

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

**TOWN OF CHESTER
MUNICIPAL ELECTRIC LIGHT
DEPARTMENT**

Report on Examination of the
Basic Financial Statements
and Additional Information
Year Ended December 31, 2024



TOWN OF CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT

TABLE OF CONTENTS YEAR ENDED DECEMBER 31, 2024

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1 – 3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4 – 7
<u>BASIC FINANCIAL STATEMENTS:</u>	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Basic Financial Statements	11– 22
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Schedule of the Department's Proportionate Share of the Net Pension Liability	23
Schedule of the Department's Contributions to Pension Plan	23



INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Commissioners
Town of Chester Municipal Electric Light Department
Chester, Massachusetts

Opinions

We have audited the accompanying financial statements of the Chester Municipal Electric Light Department (the "Department"), of the Town of Chester, Massachusetts, as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Department as of December 31, 2024, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules listed under the required supplementary information section in the accompanying table of contents 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.

Roselli, Clark & Associates

Roselli, Clark and Associates
Certified Public Accountants
Woburn, Massachusetts
November 15, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the financial statements, the management of the Town of Chester Municipal Electric Light Department (the Department) provides a narrative discussion of the amounts that appear in the Department's Statement of Net Position, Statement of Revenues, Expense and Changes in Net Position and Statement of Cash Flows. This discussion is provided to present an overview of the Department's year-end financial position for December 31, 2024, and the results of operations for the year then ended.

Financial Highlights

- The Department's assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by over \$1.9 million (*total net position*).
- The Department's total net position decreased by approximately \$0.1 million due to negative operations.
- The total unrestricted net position at December 31, 2024, represents approximately 20.1% of the total combined operating and nonoperating expenses for 2024.

Overview of the Financial Statements

The Department's basic financial statements include one fund type, a proprietary fund type for all Department activity. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The proprietary fund includes a Statement of Net Position, Statement of Revenues, Expense and Changes in Net Position and Statement of Cash Flows. Notes follow these financial statements to present additional information on some of the amounts in the financial statements. Financial highlights from these statements are presented below.

Proprietary: Business-Type Fund – This is the singular fund maintained by the Department that accounts for and reports on the operations. The following statements and their applicable purposes are reported:

- The Statement of Net Position is designated to indicate our financial position as of a specific point in time.
- The Statement of Revenues, Expenses and Changes in Net Position shows our operating results and reveals how much, if any, profit was made for the year.
- The Statement of Cash Flows provides information about the cash receipts and cash payments during the year. A review of our Statement of Cash Flows indicates whether cash receipts from operating activities covered our operating expenses.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided within these financial statements.

Other Information – In addition, this report also presents certain required supplementary information which includes the schedules of the Department’s proportionate share of the net pension liability, contributions to its pension plan.

Financial Analysis

The condensed and comparative statement of net position is as follows:

	<u>2024</u>	<u>2023</u>
<u>Assets</u>		
Current and other assets	\$ 1,134,874	\$ 945,581
Noncurrent assets	1,540,612	1,608,913
Total assets	<u>2,675,486</u>	<u>2,554,494</u>
<u>Deferred Outflows of Resources</u>	<u>230,296</u>	<u>372,025</u>
<u>Liabilities</u>		
Current liabilities	137,944	90,032
Long-term liabilities	694,565	845,210
Total liabilities	<u>832,509</u>	<u>935,242</u>
<u>Deferred Inflows of Resources</u>	<u>145,069</u>	<u>666,633</u>
<u>Net Position</u>		
Net investment in capital assets	843,923	920,475
Restricted	696,689	688,438
Unrestricted	<u>387,592</u>	<u>(284,269)</u>
Net position	<u>\$ 1,928,204</u>	<u>\$ 1,324,644</u>

Net position may serve over time as a useful indicator of the Department’s financial positions. The assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by approximately \$1.9 million (*total net position*). Of the total net position, an amount of nearly \$0.4 million was reported as unrestricted, and therefore available for spending.

The Department is reporting annual pension expenses on an actuarially determined basis and recognizes its share of the Hampden Regional Retirement System’s unfunded liability in the financial statements. The Department is reporting a net pension liability of nearly \$0.7 million (compared to over \$0.8 million last year), deferred outflows of resources related to pensions of over \$230 thousand and deferred inflows of resources related to pensions of over \$145 thousand.

Over \$0.8 million of the Department’s overall net position reflects its net investment in capital assets (e.g. land, buildings, infrastructure, vehicles, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The Department uses these capital assets to provide services to users; consequently, these assets are not available for future spending. Although the Department’s investment in its capital assets is reported net of related debt.

The condensed and comparative statement of revenues, expenses and changes in net position is as follows:

	2024	2023
<u>Revenues</u>		
Charges for services	\$ 1,325,861	\$ 1,331,758
Other revenues	20,821	-
Interest and investment income	19,475	18,760
Total revenues	1,366,157	1,350,518
<u>Expenses</u>		
Purchase power and production	855,538	1,592,888
Other expenses	516,782	12,782
Depreciation	81,655	81,220
Total expenses	1,453,975	1,686,890
Increase in net position	(87,818)	(336,372)
Net position, beginning of year, as restated	2,016,022	1,661,016
Net position, end of year	\$ 1,928,204	\$ 1,324,644

This statement shows a total decrease in net position of nearly \$0.1 million for the year ended December 31, 2024, compared with an decrease of approximately \$0.3 million for the year ended December 31, 2023.

Revenues for 2024 were nearly \$1.4 million, an increase of nearly \$16 thousand (1.2%). Overall revenues were consistent with the prior year.

Expenses for 2024 were nearly \$1.5 million, a decrease of over \$0.2 million (13.8%). The primary activity resulting in this change was a decrease in power costs.

Capital Assets & Debt Administration

Capital Assets – Total net capital assets were over \$0.8 million at December 31, 2024 and over \$0.9 million at December 31, 2023, an decrease of 8.3%. Capital assets include land, buildings, structures and improvements, equipment and furnishings and infrastructure. There were limited additions in 2024; therefore, depreciation was more than additions for the year resulting in the decrease in net capital assets. Reported depreciation for 2024 was approximately \$0.1 million and 2023 was approximately \$0.1 million.

Long-Term Debt – The Department has no outstanding debt at December 31, 2024, nor was any debt outstanding during the year.

Economic Factors and Next Year’s Budgets and Rates

- The Town’s housing market has been very strong for the past several years, which is a factor impacting the purchasing power from a household’s income, even with household members being employed. This has made the future economic outlook challenging to anticipate and plan for customer energy consumption behaviors.

- Inflation is peaking near 40-year historic highs. While the Department is effectively controlling this process, there can be no assurances that wages, supplies, services, construction and energy will remain at stable levels. The Department continues to monitor this situation
- The Department has established an appropriation budget of over \$1.5 million for 2025.
- The Department did not increase the rates for the start of 2025, and the Board does not expect to increase them at any time later in 2025.

Requests for Information

This financial report is designed to provide a general overview of the Chester Municipal Electric Light Department's finances for all those interested in the Department's financial operations. Questions concerning any of the information in this report or requests for additional financial information should be addressed to:

Town of Chester Municipal Electric Light Department
Attn: Manager
15 Middlefield Road
Chester, MA 01011

TOWN OF CHESTER MUNICIPAL ELECTRICT LIGHT DEPARTMENT

**STATEMENT OF NET POSITION
DECEMBER 31, 2024**

Assets	
Current assets:	
Cash and cash equivalents - unrestricted	\$ 642,925
User charges receivable, net	182,475
Prepaid expenses	122,238
Inventory	<u>187,236</u>
Total current assets	<u>1,134,874</u>
Noncurrent assets:	
Cash and cash equivalents - restricted	696,689
Capital assets, net	<u>843,923</u>
Total noncurrent assets	<u>1,540,612</u>
Total Assets	<u><u>2,675,486</u></u>
Deferred Outflows of Resources	
Deferred outflows related to pensions	<u>230,296</u>
Total Deferred Outflows of Resources	<u>230,296</u>
Liabilities	
Current liabilities:	
Accounts payable	122,696
Customer deposits	12,400
Accrued compensated absences	<u>2,848</u>
Total current liabilities	<u>137,944</u>
Noncurrent liabilities:	
Accrued compensated absences	8,544
Net pension liability	<u>686,021</u>
Total noncurrent liabilities	<u>694,565</u>
Total Liabilities	<u>832,509</u>
Deferred Inflows of Resources	
Deferred inflows related to pensions	<u>145,069</u>
Total Deferred Inflows of Resources	<u>145,069</u>
Net Position	
Net investment in capital assets	843,923
Restricted for depreciation	696,689
Unrestricted	<u>387,592</u>
Total Net Position	<u><u>\$ 1,928,204</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CHESTER MUNICIPAL ELECTRICT LIGHT DEPARTMENT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2024

Operating Revenues	
Charges for services	\$ 1,325,861
Other operating revenues	20,821
	20,821
Total operating revenues	1,346,682
Operating Expenses	
Purchased power and production	855,538
Other operating expenses	504,645
Depreciation	81,655
	81,655
Total operating expenditures	1,441,838
Operating Income (Loss)	(95,156)
Nonoperating Revenues (Expenses)	
Investment income (loss)	19,475
Payment in lieu of taxes	(12,137)
	(12,137)
Total nonoperating revenues (expenses)	7,338
Change in Net Position	(87,818)
Net Position, Beginning of Year, as restated	2,016,022
Net Position, End of Year	\$ 1,928,204

The notes to the financial statements are an integral part of this statement.

TOWN OF CHESTER MUNICIPAL ELECTRICT LIGHT DEPARTMENT

**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2024**

Cash Flows from Operating Activities	
Cash received from customers	\$ 1,321,505
Cash paid to suppliers	(1,072,252)
Cash paid to employees	<u>(250,929)</u>
Net Cash Used in Operating Activities	<u>(1,676)</u>
Cash Flows from Noncapital Financing Activities	
Payment in lieu of taxes	<u>(12,137)</u>
Net Cash Used in Noncapital Financing Activities	<u>(12,137)</u>
Cash Flows from Investing Activities	
Interest and investment income (loss), net	19,475
Purchase and sales of investments, net	<u>-</u>
Net Cash Provided by Capital and Related Financing Activities	<u>19,475</u>
Cash Flows from Capital and Related Financing Activities	
Capital expenditures	<u>(5,102)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(5,102)</u>
Net Change in Cash and Cash Equivalents	560
Cash and Cash Equivalents, Beginning of Year	<u>1,339,054</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,339,614</u></u>
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:	
Operating Income	\$ (95,156)
Adjustments to reconcile Operating Income to net cash provided by (used in) operating activities:	
Depreciation	81,655
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Receivables	(28,327)
Prepaid expenses	(7,199)
Inventory	(68,387)
Deferred outflows of resources	141,729
Accounts payable	44,055
Customer deposits	3,150
Net pension liability	(149,939)
Deferred inflows of resources	<u>76,743</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (1,676)</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2024

I. Summary of Significant Accounting Policies

The basic financial statements of the Town of Chester Municipal Electric Light Department (the Department) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local governmental entities.

The Department's accounting records are required to conform to the accounting standards set by the Commonwealth of Massachusetts Department of Public Utilities (DPU), which differ from GAAP. Certain adjustments have been made to present the Department's financial statements in accordance with GAAP.

The following is a summary of the more significant policies and practices used by the Department:

A. Reporting Entity and Regulation

The Department was incorporated in 1910. The Department operates under the provisions of Chapter 164 of the Massachusetts General Laws with an elected three-person Board of Light Commissioners. The Department is presented as an enterprise fund in the Town of Chester, Massachusetts' financial statements; however, they do not purport to, and do not, present fairly the financial position of the Town of Chester, Massachusetts as of December 31, 2024, and the changes in its financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

The Department provides electric light services for the territory within its boundaries. These services are funded almost entirely with user charges. Under Massachusetts law, electric rates of the Department are set by the Board of Commissioners and may be changed once every three months. Rate schedules are filed with the DPU. While the DPU exercises general supervisory authority over the Department, rates are not subject to DPU approval. Rates must be set such that net earnings from operations do not exceed 8% of the cost of utility Department unless prior year losses are being recaptured.

B. Fund Financial Statements

All of the activities of the Department are reported in proprietary fund type financial statements and include a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

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 are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Deposits and Investments – The Department's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Department are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of its investments is recognized as an increase or decrease to investment assets and investment income.

Investment Income – All investment income is part of the Department's proprietary fund.

Receivables – The Department bills its customers for electric usage on a monthly basis. These are recorded as accounts receivable and revenue when billed.

Prepaid Expenses – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Most of the prepaid expense amount represents deposit used to facilitate timely payments of power supply invoices.

Inventories – Inventories, which are not material to the basic financial statements, are considered expenditures at the time of purchase. The Department has recorded an estimated amount of its materials and supplies inventory on hand at the end of the year in its financial statements.

Capital Assets – Capital assets, which include land, buildings and improvements, vehicles, machinery and equipment, and infrastructure (e.g., transformers, poles and other utility Department), are the other category reported as noncurrent assets on the statement of net position.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The DPU requires that the Department depreciate its capital assets at a statutory rate of up to 3%; however, a rate up to 5% is allowed with prior year DPU approval. The Department utilized a 3% rate for 2024. This depreciation method approximated GAAP.

Customer Deposits – The Department retains a deposit from certain customers based on the ownership status of the customer's property. Deposits are returned, with interest, once the customer no longer requires electric service and had fully paid its charges to the Department.

Compensated Absences – Employees can carry over up to 80 hours of vacation time (unless additional time is approved by the Manager) and 30 days of sick time to the subsequent year. Employees who retire from the Department are eligible to buy back their accumulated sick leave and all of their vacation. Compensated absence liabilities are accrued when incurred.

Long-Term Obligations – Long-term debt is reported as liabilities in the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount. There was no such bond or notes payable items outstanding in 2024. The Department does report long-term obligations for employee compensated absences and net pension liability.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The Department only has one type of items that qualify for reporting as deferred outflows of resources reported on the statement of net position that relates to outflows from changes in the net pension and. These outflows will be recognized in pension and benefits expense in future years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Department has one type of items which qualify for reporting in this category. These relate to inflows from changes in the net pension a, which will be recognized in pension and benefits expense in future years.

Net Position – Net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net position has been *restricted* for the following:

Depreciation fund is a statutorily required fund under Chapter 164 of the Commonwealth of Massachusetts General Laws (MGL), maintained by the Department within a segregated bank account. Initially established to help assure that sufficient funds will be available for capital improvement funding purposes, with subsequent MGL revisions expanding the available use of funds into other non-capital purposes in certain circumstances. The restricted balance of the Depreciation Fund was \$696,689 as of December 31, 2024.

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 Essex 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. Investments are reported at fair value.

Operating Revenues – Revenues are based on rates established by the Department and are applied to customers’ consumption of electricity. The Department utilizes a fuel cost adjustment, whereby fluctuations in the cost of power can be adjusted monthly on customer bills without a change to the basic rate structure. All customers are allowed a discount on a portion of their electric bill if paid within fifteen days which is recorded as revenue when forfeited. If the 15th day falls on a non-business day, this discount is extended to the next business day.

Taxes – The Department is exempt from state and federal income taxes and local property taxes. The Department pays an in lieu of tax payment to the Town of Chester, Massachusetts based on an agreed pre-determined calculation. During the year, the Department paid to the Town an amount of \$12,137 under this payment in lieu of tax agreement.

F. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

II. Detailed Notes

A. Deposits and Investments

State laws and regulations require the Department to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer’s investment pool (“the Pool”). In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Department did not enter into any repurchase agreements.

Separate accounts are maintained for the Department’s depreciation fund, which are designations allowed per DPU regulations and state statutes. The depreciation fund is recorded as restricted cash and investments in the financial statements as it is available only to finance capital asset (utility Department) additions. Operating cash is pooled with Town funds in various Town bank accounts.

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. At year-end, the carrying amount of the Department's segregated bank deposits was \$1,338,342; and the bank balance was \$1,301,722. Of the Department's bank balance all except \$196,689 of the deposit were covered by either federal depository insurance or by the depositors’ insurance fund.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Department may not be able to recover the full amount of its principal investment and/or investment earnings.

The Department's investments are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty.

Fair Value of Investments – The Department reports its investments at fair value. When actively quoted observable prices are not available, the Department generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The Department categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.
- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- *Level 3* – Inputs reflect the Department's best estimate of what market participants would use in pricing the investment at the measurement date.

The Department's had no investments carried at fair value in the statement of net position at December 31, 2024.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Such securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments, through fair value losses arising from increasing interest rates. The Department does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

At December 31, 2024, the Department had no investments with future maturity.

Concentration of Credit Risk – The Department does not place a limit on the amount that may be invested in any one issuer. The Department does not maintain balances in any single investment that would represent more than 5% of the Department's total investments.

Credit Risk – The Department has not adopted a formal policy related to credit risk.

At December 31, 2024, there were no investments with credit quality ratings.

B. Receivables

Department receivables as of year-end, including the applicable allowance for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Receivables:			
Customer user charges	\$ 183,747	\$ -	\$ 183,747
Total	<u>\$ 183,747</u>	<u>\$ -</u>	<u>\$ 183,747</u>

The Department also records amounts related to power used by customers but not billed at year end. Total unbilled revenue was \$141,698 as of December 31, 2024, and has been included in the amount above.

C. Prepaid Expenses

The Department reports amounts paid in advance to power providers and to service providing vendors as prepaid expenses. Most of these represent payments to facilitate timely payment of outside entities' power supply and facility development invoices. At December 31, 2024, prepaid expenses totaled \$122,238.

D. Capital Assets

Capital assets for the year ended December 31, 2024 were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,066	\$ -	\$ -	\$ 2,066
Total capital assets not being depreciated	<u>2,066</u>	<u>-</u>	<u>-</u>	<u>2,066</u>
Capital assets being depreciated:				
Buildings	103,411	-	-	103,411
Infrastructure	1,751,352	4,406	-	1,755,758
Vehicles, machinery and equipment	861,966	696	-	862,662
Total capital assets being depreciated	<u>2,716,729</u>	<u>5,102</u>	<u>-</u>	<u>2,721,831</u>
Less accumulated depreciation for:				
Buildings	(92,770)	(3,102)	-	(95,872)
Infrastructure	(1,211,565)	(53,143)	-	(1,264,708)
Vehicles, machinery and equipment	(493,984)	(25,410)	-	(519,394)
Total accumulated depreciation	<u>(1,798,319)</u>	<u>(81,655)</u>	<u>-</u>	<u>(1,879,974)</u>
Total capital assets being depreciated, net	<u>918,410</u>	<u>(76,553)</u>	<u>-</u>	<u>841,857</u>
Total capital assets, net	<u>\$ 920,476</u>	<u>\$ (76,553)</u>	<u>\$ -</u>	<u>\$ 843,923</u>

E. Temporary Debt

The Department is authorized to borrow on a temporary basis to fund the following:

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

There was no temporary debt outstanding during 2024.

F. Long-Term Obligations

The Department issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. Bonds are direct obligations and pledge the full faith and credit of the Town. Additionally, the Department incurs various other long-term obligations relative to associated personnel costs.

The following reflects the current year activity in the long-term liability accounts:

<u>Long-Term Obligations</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Compensated absences	\$ 4,492	\$ 8,023	\$ (1,123)	\$ 11,392	\$ 2,848
Net pension liability	835,960	394,645	(544,584)	686,021	-
Total	<u>\$ 840,452</u>	<u>\$ 402,668</u>	<u>\$ (545,707)</u>	<u>\$ 697,413</u>	<u>\$ 2,848</u>

The Department had no bond or note debt outstanding during 2024.

II. Other Information

A. Retirement System

Plan Description – The Department contributes to the Hampden County Regional Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and administered by the Hampden County Regional Retirement Board. Stand-alone audited financial statements for the year ended December 31, 2023, were issued and may be obtained by writing to the Hampden County Regional Retirement System, 67 Hunt Street, Suite 202, Agawam, MA 01001.

Membership – Membership in the System as of December 31, 2023, was as follows:

Retired, beneficiary, and survivor	2,037
Inactive members entitled to a return of contributions	1,167
Active members	<u>2,674</u>
Total	<u><u>5,878</u></u>

Benefit Terms – The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. 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 directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Membership in the System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Members of the System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform, with certain exceptions, from retirement system to retirement system. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year or five-year average annual rate of regular compensation, depending on the participant's date of hire. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

Contributions Requirements – The System has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040 (the System's current funding schedule allows for full funding by June 30, 2035). Under the provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Department contributed \$67,595 to the System in 2024, which was the actuarially determined contribution requirement for the year. The Department's contributions as a percentage of covered payroll were approximately 32.1%.

Net Pension Liability – At December 31, 2024, the Department reported a liability of \$686,021 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2024. These figures were updated by the independent actuary as of December 31, 2023. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System's benefit terms since the actuarial valuation.

The Department's proportion of the net pension liability is based on a projection of the Department's long-term share of contributions to the System relative to the projected contributions of all employers. The Department's proportion was approximately 0.16% at December 31, 2023.

Pension Expense – The Department recognized \$136,128 in pension expense in the statement of revenues, expenses and changes in net position in fiscal year 2024.

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2024, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to measurement date	\$ 95,816	\$ -
Changes in assumptions	21,229	-
Differences between expected and actual earnings	30,864	-
Changes in proportion differences	76,305	139,474
Differences between expected and actual experience	6,082	5,595
Totals	<u>\$ 230,296</u>	<u>\$ 145,069</u>

The deferred outflows of resources and deferred inflows of resources are expected to be recognized in the Department's pension expense as follows:

Year Ended December 31,	Amount
2025	\$ 99,279
2026	5,846
2027	29,052
2028	(30,513)
2029	(18,437)
Total	<u>\$ 85,227</u>

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 plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates and the member rate. Based on those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future 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.

Actuarial Valuation – The measurement of the System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2024, and used the following significant actuarial assumptions:

Investment Rate of Return	Full prefunding: 7.00% per year, net of investment expenses
Discount Rate	7.00%
Wage Inflation	3.25%
Salary Increases	Varies by length of service with ultimate rates of 4.00% for Group 1, 4.25% for Group 2 and 4.50% for Group 4
Cost of Living Adjustment	5% of first \$18,000 in 2023 and thereafter
Pre-Retirement Mortality	RP-2014 Employee Mortality Table projected generationally with Scale MP-2021
Post-Retirement Mortality	RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale MP-2021
Disabled Retiree Mortality	RP-2014 Healthy Annuitant Mortality Table set forward one year projected generationally with Scale MP-2021

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns 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. The target allocations and projected arithmetic real rates of return for each major asset class after deducting inflation, but before investment expenses, are summarized in the following table:

Asset Class	Target Allocation	Expected Investment Rate of Return
Domestic Equity	22.00%	6.29%
International Developed Markets Equity	9.50%	6.39%
International Emerging Markets Equity	4.50%	7.63%
Core Fixed Income	15.00%	1.72%
High-Yield Fixed Income	9.00%	3.43%
Private Equity	16.00%	9.43%
Real Estate	10.00%	3.24%
Timberland	4.00%	3.72%
Hedge Funds, PCS	10.00%	2.87%
	100.00%	

Sensitivity Analysis – The following presents the Department’s proportionate share of the net pension liability calculated using the current discount rate as well as using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Net Pension Liability - Discount Rate			
Current Rate	1% lower	Current	1% greater
7.00%	\$ 858,426	\$ 686,021	\$ 540,827

B. Risk Financing

The Department is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Department carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The Department participates in a health insurance risk pool sponsored by the Town and administered by Group Insurance Commission of the Commonwealth of Massachusetts (GIC) (the Group). The Town offers a variety of premium based plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the Group. In the event the Group is terminated, the Department would be obligated to pay its proportionate share of a deficit through the Town, should a deficit exist.

C. Commitments and Contingencies

The Department is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at December 31, 2024, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Department at December 31, 2024.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Department expects such amounts, if any, to be immaterial.

The Department is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties.

Other

The Department purchases its power through contracts with various power suppliers, including Energy New England and MMWEC. These contracts are subject to certain market factors. Based on current market conditions, the Department anticipates some stability to its power cost expenses over the next few years.

IV. Implementation of New GASB Pronouncements

Current Year Implementations

In June 2022, the GASB issued GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to update the recognition and measurement guidance for compensated absences by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2023 (fiscal year 2025). The adoption of this account standard did not have a material impact on the financial statements.

In December 2023, the GASB issued GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2024 (fiscal year 2025). The adoption of this account standard did not have a material impact on the financial statements.

Future Year Implementations

In April 2024, the GASB issued GASB Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2025 (fiscal year 2026). The department is currently evaluating whether adoption will have a material impact on its financial Statements.

In September 2024, the GASB issued GASB Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2025 (fiscal year 2026). The department is currently evaluating whether adoption will have a material impact on its financial Statements.

V. Restatement

As of December 31, 2023, the Department has begun recognizing an additional accrued revenue for the unbilled receivable (which is calculated on a fiscal year ending June 30th annually). Additionally, the Department optioned to begin to include the contribution in aid as fund balance.

The following table illustrates the effect of the net position restatement:

Prior year Net Position as presented	\$ 1,324,644
Restate: Additional accrual of unbilled receivable	93,071
Restate: Deferred inflow of resources - contribution in aid	<u>598,307</u>
Net Position as restated	<u>\$ 2,016,022</u>

TOWN OF CHESTER MUNICIPAL ELECTRICT LIGHT DEPARTMENT

**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED DECEMBER 31, 2024**

SCHEDULE OF THE DEPARTMENT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year Ended December 31,	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2024	0.160%	\$ 686,021	\$ 210,552	325.82%	55.12%
2023	0.190%	835,960	248,661	336.18%	52.02%
2022	0.200%	695,533	251,272	276.80%	60.81%

SCHEDULE OF THE DEPARTMENT'S CONTRIBUTIONS TO PENSION PLAN

Year Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2024	\$ 67,595	\$ 67,595	\$ -	\$ 210,552	32.10%
2023	74,306	74,306	-	248,661	29.88%
2022	72,424	72,424	-	251,272	28.82%

These schedules are presented to illustrate the requirement to show information for ten years. However until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditors' report.