

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
Financial Statements
December 31, 2023

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
TABLE OF CONTENTS
DECEMBER 31, 2023

	Page
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-6
Financial Statements:	
Statement of Net Position	7,8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10,11
Notes to the Financial Statements	12-21
Supplementary Information:	
Required Supplementary Information - Net Pension Liability	22
Notes to the Required Supplementary Information	23
Schedule of Sales of Electricity	24
Schedule of Operation and Maintenance Expenses	25

GOULET, SALVIDIO
& ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Chester Municipal Electric Light Department
Chester, Massachusetts 01011

Qualified Opinion

We have audited the accompanying financial statements of Chester Municipal Electric Light Department (the "Department") as of and for the year ended December 31, 2023, and the related notes to the financial statements, which comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2023, and the changes in financial position thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the Financial Statements

The Department has not implemented certain GASB Statements to report its December 31, 2023 Net Other Postemployment Benefits Liability (NOL) which is required by governmental accounting standards. Government accounting standards require that an actuarial valuation be performed to recognize the NOL as well as provide financial statement disclosures and related required supplemental information. The amount by which this departure would affect the assets, liabilities, net position, and revenues of the Department has not been determined.

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 Auditor's 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 qualified audit opinion on the 2023 financial statements.

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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 the twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Chester Municipal Electric Light Department and do not purport to, and do not, present fairly the financial position of the Town of Chester, Massachusetts, as of December 31, 2023, and the changes in financial position, or, where applicable, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Net Pension Liability information on pages four through six and 22 through 23 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Other Postemployment Benefits (OPEB) Liability. Although not a part of the basic financial statements, it 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chester Municipal Electric Light Department's basic financial statements. The Schedule of Sales of Electricity and Schedule of Operation and Maintenance Expenses on pages 24 and 25 are presented for purposes of additional analysis and are 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
October 3, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Chester Municipal Electric Light Department's financial activities for the year ended December 31, 2023. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements

The basic financial statements include (1) The Statement of Net Position (2) The Statement of Revenues, Expenses and Changes in Net Position (3) The Statement of Cash Flows and (4) Notes to The Financial Statements. The Statement of Net Position is designed to indicate our financial position as of a specific point in time. At December 31, 2023, our net position decreased by \$336,372, or 20%, compared to the year ended December 31, 2022. Increases and decreases in net position may serve as a useful indicator of whether the financial position of Chester Municipal Electric Light Department is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position summarize our operating results. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. As discussed in more detail below, our net loss for December 31, 2023 was \$323,590.

The Statement of Cash Flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financing activities for the same period.

Summary of Net Position

Current Assets	\$ 945,581
Noncurrent Assets	<u>1,608,913</u>
Total Assets	<u>2,554,494</u>
Deferred Outflows of Resources	<u>372,025</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 2,926,519</u>
Current Liabilities	\$ 90,032
Noncurrent Liabilities	<u>845,210</u>
Total Liabilities	<u>935,242</u>
Deferred Inflows of Resources	<u>666,633</u>
Net Investment in Capital Assets	920,475
Net Position Restricted for Depreciation	688,438
Unrestricted	<u>(284,269)</u>
Total Net Position	<u>1,324,644</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 2,926,519</u>

Summary of Changes in Net Position

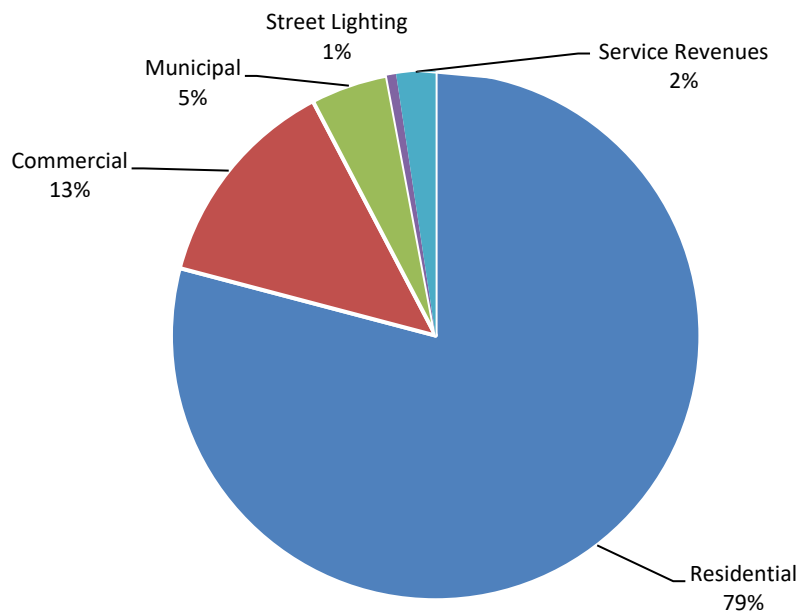
Operating Revenues	\$ 1,331,758
Operating Expenses	<u>(1,674,108)</u>
Operating Loss	(342,350)
Nonoperating Revenues (Expenses)	<u>18,760</u>
Loss Before Contributions and Transfers	(323,590)
Net Position, January 1	1,661,016
Transfers Out – Payments in Lieu of Taxes	<u>(12,782)</u>
Net Position, December 31	<u>\$ 1,324,644</u>

Financial Highlights:

Operating revenues for the year ended December 31, 2023 were \$1,331,758. Operating revenues consist of sales of electricity and miscellaneous service revenues. The chart below shows the percentage of revenues by source.

Operating expenses for the year ended December 31, 2023 were \$1,674,108. Operating expenses consist of purchased power costs, maintenance, supplies, pensions and benefits, insurance expense, license fees, and depreciation expense.

Source of 2023 Operating Revenues



Financial Highlights (Continued):

Power Supply

The Chester Municipal Electric Light Department provides power for its customers through both fixed contracts and open market power supply in an effort to stabilize power costs. Purchased Power costs are the costs associated with buying capacity, energy, and related ancillary power costs and having it delivered to the residents and businesses in the Town of Chester. There are circumstances that will cause prices to fluctuate, such as extended periods of time when the region experiences abnormally high or low temperatures, unexpected power plant shutdowns for unforeseen repairs, and when fuel, gas and/or oil prices are affected by global issues. The Department has tried to position themselves so that these types of situations will not negatively impact the rates and cause an overbearing burden on our customers.

Net Utility Plant:

Net Utility Plant

Net Utility plant is carried on the books at original cost less accumulated depreciation. Plant assets consist of the distribution plant assets and general plant assets. During the year ended December 31, 2023 utility plant asset additions totaled \$44,403, and annual depreciation (3%) was \$81,220. These resulted in a decrease in net book value of \$36,817. As of December 31, 2023 net utility plant assets were valued at \$920,475.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
STATEMENT OF NET POSITION
DECEMBER 31, 2023

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS:

Funds on Deposit with Town Treasurer	
Operating Cash	\$ 759,386
Accounts Receivable - Customers	61,077
Materials and Supplies	118,849
Purchased Power Prepayments	<u>6,269</u>
 TOTAL CURRENT ASSETS	 <u>945,581</u>

NONCURRENT ASSETS:

Funds on Deposit with Town Treasurer	
Depreciation Fund	688,438
Utility Plant Assets, Net	<u>920,475</u>
 TOTAL NONCURRENT ASSETS	 <u>1,608,913</u>
 TOTAL ASSETS	 <u>2,554,494</u>

DEFERRED OUTFLOWS OF RESOURCES:

Deferred Outflows of Resources Related to Pensions	<u>372,025</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u><u>\$ 2,926,519</u></u>

See Accompanying Notes to the Financial Statements

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
STATEMENT OF NET POSITION
DECEMBER 31, 2023

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

CURRENT LIABILITIES:

Accounts Payable	\$ 72,794
Accrued Expenses	17,238
	90,032
TOTAL CURRENT LIABILITIES	90,032

NONCURRENT LIABILITIES:

Customer Deposits	9,250
Net Pension Liability	835,960
	845,210
TOTAL NONCURRENT LIABILITIES	845,210
TOTAL LIABILITIES	935,242

DEFERRED INFLOWS OF RESOURCES:

Deferred Inflows of Resources Related to Pensions	68,326
Contribution in Aid of Construction, Net	598,307
	666,633
TOTAL DEFERRED INFLOWS OF RESOURCES	666,633

NET POSITION:

Net Investment in Capital Assets	920,475
Net Position Restricted for Depreciation	688,438
Unrestricted Net Position	(284,269)
	1,324,644
TOTAL NET POSITION	1,324,644
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 2,926,519

See Accompanying Notes to the Financial Statements

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

OPERATING REVENUES:

Sales of Electricity	\$	1,299,867
Other Operating Revenues		31,891
		1,331,758
TOTAL OPERATING REVENUES		1,331,758

OPERATING EXPENSES:

Operations and Maintenance		1,617,425
Depreciation, Net of Amortization		56,683
		1,674,108
TOTAL OPERATING EXPENSES		1,674,108

OPERATING LOSS		(342,350)
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NONOPERATING REVENUES (EXPENSES):

Interest Income		18,760
TOTAL NONOPERATING REVENUES (EXPENSES)		18,760

Loss before Contributions and Transfers		(323,590)
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NET POSITION - JANUARY 1		1,661,016
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Transfers Out - Payment in Lieu of Taxes		(12,782)
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NET POSITION - DECEMBER 31	\$	1,324,644
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See Accompanying Notes to the Financial Statements

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Customers	\$ 1,353,375
Cash Paid to Suppliers	(933,479)
Cash Paid to Employees	(349,839)
Cash Paid for Benefits	(109,179)
Payment in Lieu of Taxes	<u>(12,782)</u>
Net Cash Used by Operating Activities	<u>(51,904)</u>

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:

Additions to Utility Plant Assets	<u>(44,673)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Income	<u>11,569</u>
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NET DECREASE IN CASH AND CASH EQUIVALENTS	(85,008)
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CASH AND CASH EQUIVALENTS - JANUARY 1	<u>844,394</u>
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CASH AND CASH EQUIVALENTS - DECEMBER 31	<u><u>\$ 759,386</u></u>
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See Accompanying Notes to the Financial Statements

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Loss	\$ (342,350)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:	
Depreciation	81,220
Amortization of Contribution in Aid of Construction	(24,537)
Payment in Lieu of Taxes	(12,782)
Pension Expense	198,689
Changes in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Accounts Receivable - Customers	21,617
Materials and Supplies	31,804
Deferred Outflows of Resources Related to Pensions	(67,595)
Increase (Decrease) in Liabilities:	
Accounts Payable	46,943
Accrued Expenses	15,087
Net Cash Used by Operating Activities	\$ (51,904)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

The following accounts are considered cash or cash equivalents for the statement of cash flows:

Operating Cash	\$ 759,386
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See Accompanying Notes to the Financial Statements

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of Chester Municipal Electric Light Department are as follows:

Reporting Entity

The Chester Municipal Electric Light Department is a component unit of the Town of Chester, Massachusetts. The Department purchases power from various sources and sells it to the ultimate consumers at rates submitted to the Massachusetts Department of Public Utilities (DPU). The Light Department appoints a manager of municipal lighting who shall, under the direction and control of the municipal light board, have full charge of the operation and management of the Department.

Regulation and Basis of Accounting

The Department's financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Under Massachusetts law, electric rates of the Light Department are set by the Municipal Light Board and may be changed not more than once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Light Department, the Light Department's rates are not subject to DPU approval.

Compensated Absences

In accordance with Light Department policies, employees are allowed to accumulate sick days, up to a maximum of 30 days. Upon termination of employment with the Light Department, the employee will not be paid for accumulated sick time. Employees are permitted to carry over vacation time from one year to the next with written approval. Upon termination of employment with the Light Department, the employee will be paid for unused vacation time based on the employee's base rate of pay at the time of termination.

Taxes

The Light Department is exempt from federal income taxes. Although also exempt from property taxes, the Light Department pays amounts in lieu of taxes to the Town of Chester.

Sales Tax

The Department collects sales tax. The amount received is credited to a liability account and as payments are made, this account is charged. At any point in time, this account represents the net amount owed to the taxing authority for amounts collected but not yet remitted.

Depreciation

The general laws of Massachusetts allow utility plant in service to be depreciated at an annual rate of 3%. In order to change this rate, approval must be obtained from the Department of Public Utilities. Changes in annual depreciation rates may be made for financial factors relating to cash flow rather than for engineering factors relating to estimates of useful lives. For the year ended December 31, 2023, the Department used a depreciation rate of 3%.

The Department charges maintenance and repairs to operations when incurred. Replacements and betterments are charged to utility plant.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Revenue Recognition

The Department owns and maintains an electric distribution network serving the Town of Chester, Massachusetts. Distribution revenues are primarily from the sale of electricity to residential, commercial, and municipal customers within the Town of Chester. The rates are designed to recover the costs incurred by the Department for products and services provided along with a return on investment.

The performance obligation for electricity sales is to provide electricity to the customer on demand. The electricity supplied represents a single performance obligation as it is a series of distinct goods and services that are substantially the same. The performance obligation is satisfied immediately as the customer simultaneously receives and consumes the electricity as the Department provides this service. The Department records revenues related to the electricity sales based upon the effective rates and the volume delivered to the customers, which corresponds with the amount the Department has the right to invoice.

Revenues are recognized for energy service provided on a monthly billing cycle basis. No recognition is given to the amount of sales to customers, which are unbilled at the end of the accounting period.

Operating expenses are the costs of providing electricity and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Department considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The Department carries its accounts receivable at cost. The Department can place a lien against a property if payment is not made. For non-owners, the Department requires a deposit that can be applied to any unpaid amounts. In addition, the Department has the right to shut off service to customers during the months of April through October if the customer is not making payments. On a periodic basis, the Department does evaluate its accounts receivable to determine if any write-offs are necessary.

Materials and Supplies

Materials and supplies are valued using the average cost method.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contribution in Aid of Construction

Contribution in Aid of Construction represents non-refundable payments received from consumers and developers for extension of electric services for assets owned and maintained by the Department. These amounts are recorded as a deferred inflow of resources net of amortization.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Hampden County Regional Retirement System (the "System") and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statements of net position will sometimes report a separate section for deferred outflows and deferred inflows of resources. These separate financial statement elements, deferred outflows and inflows of resources, represent a consumption of net position that applies to a future period and so will not be recognized as an outflow/inflow of resources (expense/expenditure) until then.

NOTE 2 - FUNDS HELD AT MMWEC:

Prepaid PASNY Fund

The Power Authority of the State of New York (PASNY) is a New York State public-benefit corporation. It is commonly referred to as New York Power Authority (NYPA). The electricity generated from the NYPA hydro-facilities in New York provides a reduced rate for electricity specifically for residential customers in New York and New England. This is an account maintained by MMWEC from which they may pay our power obligation for the delivery of power and other obligations associated with NYPA's hydro projects. The NYPA fund balance as of December 31, 2023 was \$6,296. These funds are commingled and deposited in investment pools. The total amount of these investment pools as of December 31, 2023 was \$3,739,038, of which Chester Municipal Electric Light Department's ownership was approximately 0.17%.

NOTE 3 - DEPRECIATION FUND:

Pursuant to provisions of the Commonwealth's General Laws, cash in an amount equivalent to the annual depreciation expense is transferred from unrestricted funds to the depreciation fund. Interest earned on the balance of the fund must also remain in the fund. Such cash may be used for the cost of plant, nuclear decommissioning costs, the costs of contractual commitments, and deferred costs related to such commitments, which the municipal light board determines are above market value.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 4 - CONCENTRATIONS OF CREDIT RISK:

Custodial Credit Risk - Deposits

The Chester Municipal Electric Light Department's deposits with the Town Treasurer are held with various financial institutions. Funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC) and the Depositors Insurance Fund (DIF). Operating funds with these financial institutions are fully insured as of December 31, 2023.

Custodial Credit Risk - Depreciation Fund

Investment custodial risk is the risk that, in the event of a failure by the counterparty, the Department will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Department's Depreciation Fund accounts held with two financial institutions, M&T Bank and Westfield Bank, have funds in excess of FDIC coverage limits. As of December 31, 2023 the Department has custodial risk exposure of \$188,438.

NOTE 5 - RELATED PARTY TRANSACTIONS:

In the ordinary course of business, the Light Department sells electricity to various town departments. During the year ended December 31, 2023, sales to these departments totaled \$70,107. As of December 31, 2023 accounts receivable from these departments was zero.

The Light Department reimburses the Town for various employee benefits and services, including health insurance and retirement. During the year ended December 31, 2023, the total amount paid for these services was \$102,944. The amount payable to the town was zero as of December 31, 2023.

NOTE 6 - ACCRUED EXPENSES:

Accrued expenses as of December 31, 2023 are as follows:

Accrued Payroll	\$ 12,746
Compensated Absences	<u>4,492</u>
Total Accrued Expenses	<u>\$ 17,238</u>

NOTE 7 - RISK MANAGEMENT:

The Department participates in and shares in the cost of the Town's risk management programs with regards to health, workers compensation and automobile insurance.

The Department carries its own property, general liability and public official liability coverage through a premium-based plan. Limits on this insurance coverage vary.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 - UTILITY PLANT ASSETS:

	Balance January 1, 2023	Increases	Decreases	Balance December 31, 2023
Capital Assets Not Being Depreciated:				
Land	\$ 2,066	\$ 0	\$ 0	\$ 2,066
Capital Assets Being Depreciated:				
Distribution Plant	1,855,033	0	(270)	1,854,763
General Plant	<u>852,291</u>	<u>44,673</u>	<u>(34,999)</u>	<u>861,965</u>
Total Capital Assets Being Depreciated	<u>2,707,324</u>	<u>44,673</u>	<u>(35,269)</u>	<u>2,716,728</u>
Less Accumulated Depreciation for:				
Distribution Plant	(1,248,505)	(55,651)	0	(1,304,156)
General Plant	<u>(503,593)</u>	<u>(25,569)</u>	<u>34,999</u>	<u>(494,163)</u>
Total Accumulated Depreciation	<u>(1,752,098)</u>	<u>(81,220)</u>	<u>34,999</u>	<u>(1,798,319)</u>
Capital Assets Being Depreciated, Net	<u>955,266</u>	<u>(36,547)</u>	<u>(270)</u>	<u>918,409</u>
Utility Plant Assets, Net	<u>\$ 957,292</u>	<u>\$ (36,547)</u>	<u>\$ (270)</u>	<u>\$ 920,475</u>

Depreciation expense for the year ended December 31, 2023 was \$81,220. Depreciation expense reported on the Statement of Revenues, Expenses and Changes in Net Position is net of amortization of \$24,537 related to contribution in aid of construction for the year ended December 31, 2023.

NOTE 9 - NET INVESTMENT IN CAPITAL ASSETS:

Cost of Capital Assets Acquired	\$ 2,718,794
Less: Accumulated Depreciation	<u>(1,798,319)</u>
Net Investment in Capital Assets	<u>\$ 920,475</u>

NOTE 10 - NET PENSION LIABILITY:

Plan Description

The Department, through the Town of Chester, is a member of the Hampden County Regional Retirement System which, in turn, is a member of the Massachusetts Contributory Retirement System which is governed by M.G.L. c.32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The plan is a cost-sharing multiple-employer contributory defined benefit plan for all county employees and employees of participating towns and districts except those employees who are covered by teachers' retirement board. The Plan's separately issued financial statements can be obtained by contacting Hampden County Regional Retirement System at 67 Hunt Street, Suite 202, Agawam, Massachusetts 01001.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 10 - NET PENSION LIABILITY (Continued):

Benefits Provided

The System provides retirement, disability and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of member's highest three-year average annual rate of regular compensation. For members 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. 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.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service if hired after 1978 and if classified in group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with 10 years of service if in group 1, 55 years of age with 10 years of service if in group 2, and 55 years of age if classified in group 4 or hired prior to 1978. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions normal retirement is at age 55). 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 upon 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 state 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 contributions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Contributions

Active members are required to contribute at rates from 5-9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired after 1978 contribute an additional 2% of annual pay above \$30,000. The Department is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the member units based on the actuarial study. The actuarially determined Department contribution is an amount, when combined with employee contributions, is expected to finance the cost of benefits earned by the employees during the year, with an additional amount to finance the unfunded liability. The Department's required contributions to the System for the year ended December 31, 2023 was \$74,306, which was paid during calendar year 2022.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 10 - NET PENSION LIABILITY (Continued):

Pension Liabilities

As of December 31, 2023, the Department reported a liability of \$835,960 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2022. The Department's proportion of the net pension liability was based on a projection of the Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating member units. At the measured date of December 31, 2022, the Department's proportion was 0.190%.

Pension Expense

For the year ended December 31, 2023, the Department recognized a pension expense of \$198,689. For the year ended December 31, 2023, the Department reported deferred outflows of resources and deferred inflows of resources related to pension from the sources below.

Deferred Outflows of Resources Related to Pension

Differences between expected and actual experience	\$ 2,115
Net difference between projected and actual earnings on Pension plan investments	62,920
Changes of assumptions	39,781
Changes in proportion and differences between employer contributions and Department proportionate share	199,614
Department contributions subsequent to the measurement date	<u>67,595</u>
Total	<u>\$ 372,025</u>

Deferred Inflows of Resources Related to Pension

Differences between expected and actual experience	\$ 8,858
Changes in proportion and differences between employer contributions and Department proportionate share	<u>59,468</u>
Total	<u>\$ 68,326</u>

Of the total amount reported as deferred outflows of resources related to pension, \$67,595 resulting from Department contributions paid subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net pension liability for the year ending December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the Department's pension expense as shown in the table on the following page.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023

NOTE 10 - NET PENSION LIABILITY (Continued):

Pension Expense (continued)

Net Deferred Outflows and Inflows of Resources Related to Pensions

For the Years Ended December 31:	2024	\$	118,231
	2025		31,343
	2026		33,184
	2027		59,655
	2028		<u>(6,309)</u>
	Total	\$	<u>236,104</u>

Actuarial Assumptions

The total pension liability as of the measurement date December 31, 2022 was determined by an actuarial valuation as of January 1, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2022
Actuarial Cost Method	Entry Age Normal
Amortization Method	Appropriations increase 8.00% per year. For fiscal 3031 and later years, each year's total appropriation increases 3.75% per year, with a smaller payment in fiscal 2036.
Investment Rate of Return	7.00%
Wage Inflation Rate	3.25%
Projected Salary Increases	Varies by length of service with ultimate rates of 4.00% for Group1, 4.25% for Group2, and 4.50% for Group 4.
Cost of Living Allowance	3.0% of the first \$18,000 of retirement income.
Mortality Rates:	
Pre-Retirement	RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2021.
Healthy Retirees	RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2021.
Disabled Retirees	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2021.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 10 – NET PENSION LIABILITY (Continued):

Investment Policy

The Plan’s policy in regard to the allocation of invested assets is established by the Pension Reserve Investment Trust (PRIT). Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the Plan. The long-term expected rate of return on pension plan investments was determined using a building-block method in which real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected future real rates of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting investment expenses and risk margin. Best estimates of arithmetic real rates of return for each major asset class included in the Plan’s target asset allocation as of the measured date of December 31, 2022 are summarized in the table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Domestic Equity	20.50%	6.59%
International Developed Markets Equity	12.00%	6.87%
International Emerging Markets Equity	4.50%	8.30%
Core Fixed Income	15.00%	1.53%
High Yield Fixed Income	8.00%	3.54%
Real Estate	10.00%	3.44%
Timber	4.00%	4.01%
Hedge Fund, GTAA, Risk Parity	10.00%	3.06%
Private Equity	16.00%	9.49%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution 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 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate.

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Proportionate share of the Net Pension Liability	\$ 1,033,686	\$ 835,960	\$ 669,597

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Hampden County Regional Retirement System financial report.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023

NOTE 11 - COMMITMENTS AND CONTINGENCIES:

Environmental Matters

The Department is subject, like other electric utilities, to evolving standards administered by federal, state and local authorities relating to the quality of the environment.

These standards affect the siting of electric property, ambient air and water quality, plant safety and other environmental factors. These standards have had an impact on the Department's operations in the past and they will continue to have an impact on future operations, capital costs and construction schedules.

Purchase Power Commitment

The Department has entered into various power contracts with Shell Energy, Broadleaf Solar and Great River. These power contracts go through the year 2030.

The Department's future annual energy costs related to its long-term power purchase commitments as of 2023 are approximately as follows:

For the Years Ending December 31,		\$	
2024			530,853
2025			526,492
2026			101,236
2027			102,524
2028			104,094
2029-2030			<u>211,675</u>
	Total	\$	<u>1,576,874</u>

NOTE 12 - PRIOR PERIOD ADJUSTMENT:

During preparation of the 2023 financial statements, it was discovered that customer accounts receivable was overstated by \$138,347, purchased power prepayments were understated by \$6,269, contribution in aid of construction was overstated by \$195,036, accounts payable was understated by \$40,513, cash was understated by \$4,884, accrued payroll was overstated by \$9,543, net pension liability was understated by \$401,166, and accrued compensated absences was understated by \$2,151.

The net impact of these modification was to decrease the December 31, 2022 Net Position by \$366,445.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 NET PENSION LIABILITY

For the Year Ending December 31,	2023	2022
Actuarial Valuation Date	1/1/2022	1/1/2022
Measurement Date	12/31/2022	12/31/2021

**Schedule of the Department's Proportionate Share
of the Net Pension Liability (NPL):**

Department's Portion of the NPL	0.1900%	0.2000%
Department's Proportionate Share of the NPL	\$ 835,960	\$ 695,533
Department's Covered Employee Payroll	\$ 248,661	\$ 251,272
NPL as a Percentage of Total Employee Payroll	336.18%	276.80%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	52.02%	60.81%

Schedule of Contributions:

Actuarially Determined Contributions	\$ 74,306	\$ 72,424
Less: Contributions in Relation to the Actuarially Determined Contribution	(74,306)	(72,424)
Contribution Deficiency (Excess)	\$ 0	\$ 0
Department's Covered Employee Payroll	\$ 248,661	\$ 251,272
Contributions as a Percentage of the Department's Total Employee Payroll	29.88%	28.82%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, Pension plans should present information for those years for which information is available.

See Independent Auditors' Report

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE A – NET PENSION LIABILITY:

Changes in Assumptions

The following assumption changes were reflected in the January 1, 2022 actuarial valuation:

- The investment rate of return was lowered from 7.15% to 7.00%
- The mortality assumption was revised to update the mortality improvement scale from MP-2017 to MP-2021 and to remove the age set forward for females.
- The administrative expense assumption was increased for calendar 2022.

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
SCHEDULE OF SALES OF ELECTRICITY
FOR THE YEAR ENDED DECEMBER 31, 2023

SALES OF ELECTRICITY:

Residential	\$ 1,053,504
Commercial	175,926
Municipal	62,965
Street Lighting	<u>7,472</u>
TOTAL SALES OF ELECTRICITY	<u><u>\$ 1,299,867</u></u>

See Independent Auditors' Report

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
SCHEDULE OF OPERATION AND MAINTENANCE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

POWER PRODUCTION EXPENSES:	
Purchased Power Expense	\$ 810,102
Transmission Expense	<u>20,619</u>
Total Power Production Expenses	<u>830,721</u>
 DISTRIBUTION EXPENSES	
Miscellaneous Distribution Expenses	<u>44,939</u>
 CUSTOMER ACCOUNTS	
Customer Records and Collection Expenses	95,910
Meter Reading Expense	3,224
Uncollectible Accounts	<u>12,952</u>
Total Customer Accounts	<u>112,086</u>
 GENERAL AND ADMINISTRATIVE EXPENSES	
Administrative and General Salaries	7,666
Office Supplies and Expenses	13,704
Outside Services Employed	6,762
Property Insurance	6,585
Employees Pensions and Benefits	240,273
Dues, Meetings, and Other General Expenses	1,839
Transportation Expense	<u>46,695</u>
Total General and Administrative Expenses	<u>323,524</u>
 MAINTENANCE EXPENSES	
Maintenance of Lines	301,823
Maintenance - Other	<u>4,332</u>
Total Maintenance Expenses	<u>306,155</u>
 TOTAL OPERATION AND MAINTENANCE EXPENSES	 <u><u>\$ 1,617,425</u></u>

See Independent Auditors' Report