

**TOWN OF LITTLETON, MASSACHUSETTS
LITTLETON MUNICIPAL LIGHT DEPARTMENT**

Annual Financial Statements
For the Year Ended December 31, 2020

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Town of Littleton Municipal Light Department

Report on the Financial Statements

We have audited the accompanying financial statements of the Town of Littleton Municipal Light Department (the Department) (an enterprise fund of the Town of Littleton), and the Other Employment Benefits (OPEB) Fiduciary fund, as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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



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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Town of Littleton Municipal Light Department and the OPEB fiduciary fund information as of December 31, 2020, 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.

Other Matters

Required Supplementary Information

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



Andover, Massachusetts
November 9, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Town of Littleton Municipal Light Department's (the Department) annual financial report, management provides a narrative discussion and analysis of the Department's financial activities for the year ended December 31, 2020. 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 Proprietary Fund Statement of Net Position, (2) the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position, (3) the Proprietary Fund Statement of Cash Flows, (4) the Fiduciary Fund Statement of Fiduciary Net Position, (5) the Fiduciary Fund Statement of Changes in Fiduciary Net Position, and (6) Notes to Financial Statements.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise funds. The Department uses an enterprise fund to account for its electric operations.

Enterprise funds are used when laws or regulations require the activity's costs of providing services be recovered with fees and charges, and the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation. The primary focus is on fees charged to external users.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the proprietary fund financial statements because the resources of those funds are not available to support the Department's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Department uses a fiduciary fund to account for its OPEB Trust Fund. The fund is used to accumulate resources to provide funding for future OPEB liabilities.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information related to pension and OPEB which is required to be disclosed by accounting principles generally accepted in the United States of America.

Financial Highlights

The Proprietary Fund Statement of Net Position is designed to indicate our financial position at a specific point in time. At December 31, 2020, it shows our net worth of \$37,304,801 which comprises \$31,955,151 invested in capital assets, \$2,336,977 restricted for depreciation fund, and \$3,012,673 unrestricted.

The Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position summarize our operating results and reveal how much, if any, of a profit was earned for the year. As discussed in more detail below, our net profit for the year ended December 31, 2020 was \$2,514,918.

The Proprietary Fund Statement of Cash Flows provide information about cash receipts, cash payments, investing, and financing activities during the accounting period. A review of our Proprietary Fund Statement of Cash Flows indicates that cash receipts from operating activities adequately covered our operating expenses in the year ended December 31, 2020.

The following is a summary of the Department's financial data for the year ended December 31, 2020 (in thousands).

Summary of Net Position

	<u>2020</u>	<u>2019</u>
Assets:		
Current and other assets	\$ 16,703	\$ 20,028
Capital assets	<u>31,955</u>	<u>26,291</u>
Total assets	48,658	46,319
Deferred outflows of resources	1,692	2,142
Liabilities:		
Long-term liabilities	9,450	10,411
Other liabilities	<u>2,449</u>	<u>2,821</u>
Total liabilities	11,899	13,232
Deferred inflows of resources	1,146	722
Net position:		
Net investment in capital assets	31,955	26,291
Restricted for depreciation fund	2,337	2,744
Unrestricted	<u>3,013</u>	<u>5,472</u>
Total net position	<u>\$ 37,305</u>	<u>\$ 34,507</u>

Summary of Change in Net Position

	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 29,683	\$ 31,342
Operating expenses	<u>(27,443)</u>	<u>(30,164)</u>
Operating income	2,240	1,178
Non-operating revenues, net of expenses	<u>1,035</u>	<u>1,090</u>
Income Before Contributions and Other Items	3,275	2,268
Return on investment to Town of Littleton	<u>(760)</u>	<u>(760)</u>
Change in net position	2,515	1,508
Beginning net position, as restated	<u>34,790</u>	<u>32,999</u>
Ending net position	<u>\$ 37,305</u>	<u>\$ 34,507</u>

For the year ended December 31, 2020 electric sales were \$29,550,383, a decrease of 5% from the prior year. For the year ended December 31, 2020, kilowatt hours sold were 232,249,755, a decrease of 17% from the prior year.

Operating expenses totaled \$27,443,211 for the year ended December 31, 2020, a decrease of 9% from the prior year. The largest portion of this total, \$19,591,797, was for purchase power costs. Other operating expenses included \$6,625,480 for general, operating and maintenance costs, and depreciation expense of \$1,225,934. For the year ended December 31, 2020 the depreciation rate was 3.0%. Change in net position of \$2,514,918 results primarily from rates and charges set at a level to fund future capital improvements.

For the year ended December 31, 2020, the Department contributed \$50,000 to the Other Post-Employment Benefits Trust (“OPEB Trust”). Additional information on the Department’s OPEB Trust Fund can be found in corresponding note on page 27 of this report.

Capital Asset and Debt Administration

Capital Assets

Total investment in land at year end amounted to \$1,312,676. Total investment in depreciable capital assets at year-end amounted to \$30,642,475 (net of accumulated depreciation), an increase of \$7,343,372 from the prior year. This increase is primarily due to new generators that were purchased in 2020. This investment in depreciable capital assets includes structures and improvements, equipment and furnishings, and infrastructure assets.

Debt and Other Long-Term Obligations

At the end of the current fiscal year, the Department had no outstanding bonded debt.

Additional information on capital assets and other long-term obligations can be found in the Notes to Financial Statements.

Requests for Information

This financial report is designed to provide a general overview of the Town of Littleton Municipal Light Department's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Business Manager

Town of Littleton Municipal Light Department

39 Ayer Road

P.O. Box 2406

Littleton, Massachusetts 01460

TOWN OF LITTLETON, MASSACHUSETTS
MUNICIPAL LIGHT DEPARTMENT

Enterprise Fund
Statement of Net Position
December 31, 2020

Assets

Current:

Unrestricted cash and short-term investments	\$ 4,596,466
Accounts receivable:	
Customer, net of allowance for uncollectable	3,274,494
Other	14,401
Prepaid expenses	1,285,428
Inventory	<u>891,095</u>
Total current assets	10,061,884
Noncurrent:	
Restricted cash and short-term investments	382,744
Restricted investments	6,258,001
Capital assets:	
Land and construction in progress	1,312,676
Other capital assets, net of accumulated depreciation	<u>30,642,475</u>
Total noncurrent assets	<u>38,595,896</u>
Total Assets	48,657,780

Deferred Outflows of Resources

Related to pensions	847,210
Related to OPEB	<u>844,744</u>
Total Deferred Outflows of Resources	1,691,954

Liabilities

Current:

Accounts payable	2,131,552
Accrued liabilities	126,301
Customer deposits	191,350
Current portion of long-term liabilities:	
Compensated absences	<u>54,640</u>
Total current liabilities	2,503,843
Noncurrent:	
Net pension liability	7,661,454
Net OPEB liability	1,638,568
Compensated absences	<u>95,140</u>
Total noncurrent liabilities	<u>9,395,162</u>
Total Liabilities	11,899,005

Deferred Inflows of Resources

Related to pensions	596,530
Related to OPEB	<u>549,398</u>
Total Deferred Inflows of Resources	<u>1,145,928</u>

Net Position

Net investment in capital assets	31,955,151
Restricted for:	
Depreciation fund	2,336,977
Unrestricted	<u>3,012,673</u>
Total Net Position	<u>\$ 37,304,801</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LITTLETON, MASSACHUSETTS
MUNICIPAL LIGHT DEPARTMENT

Enterprise Fund
 Statement Of Revenues, Expenses, And Changes In Net Position
 For the Year Ended December 31, 2020

Operating Revenues

Electric sales	\$ 29,550,383
Other operating revenues	<u>132,251</u>
Total Operating Revenues	29,682,634

Operating Expenses

Purchase power	19,591,797
Operating	1,452,715
Maintenance	1,065,234
General and administrative	4,107,531
Depreciation	<u>1,225,934</u>
Total Operating Expenses	<u>27,443,211</u>
Operating Income	2,239,423

Nonoperating Revenues (Expenses)

Interest income	280,211
Merchandising and jobbing	218,365
Intergovernmental	54,703
Hurricane disaster areas	(42,898)
Contribution of services to Water Department	(317,989)
Contribution to Schools and Towns	(41,271)
Other	<u>884,374</u>
Total Nonoperating Revenues	<u>1,035,495</u>
Income Before Transfers	3,274,918
Return on investment transfer to Town of Littleton	<u>(760,000)</u>
Change in Net Position	2,514,918
Net Position at Beginning of Year, as restated	<u>34,789,883</u>
Net Position at End of Year	<u>\$ 37,304,801</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LITTLETON, MASSACHUSETTS
MUNICIPAL LIGHT DEPARTMENT

Enterprise Fund
 Statement of Cash Flows
 For the Year Ended December 31, 2020

Cash Flows From Operating Activities

Receipts from customers and users	\$ 30,088,091
Payments to vendors and employees	<u>(27,465,752)</u>
Net Cash Provided By Operating Activities	2,622,339

Cash Flows From Noncapital Financing Activities

Return on investment to Town of Littleton	(760,000)
Other	<u>700,581</u>
Net Cash (Used For) Noncapital Financing Activities	(59,419)

Cash Flows From Capital and Related Financing Activities

Acquisition and construction of capital assets	(6,890,104)
Intergovernmental revenues	<u>54,703</u>
Net Cash (Used For) Capital and Related Financing Activities	(6,835,401)

Cash Flows From Investing Activities

Investment income	280,211
Decrease in investments	<u>2,593,707</u>
Net Cash Provided By Investing Activities	<u>2,873,918</u>
Net Change in Cash and Short-Term Investments	(1,398,563)
Cash and Short-Term Investments, Beginning of Period	<u>6,377,773</u>
Cash and Short-Term Investments, End of Period	<u>\$ 4,979,210</u>

Reconciliation of Operating Income to Net Cash

Operating income	\$ 2,239,423
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,225,934
Changes in assets, liabilities, and deferred outflows/inflows	
Accounts receivable	407,182
Prepaid and other assets	(1,089,988)
Inventory	16,105
Deferred outflows - related to pensions	806,413
Deferred outflows - related to OPEB	(422,397)
Accounts payable and accrued liabilities	(369,853)
Customer deposits	(1,725)
Net pension liability	(19,764)
Net OPEB liability	(91,398)
Deferred inflows - related to pensions	(522,561)
Deferred inflows - related to OPEB	76,189
Other	<u>368,779</u>
Net Cash Provided By Operating Activities	<u>\$ 2,622,339</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LITTLETON, MASSACHUSETTS
MUNICIPAL LIGHT DEPARTMENT

Fiduciary Fund – Other Post-Employment Benefits Trust
Statement of Fiduciary Net Position
December 31, 2020

	<u>Other Post Employment Benefits Trust Fund</u>
Assets	
Cash and short-term investments	\$ 160,980
Investments:	
Corporate equities	2,163,318
Fixed income mutual funds	<u>729,024</u>
Total investments	<u>2,892,342</u>
Total Assets	<u>3,053,322</u>
Net Position	
Total net position held in trust for other post employment benefits	\$ <u>3,053,322</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LITTLETON, MASSACHUSETTS
MUNICIPAL LIGHT DEPARTMENT

Fiduciary Funds
Statement Of Changes In Fiduciary Net Position
For the Year Ended December 31, 2020

Other Post
 Employment
 Benefits
Trust Fund

Additions

Contributions:	
Employers	\$ <u>404,999</u>
Total Contributions	404,999
Investment Income:	
Investment income	<u>369,616</u>
Net investment income	<u>369,616</u>
Total additions	<u>774,615</u>

Deductions

Benefit payments to plan members, beneficiaries and other systems	<u>354,999</u>
Total deductions	<u>354,999</u>
Net increase	419,616

Net position restricted for OPEB purposes

Beginning of year	<u>2,633,706</u>
End of year	<u>\$ 3,053,322</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LITTLETON, MASSACHUSETTS MUNICIPAL LIGHT DEPARTMENT

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The significant accounting policies of the Town of Littleton Municipal Light Department (the Department) (an enterprise fund of the Town of Littleton, Massachusetts) are as follows:

Business Activity

The Department purchases electricity for distribution to more than 7,500 customers within the towns of Littleton, and Boxborough. The Department is governed by a five-member Board of Commissioners. Commissioners are elected by Littleton votes to a three-year term. Commissioners select and support Department management as well as establish policies and procedures to assure long-term consistent service to the rate-paying public.

Regulation and Basis of Accounting

Under Massachusetts General Laws, the Department's electric rates are set by the Municipal Light Board. Electric rates, excluding the purchase power charge, cannot be changed 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 Department, the Department's rates are not subject to DPU approval. The Department's policy is to prepare its financial statements in conformity with generally accepted accounting principles.

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 liabilities are incurred.

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

Concentrations

The Department operates within the electric utility industry. In 1998, the Commonwealth of Massachusetts enacted energy deregulation legislation that restructured the Commonwealth's electricity industry to foster competition and promote reduced electric

rates. Energy deregulation created a separation between the supply and delivery portions of electricity service and enabled consumers to purchase their energy from a retail supplier of their choice. Municipal utilities are not currently subject to this legislation.

Other Post-Employment Benefits Trust

The Other Post-Employment Benefits Liability Trust Fund (the “OPEB Trust”) was established by the Littleton Municipal Light Board pursuant to Chapter 32B, Section 20 of the General Laws of the Commonwealth of Massachusetts.

The OPEB Trust constitutes the principal instrument of a plan established by the Municipal Light Board to fund the Department’s annual actuarially determined OPEB contribution for future retirees.

Revenues

Revenues are based on rates established by the Department and filed with the DPU. Revenues from sales of electricity are recorded on the basis of bills rendered from monthly meter readings taken on a cycle basis. Recognition is given to the amount of sales to customers which are unbilled at the end of the fiscal year.

Cash and Short-term Investments

For the purposes of the Statements of Cash Flows, the Department considers unrestricted and restricted cash on deposit with the Town Treasurer to be cash or short-term investments. For purposes of the Statements of Net Position, both the proprietary funds and fiduciary funds consider unrestricted and restricted investments with original maturities of three months or less to be short-term investments.

Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution.

Investments for the Department and the OPEB Trust consist of market linked certificates of deposits, corporate bonds, equity investments, fixed income mutual funds, U.S. Treasury notes, and federal securities which the Department intends to hold to maturity. These investments are reported at fair market value.

Inventory

Inventory consists of parts and accessories purchased for use in the utility business for construction, operation, and maintenance purposes and is stated at average cost. Meters and transformers are capitalized when purchased.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and utility plant infrastructure, are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at acquisition value.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as they are acquired or constructed. Interest incurred during the construction phase of proprietary fund capital assets is included as part of the capitalized value of the constructed asset. When capital assets are retired, the cost of the retired asset, less accumulated depreciation, salvage value and any cash proceeds, is charged to the Department's unrestricted net position.

Massachusetts General Laws require utility plant in service to be depreciated at a minimum annual rate of 3%. To change this rate, the Department must obtain approval from the DPU. Changes in annual depreciation rates may be made for financial factors relating to cash flow for plant expansion, rather than engineering factors relating to estimates of useful lives.

Accrued Compensated Absences

Employee vacation leave is vested annually but may only be carried forward to the succeeding year with supervisor approval and, if appropriate, within the terms of the applicable Department policy or union contract. Generally, sick leave may accumulate according to union and Department contracts and policy and is paid upon normal termination at the current rate of pay. Employees of the Department are allowed 120 hours of sick leave per year. Sick leave may be accumulated and bought back upon retirement or after 20 years of service. The buyback is limited to 50% of up to 1,160 hours of accumulated sick leave at the employees' current rate of pay.

Long-Term Obligations

The proprietary fund financial statements report long-term debt and other long-term obligations as liabilities in the Statements of Net Position.

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 disclosures for contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.

Rate of Return

The Department's rates must be set such that earnings attributable to electric operations do not exceed 8% of the net cost of plant. The Department's audited financial statements are prepared in accordance with auditing standards generally accepted in the United States of America. To determine the net income subject to the rate of return limitations, the Department performs the following calculation. Using the net income per the audited financial statements, the return on investment to the Town of Littleton is added back, and miscellaneous debits/credits (i.e., merchandise and jobbing revenue, etc.) are added or deducted, leaving an adjusted net income figure for rate of return purposes. Investment interest income is then deducted from this figure to determine the net income subject to the rate of return. The net income subject to the rate of return is then subtracted from the allowable 8% rate of return, which is calculated by multiplying the book value of net plant by 8%. In calendar year 2020 the Department did not exceed the 8% rate of return.

2. Cash and Investments

Total cash and investments as of December 31, 2020 are classified in the financial statements as follows:

Proprietary Fund:

Unrestricted cash and short-term investments	\$ 4,596,466
Restricted cash and short-term investments	382,744
Restricted investments	6,258,001

Fiduciary Fund:

Cash and short-term investments - OPEB Trust	160,980
Investments - OPEB Trust	<u>2,892,342</u>
Total cash and investments	\$ <u>14,290,533</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Department manages its exposure to interest rate risk by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Per the Town of Littleton investment policy, short-term investments for funds are limited per MGL Ch. 44 § 55 as to final maturity based on the type of investment made. Longer term investments, other than trust funds under the direction of the Commissioners of Trust Funds, will be made for periods not longer than seven years, maintaining an average maturity no greater than three years for the portfolio. As of December 31, 2020, the Department and OPEB Trust

held the following investments with varying maturity dates for fixed income investments as follows, with maturities over seven years relating to trust fund investments:

<u>Investment Type</u>	<u>Amount</u>	Investment Maturities (in Years)			
		<u>Less</u>	<u>Than 1</u>	<u>1-5</u>	<u>6-10</u>
Corporate bonds	\$ 1,834,336	\$ 280,859	\$ 1,201,837	\$ 351,640	\$ -
Federal agency securities	661,659	50,195	393,564	217,900	-
Fixed income mutual funds	1,423,473	40,820	616,111	553,958	212,584
Market-linked certificates of deposit	307,477	86,272	221,205	-	-
U.S. Treasury Notes	755,330	102,094	493,580	159,656	-
Total fixed income investments	4,982,275	\$ 560,240	\$ 2,926,297	\$ 1,283,154	\$ 212,584
Corporate equities	<u>4,168,068</u>				
Total investments	\$ 9,150,343				

Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assigning of a rating by a nationally recognized statistical rating organization. Per the Town of Littleton investment policy, corporate debt must be rated investment grade by either S&P or Moody's rating services. As of December 31, 2020, the Department and OPEB Trust investments in U. S. Treasury Notes had an implied rating of Aaa. The remaining fixed income investments, as rated by Moody's, were as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Aaa</u>	<u>A2 - A3</u>	<u>Baa1 - Baa2</u>	<u>Unrated</u>
Corporate bonds	\$ 1,834,336	\$ 103,590	\$ 374,017	\$ 465,671	\$ 891,058
Federal agency securities	661,659	135,365	-	-	526,294
Fixed income mutual funds	1,423,473	253,929	-	-	1,169,544
Market-linked certificates of deposit	307,477	-	-	-	307,477
Total	\$ 4,226,945	\$ 492,884	\$ 374,017	\$ 465,671	\$ 2,894,373

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Department's investment in a single issuer. The Department follows the Town of Littleton's investment policy, which minimize any concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. At December 31, 2020, the Department and OPEB Trust did not have any investments exceeding 5% of the total portfolio.

Custodial Credit Risk

Custodial Credit Risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the Department will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the

counterparty (e.g., broker-dealer) to a transaction, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Massachusetts General Laws, Chapter 44, Section 55, limits deposits “in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess.” The Department follows the Massachusetts statute as written, as well as the Town of Littleton’s deposit policy for custodial credit risk.

Because the Department pools its cash and short-term investments with the Town of Littleton, and bank accounts are maintained in the name of the Town, the amount of the Department’s deposit balance exposed to custodial credit risk at December 31, 2020, cannot be reasonably determined.

As of December 31, 2020, none of the Department or OPEB Trust investments were exposed to custodial credit risk because the related securities are registered in the Department’s name.

Fair Value

The Department categorizes its fair value measurements within the fair value hierarchy established by *Governmental Accounting Standards Board Statement No. 72 Fair Value Measurement and Application (GASB 72)*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The Department and OPEB Trust have the following fair value measurements as of December 31, 2020:

<u>Description</u>	<u>Value</u>	<u>Fair Value Measurements Using:</u>			
		<u>Quoted prices in active markets for identical assets</u> <u>(Level 1)</u>	<u>Significant observable inputs</u> <u>(Level 2)</u>	<u>Significant unobservable inputs</u> <u>(Level 3)</u>	
Investments by fair value level:					
Department:					
Corporate bonds	\$ 1,834,336	\$ -	\$ 1,834,336	\$ -	
Corporate equities	2,004,750	2,004,750	-	-	
Federal agency securities	661,659	-	661,659	-	
Fixed income mutual funds	694,449	694,449	-	-	
Market-linked certificates of deposit	307,477	-	307,477	-	
U.S. Treasury Notes	755,330	755,330	-	-	
OPEB Trust Fund:					
Corporate equities	2,163,318	2,163,318	-	-	
Fixed income mutual funds	729,024	-	729,024	-	
Total	\$ 9,150,343	\$ 5,617,847	\$ 3,532,496	\$ -	

3. Restricted Cash and Investments

The Department's proprietary fund restricted cash and investment balances represent the following reserves:

	<u>12/31/20</u>	
	<u>Cash</u>	<u>Investments</u>
Depreciation fund	\$ 81,557	\$ 2,255,420
Rate stabilization	273,165	2,713,218
Pension fund	28,022	1,289,363
Total	\$ 382,744	\$ 6,258,001

The Department maintains the following reserves:

- Depreciation fund - The Department is normally required to reserve 3.0% of capital assets each year to fund capital improvements.
- Rate stabilization - This represents amounts set aside to help stabilize cost increases resulting from fluctuations in purchase power costs.

- Pension trust – This represents amounts set aside to help fund the annual pension assessments to the Middlesex County Retirement System (the System), a cost-sharing, multi-employer public employee retirement system.

4. Accounts Receivable

Accounts receivable consists of the following at December 31, 2020:

Customer Accounts:

Billed	\$ 2,514,703
Less allowances:	
Uncollectible accounts	<u>(300,385)</u>
Total billed	2,214,318
Unbilled, net of sales discounts	<u>1,060,176</u>
Total customer accounts	\$ <u>3,274,494</u>

5. Prepaid Expenses

Prepaid expenses consist of the following:

Insurance and other	\$ 36,597
Purchase power	<u>1,248,831</u>
Total	\$ <u>1,285,428</u>

6. Inventory

Inventory comprises supplies and materials at December 31, 2020, and is valued using the average cost method.

7. Capital Assets

The following is a summary of the year ended December 31, 2020 activity in capital assets (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital assets, being depreciated:				
Structures and improvements	\$ 13,074	\$ 6,847	\$ (6)	\$ 19,915
Equipment and furnishings	11,112	602	(161)	11,553
Infrastructure	<u>16,679</u>	<u>1,121</u>	<u>(566)</u>	<u>17,234</u>
Total capital assets, being depreciated	40,865	8,570	(733)	48,702
Less accumulated depreciation for:				
Structures and improvements	(4,432)	(364)	6	(4,790)
Equipment and furnishings	(5,900)	(397)	161	(6,136)
Infrastructure	<u>(7,235)</u>	<u>(465)</u>	<u>566</u>	<u>(7,134)</u>
Total accumulated depreciation	<u>(17,567)</u>	<u>(1,226)</u>	<u>733</u>	<u>(18,060)</u>
Total capital assets, being depreciated, net	23,298	7,344	-	30,642
Capital assets, not being depreciated:				
Land	1,313	-	-	1,313
Construction in progress	<u>1,679</u>	<u>-</u>	<u>(1,679)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,992</u>	<u>-</u>	<u>(1,679)</u>	<u>1,313</u>
Capital assets, net	<u>\$ 26,290</u>	<u>\$ 7,344</u>	<u>\$ (1,679)</u>	<u>\$ 31,955</u>

8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Department that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

9. Accrued Liabilities

Accrued liabilities consist of the following at December 31, 2020:

Accrued payroll	\$ 54,132
Accrued sales tax	<u>72,169</u>
Total	<u>\$ 126,301</u>

10. Customer Deposits

This balance represents deposits received from customers that are held in escrow.

11. Long-Term Debt

Changes in General Long-Term Liabilities

During the year ended December 31, 2020, the following changes occurred in long-term liabilities (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion</u>
Net pension liability	\$ 8,512	\$ -	\$ (851)	\$ 7,661	\$ -	\$ 7,661
Net OPEB liability	1,730	-	(91)	1,639	-	1,639
Compensated absences	170	-	(20)	150	(55)	95
Totals	\$ <u>10,412</u>	\$ <u>-</u>	\$ <u>(962)</u>	\$ <u>9,450</u>	\$ <u>(55)</u>	\$ <u>9,395</u>

12. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Department that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources are related to pension and OPEB. Pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes.

13. Middlesex County Retirement System

The Department follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

Plan Description

Substantially all employees of the Department are members of the Middlesex County Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, as well as contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports, which are publicly available from the System's administrative offices located at 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

Participant Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Participant Retirement Benefits

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are four classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

- Group 1 – General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

- Group 2 – Certain specified hazardous duty positions.
- Group 4 – Police officers, firefighters, and other specified hazardous positions.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Department employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

Methods of Payment

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member’s death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree’s beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member’s designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree,

the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Department’s contribution to the System for the year ended December 31, 2020 was \$702,935 which was equal to its actuarially determined contribution.

Summary of Significant Accounting Policies

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 System and additions to/deductions from System’s fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to Pensions

At December 31, 2020, the Department reported a liability of \$7,661,454 for its proportionate share of the System’s net pension liability. The net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. The Department’s proportion of the net pension liability was based on an actuarially determined projection of the Department’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. At December 31, 2020, the Department’s proportion was 0.500391%.

For the year ended December 31, 2020, the Department recognized pension expense of \$1,062,978. In addition, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 140,125	\$ 9,066
Changes of assumptions	292,466	-
Net difference between projected and actual investment earnings on pension plan	-	434,317
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>414,619</u>	<u>153,147</u>
Total	<u>\$ 847,210</u>	<u>\$ 596,530</u>

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

Year ended December 31:

2021	\$ 172,093
2022	212,334
2023	(31,945)
2024	<u>(101,802)</u>
Total	<u>\$ 250,680</u>

Actuarial Assumptions

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

Valuation Date	January 1, 2020
Actuarial Cost Method	Entry age normal cost method
Actuarial Assumptions:	
Investment rate of return	7.30%
Projected salary increases	4% for Group 1 and 4.25% for Group 2
Wage inflation rate	3.25%
Post-retirement cost-of-living adjustment	3% of first \$16,000

Mortality rates were based on the RP-2014 Blue Collar Mortality Table projected generationally with Scale MP-2017 for pre-retirement. RP-2014 Blue Collar Annuitant Mortality Table projected generationally, with Scale MP-2017 for healthy retirees. For disabled retirees, RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally with Scale MP-2017.

Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Rates of Return</u>
Domestic equity	22.00%	6.28%
International developed markets equity	12.00%	7.00%
International emerging markets equity	5.00%	8.82%
Core fixed income	15.00%	0.38%
High-yield fixed income	8.00%	2.97%
Real estate	10.00%	3.50%
Timber	4.00%	3.45%
Hedge fund, GTAA, Risk parity	10.00%	2.35%
Private equity	<u>14.00%</u>	10.11%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table presents the Department's proportionate share of the net pension liability (asset) calculated using the current discount rate of 7.30%, as well as what the Department's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	Current	
1%	Discount	1%
Decrease	Rate	Increase
<u>(6.30%)</u>	<u>(7.30%)</u>	<u>(8.30%)</u>
\$ 9,546,997	\$ 7,661,454	\$6,075,111

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

14. Other Post-Employment Benefits (GASB 74 and GASB 75)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of *Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2010, the Department established a single employer defined benefit OPEB Trust Fund to provide funding for future employee health care costs. The OPEB Trust Fund does not issue a stand-alone financial report.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of December 31, 2020.

General Information about the OPEB Plan

Plan Description

The Department provides post-employment healthcare benefits for retired employees through the Department's plan. The Department provides health insurance coverage through Blue Cross Blue Shield. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

The Department provides medical and prescription drug insurance to retirees and their covered dependents. All active employees who retire from the Department and meet the eligibility criteria will receive these benefits.

Funding Policy

The Department is not required by law or contractual agreement to provide funding for the Plan, other than "pay-as-you-go" cost of providing current benefits to current eligible retirees, spouses and dependents. The Department makes additional contributions to the OPEB trust based on administration budget, current at \$50,000 a year.

Plan Membership

At January 1, 2020 (Actuarial Valuation date), the following employees were covered by the benefit terms:

Inactive employees or beneficiaries		
currently receiving benefit payments	28	
Active employees	<u>26</u>	
Total	<u><u>54</u></u>	

Investments

The OPEB trust fund assets consist of cash, short-term investments, and investments in equity and fixed income mutual funds.

Rate of return. For the year ended December 31, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 13.99%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of January 1, 2020 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.2% per year
Salary increases	3.5% per year
Investment rate of return	6.50%, net of investment expense, including inflation
Discount rate	6.50% per year (previously 6.85%)
Healthcare cost trend rates	7.0% decreasing by 0.4% per year to 5.4% per year then graduating down to an ultimate trend rate of 4.0%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate medial inflation rate is reached in 2075.
Participation rate	80%

Mortality rates were based on:

- Pre-Retirement: RP-2014 Blue Collar Mortality Table, projected with generational mortality improvement using scale MP-2017.
- Post-Retirement: RP-2014 Blue collar Mortality Table, projected with generational mortality improvement using scale MP-2017.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study.

Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	35.00%	5.34%
Domestic bond	20.00%	1.62%
International equity	20.00%	6.10%
International bond	5.00%	1.26%
Alternatives	<u>20.00%</u>	4.21%
Total	<u><u>100.00%</u></u>	

Contributions

The Department pay 70% of the total premiums for health insurance and 70% of the premiums for a \$5,000 life insurance policy for employees hired prior to July 1, 2010 (50% for employees hired on or after July 1, 2010). Employee and retiree contributions represent the remaining premium costs. The contribution requirements of plan members and the Department are established by union agreements and may be amended from time to time. The Department's additional contribution of \$50,000 for the year ending December 31, 2020 was based on the administration budget.

Discount Rate

The discount rate used to measure the net OPEB liability was 6.50%. 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.

Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Net OPEB Liability

The components of the net OPEB liability, measured as of December 31, 2020, were as follows:

Total OPEB liability	\$ 4,691,890
Plan fiduciary net position	<u>3,053,322</u>
Net OPEB liability	\$ <u>1,638,568</u>
Plan fiduciary net position as a percentage of the total OPEB liability	65.08%

The fiduciary net position has been determined on the same basis used by the OPEB Plan. For this purpose, the Plan recognizes benefit payments when due and payable.

Changes in the Net OPEB Liability

The following summarizes the changes in the net OPEB liability for the past year.

	Increase (Decrease)		
	Plan		
	Total OPEB Liability <u>(a)</u>	Fiduciary Net Position <u>(b)</u>	Net OPEB Liability <u>(a) - (b)</u>
Balances, beginning of year	\$ 4,363,672	\$ 2,633,706	\$ 1,729,966
Changes for the year:			
Service cost	85,486	-	85,486
Interest	292,609	-	292,609
Contributions - employer	-	404,999	(404,999)
Net investment income	-	369,616	(369,616)
Differences between expected and actual experience	(284,358)	-	(284,358)
Changes in assumptions or other inputs	589,480	-	589,480
Benefit payments	<u>(354,999)</u>	<u>(354,999)</u>	<u>-</u>
Net Changes	<u>328,218</u>	<u>419,616</u>	<u>(91,398)</u>
Balances, end of year	<u>\$ 4,691,890</u>	<u>\$ 3,053,322</u>	<u>\$ 1,638,568</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 6.85% in 2019 to 6.50% in 2020 and a change in the percentage of retirees with a covered spouse.

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

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

	Current	
1%	Discount Rate	1%
Decrease <u>(5.85%)</u>	<u>(6.85%)</u>	<u>(7.85%)</u>
\$ 2,290,845	\$ 1,638,568	\$ 1,108,231

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

Current Healthcare Cost Trend		
1% Decrease	Rates	1% Increase
<u>(2.80%)</u>	<u>(3.80%)</u>	<u>(4.80%)</u>
\$ 1,021,959	\$ 1,638,568	\$ 2,415,237

OPEB Expense and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to OPEB

For the year ended December 31, 2020, the Department recognized an OPEB expense of \$259,983. At December 31, 2020, the Department reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ -	\$ 372,078
Changes in assumptions	844,744	-
Net difference between projected and actual earnings on OPEB investment	-	177,320
Total	<u>\$ 844,744</u>	<u>\$ 549,398</u>

Amounts reported as deferred outflows and (inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:

2021	\$ 62,852
2022	62,851
2023	4,570
2024	53,066
2025	69,169
Thereafter	<u>42,838</u>
Total	<u>\$ 295,346</u>

15. Participation in Massachusetts Municipal Wholesale Electric Company

Town of Littleton acting through its Light Department is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has the Nuclear Mix No 1 Project, Nuclear Project Three, Nuclear Project Four, Nuclear Project Five and Project Six, which comprise an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. The operating license for Seabrook Station extends to March 15, 2050. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

On July 19, 2019, MMWEC sold its 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC.

MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). The Light Department has entered into PSAs with MMWEC. Under the PSAs the Department is required to make certain payments to MMWEC payable solely from Municipal Light Department revenues. Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs. Each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

Pursuant to the PSAs, the MMWEC Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Millstone and Seabrook Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

As of July 1, 2019, MMWEC has no debt service obligations outstanding relating to the Projects. MMWEC is involved in various legal actions. In the opinion of management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the company.

The total capital expenditures and annual capacity, fuel and transmission costs (which include debt service and decommissioning expenses as discussed above) associated with the Department's Project Capability of the Projects in which it participates for the years ended December 31, 2020 and 2019, respectively are listed in the table below.

Projects	Percentage <u>Share</u>	Littleton Municipal Light Department Years Ended			
		Total Capital Expenditures	Total Capital Expenditures	Capacity, Fuel & Transmission	Capacity, Fuel & Transmission
		<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Stony Brook Peaking Project	3.0607%	\$ 1,851,269	\$ 1,827,964	\$ 115,606	\$ 111,678
Stony Brook Intermediate Project	1.6654%	3,007,776	2,981,594	231,287	216,036
Nuclear Mix No. 1-Seabrook	1.7544%	178,555	177,302	8,228	9,579
Nuclear Mix No. 1-Millstone	1.7544%	1,077,842	1,062,164	104,233	102,873
Nuclear Project No. 3-Millstone	0.7972%	1,194,402	1,180,199	94,930	93,957
Nuclear Project No. 4-Seabrook	2.2220%	6,692,912	6,650,687	278,288	324,822
Nuclear Project No. 5-Seabrook	0.9262%	755,436	750,981	29,773	34,737
		<u>\$ 14,758,192</u>	<u>\$ 14,630,891</u>	<u>\$ 862,345</u>	<u>\$ 893,682</u>

16. Beginning Net Position Restatement

The beginning (January 1, 2020) net position of the Department has been restated as follows:

	<u>Proprietary Fund</u>
As previously reported	\$ 34,507,165
Change in net pension liability allocation	<u>282,718</u>
As restated	<u><u>\$ 34,789,883</u></u>

17. Subsequent Events

Management has evaluated subsequent events through November 9, 2021, which is the date the financial statements were available to be issued.

18. Commitments and Contingencies

COVID-19

The COVID-19 outbreak in the United States and across the globe has resulted in economic uncertainties. There is considerable uncertainty around the duration and scope of the economic disruption. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, special acts or legislation by the state or federal government, and the impact on our customers, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain. Additionally, the Department has not experienced any disruptions in operations or supply chains as of the date of the financial statements.

Outstanding Legal Issues

On an ongoing basis, there are typically pending legal issues in which the Department is involved. The Department's management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

19. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the Department beginning with its calendar year ending December 31, 2022. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements. Management has not yet evaluated the impact of this statement.

TOWN OF LITTLETON, MASSACHUSETTS, MUNICIPAL LIGHT DEPARTMENT

Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability

December 31, 2020
(Unaudited)

Middlesex County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
December 31, 2020	December 31, 2020	0.500391%	\$7,661,454	\$2,632,355	291.05%	53.42%
December 31, 2019	December 31, 2019	0.531992%	\$8,512,174	\$3,908,855	217.77%	49.45%
December 31, 2018	December 31, 2018	0.516727%	\$8,058,188	\$3,625,907	222.24%	46.40%
December 31, 2017	December 31, 2017	0.446568%	\$6,817,691	\$3,474,055	196.25%	49.27%
December 31, 2016	December 31, 2016	0.493093%	\$7,122,564	\$3,294,436	216.20%	45.49%
December 31, 2015	December 31, 2015	0.487053%	\$5,851,043	\$3,189,161	183.47%	47.65%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF LITTLETON, MASSACHUSETTS, MUNICIPAL LIGHT DEPARTMENT

Required Supplementary Information
Schedule of Pension Contributions

December 31, 2020
(Unaudited)

Middlesex County Retirement System

Fiscal Year	Measurement <u>Date</u>	Contributions in Relation to the						Contributions as a Percentage of <u>Covered Payroll</u>
		Actuarially Determined <u>Contribution</u>	Actuarially Determined <u>Contribution</u>	Contribution Deficiency (Excess)	Covered Payroll			
December 31, 2020	December 31, 2020	\$ 702,935	\$ 702,935	\$ -	\$ 2,632,355			26.70%
December 31, 2019	December 31, 2019	\$ 657,630	\$ 657,630	\$ -	\$ 3,908,855			16.82%
December 31, 2018	December 31, 2018	\$ 650,114	\$ 650,114	\$ -	\$ 3,625,907			17.93%
December 31, 2017	December 31, 2017	\$ 576,984	\$ 576,984	\$ -	\$ 3,474,055			16.61%
December 31, 2016	December 31, 2016	\$ 557,481	\$ 557,481	\$ -	\$ 3,294,436			16.92%
December 31, 2015	December 31, 2015	\$ 541,928	\$ 541,928	\$ -	\$ 3,189,161			16.99%

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See Independent Auditors' Report.

TOWN OF LITTLETON, MASSACHUSETTS MUNICIPAL LIGHT DEPARTMENT

Required Supplementary Information
Other Post-Employment Benefits (OPEB)
Schedule of Changes in the Net OPEB Liability

(Unaudited)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability				
Service cost	\$ 85,486	\$ 73,224	\$ 72,190	\$ 69,247
Interest	292,609	296,496	294,181	289,872
Changes of benefit terms	-	(35,012)	-	-
Differences between expected and actual experience	(284,358)	-	(237,629)	-
Changes of assumptions	589,480	313,653	225,921	-
Benefit payments, including refunds of member contributions	<u>(354,999)</u>	<u>(329,482)</u>	<u>(320,182)</u>	<u>(289,069)</u>
Net change in total OPEB liability	328,218	318,879	34,481	70,050
Total OPEB liability - beginning	<u>4,363,672</u>	<u>4,044,793</u>	<u>4,010,312</u>	<u>3,940,262</u>
Total OPEB liability - ending (a)	4,691,890	4,363,672	4,044,793	4,010,312
Plan Fiduciary Net Position				
Contributions - employer	404,999	379,482	370,182	539,069
Net investment income	369,616	402,179	(121,795)	235,555
Benefit payments, including refunds of member contributions	<u>(354,999)</u>	<u>(329,482)</u>	<u>(320,182)</u>	<u>(289,069)</u>
Net change in plan fiduciary net position	419,616	452,179	(71,795)	485,555
Plan fiduciary net position - beginning	<u>2,633,706</u>	<u>2,181,527</u>	<u>2,253,322</u>	<u>1,767,767</u>
Plan fiduciary net position - ending (b)	<u>3,053,322</u>	<u>2,633,706</u>	<u>2,181,527</u>	<u>2,253,322</u>
Net OPEB liability - ending (a-b)	<u>\$ 1,638,568</u>	<u>\$ 1,729,966</u>	<u>\$ 1,863,266</u>	<u>\$ 1,756,990</u>

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the Department's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

TOWN OF LITTLETON, MASSACHUSETTS
MUNICIPAL LIGHT DEPARTMENT

Required Supplementary Information
 Other Post-Employment Benefits (OPEB)
 Schedules of Net OPEB Liability, Contributions, and Investment Returns

(Unaudited)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Net OPEB Liability				
Total OPEB liability	\$ 4,691,890	\$ 4,363,672	\$ 4,044,793	\$ 4,010,312
Plan fiduciary net position	<u>3,053,322</u>	<u>2,633,706</u>	<u>2,181,527</u>	<u>2,253,322</u>
Net OPEB liability	<u>\$ 1,638,568</u>	<u>\$ 1,729,966</u>	<u>\$ 1,863,266</u>	<u>\$ 1,756,990</u>
Plan fiduciary net position as a percentage of the total OPEB liability	65.08%	60.36%	53.93%	56.19%
Covered employee payroll	\$ 2,724,512	2,668,751	\$ 2,298,919	2,238,651
Participating employer net OPEB liability (asset) as a percentage of covered employee payroll	\$ 60.14%	64.82%	\$ 81.05%	78.48%
 Schedule of Contributions				
Actuarially determined contribution	\$ 245,767	\$ 251,092	\$ 237,533	\$ 279,074
Contributions in relation to the actuarially determined contribution	<u>404,999</u>	<u>379,482</u>	<u>370,182</u>	<u>539,069</u>
Contribution deficiency (excess)	<u>\$ (159,232)</u>	<u>\$ (128,390)</u>	<u>\$ (132,649)</u>	<u>\$ (259,995)</u>
Covered employee payroll	2,724,512	2,668,751	2,298,919	2,238,651
Contributions as a percentage of covered employee payroll	14.87%	14.22%	16.10%	24.08%
 Schedule of Investment Returns				
Annual money weighted rate of return, net of investment expense	13.99%	18.40%	-5.38%	12.89%

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See Independent Auditors' Report.