

TOWN OF CHESTER, MASSACHUSETTS

**Financial Statements and
Supplementary Information**

June 30, 2021

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Adelson & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

AUDIT | TAX | ADVISORY

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen of
TOWN OF CHESTER, MASSACHUSETTS

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Town of Chester, Massachusetts, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise a portion of the Town of Chester, Massachusetts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions

| <u>Opinion Unit</u> | <u>Type of Opinion</u> |
|---|------------------------|
| <i>Government-wide Financial Statements</i> | |
| Governmental Activities | Adverse |
| Business-type Activities | Adverse |
| <i>Fund Financial Statements</i> | |
| Governmental Funds | Unmodified |
| Fiduciary Funds | Unmodified |
| Aggregate Remaining Fund Information | Unmodified |

Basis for Adverse Opinion on the Financial Statements as a Whole

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental and business-type activities and has presented the Electric Light Fund (business-type activity – enterprise fund) on the modified accrual basis. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements and the reporting of the Electric Light Fund on the full accrual basis of accounting. The amounts that would be reported in government-wide financial statements for the Town of Chester, Massachusetts’ governmental and business-type activities have not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion on the Financial Statements as a Whole” paragraph, the financial statements referred to above do not present fairly the financial position of the Town of Chester, Massachusetts, as of June 30, 2021, or the changes in financial position or, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the fund financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund and the aggregate remaining fund information for the Town of Chester, Massachusetts, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows and the respective budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, the Schedule of Other Postemployment Benefits (OPEB) Liability and Related Ratios and Schedule of OPEB Contributions, and the Schedule of Proportionate Share of Net Pension Liability and Schedule of Pension Contributions 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 Schedule of Proportionate Share of Net Pension Liability and Schedule of Pension Contributions on page 27, 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.

Management has omitted the Management's Discussion and Analysis and the Schedule of Other Postemployment Benefits (OPEB) Liability and Related Ratios and Schedule of OPEB Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Adelson + Company PC

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March 21, 2022

TOWN OF CHESTER, MASSACHUSETTS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2021

| | <u>General Fund</u> | <u>Nonmajor Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|---------------------------|---|
| Assets | | | |
| Cash and cash equivalents | \$ 536,826 | \$ 269,294 | \$ 806,120 |
| Investments | 433,779 | 42,596 | 476,375 |
| Receivables | | | |
| Real estate taxes | 318,314 | - | 318,314 |
| Personal property taxes | 22,107 | - | 22,107 |
| Motor vehicle excise taxes | 69,706 | - | 69,706 |
| Tax liens and possessions | 180,751 | - | 180,751 |
| Due from Capital Projects Fund | 100,000 | - | 100,000 |
| User charge receivables | 25,504 | - | 25,504 |
| Total assets | <u>\$ 1,686,987</u> | <u>\$ 311,890</u> | <u>\$ 1,998,877</u> |
| Liabilities | | | |
| Warrants and other payables | \$ 104,939 | \$ 27,699 | \$ 132,638 |
| Due to General Fund | - | 100,000 | 100,000 |
| Total liabilities | <u>104,939</u> | <u>127,699</u> | <u>232,638</u> |
| Deferred inflows of resources | | | |
| Revenue not considered available | <u>616,382</u> | <u>-</u> | <u>616,382</u> |
| Fund balances | | | |
| Restricted | | | |
| General fund debt service | 27,548 | - | 27,548 |
| General fund deficits | (35,928) | - | (35,928) |
| Capital projects fund (deficit) | - | (98,691) | (98,691) |
| Special revenue funds | - | 233,107 | 233,107 |
| Trust funds | - | 49,775 | 49,775 |
| Committed | 65,689 | - | 65,689 |
| Assigned | 165,964 | - | 165,964 |
| Unassigned | 742,393 | - | 742,393 |
| Total fund balances | <u>965,666</u> | <u>184,191</u> | <u>1,149,857</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 1,686,987</u> | <u>\$ 311,890</u> | <u>\$ 1,998,877</u> |

See notes to financial statements.

TOWN OF CHESTER, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2021

| | General Fund | Nonmajor Funds | Total Governmental Funds |
|---|-------------------|-------------------|--------------------------------|
| Revenues | | | |
| Real estate taxes | \$ 2,659,799 | \$ - | \$ 2,659,799 |
| Personal property taxes | 90,599 | - | 90,599 |
| Motor vehicle excise taxes | 156,740 | - | 156,740 |
| Penalties and interest | 24,219 | - | 24,219 |
| Fines and forfeitures | 26,643 | - | 26,643 |
| Other taxes | 16,402 | - | 16,402 |
| Charges for services | 246,220 | 6,710 | 252,930 |
| Licenses and permits | 12,122 | - | 12,122 |
| Earnings on invested funds | 30,037 | - | 30,037 |
| Other revenues | 1,221 | 99,592 | 100,813 |
| Intergovernmental revenues | 300,325 | 294,622 | 594,947 |
| Total revenues | <u>3,564,327</u> | <u>400,924</u> | <u>3,965,251</u> |
| Expenditures | | | |
| General government | 378,155 | 137,511 | 515,666 |
| Public safety | 187,888 | 20,166 | 208,054 |
| Public works | 615,318 | 134,493 | 749,811 |
| Education | 1,764,850 | - | 1,764,850 |
| Health and human services | 111,305 | 1,654 | 112,959 |
| Culture and recreation | 46,660 | 449 | 47,109 |
| Employee benefits | 206,809 | - | 206,809 |
| Other insurance | 30,092 | - | 30,092 |
| Intergovernmental assessments | 2,951 | - | 2,951 |
| Debt service: | | | |
| Principal retirement | 57,121 | - | 57,121 |
| Interest and finance charges | 15,848 | - | 15,848 |
| Total expenditures | <u>3,416,997</u> | <u>294,273</u> | <u>3,711,270</u> |
| Excess (deficiency) of revenues over expenditures | <u>147,330</u> | <u>106,651</u> | <u>253,981</u> |
| Other financing sources (uses) | | | |
| Transfers in | 174,985 | - | 174,985 |
| Transfers out | <u>(174,985)</u> | <u>-</u> | <u>(174,985)</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | 147,330 | 106,651 | 253,981 |
| Fund balances, beginning | <u>818,336</u> | <u>77,540</u> | <u>895,876</u> |
| Fund balances, ending | <u>\$ 965,666</u> | <u>\$ 184,191</u> | <u>\$ 1,149,857</u> |

See notes to financial statements.

TOWN OF CHESTER, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS) - GENERAL FUND

For the Year Ended June 30, 2021

| | General Fund | | | |
|--|------------------|------------------|--------------------|----------------------------|
| | Budget | | Actual | Variance - |
| | Original | Final | Budgetary Basis | Favorable (Unfavorable) |
| Revenues | | | | |
| Real estate taxes | \$ 2,624,254 | \$ 2,624,254 | \$ 2,659,799 | \$ 35,545 |
| Personal property taxes | 97,731 | 97,731 | 90,599 | (7,132) |
| Motor vehicle excise taxes | 160,000 | 160,000 | 156,740 | (3,260) |
| Penalties and interest | 16,500 | 16,500 | 24,219 | 7,719 |
| Fines and forfeitures | 3,200 | 3,200 | 26,643 | 23,443 |
| Other taxes | 12,000 | 12,000 | 16,402 | 4,402 |
| Charges for services | 176,000 | 176,000 | 246,220 | 70,220 |
| Licenses and permits | 15,000 | 15,000 | 12,122 | (2,878) |
| Earnings on invested funds | 5,000 | 5,000 | 8,527 | 3,527 |
| Other revenues | 7,000 | 7,000 | 1,221 | (5,779) |
| Intergovernmental revenues | 318,938 | 318,938 | 300,325 | (18,613) |
| Total revenues | <u>3,435,623</u> | <u>3,435,623</u> | <u>3,542,817</u> | <u>107,194</u> |
| Expenditures | | | | |
| General government | 363,657 | 363,657 | 335,837 | 27,820 |
| Public safety | 192,248 | 192,248 | 188,242 | 4,006 |
| Public works | 624,621 | 624,621 | 634,917 | (10,296) |
| Education | 1,779,124 | 1,779,124 | 1,764,850 | 14,274 |
| Health and human services | 135,198 | 135,198 | 111,305 | 23,893 |
| Culture and Recreation | 46,839 | 46,839 | 45,532 | 1,307 |
| Employee benefits | 209,558 | 209,558 | 200,107 | 9,451 |
| Other insurance | 37,200 | 37,200 | 30,667 | 6,533 |
| Intergovernmental assessments | 2,951 | 2,951 | 2,951 | - |
| Debt service: | | | | |
| Principal retirement | 57,121 | 57,121 | 57,121 | - |
| Interest and finance charges | 16,848 | 16,848 | 15,848 | 1,000 |
| Total expenditures | <u>3,465,365</u> | <u>3,465,365</u> | <u>3,387,377</u> | <u>77,988</u> |
| Excess (deficiency) of revenues over expenditures | <u>(29,742)</u> | <u>(29,742)</u> | <u>155,440</u> | <u>185,182</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 62,201 | 62,201 | 62,201 | - |
| Transfers out | (112,784) | (112,784) | (112,784) | - |
| Revenue appropriations | 80,325 | 80,325 | 80,325 | - |
| Total other financing sources (uses) | <u>29,742</u> | <u>29,742</u> | <u>29,742</u> | <u>-</u> |
| Excess of revenues over expenditures and other financing sources | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 185,182</u> | <u>\$ 185,182</u> |

See notes to financial statements.

TOWN OF CHESTER, MASSACHUSETTS

STATEMENT OF NET POSITION

PROPRIETARY FUND

June 30, 2021

| | <u>Business-type Activity Enterprise Fund</u> | <u>Electric Light Fund</u> |
|--------------------------------------|---|--------------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,368,113 | |
| Accounts receivable | 149,045 | |
| Tax liens | 3,995 | |
| Other receivables | <u>18,779</u> | |
| Total assets | <u>1,539,932</u> | |
| Liabilities | | |
| Warrants and other payables | 5,027 | |
| Customer deposits | <u>11,250</u> | |
| Total liabilities | <u>16,277</u> | |
| Deferred inflows of resources | | |
| Revenue not considered available | <u>171,819</u> | |
| Net position | | |
| Unrestricted | <u>\$ 1,351,836</u> | |

See notes to financial statements.

TOWN OF CHESTER, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION

PROPRIETARY FUND

For the Year Ended June 30, 2021

| | <u>Business-type Activity Enterprise Fund</u> | <u>Electric Light Fund</u> |
|-----------------------------|---|--------------------------------|
| Operating revenues | | |
| Charges for services | \$ 1,257,027 | |
| Operating expenses | | |
| Payroll and benefits | | 303,066 |
| Operating expenses | | <u>945,231</u> |
| Total operating expenses | | <u>1,248,297</u> |
| Operating income (loss) | | 8,730 |
| Nonoperating revenue | | |
| Interest income | | <u>1,854</u> |
| Change in net position | | 10,584 |
| Net position, beginning | | <u>1,341,252</u> |
| Net position, ending | | <u>\$ 1,351,836</u> |

See notes to financial statements.

TOWN OF CHESTER, MASSACHUSETTS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended June 30, 2021

| | <u>Business-type Activity Enterprise Fund</u> | <u>Electric Light Fund</u> |
|--|---|--------------------------------|
| Cash flows from operating activities | | |
| Receipts from customers | \$ 1,255,477 | |
| Payments to suppliers | (936,111) | |
| Payments to employees | (303,066) | |
| Net cash provided (used) by operating activities | <u>16,300</u> | |
| Cash flows from investing activities | | |
| Interest income | | <u>1,854</u> |
| Net cash provided (used) by investing activities | | <u>1,854</u> |
| Increase in cash and cash equivalents | | 18,154 |
| Cash and cash equivalents, beginning | | <u>1,349,959</u> |
| Cash and cash equivalents, ending | | <u>\$ 1,368,113</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | | |
| Operating income (loss) | \$ 8,730 | |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | | 1,982 |
| Increase (decrease) in operating liabilities: | | |
| Warrants and other payables | | 5,027 |
| Customer deposits | | 4,093 |
| Unearned revenue | | (3,532) |
| Net cash provided (used) by operating activities | <u>\$ 16,300</u> | |

See notes to financial statements.

TOWN OF CHESTER, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2021

| | <u>Agency Funds</u> |
|----------------------------------|-------------------------|
| Assets | |
| Cash and cash equivalents | \$ <u>30,168</u> |
| Liabilities | |
| Warrants and other payables | <u>30,168</u> |
| Net position | |
| Held in trust for other purposes | <u><u>\$ -</u></u> |

See notes to financial statements.

TOWN OF CHESTER, MASSACHUSETTS

Notes to Financial Statements

June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Town of Chester, Massachusetts was incorporated in 1783. The Town provides general governmental services to its residents, including public safety, public works, education, health and human services, and culture and recreation. Education is provided through the Gateway Regional School District with assessments paid by the Town.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statements have been considered, and no component units were identified to be included in the Town's financial statements.

Gateway Regional School District

The Gateway Regional School District is a municipal corporation governed by an elected school committee from the towns of Chester, Blandford, Huntington, Middlefield, Montgomery, and Russell. The Town's accountability does not extend beyond electing committee members for its representation. The School District is responsible for its own operating and capital costs and operates independently from the Town. Accordingly, the School District is not a part of the Town's reporting entity. The School District issues separate financial statements which can be obtained through the Gateway Regional School District, 12 Littleville Road, Huntington, MA 01050.

B. Government-wide and fund financial statements

Government-wide financial statements

The government-wide financial statements have not been presented.

Fund financial statements

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund balance or net position, revenues and expenditures. Major individual governmental funds and major individual proprietary funds (enterprise funds) are reported as separate columns in the fund financial statements. Non-major funds are aggregated and displayed in a single column.

Fiduciary fund financial statements

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the Town's operations.

C. Measurement focus, basis of accounting, and financial statement presentation

The *governmental fund financial statements* are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Revenues not considered available are recorded as deferred inflows of resources.

Property taxes are recorded in the year levied as receivables and deferred inflows of resources. Property taxes collected up to 60 days after the fiscal year end are included in the current fiscal year revenues with the remaining recognized as revenues in the succeeding year when services financed by the levy are provided. Intergovernmental aids and grants are recognized as revenues in the period the Town is entitled to the resources and the amounts are available. Amounts owed to the Town which are not available are recorded as receivables and deferred inflows of resources. Amounts received prior to the entitlement period are also recorded as deferred inflows of resources.

Major governmental fund

The *General Fund* is the Town's major operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Town's stabilization funds have been consolidated with the general fund in accordance with the Governmental Accounting Standards Board statements. At June 30, 2021, the stabilization fund balance is \$508,494.

Non-major governmental funds

The *non-major governmental fund* consists of other special revenue and capital project funds that are aggregated and presented in the *non-major governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes. The Town's special revenue funds consist of federal and state grants, receipts reserved for appropriation, revolving funds, water fund, and gifts and donations.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the enterprise Electric Light Fund).

Major proprietary fund

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, operating expenses, and administrative expenses. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The *Electric Light Fund* is the Town's major proprietary fund. It accounts for the operation of the Town's electricity distribution and supporting infrastructure. The Electric Light Fund is presented on the modified accrual basis of accounting. In addition, amounts owed to the Electric Light Fund which are not available are recorded as receivables and deferred inflows of resources. Amounts received prior to the entitlement period are also recorded as deferred inflows of resources.

Subsequent events

Management has evaluated subsequent events through March 21, 2022, the date that the financial statements were available for issue, and has determined that there are no additional adjustments or disclosures required.

Accounting 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, liabilities, and net position or fund balance

Property taxes receivable

The Town's property tax is levied each July 1 on the assessed value listed as of the prior January 1, for all real and personal property located in the Town. Assessed values are established by the Board of Assessors at a percentage of estimated market value. The Town is required to have its assessed values certified by the State every three years. The assessed value for the fiscal 2021 levy was \$134,807,694. A tax rate of \$20.49 per thousand was applied to the levy.

Real and personal property taxes are due and payable in quarterly installments. Under the quarterly tax payment system, the assessors make a preliminary tax commitment based on the prior years' net tax and may not exceed, with limited exceptions, fifty percent of that amount. The collector must mail preliminary tax bills each year by July 1st. The preliminary tax is payable in two equal installments. The first installment is due on August 1st and the second installment is due on November 1st. After the Town sets the tax rate, the assessors make the actual tax commitment. If actual bills are mailed on or before December 31st, the balance remaining is payable in two equal installments on February 1st and May 1st, respectively. If the bills are mailed after December 31st, the entire balance is not due until May 1st or thirty days after the bills were mailed, whichever is later. The Town has an ultimate right to foreclose on property for which taxes have not been paid.

A statewide tax limitation statute known as "Proposition 2 ½" limits the property tax levy to an amount equal to 2 ½% of the value of all taxable property in the Town (levy ceiling). A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more the 2 ½%, plus taxes levied on certain property newly added to the tax rolls (levy limit). Certain Proposition 2 ½ taxing limitations can be overridden by a Town-wide referendum vote. For fiscal year 2021, the Town's tax levy was \$2,762,210, which was below both its allowable levy limit of \$3,086,165 (levy limit of \$2,973,275 plus exclusions of \$112,890) and levy ceiling of \$3,370,192.

Motor vehicle assessments are provided by the Massachusetts Registry of Motor Vehicles. Tax rates established by the State are \$25 per thousand.

User charges

User charges consist of water fees and electric light fees.

Water fees are levied based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water liens are processed each year and are included as a lien on the property owner's tax bill. Water charges and liens are recorded as receivables in the fiscal year of the levy.

Accounts receivable (user charges) of the electric light department are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to the valuation allowance based on management's assessment of the current status of individual accounts. The allowance for uncollectibles has not been material to the financial statements. Management is required to comply with billing and termination procedures mandated by the Massachusetts Department of Public Utilities. These procedures require certain extended terms for payment prior to termination of services for customers.

Capital assets

The Town has not capitalized and depreciated the cost of long-term fixed assets of the primary government or the electric light fund. Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of purchase.

Unused compensated absences

The Town's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. Upon retirement, termination, or death, employees are compensated for earned but unused vacation leave at their current rates of pay. Sick leave and personal leave benefits are not vested with employees for payment at employment termination.

Long-term obligations

The face amount of long-term debt and other long-term obligations issued are reported as other financing sources in the governmental fund financial statements. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Governmental fund balances and net position

Generally, fund balance and net position represents the difference between assets and liabilities. The Town reserves those portions of fund balance or net position that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure.

Fund balances and net position are classified as follows:

Nonspendable

Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted

Amounts that can be spent only for specific purposes because of the Town code, state and federal laws, or externally imposed conditions by grantors or creditors.

Committed

Amounts that can only be used for specific purposes imposed by majority vote of the Town's governing body (i.e., Town Meeting, the highest level of decision making authority). Any changes or removal of specific purposes requires majority action by the governing board.

Assigned

Amounts constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. These include encumbrances and other amounts which have been assigned for specific goods and services ordered but not yet paid. This account also includes fund balance voted to be used in the subsequent fiscal year (free cash).

Unassigned (unrestricted)

All amounts not included in other spendable classifications.

Encumbrances and continuing appropriations

Encumbrance accounting is employed in the governmental funds as a significant aspect of budgetary control. Encumbrances, through the use of purchase orders, contracts and other appropriations, are amounts that are set aside to pay for goods and services that have not been completed prior to the end of the fiscal year. Unencumbered appropriations, which are carried over to the following fiscal year, are reported as "continuing appropriations". Continuing appropriations represent amounts appropriated for specific programs or projects, which were not completed during the fiscal year. Encumbrances and continuing appropriations are reported with restricted, committed, or assigned fund balance in the accompanying balance sheet. Encumbrances and continuing appropriations are combined with expenditures for budgetary comparison purposes.

NOTE 2 - DEPARTURES FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The significant departures of the financial statements from generally accepted accounting principles are as follows:

The Town has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type (enterprise) activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements of the Town's governmental and business-type activities has not been determined.

The Town has not implemented certain GASB Statements which requires that the fixed assets of the governmental and business-type activities be capitalized and depreciated. These include, land, land improvements, buildings, vehicles, equipment, roads, bridges, sidewalks, and the Electric Light infrastructure.

The Town has not implement certain GASB Statements which requires that an actuarial valuation be performed of postemployment benefits paid to Town retirees as well as financial statement disclosures and required supplemental information.

The Electric Light Fund (business-type activity) is presented on the modified accrual basis of accounting, instead of the full accrual basis of accounting.

The Town has not presented a Management's Discussion and Analysis as required by accounting principles generally accepted in the United States of America to supplement the basic financial statements.

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The Town of Chester follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Town Administrator submits to the Finance Committee a proposed budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted in the Town to obtain taxpayer comments.
3. The budget is legally enacted at the annual Town Meeting by vote of the Town Meeting representatives.
4. Throughout the fiscal year any unencumbered appropriation, balance or portion thereof, may be transferred from one department, commission, board or office, to another by a vote at a Special Town Meeting. The Finance Committee controls a reserve fund which may be used at their discretion to alter total expenditures.
5. Appropriations for certain projects and specific items not fully expended at the fiscal year-end are carried forward as continued appropriations to the new fiscal year or until project completion. The Town's policy is to carry forward encumbrances as continued appropriations at the fiscal year end.

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers plus (b) provision for any prior fiscal year's deficits, less (c) the aggregate of all non-property tax revenue, including user fees, and transfers projected to be received by the Town, including available surplus funds.

The Town's General Fund budget is prepared on a basis that differs from U.S. generally accepted accounting principles (GAAP) in several different ways:

- Property tax revenues are recognized on a full accrual basis (GAAP) rather than on the modified accrual basis ;
- Budgeted revenues are recorded when cash is received, as opposed to when susceptible to accrual (GAAP);
- Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP).

A reconciliation of General Fund operations presented in the Governmental Funds (Non-GAAP) to the amounts presented in the budgetary basis statement is as follows:

| | General Fund |
|--|-------------------|
| Government funds - net change in fund balances | \$ 147,330 |
| Adjustments: | |
| Net effect of encumbrances recorded as budget expenditures | 29,620 |
| Less stabilization fund activity | (72,093) |
| Plus other available funds and revenue appropriations | <u>80,325</u> |
| Excess of revenues and other sources over expenditures and other uses - budgetary basis | <u>\$ 185,182</u> |

NOTE 4 - DETAILED NOTES ON ALL FUNDS

A. Cash and cash equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with an original maturity of three months or less from the date of acquisition. Each fund's portion of this pool is reflected on the financial statements under the caption, "cash and cash equivalents".

B. Deposits and investments

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits, including demand deposits, money markets and certificates of deposit in any one financial institution, may not exceed certain levels unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, banker's acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust (MMDT).

Concentration Risk

The Town adheres to the provisions of M.G.L. c. 44, sec. 55 when managing concentration risk. M.G.L. c. 44, sec. 55 contains several restrictions limiting where and under what circumstances the Town may deposit its funds. Pursuant to M.G.L. c. 44, sec. 55, cities and towns in the Commonwealth may deposit available fund balances in banks, trust companies, or banking companies, provided that the amounts deposited do not exceed certain thresholds of the capital and surplus of an institution unless satisfactory security for the amount in excess of the threshold is provided by the depository.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of bank failure, the Town's deposits may not be returned. The Town carries deposits that are fully insured by FDIC insurance, collateralized, and deposits that are not collateralized and are uninsured. Bank deposits as of June 30, 2021 were \$2,308,011 of which \$1,645,529 is insured and collateralized and \$662,482 is uninsured.

Investment Policy

The Town's primary concern in connection with its investment activities is a concern shared by all municipal governments: the preservation of capital. The Town adheres to an *Investment Policy* which provides an understanding regarding the objectives, goals, risk tolerance, and investment guidelines for investment of the town funds. The *investment policy* dictates the types of investments allowed, diversification, restrictions on investments, relationship with financial institutions, and standards of care to be used by the Treasurer in the context of managing an overall investment portfolio.

Investment Fair Value

The Town categorizes its fair value measurements for investments 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 available in active markets for identical assets. These instruments generally include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 inputs are significant other observable inputs where the fair value is determined through use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 inputs are significant unobservable inputs and include situations where there is little, if any, market activity for the instrument. These typically require significant management judgment or estimation.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Custodial credit risk - investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Town's investments of \$476,375 have a custodial credit risk exposure because the related securities are uninsured and held by the counterparty. The Town's policy for custodial credit risk is to invest funds with companies that provide a proof of credit worthiness.

The Town has the following investments at June 30, 2021:

| Investment Type | Fair Value | Fair Value Measurements Using | | |
|--------------------------|-------------------|-------------------------------|-------------------|-------------|
| | | Level 1 | Level 2 | Level 3 |
| Cash | \$ 16,816 | \$ 16,816 | \$ - | \$ - |
| Equities and options | 88,978 | 88,978 | - | - |
| Exchange traded products | 263,192 | 263,192 | - | - |
| Corporate bonds | 107,389 | - | 107,389 | - |
| Total | <u>\$ 476,375</u> | <u>\$ 368,986</u> | <u>\$ 107,389</u> | <u>\$ -</u> |

\$433,779 of the above investments are reported in the general fund (stabilization funds) and \$42,596 in the cemetery trust funds.

C. Taxes receivable

Taxes receivable at June 30, 2021, are as follows:

| | <u>General Fund</u> |
|-----------------------------------|-------------------------|
| Real estate taxes | |
| 2021 | \$ 175,406 |
| 2020 | 39,525 |
| 2019 | 12,183 |
| 2018 | 14,304 |
| 2017 and prior | <u>76,896</u> |
| | <u>318,314</u> |
| Personal property taxes | |
| 2021 | 12,630 |
| 2020 | 9,202 |
| 2019 | 207 |
| 2018 and prior | <u>68</u> |
| | <u>22,107</u> |
| Motor vehicle excise taxes | |
| 2021 | 36,985 |
| 2020 | 10,206 |
| 2019 | 5,955 |
| 2018 | 1,863 |
| 2017 and prior | 40,697 |
| Less allowance for uncollectibles | <u>(26,000)</u> |
| | <u>69,706</u> |
| Total taxes receivable | <u>\$ 410,127</u> |

Real estate taxes are secured through the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts is not reported.

Personal property taxes cannot be secured through the lien process. The allowance for uncollectible accounts was determined to be immaterial to the financial statements. No allowance has been recorded.

The allowance for uncollectible accounts for motor vehicle excise taxes is estimated based on historical trends and specific account analysis.

D. Landfill closure and post-closure care costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The Town's landfill has been closed for several years, and the Town has filed a formal closure and monitoring plan with the Commonwealth. Post-closure care costs for the year ended June 30, 2021 was \$3,425. The estimated total future liability for landfill post-closure care costs is estimated at \$35,000. This represents the annual cost of monitoring, currently estimated at \$3,500 for the next 10 years. The estimate was based upon an independent evaluation of the cost to perform post-closure care. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

E. Debt

General obligation bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and infrastructure. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. The following general obligation bonds have been issued for governmental activities.

| | Serial Maturity Through | Interest Rates | Outstanding June 30, 2020 | Addition | Payments | Outstanding June 30, 2021 |
|--------------------------|-------------------------------|-------------------|---------------------------------|-------------|--------------------|---------------------------------|
| Highway truck | 2021 | 2.25% | \$ 42,533 | \$ - | \$ (42,533) | \$ - |
| Water treatment facility | 2036 | 4.50% | 330,916 | - | (14,588) | 316,328 |
| Total | | | <u>\$ 373,449</u> | <u>\$ -</u> | <u>\$ (57,121)</u> | <u>\$ 316,328</u> |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|-------------------|-------------------|-------------------|
| 2022 | \$ 15,930 | \$ 14,235 | \$ 30,165 |
| 2023 | 16,647 | 13,549 | 30,196 |
| 2024 | 17,396 | 12,832 | 30,228 |
| 2025 | 18,179 | 12,083 | 30,262 |
| 2026 | 18,997 | 11,300 | 30,297 |
| Thereafter | 229,179 | 61,250 | 290,429 |
| Total | <u>\$ 316,328</u> | <u>\$ 125,249</u> | <u>\$ 441,577</u> |

The Town is subject to a dual level general debt limit; the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the Town as last equalized by the Commonwealth of Massachusetts Department of Revenue. Debt may be authorized up to the normal debt limit, without state approval. Authorization under the double debt limit, however, requires the approval of the Commonwealth's Emergency Finance Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2021, the Town has an equalized valuation of \$134,807,694 which allows for a 5% normal debt limit available borrowing balance of \$6,740,000. As of June 30, 2021, the Town's total debt limit available balance is \$6,423,672 (total limit available of \$6,740,000 less inside debt outstanding of \$316,328).

Overlapping debt

The Town pays assessments which would include debt service payments to other local governmental units providing services within the Town's boundaries (commonly referred to as overlapping debt). The following summary sets forth the long-term debt of the Gateway Regional School District and the estimated share of such debt being serviced by the Town indirectly through assessments as of June 30, 2021.

| | Total Outstanding Debt | Town's Estimated Share | Town's Estimated Indirect Debt |
|----------------------------------|------------------------------|------------------------------|--------------------------------------|
| Gateway Regional School District | \$ 2,140,000 | 16.16% | \$ 345,824 |

F. Temporary borrowings

Under state law and by authorization of the Board of Selectmen, the Town is authorized to borrow funds on a temporary basis as follows:

- To fund current operating costs prior to the collection of revenues through issuance of revenue anticipation notes.
- To fund capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes.
- To fund capital project costs incurred in anticipation of federal or state grants through issuance of grant anticipation notes or state anticipation notes.

G. Restricted fund balance on June 30, 2021

| | <u>Governmental Funds</u> |
|-------------------------------------|-------------------------------|
| Restricted: | |
| General fund: | |
| Debt service | \$ 27,548 |
| Snow and ice deficit | (22,889) |
| Other appropriation deficits | <u>(13,039)</u> |
| Total general fund | <u>(8,380)</u> |
| Special revenue funds: | |
| State grant funds | 74,201 |
| Receipts reserved for appropriation | 111,065 |
| Revolving funds | 39,391 |
| Gifts and donations fund | <u>8,450</u> |
| Total special revenue funds | <u>233,107</u> |
| Capital projectd fund | (98,691) |
| Trust funds | <u>49,775</u> |
| Total restricted fund balances | <u><u>\$ 175,811</u></u> |

H. Deferred inflows of resources

Deferred inflows of resources are the acquisition of fund balance or net position by the Town that are applicable to future reporting periods. They have a negative impact on fund balance or net position, similar to liabilities. The fund financial statements report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

NOTE 4 - OTHER INFORMATION

A. Risk management

Risks transferred to third parties

The Town is exposed to various risks of loss relating to torts; theft or damage of, and destruction of assets; errors and omissions; injuries; and natural disasters. The Town has obtained a variety of commercial liability insurance policies, which pass the risks of loss listed above to independent third parties. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. As of the date of the financial statements, the Town is not aware of any expenditure that may be disallowed by a grantor.

The Town, from time to time may be a defendant in various lawsuits. As of the date of the financial statements, the Town is not aware of any matters that could have a material adverse effect on the financial condition of the Town.

C. Hampden County Contributory Retirement System

Plan description

The Town participates in the Hampden County Regional Retirement System (the Plan) which is a cost-sharing multiple-employer public employee retirement system. Eligible employees must participate in the Plan. The Plan is organized and is subject to the provisions of Chapter 32 of the Massachusetts General Law (MGL). The Plan is governed by a five-member board and is also guided by an advisory council comprised of the official Treasurers of each participating employer (member unit).

The Plan is a member of the Massachusetts Contributory Retirement System. The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the Commonwealth's public retirement systems.

Accounting policy

The Plan follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the member's employees are recognized in the period in which employees provide services to the member employers. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan membership

At December 31, 2020, the Plan membership consisted of the following.

| | |
|---|------------------|
| Active plan members | 2,784 |
| Retirees and beneficiaries receiving benefits | 571 |
| Inactive members | <u>1,794</u> |
| Total | <u>5,149</u> |
| Number of participating employers | <u><u>33</u></u> |

Benefits and contributions

The Plan provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are three classes of membership in the retirement system; Group 1, Group 2 and Group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, Group 4 consists of police officers, firefighters, and other hazardous positions.

Any individual in Group 1 or Group 2 whose membership began before January 1, 1978, and who maintains an annuity savings fund account, is eligible to receive a superannuation retirement allowance at age 55 or later, regardless of how many years of credible service he or she has completed. There are no minimum vesting requirements for individuals in Group 4.

Members in Groups 1 and 2, hired after January 1, 1978 and prior to April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 20 years of service or upon the completion of 10 years of service and upon reaching the age of 55. Members in Groups 1 and 2, hired on or after April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 10 years of service and upon reaching the age of 60 (Group 1) or age 55 (Group 2).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension.

Active members contribute between 7% and 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired on or after January 1, 1979, contribute an additional 2% of annual regular compensation in excess of \$30,000.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current-year pension assessment. Chapter 32 of the MGL requires Massachusetts retirement systems to adopt funding schedules designed to reduce the unfunded actuarial liability of the system to zero by no later than June 30, 2040. The System's current funding schedule is designed to reduce the unfunded actuarial liability to zero by 2035.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification. Employees who resign from service are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Pension liabilities, expense and deferred outflows and inflows of resources

At June 30, 2020, the Town's net pension liability is \$1,843,433, deferred outflows related to pensions of \$502,923, and deferred inflows related to pensions of \$334,709 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension relative to the projected contributions of all participating Plan employers, actuarially determined. At December 31, 2020, the Town's proportion was 0.47%. Net pension liability, deferred outflows/inflows of resources and pension expense are allocated to each employer based on its proportionate share of total employer contributions. Contributions made subsequent to the measurement date of December 31, 2020 were \$-0-.

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2020, rolled forward to the measurement date of December 31, 2020 using the following actuarial assumptions, applied to all periods included in the measurement date:

| | |
|----------------------------|---|
| Actuarial cost method: | Entry Age Normal Cost Method |
| Investment rate of return: | 7.15% |
| Salary increases: | 4.00% for Group 1, 4.25% for Group 2, and 4.50% for Group 4 |
| Inflation: | 3.25% |
| Cost of Living Adjustment | 3% of first \$18,000. |
| Mortality | Pre-retirement rates reflect the RP-2014 Blue Collar Employee Mortality Table set forward one year for females and projected generationally with Scale MP-2017. Healthy and disabled retiree rates reflect the RP-2014 Blue Collar Annuitant Mortality Table set forward one year for females and projected generationally with Scale MP-2017. |

The investment return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns, and professional judgment. The market expectations analysis used a building-block approach which included expected returns by asset class and the target asset allocation.

Target allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rate of return for each major asset class included in the Plan's targeted asset allocation as of December 31, 2020 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--|--|---|
| Domestic Equity | 22.00% | 6.28% |
| International Developed Markets Equity | 12.00% | 7.00% |
| International Emerging Market Equity | 5.00% | 8.82% |
| Core Fixed Income | 15.00% | 0.38% |
| High Yield Fixed Income | 8.00% | 2.97% |
| Real Estate | 10.00% | 3.50% |
| Hedge Fund, GTAA, Risk Party | 10.00% | 2.35% |
| Timber | 4.00% | 3.45% |
| Private Equity | 14.00% | 10.11% |
| Total | <u>100.00%</u> | |

Changes in net pension liability

| | Hampden County Retirement System | | | Town of Chester | | |
|-------------------------------|----------------------------------|-----------------------|-------------------------|-----------------------------|-----------------------|---------------------|
| | 100% | | | 0.47% as of 12/31/2020 | | |
| | Increase (Decrease) | | | Increase (Decrease) | | |
| Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability | |
| (a) | (b) | (a) - (b) | (a) | (b) | (a) - (b) | |
| Balances at January 1, 2020 | \$ 817,118,011 | \$ 410,440,077 | \$ 406,677,934 | \$ 3,840,455 | \$ 1,929,068 | \$ 1,911,387 |
| Net changes | 31,797,450 | 46,255,904 | (14,458,454) | 149,448 | 217,402 | (67,954) |
| Balances at December 31, 2020 | <u>\$ 848,915,461</u> | <u>\$ 456,695,981</u> | <u>\$ 392,219,480</u> | <u>\$ 3,989,903</u> | <u>\$ 2,146,470</u> | <u>\$ 1,843,433</u> |

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

| | 1% Decrease (6.15%) | Current Discount Rate (7.15%) | 1% Increase (8.15%) |
|---|------------------------|-------------------------------------|------------------------|
| Town's proportionate share of the net pension liability | \$ 2,297,202 | \$ 1,843,433 | \$ 1,461,454 |

Deferred Inflows and Outflows of Resources

At June 30, 2021, the Town's deferred outflows and deferred inflows of resources related to pensions are:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 16,902 | \$ 9,694 |
| Net difference between projected and actual investment earnings on pension plan assets | - | 107,849 |
| Changes in assumptions | 151,613 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 334,408 | 217,166 |
| Contributions subsequent to the measurement date | - | - |
| Total | <u>\$ 502,923</u> | <u>\$ 334,709</u> |

Pension Plan Fiduciary Net Position

The Plan issues separate audited financial statements which can be obtained through the Hampden County Regional Retirement System, 16 Hunt Street, Suite 116, Agawam, MA 01001.

Payable to Pension Plan

At June 30, 2021, the Town reported a payable of \$-0- for outstanding amounts of contributions to the pension plan.

D. Other Postemployment Benefits Other than Pensions

The Town provides health insurance coverage for retired employees and their survivors on a pay-as-you-go basis. The cost of providing health insurance coverage is recognized by the Town's share of insurance premiums in the general fund in the fiscal year paid. The Town has not implemented certain GASB Statements which requires that an actuarial valuation be performed of postemployment benefits paid to Town retirees as well as financial statement disclosures and required supplemental information related to that actuarial valuation.

TOWN OF CHESTER, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2021

**Schedule of the Town's Proportionate Share
of the Net Pension Liability**

| | Plan Year Ended December 31, | | | | | | |
|---|------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Town's proportion of the Hampden County Regional Retirement System's net pension liability | 0.47% | 0.48% | 0.48% | 0.40% | 0.39% | 0.40% | 0.40% |
| Town's proportionate share of the net pension liability | 1,843,433 | 1,945,592 | 1,895,392 | 1,911,387 | 1,406,691 | 1,236,218 | 1,134,736 |
| Town's covered-employee payroll | 588,561 | 574,602 | 544,000 | 420,000 | 419,000 | 412,000 | 396,000 |
| Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 313.21% | 338.60% | 348.42% | 455.09% | 335.73% | 300.05% | 286.55% |
| Plan fiduciary net position as a percentage of the total pension liability | 53.80% | 50.23% | 47.33% | 50.23% | 46.82% | 49.22% | 51.38% |

Schedule of Town Pension Contributions

| | Plan Year Ended December 31, | | | | | | |
|---|------------------------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Town's contractually required contribution | 157,502 | 148,444 | 136,687 | 106,716 | 96,268 | 91,350 | 84,508 |
| Town's contributions in relation to the contractually required contribution | <u>(157,502)</u> | <u>(148,444)</u> | <u>(136,687)</u> | <u>(106,716)</u> | <u>(96,268)</u> | <u>(91,350)</u> | <u>(84,508)</u> |
| Contribution deficiency (excess) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Town's covered-employee payroll | 588,561 | 574,602 | 544,000 | 420,000 | 419,000 | 412,000 | 396,000 |
| Contributions as a percentage of covered-employee payroll | 26.76% | 25.83% | 25.13% | 25.41% | 22.98% | 22.17% | 21.34% |

Notes to the Required Supplementary Information

Changes of benefit terms: None

Changes of assumptions:

Discount rate decreased from 7.50% to 7.15%

Last 10 years: Only plan years 2014 to 2020 available

See independent auditors' report