

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE
OPERATIONS (SELCO) - ELECTRIC
Financial Statements
December 31, 2019 and 2018

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
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DECEMBER 31, 2019 AND 2018

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

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Town of Shrewsbury, Massachusetts
Shrewsbury Electric and Cable Operations (SELCO) – Electric
Shrewsbury, Massachusetts 01545

We have audited the accompanying financial statements of Shrewsbury Electric and Cable Operations (SELCO) – Electric as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise SELCO-Electric's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shrewsbury Electric and Cable Operations (SELCO) – Electric as of December 31, 2019 and 2018, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1, the financial statements present only the Shrewsbury Electric and Cable Operations (SELCO) – Electric and do not purport to, and do not present fairly the financial position of the Town of Shrewsbury, Massachusetts, as of December 31, 2019 and 2018, and the changes in financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Other Post-Employment Benefits and Net Pension Liability information on pages three through seven and 38 through 40 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 sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Electric Operating Revenues, Schedules of Operation and Maintenance Expenses and Schedules of Kilowatt Hours Sold on pages 41 through 44 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
June 12, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Shrewsbury Electric and Cable Operations (SELCO) - Electric (an enterprise fund of the Town of Shrewsbury, Massachusetts) annual financial report, management provides narrative discussion and analysis of the financial activities of SELCO - Electric for the years ended December 31, 2019 and 2018. 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 statements of net position (2) the statements of revenues, expenses and changes in net position (3) the statements of cash flows and (4) notes to the financial statements.

The Statements of Net Position is designed to indicate the financial position as of a specific point in time. At December 31, 2019, it shows our net position increased \$3,880,307 compared to the year ended December 31, 2018.

The Statements of Revenues, Expenses and Changes in Net Position summarize the operating results and reveal how much income, if any, was earned for the year. As discussed in more detail below, there was a net income for the years ended December 31, 2019 and 2018 of \$4,121,250 and \$1,148,460, respectively.

The Statements of Cash Flows provide information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financing activities for the same period. A review of the Statements of Cash Flows indicates that the cash receipts from operating activities, (that is, electricity sales and related services) adequately covered the operating expenses for the years ended December 31, 2019 and 2018.

Summary of Net Position

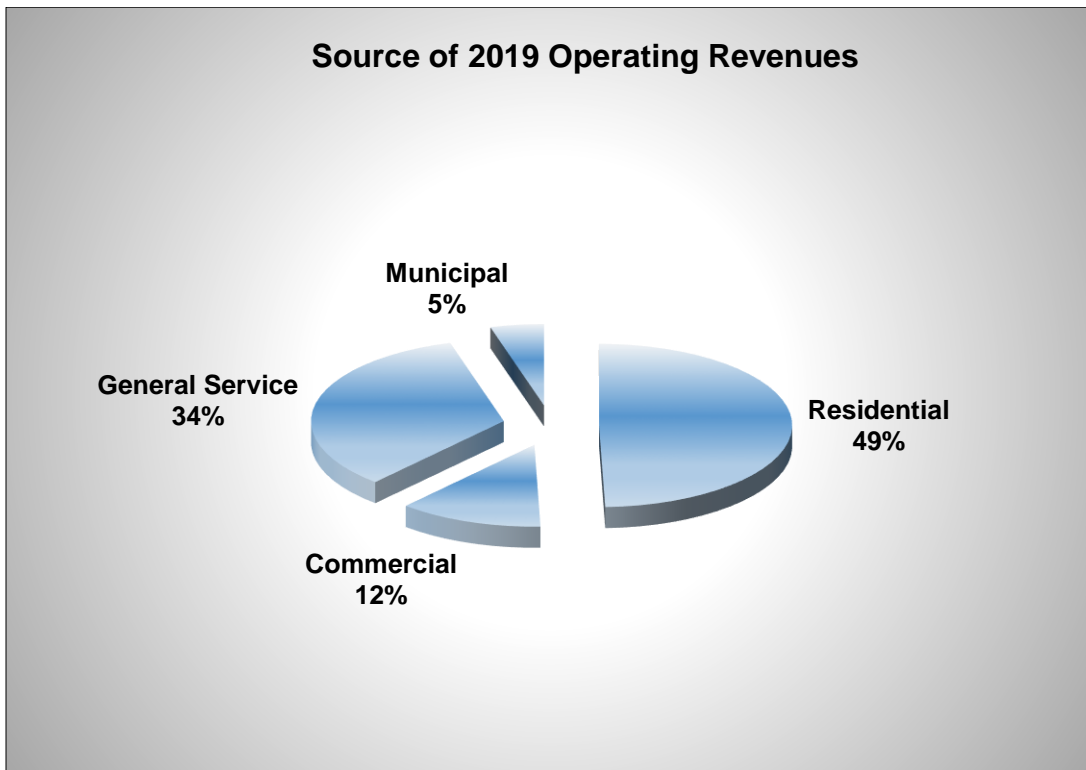
	2019	2018
Current Assets	\$ 15,201,351	\$ 12,347,267
Noncurrent Assets	51,642,362	51,582,495
Total Assets	66,843,713	63,929,762
Deferred Outflows of Resources	1,037,399	1,053,721
Total Assets and Deferred Outflows of Resources	\$ 67,881,112	\$ 64,983,483
Current Liabilities	\$ 3,267,407	\$ 3,178,802
Noncurrent Liabilities	13,873,480	14,815,781
Total Liabilities	17,140,887	17,994,583
Deferred Inflows of Resources	6,203,161	6,332,143
Net Position:		
Net Investment in Capital Assets	26,367,715	23,498,884
Net Position Restricted for Depreciation	3,375,847	3,372,473
Unrestricted Net Position	14,793,502	13,785,400
Total Net Position	44,537,064	40,656,757
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 67,881,112	\$ 64,983,483

Summary of Changes in Net Position

	2019	2018
Operating Revenues	\$ 32,439,008	\$ 32,423,215
Operating Expenses	27,934,686	30,882,510
Operating Income	4,504,322	1,540,705
Non-Operating Revenues Less Non-Operating Expenses	(383,072)	(392,245)
Income Before Contributions and Transfers	4,121,250	1,148,460
Transfer Out - Payment in Lieu of Taxes	(240,943)	(240,940)
Net Position, January 1	40,656,757	39,749,237
Net Position, December 31	\$ 44,537,064	\$ 40,656,757

Financial Highlights:

The most significant difference between 2019 and 2018 that is reflected in the statements above is the \$3.1 million decrease in Purchased Power and Transmission expenses. Milder weather in 2019, was bolstered by kWh and cost reductions provided by SELCO’s own Solar Array and Centech Peaker generation. Those factors contributed to a 6% drop in kWh Purchased and a 10% drop in expense. Kilowatt-hour sales for 2019 were about 3% less than 2018, however SELCO’s rates kept Operating Revenues for 2019 within \$16,000 and a percentage point of 2018.



Rate Matters:

For electric bills issued after November 1, 2014 the component of the rate previously titled “Transition” was replaced by a new component titled “Generation & Transmission Adjustment (GTA).” The GTA is calculated and scheduled on a semi-annual basis to offset fluctuations in power cost during the fall/winter and spring/summer cycles. This adjustable rate component enables SELCO to recover fluctuating power and transmission costs without over or under collecting the respective revenue from its customers.

For bills issued effective May 1, 2019 the Generation and Transmission Adjustment (GTA) was set at negative \$0.004 per kWh. The GTA was set at negative \$0.0021 for bills issued effective October 1, 2018.

Power Supply:

SELCO - Electric provides electricity to its customers through fixed purchase power contracts, short term contracts, and purchases from the open market in an effort to stabilize power costs. Purchased power costs are the costs associated with buying energy and having it delivered to residents and businesses in the Town of Shrewsbury. There are circumstances that will make the cost of electric energy fluctuate, such as peak demands for electric energy caused by extended periods of time with above or below normal temperatures, unexpected power plant shutdowns for unforeseen repair, and fuel prices being affected by fluctuation in demand and the global economy.

Actual kilowatt hour purchases for the year were 5.7 percentage points less than 2018.

Working with electric power supply experts, SELCO - Electric continues to try to position itself to best manage the impact that adverse weather, and market and economic conditions have on the rates of its customers.

Net Plant Assets and Debt Administration:

Net Plant Assets

Net plant assets increased by \$1,970,033 during 2019. This increase is the difference between the current year additions of \$4,234,464, the annual depreciation (3%) expense of \$2,327,431.

During 2019, SELCO – Electric capitalized the cost of the Centech Peaker Plant in the amount of approximately \$3 million

During 2018, SELCO – Electric capitalized the solar array farm located on Hartford Turnpike in the amount of \$7.2 million.

It should be noted that utility plant expenditures have been, and will continue to be funded with revenue received from the sale of electricity, bond proceeds, and, if necessary, a draw on SELCO - Electric reserve funds.

Debt Administration

Debt outstanding at year-end 2019 was \$13,499,687. The amount consists of three issues.

The first issue is a \$6,000,000 general obligation bond issued January 23, 2014 to finance the construction of the Centech Sub-Station. Principal payments of \$300,000 are due annually, beginning January 15, 2015 and maturing January 15, 2034. Interest is payable semiannually January 15 and July 15 at rates starting at 3% and moving to 4%. The amount payable on this bond is \$4.5 million at December 31, 2019.

The second issue is a note payable to MMWEC for the Peaking Plant. The original amount of the note was \$2,373,207. Interest is charged at 3.20% and principal payments are due monthly. This note is payable in full by March 2031. The amount payable on this note at December 31, 2019 was \$2,235,185.

Net Plant Assets and Debt Administration (Continued):

The third issue is a note payable to MMWEC for the Solar Array Facility. The original amount of the note was \$7,288,278. Interest is charged at 3.11% and principal payments are due monthly. This note is payable in full by March 2031. The amount payable on this note was \$6,763,502 at December 31, 2019.

Interest and principal payments have and will continue to be paid with revenue received from the sale of electricity.

Return on Investment:

The annual Return on Investment for Municipal Light Plants (Net Income less Serial Debt) is restricted by regulation and cannot exceed 8% of the year-end Cost of Plant Assets. The ROI in 2019 of \$3,004,029 was 3.64% of the Cost of Plant.

Significant Balances and Transactions:

Purchased Power Working Capital

Prepayments include Purchased Power Working Capital which is an amount held by MMWEC, the Department's power supply agent. MMWEC requires that they hold a set amount of capital from which they may pay the power obligations when they are due. The fund is replenished as needed through invoices paid monthly to MMWEC.

PCA Fund

SELCO - Electric's PCA (Power Cost Adjustment) Fund is a contingency fund established to mitigate power costs on an as needed basis. A balance of \$1,500,000 is maintained in the Fund for that purpose

Construction Fund

SELCO - Electric transferred \$1,970,008 out of the Construction Fund during 2019. This money was set aside as a reserve to aide in the payment for the 2019 approved capital projects.

Depreciation Fund

SELCO - Electric maintains a Depreciation Fund, which is invested by the Town of Shrewsbury's Treasurer. This Fund is used to pay for capital investments. These items are purchased from the Operating Funds, which are then replenished by funds transferred from the Depreciation Fund. The Depreciation Fund is required by state statute. In 2019 the Fund earned \$3,374 of interest income.

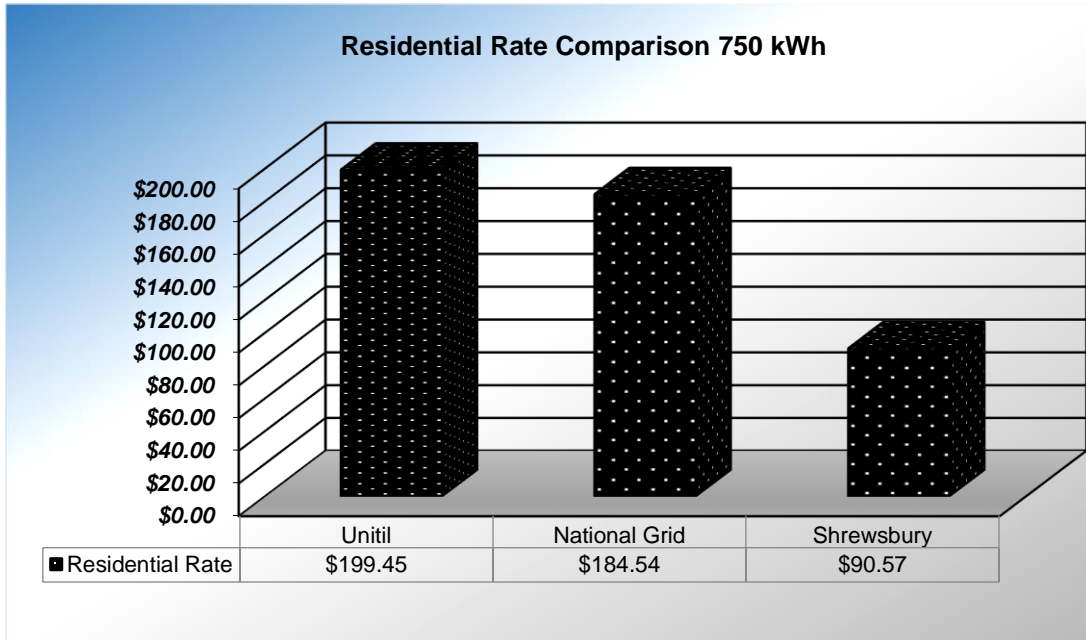
Customer Accounts Receivable

Customer Accounts Receivable is reported net of the Allowance for Doubtful Accounts. During 2019 the Allowance for Doubtful Accounts remained constant at \$113,000 for the beginning of each year. Increases and decreases to the Allowance are offset to Bad Debt Expense.

Significant Balances and Transactions (Continued):

Rates

On average, during 2019, a SELCO - Electric residential customer, using 750 kWh per month, paid \$90.57 per month while a Unitil residential customer paid \$199.45 for the same 750 kWh. SELCO - Electric residential rates remain among the lowest in the state.



*12 Month Average rates taken from the Massachusetts Municipal Wholesale Electric Company (MMWEC) website.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

OPERATING FUND

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2019	2018
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Fund	\$ 9,938,343	\$ 5,496,687
Funds held by MMWEC	0	1,443,084
Accounts Receivable Customers, Net	2,391,862	2,405,507
Other Receivables	894,182	1,510,059
Materials and Supplies	151,290	172,553
Energy Conservation Loans Receivable, Current Portion	53,827	51,792
Purchased Power Working Capital	1,504,483	1,013,225
Prepayments	267,364	254,360
	15,201,351	12,347,267
TOTAL CURRENT ASSETS		
 NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	3,375,847	3,372,473
Construction Fund	897,290	2,867,297
Power Cost Adjustment Fund	1,500,000	1,500,000
Pooled Financing Reserve	1,067,395	984,428
Rate Stabilization Fund	3,765,448	4,001,613
Energy Conservation Loans Receivable, Net of Current Portion	54,762	84,504
Preliminary Survey Investment	1,052,697	750,290
Investments in Associated Companies	61,521	61,521
Plant Assets, Net	39,867,402	37,960,369
	51,642,362	51,582,495
TOTAL NONCURRENT ASSETS		
TOTAL ASSETS	66,843,713	63,929,762
 DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflows of Resources Related to OPEB	163,339	44,496
Deferred Outflows of Resources Related to Pensions	874,060	1,009,225
	1,037,399	1,053,721
TOTAL DEFERRED OUTFLOWS OF RESOURCES		
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 67,881,112	\$ 64,983,483

See Accompanying Notes to the Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

OPERATING FUND

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2019	2018
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,596,367	\$ 1,773,081
Accrued Expenses	553,819	443,924
Bonds Payable, Current Portion	300,000	300,000
Pooled Financing Loan, Current Portion	817,221	661,797
	3,267,407	3,178,802
NONCURRENT LIABILITIES:		
Bonds Payable, Net of Current Portion	4,200,000	4,500,000
Unamortized Debt Premium	98,365	105,110
Pooled Financing Loan, Net of Current Portion	8,182,466	8,999,688
Net OPEB Liability	967,286	970,189
Net Pension Liability	425,363	240,794
	13,873,480	14,815,781
TOTAL LIABILITIES	17,140,887	17,994,583
DEFERRED INFLOWS OF RESOURCES:		
Contribution in Aid of Construction, Net	901,675	590,586
Rate Stabilization Reserve	4,283,894	4,217,651
Deferred Inflow of Resources Related to OPEB	134,551	164,465
Deferred Inflow of Resources Related to Pensions	883,041	1,359,441
	6,203,161	6,332,143
NET POSITION:		
Net Investment in Capital Assets	26,367,715	23,498,884
Net Position Restricted for Depreciation	3,375,847	3,372,473
Unrestricted Net Position	14,793,502	13,785,400
	44,537,064	40,656,757
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 67,881,112	\$ 64,983,483

See Accompanying Notes to the Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

	2019	2018
OPERATING REVENUES:		
Sales of Electricity	\$ 32,241,028	\$ 32,129,249
Other Operating Revenues	197,980	293,966
TOTAL OPERATING REVENUES	32,439,008	32,423,215
OPERATING EXPENSES:		
Operations	23,905,236	26,963,670
Maintenance	1,720,418	1,848,012
Depreciation, Net of Amortization	2,309,032	2,070,828
TOTAL OPERATING EXPENSES	27,934,686	30,882,510
OPERATING INCOME	4,504,322	1,540,705
NONOPERATING REVENUES (EXPENSES):		
Interest Expense	(420,587)	(293,407)
Investment Income	30,770	14,588
Pooled Finance Issuance	0	(105,163)
Loss on Disposal of Equipment	0	(15,008)
Amortization of Premium on Debt	6,745	6,745
TOTAL NONOPERATING REVENUES (EXPENSES)	(383,072)	(392,245)
Income Before Contributions and Transfers	4,121,250	1,148,460
NET POSITION - JANUARY 1	40,656,757	39,749,237
Transfers Out - Payment in Lieu of Taxes	(240,943)	(240,940)
NET POSITION - DECEMBER 31	\$ 44,537,064	\$ 40,656,757

See Accompanying Notes to the Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 33,017,246	\$ 31,847,559
Cash Paid to Suppliers	(22,546,921)	(26,283,688)
Cash Paid to Employees	(3,513,642)	(3,356,335)
Cash Paid for Benefits	(369,201)	(396,008)
Payment in Lieu of Taxes	(240,943)	(240,940)
Net Cash Provided by Operating Activities	6,346,539	1,570,588
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to Plant Assets	(2,777,630)	(1,351,636)
Contribution in Aid of Construction	329,488	62,401
Repayment of Pooled Financing Principle	(661,798)	(887,089)
Repayments of Bond Principle	(300,000)	(300,000)
Payment of Bond and Pooled Financing Interest	(437,087)	(298,907)
Net Cash Used by Capital and Related Financing Activities	(3,847,027)	(2,775,231)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividend Income	27,397	11,217
Transfers to Pooled Loan Reserve	(82,967)	(18,280)
Transfers from Rate Stabilization	0	216,038
Payments to Customers for Energy Conservation Loans	(27,500)	(36,012)
Payments from Customers for Energy Conservation Loans	55,207	59,758
Net Cash Provided (Used) by Investing Activities	(27,863)	232,721
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,471,649	(971,922)
CASH AND CASH EQUIVALENTS - JANUARY 1	9,863,984	10,835,906
CASH AND CASH EQUIVALENTS - DECEMBER 31	\$ 12,335,633	\$ 9,863,984

See Accompanying Notes to the Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 4,504,322	\$ 1,540,705
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	2,327,431	2,087,400
Amortization of Contribution in Aid of Construction	(18,399)	(16,572)
Payment in Lieu of Taxes	(240,943)	(240,940)
Surplus Credits related to Power Costs	(46,447)	(534,252)
Allowance for Doubtful Accounts	0	(5,000)
Pension Income	(156,666)	(180,179)
Other Postemployment Benefits Expense	99,076	103,104
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Accounts Receivable	13,645	97,453
Other Accounts Receivable	564,593	(673,109)
Materials and Supplies	21,263	(39,144)
Purchased Power Working Capital	(444,811)	380,216
Prepayments	(13,004)	(115,364)
Preliminary Survey Investment	0	(216,038)
Deferred Outflows of Resources Related to Pensions	(52,816)	(241,952)
Increase (Decrease) in Liabilities:		
Accounts Payable	(176,714)	(56,453)
Other Postemployment Benefits Obligations	(146,636)	(150,231)
Accrued Expenses	112,645	(169,056)
Net Cash Provided by Operating Activities	\$ 6,346,539	\$ 1,570,588

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

The following amounts are considered to be cash or cash equivalents for the purpose of the statements of cash flows.

	2019	2018
Operating Fund	\$ 9,938,343	\$ 5,496,687
Construction Fund	897,290	2,867,297
Power Cost Adjustment Fund	1,500,000	1,500,000
	\$ 12,335,633	\$ 9,863,984

See Accompanying Notes to the Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
 STATEMENTS OF FIDUCIARY NET POSITION
 DECEMBER 31, 2019 AND 2018

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

	2019	2018
ASSETS		
Funds on Deposit with Town Treasurer		
Investments	\$ 1,692,595	\$ 1,353,323
	1,692,595	1,353,323
NET POSITION		
FIDUCIARY NET POSITION - Restricted	\$ 1,692,595	\$ 1,353,323
	1,692,595	1,353,323

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SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
 STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

	2019	2018
Contributions	\$ 113,600	\$ 9,500
Net Investment Income (Loss)	225,672	(71,404)
	339,272	(61,904)
CHANGES IN FIDUCIARY NET POSITION	339,272	(61,904)
FIDUCIARY NET POSITION - January 1,	1,353,323	1,415,227
FIDUCIARY NET POSITION - December 31,	\$ 1,692,595	\$ 1,353,323

See Accompanying Notes to the Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

Shrewsbury Electric and Cable Operations (SELCO) - Electric is a component unit of the Town of Shrewsbury, Massachusetts. SELCO - Electric purchases power, predominantly from the Massachusetts Municipal Wholesale Electric Company (MMWEC), and sells it to consumers in the Town of Shrewsbury at rates submitted to the Massachusetts Department of Public Utilities (DPU). SELCO - Electric appoints a General Manager who, under the direction and control of the Municipal Light Board, has full charge of the operation and management of SELCO - Electric.

Regulation and Basis of Presentation

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

SELCO - Electric is considered an enterprise fund of the Town of Shrewsbury, Massachusetts. The operations of SELCO - Electric are accounted for with a separate set of self-balancing accounts organized on an Enterprise Fund type basis. Enterprise funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case GASB prevails.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Rate Matters

Under Massachusetts law, the electric rates of SELCO - Electric are set by the Municipal Light Board and may be changed once every three months. Rate schedules are filed with the Massachusetts DPU. While the DPU exercises general supervisory authority over SELCO – Electric, SELCO - Electric's rates are not subject to DPU approval.

Utility Plant

The statutory provision for depreciation of utility plant is computed on a straight-line method at 3% of the cost of plant in service at the beginning of the year, exclusive of land and land rights. Therefore, no depreciation is taken in the year of plant additions. Management has determined that this method is not materially different than the estimated useful lives in accordance with GAAP. Massachusetts law stipulates that SELCO - Electric may exceed the 3% depreciation rate only with the approval of the DPU. SELCO - Electric used a rate of 3% for both 2019 and 2018.

SELCO - Electric charges maintenance to expense when incurred. Replacements and betterments are charged to utility plant. At the time properties are retired, the cost of the property retired less accumulated depreciation, salvage value, and any cash proceeds is charged to unappropriated earned surplus.

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SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
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DECEMBER 31, 2019 AND 2018

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

Materials and Supplies

Materials and supplies are inventories of parts, accessories and fuel purchased for use in the utility business for construction, operation and maintenance purposes. The parts and accessories are stated at cost on a first-in-first-out basis. Fuel is valued using the average cost method.

Revenue Recognition

SELCO - Electric owns and maintains an electric distribution network serving the Town of Shrewsbury, Massachusetts. Distribution revenues are primarily from the sale of electricity to Town customers. Distribution sales are regulated by the DPU, which is responsible for determining the prices and other terms of services as part of the ratemaking process. The arrangement where a utility provides a service to a customer in exchange for a price approved by a regulator is referred to as a tariff sales contract. Electric distribution revenues are derived from the regulated sale and distribution of electricity to residential, commercial, and industrial customers within the Town of Shrewsbury under the tariff rates. The tariff rates approved by the regulator are designed to recover the costs incurred by the SELCO - Electric for products and services provided along with a return on investment.

The performance obligation for distribution sales is to provide electricity to the customer on demand. The electricity supplied under the tariff represents a single performance obligation as it is a series of distinct goods and services that are substantially the same. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the electricity as SELCO - Electric provides this service. SELCO - Electric records revenues related to the distribution sales based upon the approved tariff rate and the volume delivered to the customers, which corresponds with the amount SELCO - Electric has the right to invoice.

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

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

Taxes

SELCO - Electric is exempt from federal and state income taxes as well as property taxes, but pays an amount in lieu of taxes to the Town of Shrewsbury.

Union Labor

Operations personnel, which includes approximately one-half of SELCO - Electric's employees, are covered by a three-year union contract which expires on June 30, 2022.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2019 financial statement presentation with no effect on previously stated net income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

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

Cash and Cash Equivalents

For the purpose of the Statements of Cash Flows, SELCO - Electric considers only unrestricted cash on deposit with the Town Treasurer as cash and cash equivalents.

SELCO had four non-cash transactions during 2019 relating to the transfer of rate stabilization funds for the 2015A Peabody Project in the amount of \$302,407, transfer of flush of funds to the working capital fund in the amount of \$46,447, payments of SELCO – Electric’s gas peaker plant in the amount of \$1,443,084, and the funding of the OPEB trust fund by SELCO – Cable in the amount of \$51,284.

SELCO incurred non-cash transactions during 2018, relating to the financing of the solar and peaking plants that were constructed, in the amount of \$8,774,396.

Compensated Absences

SELCO - Electric’s employment benefit plan provides that employees are entitled to a minimum of ten days’ vacation per year up to twenty-five days per year depending on years of service and employment classification. Employees are allowed to accumulate up to 200 hours of unused vacation. Accrued amounts for accumulated vacation at December 31, 2019 and 2018 were \$138,993 and \$130,064, respectively.

Accounts Receivable, Customers, Net

SELCO - Electric carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, SELCO - Electric evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on history of past write-offs and collections and current collection conditions.

SELCO - Electric’s policy on collections is to consider any receivable past due if payments have not been received within 60 days of receipt of notice. Termination letters are mailed with a disconnection date. Meters are disconnected if payment is not received by the disconnection date. For residential customers only, there are no disconnections performed from November 15th through March 15th due to DPU regulations.

Allowance for Doubtful Accounts

Accounts Receivable is net of allowances for doubtful accounts of \$113,000 for 2019 and 2018.

Sales Tax

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

Operating Income

Operating income includes revenues and expenses related to the continuing operations of SELCO - Electric. Principal operating revenues are charges to customers for sales of electricity or services. Operating expenses are costs of providing electricity and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Deferred Compensation Plan

The employees of SELCO - Electric are eligible to participate in the Town's deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. Participation in the plan is optional. All amounts of compensation deferred under the plan, all property or rights purchased with amounts, and all income

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

Deferred Compensation Plan (continued)

attributable to those amounts, property or rights are held in trust for the exclusive benefit of participants and their beneficiaries. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Construction Fund

The Construction Fund is used to finance the following year's capital budget projects that have been approved by the Light Commissioners.

Contribution in Aid of Construction

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Shrewsbury Contributory Retirement 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.

Other Postemployment Benefits (OPEB)

For purposes of measuring the SELCO - Electric's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB 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 that have a maturity at the time of purchase of one year or less, which are reported at cost.

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 and so will not be recognized as an outflow/inflow of resources (expense/expenditure) until then.

NOTE 2 – DEPRECIATION FUND:

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

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NOTE 3 – FUNDS HELD AT MMWEC:

Purchased Power Working Capital

SELCO - Electric made an advance deposit to Massachusetts Municipal Wholesale Electric Company (MMWEC). MMWEC requires that they hold a set amount of capital from which it may pay power obligations when they are due. The funds are replenished as needed from the payments of monthly invoices. The balance in the fund as of December 31, 2019 and 2018 was \$1,504,483 and \$1,013,225, respectively. These funds are commingled and deposited in investment pools. The total amount of these investment pools as of December 31, 2019 and 2018 was \$17,947,001 and \$17,450,779, respectively, of which SELCO - Electric's ownership was approximately 8.4% and 5.8%, respectively.

Rate Stabilization Fund

The Rate Stabilization Fund is held at MWMEC and was created as an aftermath of the Massachusetts Electricity Restructuring Act of 1997. The fund is for unexpected escalation in costs, such as the decommissioning of nuclear power plants before the end of their operating license, unusual price spikes in fuel prices and transmission cost increases. The Rate Stabilization fund balance at December 31, 2019 and 2018 was \$3,765,448 and \$4,001,613, respectively. The balance in the fund is offset by a corresponding deferred inflow of resources for the accumulated provision of rate refund. These funds are commingled and deposited in external investment pools. The total amount of these external investment pools as of December 31, 2019 and 2018 was \$81,726,980 and \$80,961,792, respectively, of which SELCO - Electric's ownership was approximately 4.6% and 4.8%, respectively.

Prepaid PASNY Fund

The Power Authority of the State of New York (PASNY) is a New York State public-benefit corporation. It is commonly referred to as New York Power Authority (NYPA). The electricity generated from the NYPA hydro-facilities in New York provides a reduced rate for electricity specifically for residential customers in New York and New England. This is another account maintained by MMWEC from which they may pay our power obligation for the delivery of power and other obligations associated with NYPA's hydro projects. The NYPA fund balance at December 31, 2019 and 2018 was \$167,916. These funds are commingled and deposited in investment pools. The total amount of these investment pools as of December 31, 2019 and 2018 was \$4,312,061 and \$4,287,198, respectively, of which SELCO - Electric's ownership was approximately 3.9%, respectively.

NOTE 4 – CONCENTRATION OF CREDIT RISK:

SELCO - Electric's deposits with the Town Treasurer are commingled and invested with deposits from other Town funds. Accordingly, it is not practical to disclose the related bank balance and credit risk of such cash deposits for SELCO - Electric. Funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC). The amount of insurance coverage for the SELCO - Electric's deposits is not determinable because the limits of insurance are computed on a Town-wide basis.

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NOTE 5 – ACCOUNTS RECEIVABLE CUSTOMERS:

	<u>2019</u>	<u>2018</u>
Accounts Receivable Customers	\$ 2,504,862	\$ 2,518,507
Allowance for Doubtful Accounts	<u>(113,000)</u>	<u>(113,000)</u>
Accounts Receivable Customers, Net	<u>\$ 2,391,862</u>	<u>\$ 2,405,507</u>

NOTE 6 – OTHER RECEIVABLES:

	<u>2019</u>	<u>2018</u>
Due from Town Departments	\$ 223,779	\$ 813,825
Due from MMWEC	487,398	480,228
SELCO - Cable	112,653	90,618
Liens	32,569	26,093
Merchandise & Jobbing Receivable	<u>37,783</u>	<u>99,295</u>
Total Other Receivables	<u>\$ 894,182</u>	<u>\$ 1,510,059</u>

NOTE 7 – ENERGY CONSERVATION LOANS:

SELCO - Electric offers 0% interest energy conservation loans for residential and municipal customers. The loans are available for conversion of electric heating systems to energy efficient, non-electric heating systems or for other efficiency upgrades, such as installation of energy efficient replacement windows, solar panels, geothermal heating systems, or additional insulation. The maximum loan amount is \$3,500 and \$10,000 for residential loans in 2019 and 2018, respectively. Effective January 1, 2019 SELCO no longer offered loans related to solar panels or geothermal heating systems. The maximum repayment period is sixty months for residential loans and varies with each municipal loan. At December 31, 2019, SELCO - Electric had 33 Energy Conservations Loans Receivable totaling \$108,589. At December 31, 2018, SELCO - Electric had 42 Energy Conservations Loans Receivable totaling \$136,296.

NOTE 8 – INVESTMENTS IN ASSOCIATED COMPANIES:

Under agreements with the New England Hydro-Transmission Electric Company, Inc. (NEH) and the New England Hydro-Transmission Corporation (NHH), SELCO - Electric has funded its equity requirements for the Hydro-Quebec phase II interconnection. SELCO - Electric's ownership interest is less than one quarter of one percent in both projects. During 2018, SELCO - Electric made an additional capital contribution of \$40,700 to NEH. The securities are stated at cost. Fair market value approximates stated value.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9 – PLANT ASSETS:

	Balance January 1, 2019	Increases	Decreases	Balance December 31, 2019
Capital Assets Not Being Depreciated:				
Land	\$ 139,292	\$ 0	\$ 0	\$ 139,292
Construction in Progress	<u>1,200,785</u>	<u>79,949</u>	<u>(1,200,785)</u>	<u>79,949</u>
Total	<u>1,340,077</u>	<u>79,949</u>	<u>(1,200,785)</u>	<u>219,241</u>
Capital Assets Being Depreciated:				
Production Plant	13,115,248	3,306,789	0	16,422,037
Transmission Plant	1,980,475	0	0	1,980,475
Distribution Plant	50,345,802	1,341,117	(52,457)	51,634,462
General Plant	<u>12,139,610</u>	<u>707,394</u>	<u>(356,898)</u>	<u>12,490,106</u>
Total Capital Assets Being Depreciated	<u>77,581,135</u>	<u>5,355,300</u>	<u>(409,355)</u>	<u>82,527,080</u>
Less Accumulated Depreciation for:				
Production Plant	(3,714,996)	(290,166)	0	(4,005,162)
Transmission Plant	(178,091)	(59,414)	0	(237,505)
Distribution Plant	(27,172,645)	(1,342,978)	52,457	(28,463,166)
General Plant	<u>(9,895,111)</u>	<u>(634,873)</u>	<u>356,898</u>	<u>(10,173,086)</u>
Total Accumulated Depreciation	<u>(40,960,843)</u>	<u>(2,327,431)</u>	<u>409,355</u>	<u>(42,878,919)</u>
Capital Assets Being Depreciated, Net	<u>36,620,292</u>	<u>3,027,869</u>	<u>0</u>	<u>39,648,161</u>
Utility Plant Assets, Net	<u>\$ 37,960,369</u>	<u>\$ 3,027,869</u>	<u>\$ 0</u>	<u>\$ 39,867,402</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$2,327,431 and \$2,087,400, respectively. Depreciation expense reported on the Statements of Revenues, Expenses and Changes in Net Position is net of amortization of \$18,399 and \$16,572 related to contribution in aid of construction for the years ended December 31, 2019 and 2018, respectively.

NOTE 10 – NET INVESTMENT IN CAPITAL ASSETS:

	<u>2019</u>	<u>2018</u>
Cost of Capital Assets Acquired	\$ 82,746,321	\$ 78,921,212
Less: Accumulated Depreciation	(42,878,919)	(40,960,843)
Less: Outstanding Debt Related to Capital Assets	<u>(13,499,687)</u>	<u>(14,461,485)</u>
Net Investment in Capital Assets	<u>\$ 26,367,715</u>	<u>\$ 23,498,884</u>

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DECEMBER 31, 2019 AND 2018

NOTE 11 – POOLED FINANCING LOAN:

As of August 2016 SELCO entered into a Pooled Loan Program Agreement with the Massachusetts Municipal Wholesale Electric Company (MMWEC) for the purpose of financing the construction of a solar facility and peaking plant generator. Interest only was due monthly at a fixed interest rate of 1.75% per annum. This was termed out on March 22, 2019.

On March 22, 2019, the SELCO - Electric termed the Pooled Loan Financing Loan Agreement through MMWEC. Principal and interest are payable monthly. The interest rate is fixed at 3.20% and 3.11%. The loans mature March 2031 and March 2029. The outstanding principal balance as of December 31, 2019 was \$8,999,687 and \$9,661,485. Total interest expense relating to this loan was \$281,766 for the year ended December 31, 2019. For December 31, 2019 and 2018, capitalized interest that amounted to \$13,750 and \$183,300, respectively.

	2019	2018
Note Payable for Peaking Pooled Loan with MMWEC payable in monthly installments Including a fixed interest rate of 3.20%. Due March 2031.	\$ 2,236,185	\$ 2,373,207
Note Payable for Solar Facility Loan with MMWEC payable in monthly installments Including a fixed interest rate of 3.11%. Due March 2029.	6,763,502	7,288,278
Total	8,999,687	9,661,485
Less: Current Maturities	(817,221)	(661,797)
Long-Term Notes Payable, Less Current Portion	\$ 8,182,466	\$ 8,999,688

Maturities of the note payable are shown as follows:

2020	\$	817,221
2021		843,133
2022		869,868
2023		897,451
2024		925,910
2025-2029		4,373,401
2030-2031		272,703
Total	\$	8,999,687

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – ELECTRIC
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DECEMBER 31, 2019 AND 2018

NOTE 11 – POOLED FINANCING LOAN (Continued):

At the inception of the loan, MMWEC was required to collect 10% of the initial borrowing amount to be deposited into a Reserve Requirement Account to serve as collateral for the bank. MMWEC is also required to collect 10% of the amount of interest due monthly from each Pooled Loan Participant to further fund the Reserve Requirement Account. These funds will either be returned to SELCO, or used as the final loan payments at the end of the amortization period. The balance in the Pooled Financing Account, which includes both the required reserve amount as well any available funds to be spent as of December 31, 2019 and 2018 was \$1,067,395 and \$984,428, respectively.

NOTE 12 – LONG TERM DEBT:

General Obligation Bonds

	2019	2018
\$6,000,000 General Obligation Bond issued January 23, 2014; principal payments of \$300,000 due annually, beginning January 15, 2015 and maturing January 15, 2034. Interest is payable semiannually on January 15 and July 15, at rates starting at 3% and moving to 4%.	\$ 4,500,000	\$ 4,800,000
Less: Current Portion of Bonds Payable	(300,000)	(300,000)
Net Investment in Capital Assets	\$ 4,200,000	\$ 4,500,000

Maturities of Long-Term Debt are shown as follows:

		Principal	Interest	Total
For Years Ending December 31,	2020	\$ 300,000	\$ 135,600	\$ 435,600
	2021	300,000	129,600	429,600
	2022	300,000	122,850	422,850
	2023	300,000	115,350	415,350
	2024	300,000	107,100	407,100
	2025-2029	1,500,000	390,900	1,890,900
	2030-2034	1,500,000	135,600	1,635,600
	Total	\$ 4,500,000	\$ 1,137,000	\$ 5,637,000

Interest expense relating to this bond was \$138,850 and \$145,100 for the years ending December 31, 2019 and 2018, respectively.

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NOTE 13 – PENSION PLAN:

Plan Description

SELCO - Electric, through the Town of Shrewsbury, is a member of the Shrewsbury Contributory Retirement System which, in turn, is a member of the Massachusetts Contributory Retirement System which is governed by M.G.L. c.32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The plan is a cost-sharing multiple-employer contributory defined benefit plan for all Town employees except those employees who are covered by teachers' retirement board. The Plan's separately issued financial statements can be obtained by contacting Shrewsbury Contributory Retirement System at 100 Maple Avenue, Shrewsbury, Massachusetts 01545.

Benefits Provided

The System provides retirement, disability and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of member's highest three-year average annual rate of regular compensation. For members who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

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

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

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors: including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status, and group classification. Employees who resign from state service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total contributions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

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

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NOTE 13 – PENSION PLAN (Continued):

Contributions

Active members are required to contribute at rates from 5-9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee’s membership commences. Members hired after 1978 contribute an additional 2% of annual pay above \$30,000.

SELCO - Electric is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the member units based on the actuarial study. The actuarially determined SELCO - Electric contribution is an amount, when combined with employee contributions, is expected to finance the cost of benefits earned by the employees during the year, with an additional amount to finance the unfunded liability. SELCO - Electric’s required contributions to the System for the years ended December 31, 2019 and 2018 were \$241,952 and \$356,162, respectively, which were paid during calendar years 2018 and 2017, respectively.

Pension Liabilities

At December 31, 2019 and 2018, SELCO - Electric reported a liability of \$425,363 and \$240,794, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018 and 2017, respectively, and the total pension liability used to calculate the pension liability was determined by an actuarial valuation as of January 1, 2018. SELCO – Electric’s portion of the net pension liability was based on the current employees, retirees, inactive participants and actual share of the net position to the entire System as of the measured date of December 31, 2018 and 2017. SELCO - Electric’s portion of the net pension liability was based on the percentage of SELCO –Electric’s contributions to the total System contributions as of the measured date of December 31, 2018 and 2017. At the measured date of December 31, 2018 and 2017, SELCO – Electric’s portion was 3.84% and 5.69%, respectively.

Pension Income

For the years ended December 31, 2019 and 2018, SELCO - Electric recognized a pension income of \$156,666 and \$180,883 respectively. For the years ended December 31, 2019 and 2018, SELCO - Electric reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Deferred Outflows of Resources Related to Pension</u>	<u>2019</u>	<u>2018</u>
Differences between expected and actual experience	\$ 63,409	\$ 137,327
Net difference between projected and actual earnings on pension plan investments	459,576	167,064
Changes in proportion and differences between employer contributions and SELCO - Electric proportionate share	351,075	462,882
SELCO - Electric contributions subsequent to the measurement date	<u>0</u>	<u>241,952</u>
Total	<u>\$ 874,060</u>	<u>\$ 1,009,225</u>

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 NOTES TO THE FINANCIAL STATEMENTS
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NOTE 13 – PENSION PLAN (Continued)

Pension Income (continued)

<u>Deferred Inflows of Resources Related to Pension</u>	<u>2019</u>	<u>2018</u>
Changes of assumption	\$ 9,266	\$ 23,263
Differences between expected and actual experience	33,804	84,858
Net difference between projected and actual earnings on pension plan investments	239,343	486,267
Changes in proportion and differences between employer contributions and SELCO - Electric proportionate share	<u>600,628</u>	<u>765,053</u>
Total	<u>\$ 883,041</u>	<u>\$ 1,359,441</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the SELCO - Electric's pension expense as follows:

Net Deferred Outflows and Inflows of Resources Related to Pensions

Year Ended December 31:

2020	\$ (150,140)
2021	(44,704)
2022	107,172
2023	83,388
2024	<u>(4,697)</u>
	<u>\$ (8,981)</u>

Actuarial Assumptions

The total pension liability as of December 31, 2019 was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2018
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	The Actuarial Value of Assets is the market value as reported by the Public Employees Retirement Administration Commission (PERAC).
Inflation Rate	Not explicitly assumed
Projected Salary Increases	3.5%, per year.
Cost of Living Allowance	3.0% of the lesser of the pension amount and \$12,000 per year.

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NOTE 13 – PENSION PLAN (Continued):

Actuarial Assumptions (continued)

Mortality Rates:

Both pre-retirement and beneficiary mortality rates are reflected by the RP-2014 Blue Collar Mortality Table with Scale MP-2014, fully generational.

Mortality for retired members for Group 1 and 2 is represented by the RP-2014 Blue Collar Morality Table set forward five years for males and three years for females, fully generational.

Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Morality Table set forward three years for males and six years for females, fully generational.

Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Morality Table set forward two years, generationally adjusting is based on Scale MP-2014.

Investment Rate of Return

7.5% per year.

Investment Policy

The Plan’s asset allocation policies are 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 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 category 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 pensions plan’s target asset allocation as of the measured date of December 31, 2018 are summarized in the following schedule.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Domestic Equity	15.0%	5.2%
Medium Capital	10.0%	8.1%
Small Capital	8.0%	7.5%
International Equities	9.0%	3.5%
Emerging Market Equities	6.0%	9.8%
Real Assets	15.0%	6.6%
Core Fixed Income	10.0%	2.4%
High Yield Fixed Income	11.0%	4.9%
Private Equity	6.0%	10.9%
Hedge Funds	8.0%	4.1%
Timberlands	2.0%	4.3%
	<u>100.0%</u>	

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NOTE 13 – PENSION PLAN (Continued):

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from participating employers 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 benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Proportionate share of the Net Pension Liability	\$ 988,206	\$ 425,363	(50,068)

Pension Plan Fiduciary Net Position

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

NOTE 14 – RELATED PARTY TRANSACTIONS:

The Electric and Cable Operations are enterprise funds of the Town of Shrewsbury and are both under the management of the same Municipal Light Board.

Amounts due from SELCO - Cable consist of various payments by SELCO - Electric made on behalf of SELCO - Cable. Payments were for shared operating expenses.

In 2019 and 2018 SELCO - Electric paid the Town amounts of \$1,305,935 and \$1,537,550, respectively. Included in the 2019 and 2018 payments was a retirement funding payment in the amount of zero and \$241,952, respectively. Also, included in 2019 and 2018 payments was a payment in lieu of taxes amount of \$240,943 and \$240,940, respectively.

At December 31, 2019 and 2018, the outstanding balances payable to the Town were \$152,842 and \$135,944, respectively.

In 2019 and 2018, SELCO - Electric billed the Town for municipal electric service in the amounts of \$1,449,591 and \$1,425,345, respectively. The outstanding electric customer receivable balances due from the Town at December 31, 2019 and 2018 were \$69,297 and \$77,475, respectively.

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NOTE 15 – PAYMENT IN LIEU OF TAXES:

The SELCO Commission is responsible for determining the amount that SELCO – Electric pays to the Town in lieu of taxes. The payment in lieu of taxes was \$240,943 and \$240,940 for the years ended December 31, 2019 and 2018, respectively.

NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS LIABILITY TRUST FUND:

The Other Postemployment Benefits Liability Trust Fund was established by vote of the Board of Light Commissioners on May 11, 2009. The Board voted to accept the provisions of MGL Chapter 32B, Section 20 which establishes a separate Fund and a funding schedule for the Fund. The schedule and any future updates shall be designed, consistent with standards issued by the Governmental Accounting Standards Board, to reduce the unfunded actuarial liability of health care and other postemployment benefits to zero as of an actuarially acceptable period of years and to meet the normal cost of all future benefits for which the government unit is obligated. The SELCO - Electric Fund is held under the custodianship of the Treasurer of the Town of Shrewsbury. The balance in the Trust as of December 31, 2019 and 2018 was \$1,692,595 and \$1,353,323, respectively.

The Trust implemented Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, which provides a definition of fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below.

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS LIABILITY TRUST FUND (Continued):

The following is a description of the valuation methodologies used for assets measured at fair value.

- **Mutual Funds:**
 Valued at closing price as reported on the active market on which the individual funds are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although SELCO - Electric OPEB Trust Fund’s management believes its valuations methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth, by level within the fair value hierarchy, SELCO - Electric’s OPEB Trust Fund investments at fair value at December 31, 2019 and 2018. As of December 31, 2019 and 2018, SELCO – Electric OPEB Trust Fund did not have any investments that were measured using Level 2 or Level 3 inputs.

	December 31, 2019 Quoted Prices in Active Markets for Identical Assets <u>(All Level 1)</u>	December 31, 2018 Quoted Prices in Active Markets for Identical Assets <u>(All Level 1)</u>
<u>FMV Investments:</u>		
Mutual Funds	\$ <u>1,692,595</u>	\$ <u>1,353,323</u>

As of December 31, 2019 and 2018, there were no investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represents 5% or more of total investments.

Plan Administration

The Town of Shrewsbury administers the retiree health care benefits program—a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees.

Plan Membership

At June 30, 2019, OPEB plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits payments	33
Active plan members	<u>36</u>
	<u>69</u>

Benefits provided

The Town provides health care benefits for retirees and their dependents. Benefits are provided through the Harvard Pilgrim, Fallon, Blue Cross Blue Shield and Tufts, and the full cost of benefits is shared between the Town and retirees.

Contributions

The Town contributes annually an actuarially determined contribution based on the results of the most recent actuarial valuation.

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NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS LIABILITY TRUST FUND (Continued):

Investment Policy

The Governmental Unit’s Treasurer is the custodian of the fund or in the case of the light plant, an officer designated by the board. Investment of funds monies by the custodian must be consistent with the prudent person standard as set forth in the Massachusetts General Law Chapter 203C for private trust funds. Interest earned on the investment of fund monies belongs to the fund.

Rate of Return

For the year ended June 30, 2019 and 2018, the annual money weighted rate of return (which expresses investment performance), net of investment expense was not provided.

Net OPEB Liability of the Plan

The components of the net OPEB liability at June 30, 2019 and 2018, were as follows:

	2019	2018
Total OPEB Liability	\$ 2,483,316	\$ 2,399,732
Fiduciary Net Position	(1,516,030)	(1,429,543)
Net OPEB Liability	\$ 967,286	\$ 970,189

Fiduciary net position as a percentage of the total OPEB liability was 61.05% and 59.50% as of June 30, 2019 and 2018, respectively.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following assumptions, applied to all periods included in the measurement:

Inflation	4.5%
Investment rate of return	7.50%, net of investment expenses
Healthcare cost trend rate	4.5% annually in 2019 and for future periods
Pre-Retirement Mortality- All Groups	RP-2014 Blue Collar Mortality Table, with scale MP-2015, fully generational.
Post-Retirement Mortality- Group 1 and 2	RP-2014 Blue Collar Mortality Table, set forward 5 years for males and 3 years for females fully generational, fully generational.
Group 4	RP-2014 Blue Collar Mortality Table, set forward 3 years for males and 6 years for females fully generational, fully generational.

The long-term expected rate of return on OPEB plan investments was not provided.

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NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS LIABILITY TRUST FUND (Continued):

Discount Rate

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from the Town 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 available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability calculated using the discount rate of 7.50%, as well as what the net OPEB liability would be if it were calculated using a discount rate 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current</u> <u>Discount Rate</u>	<u>1% Increase</u>
	<u>(6.50%)</u>	<u>(7.50%)</u>	<u>(8.50%)</u>
Net OPEB Liability	\$ 1,110,962	\$ 967,286	\$ 849,213

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

The following presents the net OPEB liability calculated using current healthcare cost trend rates as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (3.5%) or 1-percentage point higher (5.5%) than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current</u> <u>Healthcare Cost</u> <u>Trend Rates</u>	<u>1% Increase</u>
	<u>3.5%</u>	<u>4.5%</u>	<u>5.5%</u>
Net OPEB Liability	\$ 827,713	\$ 967,286	\$ 1,141,563

NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS (OPEB):

SELCO - Electric implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* for the year ended December 31, 2018. As required by GASB 75, the SELCO - Electric has recorded the net OPEB obligation at the beginning of the transition year as determined by an actuarial study, and has applied the measurement recognition requirements of GASB 75 on a prospective basis.

Plan Description

The Town of Shrewsbury administers the retiree health care benefits program-a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees.

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NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

Plan Membership

At the measurement date of June 30, 2019, OPEB plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	33
Active plan members	<u>36</u>
Total Number of Participants	<u><u>69</u></u>

Contributions

SELCO - Electric's Actuarial Determined Contribution (ADC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 74/75 which represents a level of funding that, if paid on an ongoing basis, is projected to cover the service cost each year and amortize any unfunded actuarial liabilities (or funding excess). The contribution requirements of plan members and the SELCO – Electric are established and may be amended through SELCO – Electric ordinances. For the years ending December 31, 2019 and 2018 and the measurement dates of June 30, 2019 and 2018, respectively, total premiums plus implicit costs for the retiree medical program were \$137,136 and \$131,231, respectively.

OPEB Liabilities

At December 31, 2019 and 2018, SELCO-Electric reported a liability of \$967,285 and \$970,189, respectively, for its net OPEB liability. The 2019 and 2018 net OPEB liability was measured as of June 30, 2019, and was determined by an actuarial valuation as of June 30, 2018.

OPEB Expense

For the year ended December 31, 2019 and 2018, SELCO - Electric recognized OPEB Expense of \$99,076 and \$103,104, respectively. At December 31, 2019 and 2018, SELCO – Electric reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Deferred Outflows of Resources Related to OPEB</u>	<u>2019</u>	<u>2018</u>
Changes of assumptions	\$ 16,292	\$ 19,849
Net difference between projected and actual earnings on OPEB plan investments	42,947	24,647
SELCO - Electric contributions subsequent to the measurement date	<u>104,100</u>	<u>0</u>
	<u>\$ 163,339</u>	<u>\$ 44,496</u>

Deferred Inflows of Resources Related to OPEB

Differences between expected and actual experience	\$ 132,652	\$ 161,616
Net difference between projected and actual earnings on OPEB plan investments	<u>1,899</u>	<u>2,849</u>
	<u>\$ 134,551</u>	<u>\$ 164,465</u>

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NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

OPEB Expense (continued)

Of the total amount reported as deferred outflows of resources related to OPEB, \$104,100 resulting from SELCO - Electric contributions paid subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability for the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the SELCO - Electric’s OPEB expense as follows:

<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
Year Ended December 31:		Year Ended December 31:	
2020	\$ 15,835	2020	\$ 29,914
2021	15,835	2021	29,913
2022	15,834	2022	28,964
2023	9,671	2023	28,964
2024	<u>2,064</u>	2024	<u>16,796</u>
Total	<u>\$ 59,239</u>	Total	<u>\$ 134,551</u>

GASB 75 requires the disclosure of actuarial assumptions, the discount rate, and sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. Refer to previous note “Other Postemployment Benefit Trust Fund” for these disclosures.

NOTE 18 – REFUND OF EXCESS PROJECT FUNDS:

SELCO - Electric receives annually from Massachusetts Municipal Wholesale Electric Company, (MMWEC), excess project funds as a result of its participation in certain MMWEC power projects. Funds received in 2019 and 2018 were \$719,519 and \$76,545, respectively, and are included in income as a reduction of purchased power costs.

NOTE 19 – RISK MANAGEMENT:

Self-Insurance Trust

SELCO - Electric participates in Mass Municipal Self Insurance Trust (the Trust) with 17 other municipal light departments for the purpose of sharing general and environmental liability risks. Through the Trust, SELCO - Electric is insured for \$500,000 per occurrence, with a \$50,000 deductible that would be paid by SELCO – Electric. Environmental insurance coverage provides for \$1,500,000 per occurrence, with a \$100,000 deductible that would be paid by both SELCO - Electric and the Trust. Each participating light department contributes to the Trust based on its share of the group’s total kilowatt-hour sales. Payments for claims over the deductible limit are funded by Trust assets, or, if required, additional contributions from the participants.

Generally accepted accounting principles requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At December 31, 2019 and 2018, SELCO - Electric considers its’ pro rata share of these losses to be immaterial to its financial statements.

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NOTE 20 – COMMITMENTS AND CONTINGENCIES:

Power Sales Agreements

Town of Shrewsbury acting through SELCO - Electric 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). SELCO - Electric has entered into PSAs with MMWEC. Under the PSAs SELCO - Electric is required to make certain payments to MMWEC payable solely from SELCO - Electric 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 SELCO - Electric's Project Capability of the Projects in which it participates for the years ended December 31, 2019 and 2018, respectively are listed in the table on the following page.

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NOTE 20 – COMMITMENTS AND CONTINGENCIES:

Power Sales Agreements (continued)

<u>Projects</u>	<u>Percentage Share</u>	<u>Total Capital Expenditures 2019</u>	<u>Capacity, Fuel and Transmission Billed 2019</u>	<u>Capacity, Fuel and Transmission Billed 2018</u>
Stony Brook Int.	4.3088%	7,714,119	558,939	860,963
Nuclear Mix 1-SBK	4.5828%	463,145	25,022	23,726
Nuclear Mix 1-MLS	4.5828%	2,774,559	268,721	310,608
Nuclear Project 3-MLS	4.9706%	7,358,625	585,826	679,199
Nuclear Project 4-SBK	4.9160%	14,714,122	718,642	701,813
Nuclear Project 5-SBK	2.3960%	1,942,723	89,861	87,992
Project No. 6-SBK	5.4796%	<u>30,501,935</u>	<u>1,260,119</u>	<u>1,325,864</u>
		<u>\$ 65,469,228</u>	<u>\$ 3,507,130</u>	<u>\$ 3,990,165</u>

Other Power Supply:

SELCO - Electric has entered into a Service Agreement with MMWEC, under which MMWEC performs bulk power supply services to SELCO - Electric, including services related to owned generation, purchased power contracts or other power supply arrangements.

Under the terms of the Service Agreement, SELCO – Electric is committed to purchase additional power through MMWEC in the amount of \$4,228,739 in 2020, \$1,186,385 in 2021, \$575,502 in 2022 and \$626,950 in 2023.

Berkshire Wind Cooperative Corporation

The Shrewsbury Electric and Cable Operations (Department) is a Member of the Berkshire Wind Cooperative Corporation (Cooperative).

The Cooperative is organized under Chapters 157 and 164: Section 47C of the State of Massachusetts Statutes and constitutes a municipal lighting plant cooperative. The Cooperative was formed by Massachusetts Municipal Wholesale Electric Company (MMWEC) and 16 Municipal Light Departments (Members) for the purpose of financing, owning, constructing and operating wind generation facilities located on Brodie Mountain in the towns of Hancock and Lanesborough, Massachusetts (Berkshire Wind Facility).

The Cooperative provides wind energy to MMWEC pursuant to the Berkshire Wind Power Purchase Agreement dated May 21, 2008 between MMWEC and the Cooperative. Under this agreement, MMWEC entered into a Power Sales Contract with the Cooperative pursuant to which MMWEC has agreed to purchase 100% of the capacity and energy output and, to the extent uncommitted to any third party under existing agreements, associated environmental energy attributes of a wind power generating facility to be owned, constructed and operated by the Cooperative at the Berkshire Wind Facility.

The Berkshire Wind Facility is comprised of two Phases. Phase 1 is comprised of ten 1.5-megawatt wind turbines which have been commercially operating since 2011, and Phase 2 is comprised of two 2.3-megawatt wind turbines which began commercial operations in November 2019.

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NOTE 20 – COMMITMENTS AND CONTINGENCIES (Continued):

Berkshire Wind Cooperative Corporation (continued)

MMWEC sells all of the capability of the Berkshire Wind Facility (Capability) to the Members of the Cooperative (Members) under Power Purchase Agreements (PPAs). Among other things, the PPAs require each Cooperative Member to pay its pro rata share of the costs related to the Berkshire Wind Facility, which costs include debt service on the bonds issued by the Cooperative to finance the Berkshire Wind Facility and its pro rata share of the Operation and Maintenance (O&M) costs of the Berkshire Wind Facility. In addition, should a Cooperative Member fail to make any payment when due, other Cooperative Members may be required to increase (step-up) their payments and correspondingly their share of the Capability to an additional amount. Additionally, each Participant is unconditionally obligated to make all payments due to the Berkshire Wind Cooperative Corporation, whether or not the Berkshire Wind Facility is completed or operating, and notwithstanding the suspension or interruption of the output of the Berkshire Wind Facility.

The total capital expenditures, debt service and operation and maintenance (O&M) costs associated with SELCO - Electric's pro rata share of the Phases in which it participates for the years ended December 31, 2019 and 2018, respectively are listed in the table below:

<u>Phase</u>	<u>Percentage Share</u>	<u>Total Capital Expenditures 2019</u>	<u>Debt Service Billed 2019</u>	<u>Debt Service Billed 2018</u>	<u>Operations and Maintenance Billed 2019</u>	<u>Operations and Maintenance Billed 2018</u>
Berkshire Phase 1	12.718%	\$ 6,963,528	\$ 624,414	\$ 658,111	\$ 187,325	\$ 311,930

In addition, the estimated aggregate amount of the required payments for future years for SELCO - Electric's pro rata share of the Phases in which it participates is shown below.

	<u>Total Phase 1 Debt Service</u>
For years ended December 31,	2020 \$ 615,615
	2021 615,424
	2022 615,615
	2023 615,488
	2024 616,282
	2025 to 2029 3,078,233
	2030 <u>615,615</u>
TOTAL	<u>\$ 6,772,272</u>

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NOTE 21 – SUBSEQUENT EVENT:

Management has evaluated subsequent events through June 12, 2020 the date on which the financial statements were available to be issued. Changes in investment returns and fair values can have a significant effect on the OPEB Trust Fund. Since December 31, 2019, the U.S. and world markets have continued to experience significant declines. Management is monitoring investment market conditions and the impact such declines are having on the OPEB Trust Fund’s investment portfolio. Due to the volatility of the financial markets as of the date of this report, there is uncertainty regarding the impact that continued volatility might have on the OPEB Trust’s investment portfolio.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
REQUIRED SUPPLEMENTARY INFORMATION
NET PENSION LIABILITY

OPERATING FUND

For the Year Ending December 31,	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial Valuation Date	1/1/2018	1/1/2018	1/1/2017	1/1/2016	1/1/2015
Measurement Date	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Schedule of the SELCO - Electric's Proportionate Share: of the Net Pension Liability (NPL):					
SELCO - Electric's Portion of the NPL	3.84%	5.69%	1.96%	5.84%	13.46%
SELCO - Electric's Proportionate Share of the NPL	\$ 425,363	\$ 240,794	\$ 369,825	\$ 1,219,554	\$ 2,898,886
SELCO - Electric's Total Employee Payroll	\$ 3,513,642	\$ 3,356,335	\$ 3,301,733	\$ 3,150,508	\$ 3,123,939
NPL as a Percentage of Total Employee Payroll	12.11%	7.17%	11.20%	38.71%	92.80%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	91.68%	96.73%	77.10%	82.46%	81.86%
Schedule of Contributions:					
Actuarially Determined Contributions	\$ 241,952	\$ 356,162	\$ 647,207	\$ 621,636	\$ 739,045
Contributions in Relation to the Actuarially Determined Contribution	(241,952)	(356,162)	(647,207)	(621,636)	(739,045)
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
SELCO - Electric's Total Employee Payroll	\$ 3,513,642	\$ 3,356,335	\$ 3,301,733	\$ 3,150,508	\$ 3,123,939
Contributions as a Percentage of the SELCO - Electric's Total Employee Payroll	6.89%	10.61%	19.60%	19.73%	23.66%

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

See Independent Auditors' Report

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY

OPERATING FUND & OPEB TRUST FUND

	<u>2019</u>	<u>2018</u>	<u>(Town Wide) 2017</u>
Total OPEB Liability:			
Service Cost	\$ 42,596	\$ 40,763	\$ 1,543,475
Interest	178,124	183,747	3,438,194
Differences between Expected and Actual Experience	0	(190,580)	0
Changes of Assumptions	0	23,405	0
Benefit Payments	<u>(137,136)</u>	<u>(131,231)</u>	<u>(2,304,138)</u>
Net Change in Total OPEB Liability	83,584	(73,896)	2,677,531
Total OPEB Liability - Beginning	2,399,732	2,473,628	45,430,360
Total OPEB Liability - Ending	<u>\$ 2,483,316</u>	<u>\$ 2,399,732</u>	<u>\$ 48,107,891</u>
Plan Fiduciary Net Position:			
Contributions-Employer	\$ 138,179	\$ 142,137	\$ 2,391,572
Net Investment Income	76,987	70,402	132,319
Benefit Payments	<u>(128,679)</u>	<u>(123,137)</u>	<u>(2,059,702)</u>
Net Change in Plan Fiduciary Net Position	86,487	89,402	464,189
Plan Fiduciary Net Position - Beginning	1,429,543	1,340,141	2,828,262
Plan Fiduciary Net Position - Ending	<u>\$ 1,516,030</u>	<u>\$ 1,429,543</u>	<u>\$ 3,292,451</u>
Net OPEB Liability - Ending	<u>\$ 967,286</u>	<u>\$ 970,189</u>	<u>\$ 44,815,440</u>

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

Note: Starting in 2018 and continuing forward this schedule will show the Electric Departments specific share of the OPEB plan. 2017 will remain the town wide numbers as allocated amounts were not available for 2017.

See Independent Auditors' Report

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF NEW OPEB LIABILITY, EMPLOYER CONTRIBUTIONS AND INVESTMENT RETURNS

OPERATING FUND & OPEB TRUST FUND

	<u>2019</u>	<u>2018</u>	<u>(Town Wide) 2017</u>
Schedules of Net OPEB Liability:			
Total OPEB Liability	\$ 2,483,316	\$ 2,399,732	\$ 48,107,891
Plan Fiduciary Net Position	<u>1,516,030</u>	<u>1,429,543</u>	<u>3,292,451</u>
Net OPEB Liability	<u>\$ 967,286</u>	<u>\$ 970,189</u>	<u>\$ 44,815,440</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	61.05%	59.57%	6.84%
Covered Payroll	\$ 3,367,051	\$ 3,253,189	\$ 67,279,575
Net OPEB Liability as a Percentage of Covered Payroll	28.73%	29.82%	66.61%
Schedules of Employer Contributions:			
Actuarially Determined Contributions	\$ 226,895	\$ 217,963	\$ 2,391,572
Contributions in relation to the actuarially determined contribution	<u>(138,179)</u>	<u>(142,137)</u>	<u>(2,636,008)</u>
Contribution Deficiency (Excess)	<u>\$ 88,716</u>	<u>\$ 75,826</u>	<u>\$ (244,436)</u>
Covered Payroll	\$ 3,367,051	\$ 3,253,189	\$ 67,279,575
Contributions as a percentage of covered payroll			
Schedules of Investment Returns:			
Annual Money-Weighted rate of Return, net of investment expenses	Not Provided	Not Provided	Not Provided

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

Note: Starting in 2018 and continuing forward this schedule will show the Electric Departments specific share of the OPEB plan. 2017 will remain the town wide numbers as allocated amounts were not available for 2017.

See Independent Auditors' Report

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
SCHEDULES OF ELECTRIC OPERATING REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

	2019	2018	Increase (Decrease)
SALES OF ELECTRICITY			
SALES TO PRIVATE CUSTOMERS:			
Residential Sales	\$ 15,950,441	\$ 16,066,677	\$ (116,236)
Commercial Sales	3,901,646	3,832,708	68,938
General Service Sales	10,931,812	10,796,526	135,286
Green Power Sales	7,538	7,993	(455)
TOTAL PRIVATE CUSTOMERS	30,791,437	30,703,904	87,533
MUNICIPAL SALES:			
Street Lighting	146,891	157,176	(10,285)
Lighting Municipal Buildings	1,302,700	1,268,169	34,531
TOTAL MUNICIPAL SALES	1,449,591	1,425,345	24,246
TOTAL SALES OF ELECTRICITY	32,241,028	32,129,249	111,779
OTHER ELECTRIC REVENUES	197,980	293,966	(95,986)
TOTAL OPERATING REVENUE	\$ 32,439,008	\$ 32,423,215	\$ 15,793

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
SCHEDULES OF KILOWATT HOURS SOLD
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

	2019	2018	Increase (Decrease)
Kilowatt Hours Sold:			
Private Consumers:			
Residential	132,368,996	139,494,108	(7,125,112)
Commercial	30,615,271	30,829,905	(214,634)
General Service Sales	102,011,119	103,970,408	(1,959,289)
Private Lighting	1,392,984	1,423,359	(30,375)
Municipal Use:			
Street Lighting	1,399,882	1,509,301	(109,419)
Government	11,583,907	11,522,917	60,990
Total Kilowatt Hours Sold	279,372,159	288,749,998	(9,377,839)
Kilowatt Hours Used by Department:			
In Plant and Offices	1,535,022	1,298,437	236,585
Total Kilowatt Hours Accounted For	280,907,181	290,048,435	(9,141,254)
Total Kilowatt Hours Generated	5,306,815	3,354,273	1,952,542
Total Kilowatt Hours Purchased	282,305,018	299,544,163	(17,239,145)
Total Kilowatt Hours Generated and Purchased	287,611,833	302,898,436	(15,286,603)
Total Kilowatt Hours Unaccounted For	6,704,652	12,850,001	(6,145,349)
Ratio of Unaccounted For Kilowatt Hours (%)	2.33%	4.24%	

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
 SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

	<u>2019</u>			<u>2018</u>			Increase (Decrease)
	Total	Operations	Maintenance	Total	Operations	Maintenance	
<u>Power Generation Expenses:</u>							
547 Fuel	\$ 49,836	\$ 49,836	\$ 0	\$ 167,131	\$ 167,131	\$ 0	\$ (117,295)
548 Generation expense	51,956	51,956	0	39,018	39,018	0	12,938
553 Maintenance of generating and electric plant	125,021	0	125,021	103,044	0	103,044	21,977
<u>Total Power Generation Expenses</u>	<u>226,813</u>	<u>101,792</u>	<u>125,021</u>	<u>309,193</u>	<u>206,149</u>	<u>103,044</u>	<u>(82,380)</u>
<u>Power Production Expenses:</u>							
555 Purchased Power	16,545,491	16,545,491	0	19,423,320	19,423,320	0	(2,877,829)
557 Other expenses	364,484	364,484	0	42,847	42,847	0	321,637
<u>Total Power Production Expenses</u>	<u>16,909,975</u>	<u>16,909,975</u>	<u>0</u>	<u>19,466,167</u>	<u>19,466,167</u>	<u>0</u>	<u>(2,556,192)</u>
<u>Transmission Expenses:</u>							
565 Transmission of electricity by others	4,332,089	4,332,089	0	4,865,464	4,865,464	0	(533,375)
<u>Total Transmission Expenses</u>	<u>4,332,089</u>	<u>4,332,089</u>	<u>0</u>	<u>4,865,464</u>	<u>4,865,464</u>	<u>0</u>	<u>(533,375)</u>
<u>Distribution Expenses:</u>							
580 Operation supervision and engineering	219,906	219,906	0	200,828	200,828	0	19,078
582 Station expenses	1,096	1,096	0	1,164	1,164	0	(68)
583 Overhead line expenses	54,628	54,628	0	50,776	50,776	0	3,852
586 Meter expenses	47,329	47,329	0	42,462	42,462	0	4,867
587 Customer installation expenses	14,097	14,097	0	9,970	9,970	0	4,127
588 Miscellaneous distribution expenses	152,443	152,443	0	117,930	117,930	0	34,513
590 Maintenance supervision and engineering	55,361	0	55,361	45,457	0	45,457	9,904
591 Maintenance of structures	72,832	0	72,832	64,572	0	64,572	8,260
592 Maintenance of station equipment	235,932	0	235,932	376,932	0	376,932	(141,000)
593 Maintenance of overhead lines	848,971	0	848,971	931,154	0	931,154	(82,183)
594 Maintenance of underground lines	45,520	0	45,520	39,120	0	39,120	6,400
595 Maintenance of line transformers	59,384	0	59,384	43,350	0	43,350	16,034
596 Maintenance of street lighting and signal systems	101,482	0	101,482	82,653	0	82,653	18,829
<u>Total Distribution Expenses</u>	<u>1,908,981</u>	<u>489,499</u>	<u>1,419,482</u>	<u>2,006,368</u>	<u>423,130</u>	<u>1,583,238</u>	<u>(97,387)</u>
<u>Totals To Be Forwarded</u>	<u>\$ 23,377,858</u>	<u>\$ 21,833,355</u>	<u>\$ 1,544,503</u>	<u>\$ 26,647,192</u>	<u>\$ 24,960,910</u>	<u>\$ 1,686,282</u>	<u>\$ (3,269,334)</u>

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - ELECTRIC
 SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES (Continued)
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

OPERATING FUND

	<u>2019</u>			<u>2018</u>			Increase (Decrease)
	Total	Operation	Maintenance	Total	Operation	Maintenance	
<u>Total Forwarded</u>	\$ 23,377,858	\$ 21,833,355	\$ 1,544,503	\$ 26,647,192	\$ 24,960,910	\$ 1,686,282	\$ (3,269,334)
<u>Customer Account Expense:</u>							
902 Meter reading labor and expenses	56,948	56,948	0	42,872	42,872	0	14,076
903 Accounting and collecting labor and expenses	346,322	346,322	0	370,012	370,012	0	(23,690)
904 Uncollectible accounts	49,472	49,472	0	67,755	67,755	0	(18,283)
<u>Total Customer Account Expense</u>	452,742	452,742	0	480,639	480,639	0	(27,897)
<u>Sales Expenses:</u>							
912 Demonstrating and selling expense	200,963	200,963	0	160,294	160,294	0	40,669
<u>Administrative and General Expenses:</u>							
920 Administrative and general salaries	467,817	467,817	0	440,622	440,622	0	27,195
921 Office supplies and expense	154,377	154,377	0	134,626	134,626	0	19,751
923 Outside services employed	86,570	86,570	0	123,380	123,380	0	(36,810)
924 Property insurance	187,043	187,043	0	172,793	172,793	0	14,250
925 Injuries and damages	12,662	12,662	0	5,938	5,938	0	6,724
926 Employee pensions and benefits	369,201	369,201	0	396,008	396,008	0	(26,807)
930 Miscellaneous general expense	140,506	140,506	0	88,460	88,460	0	52,046
932 Maintenance of general plant	175,915	0	175,915	161,730	0	161,730	14,185
<u>Total Administrative and General Expenses</u>	1,594,091	1,418,176	175,915	1,523,557	1,361,827	161,730	70,534
<u>Total Operation and Maintenance Expenses</u>	\$ 25,625,654	\$ 23,905,236	\$ 1,720,418	\$ 28,811,682	\$ 26,963,670	\$ 1,848,012	\$ (3,186,028)

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