETIREMENT PLAN (CONTINUED)

#### Net Pension Liability

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

	<u>2023</u>	<u>2022</u>
<b>Total Pension Liability</b>		
Service cost	\$ 436,404	\$ 376,842
Interest	1,143,173	1,054,908
Change in benefit terms	-	(346,246)
Differences between expected and actual experience		58,037
Changes in assumptions	115,745	288,209
Benefit payments, including refunds	(970,685)	(889,015)
Net Change in Total Liability	<u>724,637</u>	<u>542,735</u>
Total Pension Liability - Beginning of Year	<u>16,469,058</u>	<u>14,821,628</u>
<b>Total Pension Liability - End of Year</b>	<u><u>\$ 17,193,695</u></u>	<u><u>\$ 15,364,363</u></u>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 850,787	\$ 742,462
Contributions - employees	254,932	224,370
Net investment income	(1,436,128)	1,831,816
Benefit payments	(970,685)	(889,015)
Administrative expenses	(21,488)	(19,738)
Net Change in Fiduciary Net Position	<u>(1,322,582)</u>	<u>1,889,895</u>
Plan Fiduciary Net Position - Beginning of Year	<u>13,027,726</u>	<u>10,276,644</u>
<b>Plan Fiduciary Net Position - End of Year</b>	<u><u>\$ 11,705,144</u></u>	<u><u>\$ 12,166,539</u></u>
<b>Net Pension Liability</b>		
Beginning of year - based on prior year proportions	\$ 3,197,824	\$ 4,325,890
Change in proportionate share	243,508	219,094
Beginning of year - based on current year proportions	<u>3,441,332</u>	<u>4,544,984</u>
<b>Net Pension Liability - End of Year</b>	<u><u>\$ 5,488,551</u></u>	<u><u>\$ 3,197,824</u></u>

# SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

### 4. RETIREMENT PLAN (CONTINUED)

#### **Pension Expense, Deferred Outflows and Deferred Inflows**

For the years ended December 31, 2023 and 2022, the Department recognized pension expense of \$942,819 and \$(5,028), respectively.

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

	<u>2023</u>	<u>2022</u>
<b>DEFERRED OUTFLOWS</b>		
Contributions subsequent to the measurement date	\$ 466,934	\$ 383,853
Differences between expected and actual experience rate	41,643	122,909
Changes in assumptions	523,978	533,346
Changes in proportionate share	704,493	662,355
Difference between expected and actual earnings on pension plan investments	1,847,371	137,166
<b>Total Deferred Outflows</b>	<u>\$ 3,584,419</u>	<u>\$ 1,839,629</u>
<b>DEFERRED INFLOWS</b>		
Differences between expected and actual experience rate	(69,381)	(91,790)
Changes in assumptions	-	(3,951)
Difference between expected and actual earnings on pension plan investments	(973,791)	(1,411,348)
<b>Total Deferred Inflows</b>	<u>\$ (1,043,172)</u>	<u>\$ (1,507,089)</u>

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

2024	\$ 774,248
2025	435,403
2026	513,187
2027	625,326
2028	131,879
Thereafter	61,204
<b>Total</b>	<u>\$ 2,541,247</u>

## **SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT**

### **NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

#### **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, 2023, the most recent actuarial valuation date, approximately 20 retirees and 25 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, 2023 and 2022, 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, 2023 and 2022, the annual money-weighted rate of return on investments, net of investment expense, was 12.18% and 13.91%, 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, 2023 was measured as of December 31, 2023, as determined by an actuarial study dated January 1, 2023. The Department's net OPEB liability at December 31, 2022 was measured as of December 31, 2022, as determined by an actuarial study dated January 1, 2021. 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, 2023 AND 2022

### 5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

#### Actuarial Methods and Assumptions (Continued)

The measurement of the total OPEB liability for 2023 and 2022 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 Mortality Table for Blue Collar Employees projected generationally using scale MP-2016. The forgoing table was set forward one year for post-retirement and disabled members. The healthcare cost trend assumptions are based on trend rates that approximate 4.50% in 2023 and 4.25% in 2022.

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 2023 and 2022 were 5.98% and 5.00%, respectively.

The target allocation and best estimate of arithmetic real rates of return for each major asset classes for 2023 and 2022 are summarized in the following table:

Asset Class	2023		2022	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Cash	1.00%	0.00%	1.50%	0.00%
Domestic Equity - Large Cap	28.75%	4.91%	38.75%	4.10%
Domestic Equity - Small/Mid Cap	12.25%	5.29%	8.25%	4.55%
International Equities - Developed Markets	5.00%	5.32%	7.00%	4.64%
International Equities - Emerging Markets	4.75%	6.13%	0.00%	5.45%
Domestic Fixed Income	48.25%	2.30%	35.00%	1.05%
International Fixed Income	0.00%	2.02%	9.50%	0.96%
Real Estate	0.00%	6.25%	0.00%	6.25%
Alternatives	0.00%	6.35%	0.00%	5.95%
<b>Totals</b>	<b>100.00%</b>		<b>100.00%</b>	

# SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

### 5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

#### Discount Rate

The discount rate used to measure the total OPEB liability was 5.97% in 2023 and 4.96% in 2022. 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, 2023 and 2022, calculated using a current discount rate of 5.97% and 4.96%, respectively as well as what it would be if it were calculated using a one percent lower and one percent higher rate.

	2023		2022	
	Discount Rate	Net OPEB Liability	Discount Rate	Net OPEB Liability
1% Decrease	4.97%	\$ 1,132,910	3.96%	\$ 1,345,759
Current Rate	5.97%	\$ 891,960	4.96%	\$ 1,076,492
1% Increase	6.97%	\$ 693,596	5.96%	\$ 855,814

#### 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, 2023 and 2022, calculated using a current healthcare cost trend rate, developed using the SOA Getzen Model of Long-Run Medical Cost Trends which approximate 4.50% and 4.25%, respectively as well as what it would be if it were calculated using a one percent lower and one percent higher rate.

	2023		2022	
	Healthcare Cost Trend Rate	Net OPEB Liability	Healthcare Cost Trend Rate	Net OPEB Liability
1% Decrease	3.50%	\$ 677,226	3.25%	\$ 838,655
Current Rate	4.50%	\$ 891,960	4.25%	\$ 1,076,492
1% Increase	5.50%	\$ 1,152,367	5.25%	\$ 1,366,520

# SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

### 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:

	<u>2023</u>	<u>2022</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 50,797	\$ 47,561
Interest	102,472	102,459
Differences between expected and actual experience	113,689	(39,937)
Changes in assumptions	(273,694)	60,607
Benefit payments, including refunds	(59,840)	(59,256)
	<u>(66,576)</u>	<u>111,434</u>
Net Change in Total Liability	(66,576)	111,434
Total OPEB Liability - Beginning of Year	2,044,729	1,933,295
<b>Total OPEB Liability - End of Year</b>	<u><u>\$ 1,978,153</u></u>	<u><u>\$ 2,044,729</u></u>
<b>Plan Fiduciary Net Position</b>		
Employer contributions to the Trust	\$ 59,840	\$ 59,256
Benefit payments withdrawn from the Trust	(59,840)	(59,256)
Net investment income (loss)	117,956	(156,474)
	<u>117,956</u>	<u>(156,474)</u>
Net Change in Fiduciary Net Position	117,956	(156,474)
Plan Fiduciary Net Position - Beginning of Year	968,237	1,124,711
<b>Plan Fiduciary Net Position - End of Year</b>	<u><u>\$ 1,086,193</u></u>	<u><u>\$ 968,237</u></u>
<b>Net OPEB Liability - Beginning of Year</b>	<u><u>\$ 1,076,492</u></u>	<u><u>\$ 808,584</u></u>
<b>Net OPEB Liability - End of Year</b>	<u><u>\$ 891,960</u></u>	<u><u>\$ 1,076,492</u></u>



# SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

### 5. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

#### **OPEB Expense, Deferred Outflows and Deferred Inflows**

For the years ended December 31, 2023 and 2022, the Department recognized OPEB expense of \$152,238 and \$208,672, respectively.

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

	<u>2023</u>	<u>2022</u>
<b>DEFERRED OUTFLOWS</b>		
Difference between expected and actual experience	\$ 91,571	\$ 26,652
Changes in assumptions	156,831	253,593
Difference between projected and actual earnings on OPEB plan investments	27,518	171,749
<b>Total Deferred Outflows</b>	<u>\$ 275,920</u>	<u>\$ 451,994</u>
<b>DEFERRED INFLOWS</b>		
Difference between expected and actual experience	\$ (49,918)	\$ (73,961)
Changes in assumptions	(220,447)	-
Difference between projected and actual earnings on OPEB plan investments	-	(95,548)
<b>Total Deferred Inflows</b>	<u>\$ (270,365)</u>	<u>\$ (169,509)</u>

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

2024	\$ 16,648
2025	36,281
2026	2,030
2027	(45,044)
2028	(4,360)
Thereafter	-
<b>Total</b>	<u>\$ 5,555</u>

## **SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT**

### **NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

#### **6. NOTES PAYABLE**

Notes payable at December 31, 2023 and 2022 consisted of the following:

	<b>2023</b>	<b>2022</b>
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.	\$ 10,680,000	\$ 11,160,000
Less: current portion	(480,000)	(480,000)
Long-term notes payable	<u>\$ 10,200,000</u>	<u>\$ 10,680,000</u>

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

<b>Years Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 480,000	298,595	\$ 778,595
2025	480,000	284,396	764,396
2026	480,000	271,013	751,013
2027	480,000	257,629	737,629
2028	480,000	244,915	724,915
2029-2033	2,400,000	1,021,002	3,421,002
2034-2038	2,400,000	686,272	3,086,272
2039-2041	3,480,000	198,325	3,678,325
<b>Total</b>	<u>\$ 10,680,000</u>	<u>\$ 3,262,147</u>	<u>\$ 13,942,147</u>

Interest maturities are calculated based on the interest rate in effect at December 31, 2023.

#### **7. RATE STABILIZATION RESERVE**

The Department established a rate stabilization reserve to mitigate the effects of timing inherent in the operation of rate adjustment charges / credits. The Department added \$1,140,019 to the reserve in 2023, which decreased recognized revenue, and utilized \$1,510,578 in 2022, which increased recognized revenue. An amount equal to the rate stabilization reserve balance, which was \$1,358,240 and \$218,221 at December 31, 2023 and 2022 respectively, is maintained in the Department's operation fund cash.

## **SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT**

### **NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

#### **8. 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, 2023.

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, 2023 AND 2022

### 8. 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, 2023 and 2022 are as follows:

Projects	Share	Total Capital Expenditures	Annual Capacity, Fuel and Transmission Costs	
		2023	2023	2022
Nuclear Project No. 3 - Millstone	18.01%	\$ 28,079,606	\$ 2,043,621	\$ 2,126,123
Nuclear Project No. 4 - Seabrook	7.40%	22,744,593	940,081	933,848
Nuclear Project No. 5 - Seabrook	1.88%	1,560,063	61,722	61,417
Project 2015A - Capacity Resource	10.91%	7,943,961	45,085	-
		<u>\$ 60,328,223</u>	<u>\$ 3,090,509</u>	<u>\$ 3,121,388</u>

Years Ending	Debt Service Project 2015A
2024	\$ 467,312
2025	466,490
2026	465,995
2027	465,893
2028	465,303
2029-2033	2,321,687
2034-2038	2,321,512
2039-2043	2,316,023
2044-2048	2,310,130
2049-2051	1,381,900
TOTAL	<u><u>\$ 12,982,245</u></u>

#### **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.

## **SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT**

### **NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

#### **9. 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, 2027.

#### **10. 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 2023, 2022, and 2021.

Pursuant to the Global Warnings Solutions Act, in 2020, the Commonwealth of Massachusetts established a 2050 statewide limit for greenhouse gas emissions of net zero. The Department continues to monitor changes in the legislation and the potential impact to operations.

#### **11. RELATED PARTY TRANSACTIONS**

The Department provides electric and telecommunications services to the Town. Total sales to the Town for the years ended December 31, 2023 and 2022 were \$780,431 and \$728,293, respectively. Amounts due from the Town related to sales included in accounts receivable at December 31, 2023 and 2022 were \$4,896 and \$0, 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, 2023 and 2022 were \$5,205 and \$57,456, respectively.

#### **12. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 27, 2024, 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, 2023 AND 2022**

**RETIREMENT PLAN**

**Schedule of Changes in Net Pension Liability and Related Ratios**

Changes in assumptions – As part of the January 1, 2022 valuation, the discount rate was changed from 7.15% to 6.90%.

**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:

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Proportion of net pension liability for the most recent measurement date	2.7406%	2.5530%	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	\$ 5,488,551	\$ 3,197,824	\$ 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	\$ 2,651,966	\$ 2,310,478	\$ 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	206.96%	138.41%	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	68.08%	79.19%	69.34%	64.25%	58.89%	63.15%	55.61%	55.29%	58.08%

**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT**  
**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**RETIREMENT PLAN (CONTINUED)**

**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>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 850,787	\$ 742,462	\$ 784,378	\$ 558,770	\$ 463,027	\$ 429,738	\$ 363,635	\$ 337,338	\$ 278,338
Contribution in relation to the actuarially determined contribution	850,787	742,462	784,378	558,770	463,027	429,738	363,635	337,338	278,338
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,651,966	\$ 2,310,478	\$ 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	32.08%	32.13%	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, 2023 AND 2022**

### 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:

	2023	2022	2021	2020	2019	2018	2017	2016
<b>Total OPEB Liability</b>								
Service cost	\$ 50,797	\$ 47,561	\$ 43,772	\$ 41,792	\$ 40,166	\$ 34,695	\$ 30,944	\$ 30,942
Interest	102,472	102,459	93,233	90,622	72,368	68,019	67,503	71,255
Differences between expected and actual experience	113,689	(39,937)	(49,487)	(30,795)	133,260	-	(120,349)	-
Changes in assumptions	(273,694)	60,607	301,162	-	122,045	47,800	-	-
Benefit payments, including refunds	(59,840)	(59,256)	(65,193)	(51,401)	(52,567)	(61,941)	(58,106)	(45,495)
Net Change in Total Liability	(66,576)	111,434	323,487	50,218	315,272	88,573	(80,008)	56,702
Total OPEB Liability - Beginning of Year	2,044,729	1,933,295	1,609,808	1,559,590	1,244,318	1,155,745	1,235,753	1,179,051
<b>Total OPEB Liability - End of Year</b>	<b>\$ 1,978,153</b>	<b>\$ 2,044,729</b>	<b>\$ 1,933,295</b>	<b>\$ 1,609,808</b>	<b>\$ 1,559,590</b>	<b>\$ 1,244,318</b>	<b>\$ 1,155,745</b>	<b>\$ 1,235,753</b>
<b>Plan Fiduciary Net Position</b>								
Employer contributions to the Trust	\$ 59,840	\$ 59,256	\$ 65,193	\$ 51,401	\$ 52,567	\$ 61,941	\$ 58,106	\$ 45,495
Benefit payments withdrawn from the Trust	(59,840)	(59,256)	(65,193)	(51,401)	(52,567)	(61,941)	(58,106)	(45,495)
Net investment income (loss)	117,956	(156,474)	130,268	117,524	143,406	(31,929)	99,231	50,403
Net Change in Fiduciary Net Position	117,956	(156,474)	130,268	117,524	143,406	(31,929)	99,231	50,403
Plan Fiduciary Net Position - Beginning of Year	968,237	1,124,711	994,443	876,919	733,513	765,442	666,211	615,808
<b>Plan Fiduciary Net Position - End of Year</b>	<b>\$ 1,086,193</b>	<b>\$ 968,237</b>	<b>\$ 1,124,711</b>	<b>\$ 994,443</b>	<b>\$ 876,919</b>	<b>\$ 733,513</b>	<b>\$ 765,442</b>	<b>\$ 666,211</b>
<b>Net OPEB Liability - Beginning of Year</b>	<b>\$ 1,076,492</b>	<b>\$ 808,584</b>	<b>\$ 615,365</b>	<b>\$ 682,671</b>	<b>\$ 510,805</b>	<b>\$ 390,303</b>	<b>\$ 569,542</b>	<b>\$ 563,243</b>
<b>Net OPEB Liability - End of Year</b>	<b>\$ 891,960</b>	<b>\$ 1,076,492</b>	<b>\$ 808,584</b>	<b>\$ 615,365</b>	<b>\$ 682,671</b>	<b>\$ 510,805</b>	<b>\$ 390,303</b>	<b>\$ 569,542</b>



**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT**  
**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)**

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	54.91%	47.35%	58.18%	61.77%	56.23%	58.95%	66.23%	53.91%
Covered Employee Payroll	\$ 2,951,331	\$ 2,651,966	\$ 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	30.22%	40.59%	35.00%	28.87%	33.41%	29.14%	25.24%	39.09%
Annual Money Weighted Rate of Return on OPEB Plan Investments	12.18%	13.91%	13.10%	13.40%	19.55%	-4.17%	14.89%	8.18%

Changes in assumptions – As part of the December 31, 2023 valuation, the discount rate was changed from 4.96% to 5.97% and the long-term expected rate of return was changed from 5.00% to 5.98%. As part of the December 31, 2022 valuation, the discount rate was changed from 5.25% to 4.96% and the long-term expected rate of return was changed from 5.18% to 5.00%.

**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>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 94,365	\$ 94,101	\$ 80,006	\$ 71,081	\$ 85,817	\$ 70,956	\$ 61,730	\$ 45,495
Contribution in relation to the actuarially determined contribution	59,840	59,256	65,193	51,401	52,567	61,941	58,106	45,495
Contribution deficiency (excess)	<u>\$ 34,525</u>	<u>\$ 34,845</u>	<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	\$ 2,951,331	\$ 2,651,966	\$ 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	2.03%	2.23%	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, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<b>OPERATING EXPENSES</b>		
<b>Cost of Power Sold</b>		
Purchased power	\$ 6,734,236	\$ 7,296,243
Transmission expense	2,777,236	2,992,138
Supplies and expense	446,293	335,097
<b>Total Cost of Power Sold</b>	<u>9,957,765</u>	<u>10,623,478</u>
<b>Distribution Expense</b>		
Salaries and wages	779,701	757,243
Supplies and expense	698,274	649,483
<b>Total Distribution Expense</b>	<u>1,477,975</u>	<u>1,406,726</u>
<b>Customer Accounts Expense</b>		
Salaries and wages	371,436	377,039
Supplies and expense	306,714	299,424
<b>Total Customer Accounts Expense</b>	<u>678,150</u>	<u>676,463</u>
<b>General and Administrative Expense</b>		
Salaries and wages	1,376,579	1,142,307
Supplies and expense	2,483,888	1,288,089
Pension and benefits	1,180,853	426,262
Insurance	180,630	160,831
Legal and consulting	100,267	144,359
<b>Total General and Administrative Expense</b>	<u>5,322,217</u>	<u>3,161,848</u>
<b>Depreciation Expense</b>		
Distribution and general plant	1,415,444	1,340,145
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$ 18,851,551</u></u>	<u><u>\$ 17,208,660</u></u>

See Independent Auditors' Report.