

WELLESLEY MUNICIPAL LIGHT PLANT
*(An Enterprise Fund of the Town of Wellesley,
Massachusetts)*

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2021 AND 2020

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TABLE OF CONTENTS

Independent Auditor's Report.....	1
Management's Discussion and Analysis	4
Financial Statements	8
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position.....	10
Statements of Cash Flows	11
Notes to Financial Statements	12
Required Supplementary Information.....	30
Pension Plan Schedules	31
Schedule of the Plant's Proportionate Share of the Net Pension Liability	32
Schedule of the Plant's Contributions	33
Other Postemployment Benefit Plan Schedules.....	34
Schedule of Changes in the Plant's Net OPEB Liability/(Asset) and Related Ratios	35
Schedule of the Plant's Contributions	36
Schedule of Investment Returns	37
Other Supplementary Information	40
Schedule of Kilowatt Hours Sold and Number of Customers	41
Schedule of Utility Plant in Service	42
Report on Internal Control Over Financial Reporting and on Compliance.....	43



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Independent Auditor's Report

To the Municipal Light Board
Wellesley Municipal Light Plant

Report on the Financial Statements

We have audited the accompanying financial statements of the Wellesley Municipal Light Plant (the Plant) of the Town of Wellesley, Massachusetts, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wellesley Municipal Light Plant of the Town of Wellesley, Massachusetts, as of June 30, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Wellesley Municipal Light Plant and do not purport to, and do not, present fairly the financial position of the Town of Wellesley, Massachusetts, as of June 30, 2021 and 2020, the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, located on the following pages, and the pension plan and other postemployment benefit plan schedules, as listed in the table of contents, located after the notes to the financial statements, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Wellesley Municipal Light Plant's financial statements. The Schedules of Kilowatt Hours Sold and Number of Customers and Utility Plant in Service, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2021, on our consideration of the Wellesley Municipal Light Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Wellesley Municipal Light Plant's internal control over financial reporting and compliance.

Powers & Sullivan LLC

October 20, 2021

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Wellesley Municipal Light Plant (Plant), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the years ended June 30, 2021 and 2020. The Plant'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 financial statements include (1) the statements of net position (2) the statements of revenues, expenses and changes in net position (3) the cash flow statements and (4) notes to the financial statements. This report also contains supplementary information in addition to the financial statements.

The statement of net position is designed to indicate the Plant's financial position as of a specific point in time. At June 30, 2021, it shows the Plant's net position to total \$64.1 million, which is comprised of \$62.4 million net investment of capital assets, \$1.0 million restricted for depreciation, and \$700,000 reported as unrestricted.

Condensed Statement of Net Position

	<u>2021</u>	<u>2020</u>
Assets:		
Current assets.....	\$ 9,659,580	\$ 9,038,065
Noncurrent assets (excluding capital).....	3,339,246	2,333,201
Capital assets, non depreciable.....	181,019	236,257
Capital assets, net of accumulated depreciation.....	62,981,672	60,664,986
Total assets.....	76,161,517	72,272,509
 Deferred outflows of resources.....	 2,512,198	 501,093
 Liabilities:		
Current liabilities (excluding debt).....	5,645,274	3,880,403
Noncurrent liabilities (excluding debt).....	4,891,954	4,744,807
Current debt.....	84,043	84,043
Noncurrent debt.....	643,699	727,742
Total liabilities.....	11,264,970	9,436,995
 Deferred inflows of resources.....	 3,273,709	 1,659,390
 Net position:		
Net investment in capital assets.....	62,434,949	60,089,458
Restricted.....	1,000,000	1,000,000
Unrestricted.....	700,087	587,759
 Total net position.....	 \$ 64,135,036	 \$ 61,677,217

The statements of revenues, expenses and changes in net position summarize the Plant's operating results and reveal how net position changed for the year. Net position increased for the year ended June 30, 2021 by \$2.5 million, as compared to an increase of \$1.2 million in 2020. The main reason for the change between years is discussed below.

The Statements of Cash Flows provide information about the cash receipts and cash payments during the accounting period. It also provides information about the operating activities, non-capital and capital related financing activities, and investing activities for the same period.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2021	2020
Operating revenue.....	\$ 37,299,444	\$ 35,661,467
Operating expenses.....	<u>34,279,416</u>	<u>33,995,464</u>
Operating income (loss).....	3,020,028	1,666,003
Interest paid on customer security deposits.....	<u>(16,756)</u>	<u>(19,449)</u>
Excess before contributions and transfers.....	3,003,272	1,646,554
Capital contributions.....	454,547	541,559
Transfers out - payment in lieu of taxes.....	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Change in net position.....	2,457,819	1,188,113
Net position, beginning of year (as restated).....	<u>61,677,217</u>	<u>60,489,104</u>
Net position, end of year.....	<u>\$ 64,135,036</u>	<u>\$ 61,677,217</u>

Financial Highlights

Operating revenues were \$37.3 million in 2021, an increase of \$1.6 million from 2020. Kilowatt hours sold increased to 242,118,183 in 2021, as compared to 237,580,900 in 2020. A primary reason for the increase in revenues from the prior year was the increase in other operating revenue of \$1.4 million due to the Plant receiving payments for installing 41 small cell antenna attachments. Kilowatt hours sold increased mainly in residential and partial primary usage, these increases were offset by declines in commercial usage.

Operating expenses were \$34.3 million in 2021, compared to \$34.0 million in 2020. The \$284,000 increase is mainly due to increases in purchase power expenses and transmission expenses which were offset by a decrease in forward capacity market charges.

Transfers out consists of a payment in lieu of taxes of \$1.0 million to the Town of Wellesley in both 2021 and 2020.

Commercial Internet Service Business

On January 1, 2019, the Wellesley Municipal Light Plant (“WMLP”) transitioned the Commercial Internet Pilot to an official commercial offering and invoiced the 17 internet pilot customers for the first time. Since then, WMLP has increased the customer count to 134 as of August 2021. The goal for this venture is to add a minimum of five new customers each month. The WMLP has installed and spliced fiber optic cable connecting 85 multi-tenant buildings to the system to date. This capital-intense effort continues to increase the fiber backbone and will allow the WMLP to access hundreds of potential customers with minimal additional expense.

Operating revenue from the Commercial Internet service grew from \$136,000 in 2020 to \$189,000 in 2021. In 2022 operating revenue is again projected to exceed operating expenses.

Forward Capacity Market

All load-serving electric utilities in New England are assessed a monthly Forward Capacity Market (“FCM”) charge by ISO-New England. The FCM charge is based on the utility’s load, coincident with the ISO New England System Peak for the previous capacity year, plus a reserve margin. FCM charges peaked in 2018 and have declined annually since. Wellesley Municipal Light Plant’s (“WMLP”) FCM charge is projected to decline 5% from \$4.7 million in 2021 to \$4.5 million in 2022. FCM charges are projected to continue to decline through 2024.

Transmission

Transmission costs are regulated by ISO-New England. The Regional Network Services (“RNS”) rate has nearly doubled over a ten-year period and continues to move up. The RNS effective June 1, 2012 was \$75.25/kW-year while the rate effective June 1, 2021 is \$140.98/kW-year. The increase was driven by forecasted work in 2020 and the associated revenue requirement (\$7.99/kW-year) and a revenue requirement true-up 2018-2019 (\$3.62/kW-year) driven by under-collection as a result of load drop year-over-year. Wellesley Municipal Light Plant’s (“WMLP”) RNS charge is projected to increase by 11% from \$6.3 million in 2021 to \$7.1 million in 2022.

Utility Plant

The Plant had total acquisitions of approximately \$6.1 million in 2021. The Plant expended approximately \$4.7 million on the distribution plant, \$498,000 on the transmission plant, and \$979,000 for vehicles and communication equipment. The acquisitions include approximately \$55,000 in ongoing projects which were placed in service and removed from construction in progress, including, line reconstruction, Wellesley Square secondaries, and several fiber projects.

Requests for Information

This financial report is designed to provide a general overview of the Wellesley Municipal Light Plant’s finances for all those with an interest in the Plant’s financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Light Plant Director, 4 Municipal Way, Wellesley, Massachusetts 02481.

Financial Statements

STATEMENT OF NET POSITION

JUNE 30,

	2021	2020
ASSETS		
CURRENT:		
Unrestricted cash and cash equivalents.....	\$ 3,490,591	\$ 3,042,268
Restricted cash and cash equivalents.....	1,000,000	1,000,000
Receivables, net of allowance for uncollectibles:		
User charges.....	3,881,969	3,844,903
Inventory.....	948,295	848,424
Purchased power advanced deposits.....	<u>338,725</u>	<u>302,470</u>
 Total current assets.....	 9,659,580	 9,038,065
NONCURRENT:		
Investment in Energy New England.....	150,000	150,000
Working Capital Reserve - Energy New England.....	1,078,220	1,078,220
Net other postemployment benefits asset.....	2,111,026	1,104,981
Capital assets, nondepreciable.....	181,019	236,257
Capital assets, net of accumulated depreciation.....	<u>62,981,672</u>	<u>60,664,986</u>
 Total noncurrent assets.....	 66,501,937	 63,234,444
 TOTAL ASSETS	 <u>76,161,517</u>	 <u>72,272,509</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions.....	1,989,028	355,577
Deferred outflows related to other postemployment benefits.....	<u>523,170</u>	<u>145,516</u>
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 <u>2,512,198</u>	 <u>501,093</u>
LIABILITIES		
CURRENT:		
Warrants payable.....	3,831,372	2,952,440
Accrued payroll.....	60,409	48,786
Customer advances for construction.....	1,729,293	859,260
Compensated absences.....	24,200	19,917
Notes payable.....	<u>84,043</u>	<u>84,043</u>
 Total current liabilities.....	 <u>5,729,317</u>	 <u>3,964,446</u>
NONCURRENT:		
Customer deposits.....	840,803	872,197
Compensated absences.....	16,205	13,278
Net pension liability.....	4,034,946	3,859,332
Notes payable.....	<u>643,699</u>	<u>727,742</u>
 Total noncurrent liabilities.....	 <u>5,535,653</u>	 <u>5,472,549</u>
 TOTAL LIABILITIES	 <u>11,264,970</u>	 <u>9,436,995</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions.....	1,934,906	1,096,907
Deferred inflows related to other postemployment benefits.....	<u>1,338,803</u>	<u>562,483</u>
 TOTAL DEFERRED INFLOWS OF RESOURCES	 <u>3,273,709</u>	 <u>1,659,390</u>
NET POSITION		
Net investment in capital assets.....	62,434,949	60,089,458
Restricted for:		
Depreciation.....	1,000,000	1,000,000
Unrestricted.....	<u>700,087</u>	<u>587,759</u>
 TOTAL NET POSITION	 \$ 64,135,036	 \$ 61,677,217

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30,

	2021	2020
OPERATING REVENUES:		
Distribution wheeling.....	\$ 15,293	\$ 14,653
Residential.....	16,477,344	15,292,011
Commercial.....	8,346,549	8,918,802
Municipal.....	1,355,421	1,333,875
Street lighting.....	145,843	140,769
Industrial.....	5,624,925	5,854,828
Partial industrial.....	1,590,010	1,779,385
Customer discounts.....	(778,753)	(747,554)
Net customer sales.....	32,776,632	32,586,769
Contracted services.....	1,164,202	1,123,237
Other operating revenue.....	3,358,610	1,951,461
 TOTAL OPERATING REVENUES	<u>37,299,444</u>	<u>35,661,467</u>
OPERATING EXPENSES:		
Purchased power.....	14,451,591	13,470,928
Transmission.....	6,458,212	5,237,684
Forward capacity market charge.....	6,237,310	8,180,102
Cost of contracted services.....	903,324	723,330
Cost associated with other revenue.....	537,186	605,543
Distribution.....	228,235	190,178
Customer accounts.....	922,163	855,710
COVID 19.....	106,022	215,414
Administration and general.....	617,622	709,551
Depreciation.....	3,817,751	3,807,024
 TOTAL OPERATING EXPENSES.....	<u>34,279,416</u>	<u>33,995,464</u>
 OPERATING INCOME (LOSS).....	<u>3,020,028</u>	<u>1,666,003</u>
NONOPERATING REVENUES (EXPENSES):		
Interest expense.....	(16,756)	(19,449)
 INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS.....	<u>3,003,272</u>	<u>1,646,554</u>
 CONTRIBUTIONS IN AID OF CONSTRUCTION.....	<u>454,547</u>	<u>541,559</u>
TRANSFERS:		
Transfers out.....	(1,000,000)	(1,000,000)
 CHANGE IN NET POSITION.....	<u>2,457,819</u>	<u>1,188,113</u>
 NET POSITION AT BEGINNING OF YEAR.....	<u>61,677,217</u>	<u>60,489,104</u>
 NET POSITION AT END OF YEAR.....	<u>\$ 64,135,036</u>	<u>\$ 61,677,217</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	2021	2020
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers and users.....	\$ 38,016,974	\$ 35,550,957
Payments to vendors.....	(29,553,410)	(29,671,189)
Wages paid to employees, not capitalized.....	<u>(1,373,833)</u>	<u>(1,367,519)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>7,089,731</u>	<u>4,512,249</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Payment in lieu of taxes, Town of Wellesley.....	<u>(1,000,000)</u>	<u>(1,000,000)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Capital contributions.....	454,547	541,559
Acquisition and construction of capital assets.....	(6,079,199)	(3,521,736)
Interest expense.....	<u>(16,756)</u>	<u>(19,449)</u>
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(5,641,408)</u>	<u>(2,999,626)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	448,323	512,623
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	4,042,268	3,529,645
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 4,490,591</u>	<u>\$ 4,042,268</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>		
Operating income (loss).....	\$ 3,020,028	\$ 1,666,003
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation.....	3,817,751	3,807,024
Deferred (outflows)/inflows related to pensions.....	(795,452)	1,523,151
Deferred (outflows)/inflows related to OPEB.....	398,666	(503,623)
Amortization of note payable.....	(84,043)	(84,043)
Changes in assets and liabilities:		
Accounts receivable.....	(37,066)	(406,088)
Inventory.....	(99,871)	(57,832)
Purchased power advanced deposits.....	(36,255)	715,309
Warrants payable.....	878,932	(411,378)
Accrued payroll.....	11,623	(22,333)
Customer advances for construction.....	870,033	412,561
Customer deposits.....	(31,394)	(32,940)
Compensated absences.....	7,210	4,467
Net pension liability.....	175,614	(1,765,756)
Net other postemployment benefits asset/(liability).....	<u>(1,006,045)</u>	<u>(332,273)</u>
Total adjustments.....	<u>4,069,703</u>	<u>2,846,246</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 7,089,731</u>	<u>\$ 4,512,249</u>

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESReporting Entity

The financial statements present only the Wellesley Municipal Light Plant (the Plant or WMLP), an Enterprise Fund of the Town of Wellesley, Massachusetts. These statements are not intended to present fairly the financial position of the Town of Wellesley, Massachusetts and the results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

The WMLP purchases power from various sources and distributes it to consumers within the Town of Wellesley. The WMLP operates under the provisions of Chapter 164 of the Massachusetts General Laws. The Municipal Light Board (Board) is comprised of 5 members; 3 of the members are elected and 2 members are appointed by the Town's Board of Selectmen. The Board appoints a director of municipal lighting who shall, under the direction of the Board, have full charge of the operation and management of the WMLP.

Regulation and Basis of Accounting

The WMLP complies with Generally Accepted Accounting Principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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 the proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The WMLP has adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (as amended).

The WMLP uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The electric rates are proposed by the Plant. The rates are approved by Wellesley's Municipal Light Board. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Plant, 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 the utility plant.

Revenues

Revenues from the sale of electricity are recorded on the basis of bills rendered from monthly readings taken on a cycle basis. The revenues are based on rates established by the Plant, which are applied to customers' consumption of electricity.

Cash and Cash Equivalents

For purpose of the statement of cash flows, the WMLP considers all unrestricted and restricted cash on deposit with the Town Treasurer as cash or cash equivalents. For purposes of the statements of net position, investments with original maturities of three months or less are considered to be cash equivalents. Investments are carried at fair value based on quoted market prices for those or similar investments. As the Plant's cash balances are

comingled with other funds under the control of the Town's Treasurer, specific details about the fair value of investments are not available.

Inventories

Material and supplies inventory consists of parts and accessories purchased for use in the utility business for construction, operation, and maintenance purposes and are stated at cost using the average cost method. Meters and transformers are capitalized when purchased.

Utility Plant

Capital assets, which include property, plant, equipment, and infrastructure, are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs 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 projects are constructed. Generally, all purchases and construction costs in excess of \$500 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

The statutory provision for depreciation of a utility plant is computed on the straight-line method at 3 percent of the cost of plant in service at the beginning of the year, exclusive of land and land rights. Massachusetts law stipulates that the Plant may change from the statutory depreciation rate only with the approval of the DPU. The Plant has consistently used an overall depreciation rate of 3%, which approximates GAAP.

The estimated useful lives of capital assets being depreciated are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Transmission plant.....	25-33
Distribution plant.....	10-40
Vehicles and other equipment....	3-10

Deferred Outflows/Inflows of Resources

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

Compensated Absences

In accordance with the negotiated labor settlement with the AFSCME, Local 335, employees are allowed to accumulate personal days up to a maximum of 8 days. Upon retirement or separation from the department, the employees will be paid one day's pay for each of the accumulated personal days up to the maximum of 8 days.

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 Wellesley Contributory Retirement System (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.

Taxes

The WMLP is exempt from federal and state income taxes. Although also exempt from property taxes, the WMLP pays amounts in lieu of taxes to the Town of Wellesley. A sales and use tax is assessed by the Commonwealth on a portion of the sale of electricity. Taxes are remitted to the Commonwealth monthly.

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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

Cash of the WMLP is in the control of the Town Treasurer, as required by state law. State and local statutes place certain limitations on the nature of deposits and investments available to the Plant. Separate general ledger accounts are maintained for the Plant's Operating cash fund, Depreciation fund and Escrow fund.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Plant's deposits may not be returned to it. Responsibility for enforcing policies addressing custodial credit risk of Plant deposits vests with the Town Treasurer. The Town's policy for mitigating custodial credit risk is that the Town will not have on deposit amounts exceeding 10% of capital and surplus and 10% of net equity unless those deposits carry full FDIC insurance or are collateralized. In addition, it is the Town's policy that at no time shall any single bank or bank holding company hold an excess of 25% of the cash balance under the control of the Treasurer for more than three consecutive days. At year-end, the carrying amount of deposits, including the escrow fund, totaled \$4,490,591 in 2021, and \$4,042,268 in 2020.

NOTE 3 – RESTRICTED CASH

Restricted cash consists of the balance of the Depreciation Fund, which totaled \$1,000,000 as of June 30, 2021 and June 30, 2020, respectively.

NOTE 4 – ESCROW FUND

The WMLP has set up an escrow fund, which is to be used to offset the possible future payment of an unresolved issue with NSTAR. The monies are maintained in a certificate of deposit with Cambridge Trust in the amounts of approximately \$236,000 during years 2021 and 2020.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30,

	<u>2021</u>	<u>2020</u>
<u>Receivables, net of allowance for uncollectibles:</u>		
User charges.....	\$ 3,106,406	\$ 2,949,882
Utility liens.....	52,617	54,622
Other services.....	721,951	838,604
Internet services.....	995	1,795
 Total.....	 \$ <u>3,881,969</u>	 \$ <u>3,844,903</u>

Accounts receivable are net of an allowance for doubtful accounts in the amounts of \$26,000 and \$18,000 during years 2021 and 2020, respectively.

NOTE 6 – PURCHASED POWER ADVANCE DEPOSITS

Purchased power advance deposits consist of advance payments for monthly purchases of power. As of June 30, 2021 and 2020, these advances totaled \$338,725 and \$302,470, respectively.

NOTE 7 – INVENTORY

Inventories are comprised of the following as of June 30,

	<u>2021</u>	<u>2020</u>
<u>Street light materials.....</u>		
Street light materials.....	\$ 116,621	\$ 119,611
Wire and cable.....	538,209	471,972
Overhead materials.....	100,792	89,400
Underground materials.....	192,673	167,441
 Total.....	 \$ <u>948,295</u>	 \$ <u>848,424</u>

NOTE 8 – INVESTMENT IN ENERGY NEW ENGLAND, LLC

In May 2007, the WMLP invested in a capital subscription for 5% ownership interest in Energy New England, LLC for \$150,000. The investment is carried at cost.

The WMLP purchases approximately 95% of its energy through its affiliation with Energy New England, LLC. The WMLP has entered into tradable hedging contracts with Energy New England, LLC through 2029.

The following are the WMLP's future purchase commitments at June 30, 2021:

Energy Purchase Commitments Megawatt-Hour (MWH)					
Fiscal Year	Projected MWH's	(1) Committed MWH's	Average Cost Per MWH	Total Commitments	
2022	238,192	249,759	\$ 55	\$ 13,806,678	
2023	238,167	233,844	53	12,433,485	
2024	238,684	211,602	53	11,259,342	
2025	238,097	189,413	49	9,316,560	
2026	238,039	172,935	54	9,312,960	
	<u>1,191,179</u>	<u>1,057,553</u>			<u>\$ 56,129,025</u>

Amounts are based on Energy New England's analysis, through June 2026, of the Plant's firm commitment with respect to future energy purchases.

(1) Energy New England forecast assumes annual growth rate of 0%.

The Town has also established working capital reserves with Energy New England totaling \$1,078,220 as of June 30, 2021 and 2020.

NOTE 9 – UTILITY PLANT ASSETS

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 137,770	\$ -	\$ -	\$ 137,770
Construction in progress.....	98,487	-	(55,238)	43,249
Total capital assets not being depreciated.....	<u>236,257</u>	<u>-</u>	<u>(55,238)</u>	<u>181,019</u>
<u>Capital assets being depreciated:</u>				
Transmission plant.....	12,887,064	498,163	-	13,385,227
Distribution plant.....	100,411,484	4,657,345	-	105,068,829
Vehicles and other equipment.....	6,683,713	978,929	(28,764)	7,633,878
Total capital assets being depreciated.....	<u>119,982,261</u>	<u>6,134,437</u>	<u>(28,764)</u>	<u>126,087,934</u>
<u>Less accumulated depreciation for:</u>				
Transmission plant.....	(10,643,445)	(294,355)	-	(10,937,800)
Distribution plant.....	(44,894,667)	(3,104,147)	-	(47,998,814)
Vehicles and other equipment.....	(3,779,163)	(419,249)	28,764	(4,169,648)
Total accumulated depreciation.....	<u>(59,317,275)</u>	<u>(3,817,751)</u>	<u>28,764</u>	<u>(63,106,262)</u>
Total capital assets being depreciated, net.....	<u>60,664,986</u>	<u>2,316,686</u>	<u>-</u>	<u>62,981,672</u>
Total municipal light activities capital assets, net....	\$ <u>60,901,243</u>	\$ <u>2,316,686</u>	\$ <u>(55,238)</u>	\$ <u>63,162,691</u>

Depreciation expense amounted to \$3,817,751 and \$3,807,024 for the years ended June 30, 2021 and 2020, respectively.

NOTE 10 – NOTE PAYABLE, POLE SALE AGREEMENT

In December 2014, the Plant entered into a Pole Sale Agreement (the Agreement) with Verizon New England, Inc. to purchase Verizon's interests in a 1956 Joint Ownership Agreement (JOA) where the Plant and Verizon jointly owned utility poles within the Town of Wellesley. Upon execution by both parties, the Agreement superseded the JOA in its entirety and the JOA was deemed terminated without the need for any further action. Under the Agreement, the Plant agreed to purchase Verizon's ownership interests in the poles for \$1,540,000. The purchase price was paid by the Plant as follows: (a) an initial cash payment of \$308,000 at closing on December 12, 2014, and (b) the balance of \$1,232,000 paid to the seller in the form of a zero-dollar attachment fee under the Agreement, which provides Verizon with continued attachment rights regarding new and existing poles without charge by the Plant until August 12, 2029. The Agreement specified that the annual attachment fees associated with the non-cash purchase price to be \$84,043 per year based on the number of poles and existing per pole attachment fees that Verizon would have been responsible for under the old JOA. The Plant has the right to purchase the net remaining value of the Transferred Poles at any time during this Agreement.

At June 30, 2021, the Plant has recorded a note payable in the amount of \$727,742. Over the next 10 years the Plant will amortize the liability as attachment fees in the annual amount of approximately \$84,000. Since the original JOA never required any cash payments to be made by either party, the Plant has not imputed an interest

factor into the transaction. If interest was to be imputed, the Plant deems the amount not to be material to its financial statements.

NOTE 11 – RELATED PARTY TRANSACTIONS

The WMLP provides electric service to the Town for all schools, municipal buildings, and street lighting at discounted rates. During 2021 the Plant's kilowatt-hour (kWh) charges were 13.58 cents/kwh and 15.76 cents/kwh for school & municipal buildings and streetlights, respectively.

Revenues from billings to the Town for the years ending June 30 were as follows:

	2021	2020
Schools & Municipal buildings.....	\$ 1,355,421	\$ 1,333,875
Street lighting.....	<u>145,843</u>	<u>140,769</u>
Total.....	\$ 1,501,264	\$ 1,474,644

The WMLP made payments in lieu of property taxes to the Town of Wellesley, Massachusetts in the amount of \$1,000,000 for fiscal years 2021 and 2020, respectively.

NOTE 12 – PENSION PLAN

Plan Description – The Plant contributes to the Wellesley Contributory Retirement System (the “System”), a cost-sharing, multiple-employer defined benefit pension plan administered by the Wellesley Retirement Board (the “Board”). Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System issues a publicly available audited financial report. That report may be obtained by contacting the System located at 525 Washington Street, Wellesley, Massachusetts 02482.

Benefits Provided

The System provides retirement, disability and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town of Wellesley does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth.

There are three classes of membership in the retirement system: group 1, group 2, and group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have

been specified as hazardous. Lastly, group 4 consists of police officers, firefighters, and other hazardous positions.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service if hired after 1978 and if classified in groups 1 or 2. A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with 10 years of service if in group 1, 50 years of age with 10 years of service if in group 2, and 55 years of age if hired prior to 1978 or if classified in group 4. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

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

Contributions

Chapter 32 of the MGL governs the contributions of plan members and the Town. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The Plant is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the member units based on the actuarial study. The Plant's proportionate share of the required contribution equaled its actual contribution for the year ended June 30, 2021 which totaled \$921,561 and 33.95% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities

At June 30, 2021, the Plant reported a liability of \$4,034,946 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. The Plant's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating member units. At December 31, 2020, the Plant's proportion was 9.36% of the Town of Wellesley's overall percentage.

Pension Expense

For the year ended June 30, 2021, the Plant recognized a pension expense of \$301,725. At June 30, 2021, the Plant reported deferred outflows and deferred (inflows) of resources related to pensions of \$1,989,028 and (\$1,934,906), respectively.

The deferred outflows and (inflows) for the Plant at June 30, 2021 consist of the following:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ 144,918	\$ (429,876)	\$ (284,958)
Difference between projected and actual earnings, net.....	-	(1,505,030)	(1,505,030)
Changes in assumptions.....	1,654,279	-	1,654,279
Changes in proportion and proportionate share of contributions...	<u>189,831</u>	<u>-</u>	<u>189,831</u>
Total deferred outflows/(inflows) of resources.....	<u>\$ 1,989,028</u>	<u>\$ (1,934,906)</u>	<u>\$ 54,122</u>

The deferred outflows/ (inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2022.....	\$ (201,078)
2023.....	118,472
2024.....	(209,333)
2025.....	72,360
2026.....	<u>273,701</u>
Total.....	<u>\$ 54,122</u>

Actuarial Assumptions

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

Valuation date.....	January 1, 2020
Actuarial cost method.....	Entry Age Normal Cost Method
Amortization method.....	Level payments on the 2010 ERI liability and 3.5% increasing payments for the remaining unfunded liability
Remaining amortization period.....	As of July 1, 2019, 3 years for the 2010 ERI liability and 11 years for the remaining unfunded liability.
Asset valuation method.....	The difference between the expected return and the actuarial investment return on a market value basis and is recognized over five-year period with a fresh start as of January 1, 2015. Asset value is adjusted as necessary to be within 20% of the market value.
Inflation rate.....	2.75%
Projected salary increases.....	Based on years of service, ranging from 7.00% decreasing to 3.50% after 11 years of service from Group 1 and 2 employees, and ranging from 8.00% decreasing to 4.00% after 11 years for Group 4 employees.

Cost of living adjustments.....	2.75% of first \$17,000 of retirement allowance, increasing to \$18,000 effective July 1, 2020.
Mortality rates:	
Pre-Retirement.....	The RP-2014 Blue Collar Employee Mortality Table set forward one year for female participants projected generationally with a Scale MP-2016.
Healthy Retiree.....	The RP-2014 Blue Collar Healthy Annuitant Mortality Tables set forward one year for female participants projected generationally with Scale MP-2016
Disabled Retiree.....	The RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2016.
Investment rate of return/Discount rate.....	6.00%

Investment Policy

The pension plan's policy in regard to the allocation of invested assets is established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the pension plan.

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:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	22.00%	6.28%
International developing markets equity...	12.00%	7.00%
International emerging markets equity.....	5.00%	8.82%
Core fixed income.....	15.00%	0.39%
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.....	14.00%	10.11%
 Total.....	 <u>100.00%</u>	

Rate of Return

For the year ended December 31, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 12.02%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The discount rate used to measure the total pension liability was 6.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan'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.

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

The following presents the net pension liability, calculated using the discount rate of 6.00% as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00%) or 1-percentage-point higher (7.00%) than the current rate:

	1% Decrease (5.00%)	Current Discount (6.00%)	1% Increase (7.00%)
The Municipal Light Plant's proportionate net pension liability.....	\$ 7,431,075	\$ 4,034,946	\$ 1,204,210

Changes of Assumptions

- The discount rate was lowered from 6.625% to 6.00%.
- The mortality assumption for disabled pensioners was changed from the PR-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB from 2015 to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2016.
- The retirement assumption for members hired on or after April 2, 2012 was adjusted to reflect a 50% increase to retirement rates at age 60 for members of Group 1 and 2.

Changes in Plan Provisions

- None.

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS*Plan Description*

The Town of Wellesley administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”), which the WMLP participates in. The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements are also negotiated between the Town and union representatives. Retired plan members and beneficiaries currently receiving benefits are required to contribute between 17.7% and 50% of the cost of benefits provided depending on the plan they choose. The Town is required to contribute the balance of the current premiums and may contribute additional amounts to pre-fund benefits. The Plant contributed \$304,145, during the current year towards these benefits including the pre-funding amount discussed below. Administrative costs of the Plan are assumed to be included in the fully insured premium rates.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish a postemployment benefit trust fund and to enable the Town to begin pre-funding its other postemployment benefit (OPEB) liabilities. The Town has named the Health Care Security Board of Trustees (HCSBT) as Trustees of the OPEB Fund, and as such, has authorized the OPEB Trust funds to be invested entirely in the State Retirements Benefits Trust Fund (SRBT Fund). Massachusetts General Law directs the HSCBT to invest the SRBT Fund in the Pension Reserves Investment Trust (PRIT) Fund. The Trustees have adopted a trust agreement detailing their duties and responsibilities as Trustees. The PRIT fund is subject to oversight by the Pension Reserves Investment Management (PRIM) Board. A nine member Board of Trustees governs the PRIM Board. The board of Trustees has the authority to employ an Executive Director, outside investment managers, custodians, consultants, and other as it deems necessary to formulate policies and procedures and to take such other actions as necessary and appropriate to manage the assets of the PRIT Fund. As of June 30, 2021, the Plant has pre-funded future OPEB liabilities by contributing funds to the Other Postemployment Benefit Fund in excess of the pay-as-you-go required contribution. As of June 30, 2021, the Plant’s OPEB Fund totaled \$7.9 million.

Investment Policy

The OPEB plan’s assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the OPEB plan. The long-term real rate of return on OPEB investments was determined using the Town’s investment policy.

Measurement Date

The net OPEB liability/(asset) was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability/(asset) was determined by an actuarial valuation as of December 31, 2020.

Employees Covered by Benefit Terms

The following table represents the Plan's membership at December 31, 2020:

Active members.....	26
Retired members currently receiving benefits.....	<u>44</u>
Total.....	<u><u>70</u></u>

Significant Actuarial Methods and Assumptions

The total OPEB liability in the December 31, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified, that was updated to June 30, 2021, to be in accordance with GASB Statement #74:

Valuation date.....	December 31, 2020
Actuarial cost method.....	Entry Age Normal - Level Percentage of Payroll
Amortization method.....	Payments increase 3.0% per year.
Remaining amortization period.....	17 years as of July 1, 2020.
Asset valuation method.....	Market Value
Discount rate and investment rate of return.....	6.00%
Wage inflation/Inflation rate.....	3.00%
Salary increases.....	Service realted increases for Group 1 and 2 members: 7.0% decreasing over 11 years to an ultimate level of 3.5%. Service related increases for Group 4 members: 8.0% decresing over 11 years to an ultimate level of 4.0%.
Health care trends rate.....	Medical and Prescription Drug: 7.0% graded by 0.25% for 10 years to an ultimate level of 4.5% per year. Medical Part B Premium 4.5%.
Mortality rates.....	Pre-Retirement: RP-2014 Blue Collar Employee Mortality Table projected generationally with scale MP-2016 set forward for one year for females. Healthy Retiree: RP-2014 Blue Collar Healthy Annuitant Mortality projected generationally with scale MP-2016 set forward one year for females. Disabled Retiree: RP-2014 Blue Collar Healthy Annuity Mortality Table projected generationally with scale MP-2016 set forward one year.

Rate of Return

For the year ended June 30, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 29.58%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 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 and subtracting expected investment expense and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized on the following page.

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	22.00%	6.28%
International developing 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%
Commodities.....	4.00%	3.45%
Hedge fund, GTAA, Risk parity.....	10.00%	2.23%
Private equity.....	14.00%	10.11%
 Total.....	 <u>100.00%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.00% as of June 30, 2021 and June 30, 2020. The projection of cash flows used to determine the discount rate assumed that contributions will be made in accordance with the Plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be sufficient to make all projected benefit payments to current plan members. Therefore, the long-term expected rate of return on the OPEB plan assets was applied to periods of projected future benefit payments.

Summary of Significant Accounting Policies

For purposes of measuring the net OPEB liability/(asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts (repurchase agreements) that have a maturity at the time of purchase of one year or less, which are reported at cost.

Components of Net OPEB Liability/(Asset)

The following table represents the components of the Plant's net OPEB liability/(asset) as of June 30, 2021:

Total OPEB liability.....	\$ 5,787,453
Less: OPEB plan's fiduciary net position.....	<u>(7,898,479)</u>
Net OPEB liability/(asset).....	<u>\$ (2,111,026)</u>
The OPEB plan's fiduciary net position as a percentage of the total OPEB liability.....	136.5%

Changes in the Net OPEB Liability/(Asset)

	Increase (Decrease)		
	Plan	Fiduciary Net Position	Net OPEB Liability/(Asset)
	Total OPEB Liability (a)	(b)	(a) - (b)
Balances at June 30, 2020.....	\$ 4,998,839	\$ 6,103,820	\$ (1,104,981)
Changes for the year:			
Service cost.....	134,767	-	134,767
Interest.....	330,188	-	330,188
Contributions - employer.....	-	304,145	(304,145)
Net investment income.....	-	1,794,659	(1,794,659)
Differences between expected and actual experience.....	363,744	-	363,744
Changes in assumptions and other inputs.....	264,060	-	264,060
Benefit payments.....	(304,145)	(304,145)	-
Net change.....	788,614	1,794,659	(1,006,045)
Balances at June 30, 2021.....	<u>\$ 5,787,453</u>	<u>\$ 7,898,479</u>	<u>\$ (2,111,026)</u>

Sensitivity of the Net OPEB Liability/(Asset) to Changes in the Discount Rate

The following table presents the net other postemployment benefit liability/(asset), calculated using the discount rate of 6.00%, as well as what the net other postemployment benefit liability/(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00%) or 1-percentage-point higher (7.00%) than the current discount rate.

	Current		
	1% Decrease (5.00%)	Discount Rate (6.00%)	1% Increase (7.00%)
Net OPEB liability/(asset).....	\$ (1,384,355)	\$ (2,111,026)	\$ (2,711,485)

Sensitivity of the Net OPEB Liability/(Asset) to Changes in the Healthcare Cost Trend Rates

The following table presents the net other postemployment benefit liability/(asset), calculated using the current healthcare trend rate of 7.00% decreasing by 0.25% each year to an ultimate rate of 4.50%, as well as what the net other postemployment benefit liability/(asset) would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher.

	1% Decrease	Current Trend	1% Increase
Net OPEB liability/(asset).....	\$ (2,806,673)	\$ (2,111,026)	\$ (1,245,342)

Deferred Outflows of Resources Related to OPEB

For the year ended June 30, 2021, the Plant reported deferred outflows of resources related to OPEB from the following sources:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ 303,120	\$ (247,228)	\$ 55,892
Difference between projected and actual earnings, net.....	-	(953,805)	(953,805)
Changes in assumptions.....	220,050	(137,770)	82,280
 Total deferred outflows/(inflows) of resources.....	 \$ 523,170	 \$ (1,338,803)	 \$ (815,633)

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense in the following years:

Measurement date year ended June 30:

2022.....	\$ (312,843)
2023.....	(285,762)
2024.....	(133,226)
2025.....	(188,436)
2026.....	104,634
 Total.....	 \$ (815,633)

Changes of Assumptions

The following changes of assumptions as of June 30, 2021:

- The expected rate of return was decreased from 6.625% to 6.00%.
- The trend assumptions were revised to reflect future expectations.
- The per capita health costs were updated to reflect current premiums.
- The disabled life mortality assumption was updated.
- The retirement assumption for Group 1 employees hired on or after April 2, 2012 was updated.

Changes in Plan Provisions

- None.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

WMLP purchases its power through contracts with various power suppliers. These contracts are subject to certain market factors. Based on current market conditions, the Plant anticipates some stability to its power cost expenses over the next few years.

The WMLP is involved in legal proceedings and claims arising in the normal course of business. In the opinion of management and legal counsel, Wellesley Municipal Light Plant's liability, if any, would not materially affect its financial condition or results of operations.

See Note 8 regarding energy purchase commitments with Energy New England, LLC.

NOTE 15 – COMMERCIAL INTERNET SERVICE

On January 1, 2019, the Wellesley Municipal Light Plant ("WMLP") transitioned the Commercial Internet Pilot to an official commercial offering and invoiced the 17 internet pilot customers for the first time. Since then, WMLP has increased the customer count to 134 as of August 2021. The goal for this venture is to add a minimum of five new customers each month. The WMLP has installed and spliced fiber optic cable connecting 85 multi-tenant buildings to the system to date. This capital-intense effort continues to increase the fiber backbone and will allow the MLP to access hundreds of potential customers with minimal additional expense.

Operating revenue from the Commercial Internet service grew from \$135,505 in 2020 to \$188,945 in 2021. In 2022 operating revenue is again projected to exceed operating expenses.

NOTE 16 – FORWARD CAPACITY MARKET

All load-serving electric utilities in New England are assessed a monthly Forward Capacity Market ("FCM") charge by ISO-New England. The FCM charge is based on the utility's load, coincident with the ISO New England System Peak for the previous Capacity Year, plus a reserve margin. FCM charges peaked in 2018 and have declined annually since. Wellesley Municipal Light Plant's ("WMLP") FCM charge is projected to decline 5% from \$4.7 million in 2021 to \$4.5 million in 2022. FCM charges are projected to continue to decline through 2024.

The full extent of the financial impact cannot be determined as of the date of the financial statements.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 20, 2021, which is the date the financial statements were available to be issued.

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Required Supplementary Information

Pension Plan Schedules

The Schedule of the Plant's Proportionate Share of the Net Pension Liability presents multi-year trend information on the Plant's net pension liability and related ratios.

The Schedule of Contributions presents multi-year trend information on the Plant's required and actual contributions to the pension plan and related ratios.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE MUNICIPAL LIGHT PLANT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM**

<u>Year</u>	<u>Proportion of the net pension liability (asset)</u>	<u>Proportionate share of the net pension liability (asset)</u>	<u>Covered payroll</u>	<u>Net pension liability as a percentage of covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
December 31, 2020.....	9.36%	\$ 4,034,946	\$ 2,687,562	150.13%	84.93%
December 31, 2019.....	9.15%	3,859,332	2,454,140	157.26%	83.71%
December 31, 2018.....	9.14%	5,625,088	2,356,382	238.72%	75.33%
December 31, 2017.....	9.18%	4,059,497	2,275,487	178.40%	81.29%
December 31, 2016.....	9.22%	5,509,711	2,186,311	252.01%	73.33%
December 31, 2015.....	9.07%	5,710,679	2,303,625	247.90%	70.92%
December 31, 2014.....	9.19%	5,054,067	2,452,473	206.08%	73.56%

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF CONTRIBUTIONS
WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
June 30, 2021.....	\$ 921,561	\$ (921,561)	\$ -	\$ 2,714,438	33.95%
June 30, 2020.....	850,422	(850,422)	-	2,478,681	34.31%
June 30, 2019.....	804,239	(804,239)	-	2,379,946	33.79%
June 30, 2018.....	771,140	(771,140)	-	2,298,242	33.55%
June 30, 2017.....	744,853	(744,853)	-	2,208,174	33.73%
June 30, 2016.....	774,704	(774,704)	-	2,326,661	33.30%
June 30, 2015.....	748,559	(748,559)	-	2,476,998	30.22%

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

The Schedule of Changes in the Plant's Net Other Postemployment Benefit Liability/(Asset) and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability/(asset). It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability/(asset) as a percentage of covered-employee payroll.

The Schedule of the Plant's Contributions presents multi-year trend information on the Plant's actual contributions to the other postemployment benefit plan and related ratios.

The Schedule of Investment Returns presents multi-year trend information on the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

**SCHEDULE OF CHANGES IN THE
MUNICIPAL LIGHT PLANT'S NET OPEB LIABILITY/(ASSET) AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021
Total OPEB Liability					
Service Cost.....	\$ 150,131	\$ 154,115	\$ 158,205	\$ 134,371	\$ 134,767
Interest.....	355,671	370,974	385,944	324,951	330,188
Differences between expected and actual experience....	-	(741,684)	-	-	363,744
Changes of assumptions.....	-	(233,142)	-	(90,084)	264,060
Benefit payments.....	<u>(267,372)</u>	<u>(299,308)</u>	<u>(372,594)</u>	<u>(281,910)</u>	<u>(304,145)</u>
Net change in total OPEB liability.....	238,430	(749,045)	171,555	87,328	788,614
Total OPEB liability - beginning.....	<u>5,250,571</u>	<u>5,489,001</u>	<u>4,739,956</u>	<u>4,911,511</u>	<u>4,998,839</u>
Total OPEB liability - ending (a).....	<u>\$ 5,489,001</u>	<u>\$ 4,739,956</u>	<u>\$ 4,911,511</u>	<u>\$ 4,998,839</u>	<u>\$ 5,787,453</u>
Plan fiduciary net position					
Employer contributions.....	\$ 568,889	\$ 452,308	\$ 525,594	\$ 434,910	\$ 304,145
Net investment income.....	529,951	461,630	311,214	115,601	1,794,659
Benefit payments.....	<u>(267,372)</u>	<u>(299,308)</u>	<u>(372,594)</u>	<u>(281,910)</u>	<u>(304,145)</u>
Net change in plan fiduciary net position.....	831,468	614,630	464,214	268,601	1,794,659
Plan fiduciary net position - beginning of year.....	<u>3,924,907</u>	<u>4,756,375</u>	<u>5,371,005</u>	<u>5,835,219</u>	<u>6,103,820</u>
Plan fiduciary net position - end of year (b).....	<u>\$ 4,756,375</u>	<u>\$ 5,371,005</u>	<u>\$ 5,835,219</u>	<u>\$ 6,103,820</u>	<u>\$ 7,898,479</u>
Net OPEB liability/(asset) - ending (a)-(b).....	\$ 732,626	\$ (631,049)	\$ (923,708)	\$ (1,104,981)	\$ (2,111,026)
Plan fiduciary net position as a percentage of the total OPEB liability.....	86.7%	113.3%	118.81%	122.10%	136.48%

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF MUNICIPAL LIGHT PLANT'S CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

<u>Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>
June 30, 2021.....	\$ 194,432	\$ (304,145)	\$ (109,713)
June 30, 2020.....	134,456	(434,910)	(300,454)
June 30, 2019.....	130,344	(468,763)	(338,419)
June 30, 2018.....	374,564	(452,308)	(77,744)
June 30, 2017.....	478,266	(568,889)	(90,623)

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS
OTHER POSTEMPLOYMENT BENEFIT PLAN

Year	Annual money-weighted rate of return, net of investment expense
June 30, 2021.....	29.58%
June 30, 2020.....	1.93%
June 30, 2019.....	5.79%
June 30, 2018.....	9.62%
June 30, 2017.....	12.80%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

NOTE A – PENSION PLANA. Schedule of the Plant's Proportionate Share of the Net Pension Liability

The Schedule of the Plant's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

B. Schedule of Plant's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, and amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The Plant may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the Plant based on covered payroll.

C. Changes of Assumptions

- The discount rate was lowered from 6.625% to 6.00%.
- The mortality assumption for disabled pensioners was changed from the PR-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB from 2015 to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2016.
- The retirement assumption for members hired on or after April 2, 2012 was adjusted to reflect a 50% increase to retirement rates at age 60 for members of Group 1 and 2.

D. Changes of Plan Provisions

None.

NOTE B – OTHER POSTEMPLOYMENT BENEFITS

The Town administers a single-employer defined benefit healthcare plan ("The Other Postemployment Benefit Plan"), which WMLP participates in. The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the Town's group health insurance plan, which covers both active and retired members.

The Other Postemployment Benefit PlanA. Schedule of Changes in the Plant's Net Other Postemployment Benefit Liability/(Asset) and Related Ratios

The Schedule of Changes in the Plant's Net Other Postemployment Benefit Liability/(Asset) and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability/(asset). It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability/(asset) as a percentage of covered payroll.

B. Schedule of the Plant's Contributions

The Schedule of the Plant's Contributions includes the Plant's annual required contribution to the plan, along with the contribution made in relation to the actuarially determined contribution and the covered employee payroll. The Plant is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered payroll. Actuarial contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates are as follows:

Valuation date.....	December 31, 2020
Actuarial cost method.....	Entry Age Normal - Level Percentage of Payroll
Amortization method.....	Payments increase 3.0% per year.
Remaining amortization period.....	17 years as of July 1, 2020.
Asset valuation method.....	Market Value
Discount rate and investment rate of return.....	6.00%
Wage inflation/Inflation rate.....	3.00%
Salary increases.....	Service related increases for Group 1 and 2 members: 7.0% decreasing over 11 years to an ultimate level of 3.5%. Service related increases for Group 4 members: 8.0% decreasing over 11 years to an ultimate level of 4.0%.
Health care trends rate.....	Medical and Prescription Drug: 7.0% graded by 0.25% for 10 years to an ultimate level of 4.5% per year. Medical Part B Premium 4.5%.
Mortality rates.....	Pre-Retirement: RP-2014 Blue Collar Employee Mortality Table projected generationally with scale MP-2016 set forward for one year for females. Healthy Retiree: RP-2014 Blue Collar Healthy Annuitant Mortality projected generationally with scale MP-2016 set forward one year for females. Disabled Retiree: RP-2014 Blue Collar Healthy Annuity Mortality Table projected generationally with scale MP-2016 set forward one year.

C. Schedule of Investment Return

The Schedule of Investment Return includes the money-weighted investment return on the Plan's other postemployment assets, net of investment expenses.

D. Changes of Assumptions –The following changes of assumptions as of June 30, 2021:

- The expected rate of return was decreased from 6.625% to 6.00%.
- The trend assumptions were revised to reflect future expectations.
- The per capita health costs were updated to reflect current premiums.
- The disabled life mortality assumption was updated.
- The retirement assumption for Group 1 employees hired on or after April 2, 2012 was updated.

E. Changes in Plan Provisions –None.

Other Supplementary Information

SCHEDULE OF KILOWATT HOURS SOLD AND NUMBER OF CUSTOMERS

FOR THE YEARS ENDED JUNE 30,

	<u>Kilowatt Hours Sold</u>		
	<u>2021</u>	<u>2020</u>	<u>Percentage Increase/ (Decrease)</u>
<u>Class of Customer</u>			
Distribution wheeling.....	511,277	494,297	3.44%
Residential.....	110,464,457	103,134,234	7.11%
Commercial.....	57,279,610	61,473,426	-6.82%
Municipal.....	9,983,606	9,875,496	1.09%
Street lighting.....	925,681	925,581	0.01%
Primary.....	42,152,990	43,618,150	-3.36%
Partial primary.....	20,800,562	18,059,716	15.18%
Total KWH's Sold.....	242,118,183	237,580,900	1.91%
 <u>Number of Customers</u>			
	<u>2021</u>	<u>2020</u>	<u>Percentage Increase/ (Decrease)</u>
<u>Class of Customer</u>			
Distribution wheeling.....	1	1	0.00%
Residential.....	8,988	8,969	0.21%
Commercial.....	1,114	1,104	0.91%
Municipal.....	92	91	1.10%
Street lighting.....	1	1	0.00%
Primary.....	5	5	0.00%
Partial primary.....	1	1	0.00%
Total Customer Accounts.....	10,202	10,172	0.29%

SCHEDULE OF UTILITY PLANT IN SERVICE

AS OF JUNE 30, 2020

FERC ⁽¹⁾ Account	Description of the Asset Class	Original Cost	Accumulated Depreciation	Net Book Value
107	Construction In Progress.....	\$ 43,249	\$ -	\$ 43,249
353	Station Equipment - Use Rights.....	6,386,646	5,570,745	815,901
357	Underground Conduits.....	2,256,256	1,631,890	624,366
358	Underground Conductors and Devices.....	4,742,325	3,735,165	1,007,160
360	Land.....	137,770	-	137,770
361	Structures and Improvements.....	11,987,312	3,778,899	8,208,413
362	Station Equipment.....	6,358,861	4,173,297	2,185,564
364	Poles, Towers and Fixtures.....	9,966,300	4,158,425	5,807,875
365	Overhead Conductors and Devices.....	13,854,725	5,410,525	8,444,200
366	Underground Conduit.....	6,117,620	3,669,870	2,447,750
367	Underground Conductors and Devices.....	27,782,821	10,248,131	17,534,690
368	Line Transformers.....	6,920,250	3,970,476	2,949,774
369	Services.....	13,172,951	6,522,865	6,650,086
370	Meters.....	2,179,059	1,538,048	641,011
373	Street Lighting and Signal Systems.....	6,414,352	4,329,207	2,085,145
389	Land Improvements.....	315,410	189,246	126,164
391	Office Furniture and Equipment.....	380,507	350,836	29,672
392	Transportation Equipment.....	2,908,819	1,805,694	1,103,124
393	Stores Equipment.....	137,436	130,904	6,533
394	Tools, Shop and Garage Equipment.....	176,904	125,290	51,614
395	Laboratory Equipment.....	76,860	66,959	9,901
396	Power Operated Equipment.....	39,935	21,451	18,484
397	Communication Equipment.....	3,862,100	1,642,615	2,219,485
398	Miscellaneous Equipment.....	50,484	35,726	14,758
Totals.....		<u>\$ 126,268,953</u>	<u>\$ 63,106,262</u>	<u>\$ 63,162,691</u>

⁽¹⁾ Federal Energy Regulatory Commission

***Report on Internal Control Over Financial
Reporting and on Compliance***

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Municipal Light Board
Wellesley Municipal Light Plant

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Wellesley Municipal Light Plant (the Plant); an enterprise fund of the Town of Wellesley, Massachusetts, as of and for the year ended June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plant's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plant's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plant's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Powers & Sullivan LLC

October 20, 2021