

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

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023



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

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INDEPENDENT AUDITORS' REPORT

To the Municipal Light Board
Town of Reading, Massachusetts
Reading Municipal Light Department

Opinions

We have audited the financial statements of the Reading Municipal Light Department (the Department) (an enterprise fund of the Town of Reading, Massachusetts), and its Other Post-Employment Benefits Trust Fund (a fiduciary fund), as of and for the year ended December 31, 2023, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Reading Municipal Light Department and its Other Post-Employment Benefits Trust Fund as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

The financial statements of the Reading Municipal Light Department as of and for the year ended December 31, 2022, were audited by Melanson, whose report dated June 20, 2023, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Reading Municipal Light Department are intended to present the financial position, and the changes in financial position and, where applicable, cash flows, of only that portion of the Town of Reading, Massachusetts that is attributable to the transactions of the Reading Municipal Light Department. They do not purport to, and do not, present fairly the financial position the Town of Reading, Massachusetts as of December 31, 2023, and the changes in its financial position and, where applicable, its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Marcum LLP

Andover, MA
May 20, 2024

READING MUNICIPAL LIGHT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Reading Municipal Light Department's (the Department) annual financial report, management provides a narrative discussion and analysis of the Department's financial activities for the year ended December 31, 2023. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements

The basic financial statements include (1) the Statement of Net Position, (2) the Statement of Revenues, Expenses, and Changes in Net Position, (3) the Statement of Cash Flows, (4) the Statement of Fiduciary Net Position, (5) the Statement of Changes in Fiduciary Net Position, and (6) Notes to Financial Statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users.

Fiduciary Fund

Fiduciary funds are used to account for resources held for the benefit of parties outside the Department.

Notes to Financial Statements

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

Financial Highlights

The Statement of Net Position is designed to indicate our financial position at a specific point in time. At December 31, 2023, it shows our net worth of \$146,490,671, which comprises \$95,630,579 invested in capital assets net of related debt, \$10,446,339 restricted for depreciation fund, and \$40,413,753 unrestricted.

The Statement of Revenues, Expenses, and Changes in Net Position summarizes our operating results and reveals how much, if any, of a profit was earned for the year. As discussed in more detail below, our net profit for the year ended December 31, 2023 was \$14,561,362.

READING MUNICIPAL LIGHT DEPARTMENT
MANAGEMENT’S DISCUSSION AND ANALYSIS

The Statement of Cash Flows provide information about the Department’s cash receipts and cash payments during the accounting period. It also provides information about the Department’s investing and financing activities for the same period. A review of our Statement of Cash Flows indicates that cash receipts from operating activities adequately covered our operating expenses in the year ended December 31, 2023.

The following is a summary of the Department’s financial data for the current and prior year (in thousands).

Summary of Net Position

	2023	2022
Assets		
Current and other assets	\$ 82,580	\$ 70,212
Capital assets	95,631	91,986
Total Assets	178,211	162,198
Deferred Outflows of Resources	10,436	6,113
Liabilities		
Long-term liabilities	27,408	15,570
Other liabilities	11,761	11,009
Total Liabilities	39,169	26,579
Deferred Inflows of Resources	2,987	9,803
Net Position		
Net investment in capital assets	95,631	91,985
Restricted for depreciation fund	10,446	6,741
Unrestricted	40,414	33,203
Total Net Position	\$ 146,491	\$ 131,929

READING MUNICIPAL LIGHT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Changes in Net Position

	2023	2022
Operating Revenues	\$ 102,065	\$ 100,217
Operating Expenses	<u>(86,788)</u>	<u>(88,864)</u>
Operating Income	15,277	11,353
Nonoperating Revenues (Expenses), net	<u>1,818</u>	<u>1,047</u>
Income Before Transfers	17,095	12,400
Return on Investment (Transfer to Town of Reading)	<u>(2,533)</u>	<u>(2,504)</u>
Change in Net Position	14,562	9,896
Net Position, Beginning	<u>131,929</u>	<u>122,033</u>
Net Position, Ending	<u><u>\$ 146,491</u></u>	<u><u>\$ 131,929</u></u>

READING MUNICIPAL LIGHT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2023 electric sales (net of discounts) were \$95,290,024, a decrease of 0.73% from the prior year. For the year ended December 31, 2023, kilowatt hours sold were 638,717,827, a decrease of 2.61% from the prior year.

Operating expenses totaled \$86,787,935 for the year ended December 31, 2023, a decrease of 2.34%. The largest portion of this total, \$56,128,361, was for purchase power costs. Other operating expenses included \$23,606,433 for general operating and maintenance costs, \$1,826,606 for voluntary payments to towns, and depreciation expense of \$5,226,535. For the year ended December 31, 2023 the depreciation rate was 3.00%. Change in net position of \$14,561,362 results primarily from rates and charges set at a level to fund future capital improvements.

In the year ended December 31, 2023, the Department contributed \$2,486,536 to the Town of Reading Contributory Retirement System on behalf of the Department's employees.

For the year ended December 31, 2023, the Department contributed \$300,000 to the Other Post-Employment Benefits (OPEB) Trust Fund in addition to the normal costs. Additional information on the Department's OPEB Trust Fund can be found in the corresponding note on page 35 of this report.

Capital Assets and Debt Administration

Capital Assets

Total investment in land and construction in progress at year end amounted to \$6,307,054, an increase of \$377,127 from the prior year. Total investment in depreciable capital assets at year-end amounted to \$89,393,525 (net of accumulated depreciation), an increase of \$3,268,403 from the prior year. This investment in depreciable capital assets includes structures and improvements, equipment and furnishings, and infrastructure assets.

Long-Term Debt

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

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

Requests for Information

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

Director of Business & Finance
Reading Municipal Light Department
230 Ash Street
Reading, Massachusetts 01867

READING MUNICIPAL LIGHT DEPARTMENT

STATEMENT OF NET POSITION - PROPRIETARY FUND

DECEMBER 31, 2023

(with comparative totals as of December 31, 2022)

	2023	2022
Assets		
Current Assets		
Unrestricted cash and short-term investments	\$ 21,070,912	\$ 23,411,566
Receivables, net of allowance for uncollectable	10,723,770	9,287,089
Prepaid expenses	3,975,232	2,345,121
Inventory	3,161,604	2,295,222
Leases receivable	313,105	295,384
Total Current Assets	39,244,623	37,634,382
Noncurrent Assets		
Restricted cash and short-term investments	39,114,927	29,109,300
Restricted investments	1,438,579	793,916
Investment in associated companies	1,063,861	976,518
Leases receivable, net of current portion	1,718,448	1,698,215
Capital assets:		
Land and construction in progress	6,307,054	5,929,927
Capital assets, net of accumulated depreciation	89,323,525	86,055,122
Total Noncurrent Assets	138,966,394	124,562,998
Total Assets	178,211,017	162,197,380
Deferred Outflows of Resources		
Related to pension	9,253,051	4,967,090
Related to OPEB	1,182,578	1,146,297
Total Deferred Outflows of Resources	10,435,629	6,113,387

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

READING MUNICIPAL LIGHT DEPARTMENT

STATEMENT OF NET POSITION – PROPRIETARY FUND (CONTINUED)

DECEMBER 31, 2023

(with comparative totals as of December 31, 2022)

	2023	2022
Liabilities		
Current Liabilities		
Accounts payable	10,850,158	9,763,660
Accrued liabilities	652,108	719,274
Contributions in aid of construction	59,129	51,513
Other current liabilities	200,000	200,000
Due to fiduciary fund	--	274,087
Current portion of long-term liabilities:		
Accrued employee compensated absences	48,210	116,269
Total Current Liabilities	11,809,605	11,124,803
Noncurrent Liabilities		
Accrued employee compensated absences, net of current portion	915,983	1,284,676
Contributions in aid of construction, net of current portion	3,500,117	2,860,212
Customer deposits	1,790,684	1,681,059
Net pension liability	16,531,638	5,358,701
Net OPEB liability	4,620,985	4,269,089
Total Noncurrent Liabilities	27,359,407	15,453,737
Total Liabilities	39,169,012	26,578,540
Deferred Inflows of Resources		
Related to pension	527,217	6,952,933
Related to OPEB	428,193	856,386
Related to leases	2,031,553	1,993,599
Total Deferred Inflows of Resources	2,986,963	9,802,918
Net Position		
Net investment in capital assets	95,630,579	91,985,048
Restricted for depreciation fund	10,446,339	6,741,031
Unrestricted	40,413,753	33,203,230
Total Net Position	\$ 146,490,671	\$ 131,929,309

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

READING MUNICIPAL LIGHT DEPARTMENT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION - PROPRIETARY FUND

FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative totals for the year ended December 31, 2022)

	2023	2022
Operating Revenues		
Electric sales, net of discounts of \$5,448,812 and \$4,444,142, in 2023 and 2022, respectively	\$ 95,290,024	\$ 95,989,743
Purchase power adjustments:		
Fuel charge adjustment	2,789,354	2,039,616
Capacity and transmission adjustment	<u>3,985,346</u>	<u>2,187,920</u>
Total Operating Revenues	102,064,724	100,217,279
Operating Expenses		
Cost of purchased electricity	56,128,361	64,682,635
Operating	21,333,133	15,082,436
Maintenance	2,273,300	2,321,368
Voluntary payments to towns	1,826,606	1,720,644
Depreciation	<u>5,226,535</u>	<u>5,056,984</u>
Total Operating Expenses	<u>86,787,935</u>	<u>88,864,067</u>
Operating Income	15,276,789	11,353,212
Nonoperating Revenues (Expenses)		
Investment income	959,522	300,617
Intergovernmental grants	52,294	105,000
Loss on disposal of assets	(67,540)	(50,596)
Other revenues	991,580	753,328
Other expenses	<u>(118,259)</u>	<u>(61,084)</u>
Total Nonoperating Revenues (Expenses), Net	<u>1,817,597</u>	<u>1,047,265</u>
Income Before Transfers	17,094,386	12,400,477
Return on Investment		
(Transfer to Town of Reading)	<u>(2,533,024)</u>	<u>(2,503,974)</u>
Change in Net Position	14,561,362	9,896,503
Net Position, Beginning of year	<u>131,929,309</u>	<u>122,032,806</u>
Net Position, End of year	<u><u>\$ 146,490,671</u></u>	<u><u>\$ 131,929,309</u></u>

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

READING MUNICIPAL LIGHT DEPARTMENT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative totals for the year ended December 31, 2022)

	2023	2022
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 93,962,968	\$ 99,804,786
Payments to vendors and employees	(83,400,718)	(84,787,398)
Customer purchase power adjustments	<u>6,774,700</u>	<u>(148,304)</u>
Net Cash Provided By Operating Activities	17,336,950	14,869,084
Cash Flows From Noncapital Financing Activities		
Return on investment to Town of Reading	(2,533,024)	(2,503,974)
Other revenues	991,580	753,328
Other expenses	<u>(127,713)</u>	<u>(78,302)</u>
Net Cash (Used For) Noncapital Financing Activities	(1,669,157)	(1,828,948)
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(8,979,370)	(10,811,016)
Contributions in aid of construction	696,740	440,521
Intergovernmental revenues	<u>52,294</u>	<u>105,000</u>
Net Cash (Used For) Capital and Related Financing Activities	(8,230,336)	(10,265,495)
Cash Flows From Investing Activities		
Investment income	959,522	300,617
(Purchases) and sales of investments	<u>(732,006)</u>	<u>1,761,710</u>
Net Cash Provided By Investing Activities	<u>227,516</u>	<u>2,062,327</u>
Net Change in Cash and Short-Term Investments	7,664,973	4,836,968
Cash and Short-Term Investments, Beginning of Year	<u>52,520,866</u>	<u>47,683,898</u>
Cash and Short-Term Investments, End of Year	<u>\$ 60,185,839</u>	<u>\$ 52,520,866</u>

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

READING MUNICIPAL LIGHT DEPARTMENT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2023

(with comparative totals for the year ended December 31, 2022)

	2023	2022
Reconciliation of Operating Income to Net Cash		
Provided By Operating Activities		
Operating income	\$ 15,276,789	\$ 11,353,212
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	5,226,535	5,056,984
Changes in assets, liabilities, and deferred outflows/inflows:		
Receivables	(1,436,681)	(694,156)
Prepaid expenses and other assets	(1,630,111)	629,093
Inventory	(866,382)	(465,687)
Accounts payable and accrued liabilities	582,580	944,732
Customer deposits	109,625	133,359
Due to fiduciary fund	(274,087)	274,087
Net pension liability and related deferrals	461,260	(2,076,024)
Net OPEB liability and related deferrals	<u>(112,578)</u>	<u>(286,516)</u>
Net Cash Provided By Operating Activities	<u>\$ 17,336,950</u>	<u>\$ 14,869,084</u>

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

READING MUNICIPAL LIGHT DEPARTMENT

**OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUND**

DECEMBER 31, 2023

(with comparative totals as of December 31, 2022)

	<u>2023</u>	<u>2022</u>
Assets		
Cash	\$ 300,635	\$ --
Investments:		
External investment pool	5,297,919	4,502,991
Due from proprietary fund	<u>--</u>	<u>274,087</u>
Total Assets	<u>5,598,554</u>	<u>4,777,078</u>
Net Position		
Restricted for OPEB	<u>\$ 5,598,554</u>	<u>\$ 4,777,078</u>

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

READING MUNICIPAL LIGHT DEPARTMENT
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative totals for the year ended December 31, 2022)

	2023	2022
Additions		
Employer contributions	\$ 916,164	855,547
Investment income (loss). Net	521,476	(581,293)
Total Additions	1,437,640	274,254
Deductions		
Benefit payments to plan members and beneficiaries	616,164	581,460
Total Deductions	616,164	581,460
Change in Net Position	821,476	(307,206)
Net Position Restricted for OPEB, Beginning of year	4,777,078	5,084,284
Net Position Restricted for OPEB, End of year	\$ 5,598,554	\$ 4,777,078

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

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Reading Municipal Light Department (the Department) (an enterprise fund of the Town of Reading, Massachusetts (the Town)) conform to the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental and financial reporting principles. The following is a summary of the significant policies of the Department:

REPORTING ENTITY

These financial statements present only the Department. These financial statements are not intended to and do not present fairly the financial position of the Town, and the changes in its financial position and its cash flows, where applicable, in accordance with accounting principles generally accepted in the United States of America.

ACTIVITIES

The Department purchases electricity for distribution to more than 70,000 residents within the towns of Reading, North Reading, Wilmington, and Lynnfield Center.

REGULATION AND BASIS OF ACCOUNTING

Under Massachusetts General Laws, the Department's electric rates are set by the Municipal Light Board. Electric rates, excluding the purchase power fuel charge and the purchase power capacity and transmission charge, cannot be changed more than once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Department, the Department's rates are not subject to DPU approval.

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

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATIONS

The Department operates within the electric utility industry, which has undergone significant restructuring and deregulation. Legislation was enacted by the Commonwealth of Massachusetts in 1998, which changed the electric industry. The law introduced competition and provided customers with choices while assuring continued reliable service. Municipal utilities are not currently subject to this legislation.

OTHER POST-EMPLOYMENT BENEFITS TRUST

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

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

REVENUES

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

CASH AND SHORT-TERM INVESTMENTS

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

INVESTMENTS

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued or unconditionally guaranteed by the U.S. government or its agencies that have a maturity date of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS (CONTINUED)

Investments for the Department consist of domestic and foreign fixed income bonds and equity mutual funds which the Department intends to hold to maturity. These investments are reported at fair market value.

INVENTORY

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

LEASES

The Department recognizes a lease receivable and a deferred inflow of resources in the financial statements. At the commencement of a lease, the Department initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term using the effective interest method. The following key assumptions are made:

- The Department uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease, including renewal terms reasonably certain to be exercised. Lease receipts included in the measurement of the lease receivable are comprised of fixed payments from the lessee.

CAPITAL ASSETS AND DEPRECIATION

Capital assets, which include property, plant, equipment, and infrastructure, are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as they are acquired or constructed. When capital assets are retired, the cost of the retired asset, less accumulated depreciation, salvage value, and any cash proceeds, is charged to the Department's unrestricted net position.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

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

ACCRUED COMPENSATED ABSENCES

Employee vacation leave is vested annually but may only be carried forward to the succeeding year with supervisor approval and, if appropriate, within the terms of the applicable Department policy or union contract. Generally, sick leave may accumulate according to union and Department contracts and policy and is paid upon normal termination at the current rate of pay. The Department's policy is to recognize vacation costs at the time payments are made. The Department records accumulated, unused, vested sick pay as a liability. The amount recorded is the amount to be paid upon normal termination at the current rate of pay.

RATE OF RETURN

In accordance with Massachusetts General Laws Chapter 164 Section 58 the Department's rates must be set such that earnings attributable to electric operations do not exceed eight percent of the gross cost of plant. To determine the net income subject to the rate of return limitations, the Department performs the following calculation. Using the net income per the audited financial statements, the pension and OPEB accruals are added or deducted, miscellaneous debits/credits (i.e., gain/loss on disposal of fixed assets, etc.) are added or deducted, leaving an adjusted net income figure for rate of return purposes. Investment income is then deducted from this figure to determine the net income subject to the rate of return. The net income subject to the rate of return is then subtracted from the allowable 8% rate of return, which is calculated by adding the book value of net plant and the investment in associated companies multiplied by 8%. Based on this calculation, the Department did exceed this threshold for calendar year 2023.

USE OF ESTIMATES

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

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 2 - UNRESTRICTED CASH AND INVESTMENTS

DEPOSITS

Total deposits and investments as of December 31, 2023 are classified in the accompanying financial statements as follows:

Proprietary Fund:	<u>Amount</u>
Unrestricted cash and short-term investments	\$ 21,070,912
Restricted cash and short-term investments	39,114,927
Restricted investments	1,438,579
Fiduciary Fund:	
External investment pool	<u>5,297,919</u>
	<u>\$ 66,922,337</u>

INVESTMENTS

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Department manages its exposure to interest rate risk by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of December 31, 2023, the Department (including the OPEB Trust Fund) held cash and short-term investments in pooled investments with the Massachusetts Municipal Depository Trust (MMDT), FDIC-insured savings accounts, and 90-day FDIC-insured bank certificates of deposit. Because of their immediate liquidity and/or short-term maturity, these funds are classified as cash and short-term investments in the accompanying financial statements and are not considered to be exposed to significant interest rate risk.

As of December 31, 2023, the Department held investments in domestic and foreign fixed income bonds and equity mutual funds with varying maturity dates as follows:

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 2 - UNRESTRICTED CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

Investment Type	Amount	Maturity Date
Corporate Bonds:		
Simon Property Group	\$ 186,816	06/15/27
Equity Mutual Funds:		
Goldman Sachs TR Final Square	1,251,763	Not Applicable
	\$ 1,438,579	

Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assigning of a rating by a nationally recognized statistical rating organization. As of December 31, 2023, the Department held investments in domestic and foreign fixed income bonds and equity mutual funds with varying ratings as follows:

Investment Type	Amount	Moody's Rating
Corporate Bonds:		
Simon Property Group	\$ 186,816	A3
Equity Mutual Funds:		
Goldman Sachs TR Final Square	1,251,763	Not Rated
Total	\$ 1,438,579	

Concentration of Credit Risk

The Department follows the Town's investment policy, which does not limit the amount that can be invested in any one issuer beyond that stipulated by Massachusetts General Laws. At December 31, 2023, the Department's investments were held in domestic and foreign fixed income bonds and equity mutual funds, as detailed in the sections above.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 2 - UNRESTRICTED CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

Custodial Credit Risk

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

Because the Department pools its cash and short-term investments with the Town of Reading, and bank accounts are maintained in the name of the Town, the amount of the Department’s balance exposed to custodial credit risk at December 31, 2023, cannot be reasonably determined.

As of December 31, 2023, none of the Department investments were exposed to custodial credit risk because the related securities were registered in the Department’s name.

Fair Value

The Department categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*.

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

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 2 - UNRESTRICTED CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

Fair Value (Continued)

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

The net asset value (NAV) per share is the amount of net assets attributable to each share outstanding at the close of the period. Investments measured using NAV for fair value are not subject to level classification.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Department’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Department had the following fair value measurements as of December 31, 2023:

Description	Amount	Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments measured using fair value:				
Debt securities:				
Corporate bonds	\$ 186,816	\$ --	\$ 186,816	\$ --
Equity mutual funds	<u>1,251,763</u>	<u>1,251,763</u>	<u>--</u>	<u>--</u>
	<u>\$ 1,438,579</u>	<u>\$ 1,251,763</u>	<u>\$ 186,816</u>	<u>\$ --</u>
Description	Amount	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Investments measured at the net asset value (NAV):				
External investment pool	<u>\$ 5,297,919</u>	<u>\$ --</u>	Quarterly	30 days

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

The Department maintained the following restricted cash and investments in its proprietary fund at December 31, 2023:

	Cash	Investments
Depreciation fund	\$ 10,446,339	\$ --
Construction fund	8,378,000	--
Deferred fuel reserve	6,498,109	--
Deferred energy conservation reserve	2,084,239	--
Operating fund payable to Town	2,182,608	
Rate stabilization	7,259,335	--
Reserve for uncollectible accounts	200,000	--
Sick leave benefits	(474,387)	1,438,579
Hazardous waste fund	750,000	--
Customer deposits	1,790,684	--
	<u>\$ 39,114,927</u>	<u>\$ 1,438,579</u>

The Department maintains the following reserves:

- Depreciation fund - The Department is normally required to reserve 3.0% of capital assets each year to fund capital improvements.
- Construction fund - This account represents amounts set aside by the Department for construction-related projects.
- Deferred fuel reserve - The Department transfers the difference between the customers' monthly fuel charge adjustment and actual fuel costs into this account to be used in the event of a sudden increase in fuel costs.
- Deferred energy conservation reserve - This account is used to reserve monies collected from a special energy charge added to customer bills. Customers who undertake measures to conserve and improve energy efficiency can apply for rebates that are paid from this account.
- Operating fund payable to Town - This account represents amounts set aside by the Department
- Rate stabilization - This represents amounts set aside to help stabilize cost increases resulting from fluctuations in purchase power costs.
- Reserve for uncollectible accounts - This account was set up to offset a portion of the Department's bad debt reserve.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 3 - RESTRICTED CASH AND INVESTMENTS (CONTINUED)

- Sick leave benefits - This account is used to offset the Department's compensated absence liability.
- Hazardous waste fund - This reserve was set up by the Municipal Light Board to cover the Department's insurance deductible in the event of a major hazardous materials incident.
- Customer deposits - Customer deposits that are held in escrow.
- Pension trust - The principal instrument of a plan established by the Municipal Light Board to fund the Department's annual required contribution to the Town of Reading Contributory Retirement System (the System), a cost-sharing, multi-employer public employee retirement system.

NOTE 4 - RECEIVABLES

Receivables consisted of the following at December 31, 2023:

Customer Accounts:

Billed	\$ 5,196,775	
Less allowances:		
Uncollectible accounts	(200,000)	
Sales discounts	<u>(359,423)</u>	
Total billed		4,637,352
Unbilled, net of sales discounts		<u>5,676,705</u>
Total customer accounts		10,314,057
Other Accounts:		
Liens and other	<u>409,713</u>	
Total other accounts		<u>409,713</u>
Total Net Receivables		<u>\$ 10,723,770</u>

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 5 - PREPAID EXPENSES

Prepaid expenses consisted of the following at December 31, 2023:

Insurance and other	\$ 3,158,089
Purchase power	16,120
NYPA prepayment fund	307,573
WC Fuel - Watson	493,450
	<u>493,450</u>
	<u>\$ 3,975,232</u>

NOTE 6 - INVESTMENT IN ASSOCIATED COMPANIES

Investment in associated companies consisted of the following, at December 31, 2023:

New England Hydro-Transmission (NEH & NHH)	\$ 380,435
Energy New England	632,032
Black Rock Funding - Saddleback Ridge	51,394
	<u>51,394</u>
	<u>\$ 1,063,861</u>

Under agreements with the New England Hydro-Transmission Electric Company, Inc. (NEH) and the New England Hydro-Transmission Corporation (NHH), the Department has made the advances to fund its equity requirements for the Hydro-Quebec Phase II interconnection. The Department is carrying its investment at fair value, reduced by shares repurchased. The Department's equity position in the project is less than one-half of one percent.

In April 2019, the Department invested in 8.334% shares of Energy New England (ENE). The Department's equity position at December 31, 2023 is based on ENE's capital, retained earnings, and the net profit from April 2019 through December of 2023.

In December 2013, the Department signed a purchase power agreement with Saddleback Ridge Wind, LLC for the output of Saddleback Ridge Wind located in Carthage, Maine. The contract for Saddleback Ridge Wind is effective from January 1, 2015 through December 31, 2035. The Department receives energy plus all attributes for this contract. The average annual generation is estimated to be approximately 15,820 megawatt-hours per year.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 7 - LEASES RECEIVABLE

The Department has entered into various lease agreements with Light Tower Fiber LLC for the lease of Department owned fiber cable. Based on the agreements, the Department is receiving monthly payments through 2036. These lease agreements include an extension clause for 5 three-year renewal terms, that are expected to be exercised for each individual agreement.

As of December 31, 2023, leases receivable and the deferred inflow of resources for lease payments totaled \$2,031,553. The Department recognized lease revenue of \$401,746 in calendar year 2023.

NOTE 8 - CAPITAL ASSETS

The following is a summary of the year ended December 31, 2023 activity in capital assets (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Structures and improvements	\$ 21,167	\$ 528	\$ --	\$ 21,695
Equipment and furnishings	37,692	727	(208)	38,211
Infrastructure	<u>117,000</u>	<u>7,348</u>	<u>(461)</u>	<u>123,887</u>
Total capital assets, being depreciated	175,859	8,603	(669)	183,793
Less accumulated depreciation for:				
Structures and improvements	(12,480)	(555)	--	(13,035)
Equipment and furnishings	(25,726)	(984)	208	(26,502)
Infrastructure	<u>(51,598)</u>	<u>(3,737)</u>	<u>403</u>	<u>(54,932)</u>
Total accumulated depreciation	<u>(85,202)</u>	<u>(5,276)</u>	<u>611</u>	<u>(94,469)</u>
Total capital assets, being depreciated, net	84,766	3,327	(58)	89,324
Capital assets, not being depreciated:				
Land	5,275	--	--	5,275
Construction in progress	<u>655</u>	<u>377</u>	<u>--</u>	<u>1,032</u>
Total capital assets, not being depreciated	<u>5,930</u>	<u>377</u>	<u>--</u>	<u>6,307</u>
Capital assets, net	<u>\$ 91,985</u>	<u>\$ 3,704</u>	<u>\$ (58)</u>	<u>\$ 95,631</u>

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 9 - DEFERRED OUTFLOWS OF RESOURCES

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

NOTE 10 - ACCOUNTS PAYABLE

Accounts payable represent calendar year 2023 and 2022 expenses that were paid after December 31, 2023 and 2022, respectively.

NOTE 11 - ACCRUED LIABILITIES

Accrued liabilities were comprised of the following at December 31, 2023:

Accrued payroll	\$ 515,713
Accrued sales tax	87,995
Other	<u>48,400</u>
	<u>\$ 652,108</u>

NOTE 12 - CUSTOMER DEPOSITS

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

NOTE 13 - CONTRIBUTIONS IN AID OF CONSTRUCTION

The Department receives prepayment to connect new rate payers to the Departments infrastructure. When the Department receives the prepayment, it is recognized as a liability. Once the work is complete the liability will be amortized over the life of the corresponding capital assets.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 14 - LONG-TERM LIABILITIES

CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2023, the following changes occurred in long-term liabilities (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Accrued employee compensated absences	\$ 1,401	\$ --	\$ (437)	\$ 964	\$ (48)	\$ 916
Contributions in aid of construction	2,912	699	(52)	3,559	(59)	3,500
Customer deposits	1,681	110	--	1,791	--	1,791
Net pension liability	5,359	11,173	--	16,532	--	16,532
Net OPEB liability	<u>4,269</u>	<u>352</u>	<u>--</u>	<u>4,621</u>	<u>--</u>	<u>4,621</u>
	<u>\$ 9,628</u>	<u>\$ 11,525</u>	<u>\$ --</u>	<u>\$ 21,153</u>	<u>\$ --</u>	<u>\$ 21,153</u>

NOTE 15 - DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represent the acquisition of net assets by the Department that apply to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and are more fully described in the corresponding pension and OPEB notes. Deferred inflows related to leases, in accordance with GASB Statement No. 87, have been recognized in 2023 and are offset with leases receivable.

NOTE 16 - READING CONTRIBUTORY RETIREMENT SYSTEM

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

PLAN DESCRIPTION

Substantially all employees of the Department are members of the Reading Contributory Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 16 - READING CONTRIBUTORY RETIREMENT SYSTEM (CONTINUED)

PLAN DESCRIPTION (CONTINUED)

Chapter 32 of Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports, which are publicly available from the System's administrative offices located at Reading Town Hall, 16 Lowell Street, Reading, Massachusetts, 01867.

PARTICIPANT CONTRIBUTIONS

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

Before January 1, 1975	0.05
January 1, 1975 - December 31, 1983	0.07
January 1, 1984 - June 30, 1996	0.08
Beginning July 1, 1996	0.09

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

PARTICIPANT RETIREMENT BENEFITS

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

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

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 16 - READING CONTRIBUTORY RETIREMENT SYSTEM (CONTINUED)

PARTICIPANT RETIREMENT BENEFITS (CONTINUED)

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

- Group 1 – General employees, including clerical, administrative, technical, and all other employees not otherwise classified.
- Group 2 – Certain specified hazardous duty positions.
- Group 4 – Police officers, firefighters, and other specified hazardous positions.

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

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

METHODS OF PAYMENT

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

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 16 - READING CONTRIBUTORY RETIREMENT SYSTEM (CONTINUED)

METHODS OF PAYMENT (CONTINUED)

- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member’s designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

PARTICIPANT REFUNDS

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

EMPLOYER CONTRIBUTIONS

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

The Department’s contribution to the System for the year ended December 31, 2023 was \$2,486,536, which was equal to its actuarially determined contribution.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 16 - READING CONTRIBUTORY RETIREMENT SYSTEM (CONTINUED)

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSION

At December 31, 2023, the Department reported a liability of \$16,531,638 for its proportionate share of the System’s net pension liability. The net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2023. The Department’s proportion of the net pension liability was based on an actuarially determined projection of the Department’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. At December 31, 2022, the Department’s proportion was 27.54%, which increased by 0.98% compared to its proportion measured as of December 31, 2021.

For the year ended December 31, 2023, the Department recognized pension expense of \$2,947,799. In addition, the Department reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 943,725	\$ 56,779
Changes of assumptions	2,663,679	114,984
Net difference between projected and actual investment earnings on pension plan investments	2,882,110	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	277,001	355,454
Contributions subsequent to the measurement date	2,486,536	--
	\$ 9,253,051	\$ 527,217

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 16 - READING CONTRIBUTORY RETIREMENT SYSTEM (CONTINUED)

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSION (CONTINUED)

The amount reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as increases in pension expense as follows:

Year Ended December 31:	
2024	\$ 828,662
2025	1,339,244
2026	1,348,173
2027	2,448,459
2028	<u>274,760</u>
	<u>\$ 6,239,298</u>

ACTUARIAL ASSUMPTIONS

The total pension liability was determined by an actuarial valuation as of January 1, 2023 using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2023
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Investment rate of return	6.75%, net of pension plan investment expense, including inflation
Projected salary increases	4.25%-6.00% for Groups 1 and 2
Inflation rate	2.40% Annually
Post-retirement cost-of-living adjustment	3.00% of first \$14,000

Mortality rates were based on the RP-2014 Blue Collar Mortality Table, with full generational mortality improvement using Scale MP-2018. For disabled members, RP-2014 Blue Collar Mortality Table, set forward one year with full generational mortality improvement using MP-2018.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 16 - READING CONTRIBUTORY RETIREMENT SYSTEM (CONTINUED)

TARGET ALLOCATIONS

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major class are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Rates of Return
Global equity	37.00%	4.74%
Private equity	16.00%	7.60%
Core fixed income	15.00%	2.10%
Portfolio completion (PCS)	10.00%	3.90%
Real estate	10.00%	3.10%
Value-added fixed income	8.00%	5.20%
Timberland	4.00%	4.40%
	<u>100.00%</u>	

DISCOUNT RATE

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 16 - READING CONTRIBUTORY RETIREMENT SYSTEM (CONTINUED)

SENSITIVITY OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following table presents the Department's proportionate share of the net pension liability calculated using the current discount rate of 6.75%, as well as what the Department's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
\$ 23,881,475	\$ 16,531,638	\$ 10,328,774

PENSION PLAN FIDUCIARY NET POSITION

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

NOTE 17 - OTHER POST-EMPLOYMENT BENEFITS

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

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

All the following OPEB disclosures are based on a measurement date of December 31, 2023.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 17 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

GENERAL INFORMATION ABOUT THE OPEB PLAN

Plan Description

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

Benefits Provided

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

Funding Policy

The Department's funding policy includes financing the implicit subsidy on a pay-as-you-go basis, as required by statute. Additional contributions are generally based on actuarially determined amounts.

Plan Membership

At January 1, 2023, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	103
Active employees	<u>47</u>
	<u>150</u>

INVESTMENTS

The OPEB Trust Fund's assets were invested with the State Retiree Benefit Trust Fund (SRBTF) in the Pension Reserves Investment Trust (PRIT), an external investment pool.

Rate of Return

For the year ended December 31, 2023, the annual money-weighted rate of return on investments, net of investment expense, was not available. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 17 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

ACTUARIAL ASSUMPTIONS AND OTHER INPUTS

The net OPEB liability was determined by an actuarial valuation as of June 30, 2022, and used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary increases	6.00% decreasing to 4.25% based on service for Group 1 and Group 2
Investment rate of return	7.00%
Municipal bond rate	Unknown
Discount rate	7.00%
Healthcare cost trend rates	Medical/Prescription Drug: 4.44% increasing to an ultimate level of 4.50% per year. Contributions: Retiree contributions are expected to increase with medical trend.
Participation rate	100% of active employees

Mortality rates were based on:

- Pre-Retirement: RP-2014 Blue Collar Employee Mortality Table projected generationally using Scale MP-2018
- Healthy: RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally using Scale MP-2018
- Disabled: RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally using Scale MP-2018

TARGET ALLOCATIONS

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2023 are summarized in the following table.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 17 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

TARGET ALLOCATIONS (CONTINUED)

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	20.50%	6.59%
International developed markets equity	12.00%	6.87%
International emerging markets equity	4.50%	8.30%
Core fixed income	15.00%	1.53%
High yield fixed income	8.00%	3.54%
Real estate	10.00%	3.44%
Commodities	4.00%	4.01%
Hedge fund, GTAA, risk parity	10.00%	3.06%
Private equity	16.00%	9.49%
	100.00%	

Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

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

NET OPEB LIABILITY

The components of the net OPEB liability, measured as of December 31, 2023, were as follows:

Total OPEB liability	\$ 10,219,539
Plan fiduciary net position	5,598,554
Net OPEB liability	\$ 4,620,985
Plan fiduciary net position as a percentage of the total OPEB liability	54.78%

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

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 17 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

CHANGES IN THE NET OPEB LIABILITY

The following summarizes the changes in the net OPEB liability for the year ended December 31, 2023.

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan	
		Fiduciary	Net OPEB
		Net Position (b)	Liability (a) - (b)
Balances, beginning of year	\$ 9,046,167	\$ 4,777,078	\$ 4,269,089
Changes for the year:			
Service cost	307,937	--	307,937
Interest	633,586	--	633,586
Contributions - employer	--	916,164	(916,164)
Net investment income	--	521,476	(521,476)
Changes in assumptions or other inputs	848,013	--	848,013
Benefit payments	(616,164)	(616,164)	--
Net changes	1,173,372	821,476	351,896
Balances, end of year	\$ 10,219,539	\$ 5,598,554	\$ 4,620,985

SENSITIVITY OF THE NET OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE

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

1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 5,793,622	\$ 4,620,985	\$ 3,637,096

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 17 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

SENSITIVITY OF THE NET OPEB LIABILITY TO CHANGES IN THE HEALTHCARE COST TREND RATES

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

1% Decrease (3.44%)	Current Healthcare Cost Trend Rates (4.44%)	1% Increase (5.44%)
\$ 3,451,211	\$ 4,620,985	\$ 6,034,901

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended December 31, 2023, the Department recognized an OPEB expense of \$803,586. At December 31, 2023, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 74,134	\$ 17,959
Changes in assumptions	565,342	410,234
Net difference between projected and actual earnings on OPEB investment	543,102	--
	\$ 1,182,578	\$ 428,193

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 17 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (CONTINUED)

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

<u>Year Ended December 31:</u>	
2024	\$ 168,455
2025	467,205
2026	154,041
2027	<u>(35,316)</u>
	<u>\$ 754,385</u>

NOTE 18 - PARTICIPATION IN MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY

The Town of Reading, acting through the Reading Municipal Light Department is a participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

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

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

**NOTE 18 - PARTICIPATION IN MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
(CONTINUED)**

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

MMWEC is involved in various legal actions. In the opinion of management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the company.

The total capital expenditures and annual capacity, fuel and transmission costs (which include debt service and decommissioning expenses as discussed above) associated with the Department's Project Capability of the Projects in which it participates for the years ended December 31, 2023 and 2022, respectively are listed in the table below.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

**NOTE 18 - PARTICIPATION IN MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
(CONTINUED)**

Projects	Percentage Share	Total Capital Expenditures 2023	Total Capital Expenditures 2022	Capacity, Fuel & Transmission Billed 2023	Capacity, Fuel & Transmission Billed 2022
Stony Brook Peaking Project	19.5163%	\$ 12,316,311	\$ 12,091,392	\$ 1,127,997	\$ 1,045,900
Stony Brook Intermediate Project	15.9249%	29,223,154	29,176,852	2,463,803	3,670,187
Nuclear Mix No. 1-Seabrook	14.7191%	1,532,039	1,525,857	71,192	70,580
Nuclear Mix No. 1-Millstone	14.7191%	9,493,591	9,404,582	842,187	874,493
Nuclear Project No. 3-Millstone	5.2617%	8,204,536	8,141,098	597,122	621,229
Nuclear Project No. 4-Seabrook	12.5560%	38,592,042	38,451,668	1,595,089	1,584,513
Nuclear Project No. 5-Seabrook	6.1186%	5,085,727	5,068,413	201,211	200,217
		<u>\$ 104,447,400</u>	<u>\$ 103,859,862</u>	<u>\$ 6,898,601</u>	<u>\$ 8,067,119</u>

NOTE 19 - NON-CARBON CERTIFICATES

In April of 2021, the Commonwealth of Massachusetts put the 2021 Climate Law into effect. For the first time, Massachusetts municipal light plants are under emission compliance standards. Emission compliance targets were set for 2030, 2040, and 2050. Specifically, Massachusetts municipal light plants must source energy from non-carbon sources equal to or above a percentage of kwh sales, set as 50% of annual kwh sales in 2030, 75% of annual kwh sales in 2040, net-zero of annual kwh sales in 2050, with a 2020 baseline of 20% of annual kwh sales.

Compliance is recognized as retiring non-carbon certificates. Hence, the new metric is non-carbon certificates where renewable energy certificates are a subset of non-carbon certificates. Emissions Free Energy Certificates (EFECs) are classified as non-carbon certificates and are valid for compliance. Nuclear facilities can register EFECs with the NEPOOL GIS regional tracking system. Seabrook and Millstone nuclear facilities create EFEC's as part of the Departments' contracts and NYPA certificates are also EFECs.

In anticipation of the 2021 Climate Law, the Department updated its Policy no. 30 in February 2021. In an effort to avoid rate shocks in 2030, 2040, and 2050, the updated Department policy requires the retirement of non-carbon certificates at a level of 23% of annual 2021 kwh sales. The retirement level will increase 3% annually, such that the 50% compliance target is met in 2030, then 2.5% annual retirement increases thereafter.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 19 - NON-CARBON CERTIFICATES (CONTINUED)

The Department typically purchases non-carbon certificates bundled with energy, as an associated purchase of energy plus environmental attributes (certificates), and historically has not purchased non-carbon certificates in the open market.

The Departments power supply portfolio currently provides non-carbon certificates in excess of the retirement levels required by policy no. 30 and the certificates in excess of retirement targets are sold. Accounting for the 3 to 6 month minting process, the Department retires or sells non-carbon certificates on a quarterly basis.

The table below summarizes Department's non-carbon certificate holdings as of December 31, 2022. The table includes certificates acquired as part of power supply contracts, regardless of the timing of minting where minting is a prerequisite to the Department's ability to transact (retire or sell) these certificates.

The following table reflects certificates acquired during 3rd quarter 2022 and 4th quarter 2022, where 3rd quarter 2022 certificates would typically be transacted in February 2023 and 4th quarter 2022 certificates would be typically transacted in May 2023. 1st and 2nd quarter 2022 certificates were transacted prior to December 31, 2022. The yearend certificate pricing reflects market prices as of December 31, 2022 and was sourced from weekly Marex Spectrometer US Environmental market price report dated December 31, 2022 (report: SpectrometerUSGreenWeekly_27_311221) for regularly traded certificates and most recent contract prices used for the rest.

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 19 - NON-CARBON CERTIFICATES (CONTINUED)

Information regarding the Department's year ending December 31, 2023 non-carbon certificate balances was as follows:

Non-Carbon Certificates Holdings at December 31, 2023

	Projected Certificates	Estimated Value
MA Class I	\$ 30,653	\$ 1,072,855
CT Class 1	3,072	107,520
RI Class 1	1,280	29,440
MA Class 2	5,833	164,782
CT Class 2	1,841	42,343
ME Class 2	10,788	94,395
VT Tier 1	458	2,748
EFECs	<u>98,545</u>	<u>177,381</u>
Total	<u>\$ 152,470</u>	<u>\$ 1,691,464</u>

Currently, there is no formal accounting guidance under GAAP for non-carbon certificates, including renewable energy certificates. As a result, the Department's non-carbon certificates holdings at December 31, 2023 are not recognized as an asset in the Statement of Net Position.

NOTE 20 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 20, 2024 which is the date the financial statements were available to be issued.

NOTE 21 - COMMITMENTS AND CONTINGENCIES

OUTSTANDING LEGAL ISSUES

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

READING MUNICIPAL LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 22 - NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 99, *Omnibus 2022* and GASB Statement No. 100, *Accounting Changes and Error Corrections*, effective for the Department beginning in fiscal year ending December 31, 2024. These statements establish new reporting and disclosure requirements for financial guarantees, classification and reporting of derivative instruments, and beginning balance restatements. Management is currently evaluating the impact of implementing these GASB pronouncements.

READING MUNICIPAL LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(Unaudited)

Reading Contributory Retirement System						
Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
December 31, 2023	December 31, 2022	27.54%	\$ 16,531,638	\$ 6,461,018	255.87%	74.49%
December 31, 2022	December 31, 2021	26.56%	\$ 5,358,701	\$ 6,949,555	77.11%	90.81%
December 31, 2021	December 31, 2020	26.82%	\$ 11,954,138	\$ 6,758,995	176.86%	79.07%
December 31, 2020	December 31, 2019	28.35%	\$ 12,054,935	\$ 6,754,079	178.48%	78.24%
December 31, 2019	December 31, 2018	28.35%	\$ 14,610,001	\$ 6,513,347	224.31%	72.56%
December 31, 2018	December 31, 2017	29.15%	\$ 10,781,819	\$ 6,938,057	155.40%	79.32%
June 30, 2018	December 31, 2017	29.15%	\$ 10,781,819	\$ 6,938,057	155.40%	79.32%
June 30, 2017	December 31, 2016	29.15%	\$ 13,076,538	\$ 6,393,765	204.52%	73.43%
June 30, 2016	December 31, 2015	28.25%	\$ 12,862,732	\$ 6,147,851	209.22%	72.17%
June 30, 2015	December 31, 2014	28.25%	\$ 8,464,663	\$ 5,908,694	143.26%	79.89%

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

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

See independent auditors' report.

READING MUNICIPAL LIGHT DEPARTMENT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS**

(Unaudited)

Reading Contributory Retirement System						
Fiscal Year	Measurement Date	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2023	December 31, 2022	\$ 2,486,536	\$ 2,486,536	\$ --	\$ 6,461,018	38.49%
December 31, 2022	December 31, 2021	\$ 2,352,753	\$ 2,352,753	\$ --	\$ 7,449,572	31.58%
December 31, 2021	December 31, 2020	\$ 2,140,461	\$ 2,140,461	\$ --	\$ 6,949,555	30.80%
December 31, 2020	December 31, 2019	\$ 2,039,462	\$ 2,039,462	\$ --	\$ 6,758,995	30.17%
December 31, 2019	December 31, 2018	\$ 1,781,345	\$ 1,781,345	\$ --	\$ 6,754,079	26.37%
December 31, 2018	December 31, 2017	\$ 1,691,058	\$ 1,691,058	\$ --	\$ 6,513,347	25.96%
June 30, 2018	December 31, 2017	\$ 1,650,416	\$ 1,650,416	\$ --	\$ 6,938,057	23.79%
June 30, 2017	December 31, 2016	\$ 1,579,345	\$ 1,579,345	\$ --	\$ 6,938,057	22.76%
June 30, 2016	December 31, 2015	\$ 1,461,650	\$ 1,461,650	\$ --	\$ 6,393,765	22.86%
June 30, 2015	December 31, 2014	\$ 1,401,638	\$ 1,401,638	\$ --	\$ 6,147,851	22.80%

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

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

See independent auditors' report.

READING MUNICIPAL LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY
(Unaudited)

	2023	2022	2021	2020	2019	2018	2017
Total OPEB Liability							
Service cost	\$ 307,937	\$ 281,106	\$ 346,715	\$ 336,113	\$ 245,905	\$ 238,384	\$ 230,880
Interest	633,586	646,679	851,982	811,737	799,729	766,539	733,280
Changes of benefit terms	--	11,777	(2,404,503)	--	--	--	--
Differences between expected and actual experience	--	(53,878)	296,537	--	260,248	--	--
Changes of assumptions	848,013	(501,039)	(972,882)	--	(252,156)	--	--
Benefit payments, including refunds of member contributions	(616,164)	(581,460)	(549,629)	(655,233)	(577,471)	(552,351)	(504,917)
Net Change in Total OPEB Liability	1,173,372	(196,815)	(2,431,780)	492,617	476,255	452,572	459,243
Total OPEB Liability - Beginning	9,046,167	9,242,982	11,674,762	11,182,145	10,705,890	10,253,318	9,794,075
Total OPEB Liability - Ending (a)	10,219,539	9,046,167	9,242,982	11,674,762	11,182,145	10,705,890	10,253,318
Plan Fiduciary Net Position							
Contributions - employer	916,164	855,547	937,222	1,042,087	1,012,408	1,159,476	813,663
Net investment income	521,476	(581,293)	188,435	33,826	90,920	75,522	35,045
Benefit payments, including refunds of member contributions	(616,164)	(581,460)	(549,629)	(655,233)	(577,471)	(552,351)	(504,917)
Net Change in Plan Fiduciary Net Position	821,476	(307,206)	576,028	420,680	525,857	682,647	343,791
Plan Fiduciary Net Position - Beginning	4,777,078	5,084,284	4,508,256	4,087,576	3,561,719	2,879,072	2,535,281
Plan Fiduciary Net Position - Ending (B)	5,598,554	4,777,078	5,084,284	4,508,256	4,087,576	3,561,719	2,879,072
Net OPEB liability - Ending (a-b)	\$ 4,620,985	\$ 4,269,089	\$ 4,158,698	\$ 7,166,506	\$ 7,094,569	\$ 7,144,171	\$ 7,374,246

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

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

See independent auditors' report.

READING MUNICIPAL LIGHT DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS
(Unaudited)

	2023	2022	2021	2020	2019	2018	2017
Schedule of Net OPEB Liability							
Total OPEB liability	\$ 10,219,539	\$ 9,046,167	\$ 9,242,982	\$ 11,674,762	\$ 11,182,145	\$ 10,705,890	\$ 10,253,318
Plan fiduciary net position	<u>5,598,554</u>	<u>4,777,078</u>	<u>5,084,284</u>	<u>4,508,256</u>	<u>4,087,576</u>	<u>3,561,719</u>	<u>2,879,072</u>
Net OPEB liability	<u>\$ 4,620,985</u>	<u>\$ 4,269,089</u>	<u>\$ 4,158,698</u>	<u>\$ 7,166,506</u>	<u>\$ 7,094,569</u>	<u>\$ 7,144,171</u>	<u>\$ 7,374,246</u>
Plan fiduciary net position as a percentage of the total OPEB liability	54.78%	52.81%	55.01%	38.62%	36.55%	33.27%	28.08%
Covered employee payroll	unavailable						
Participating employer net OPEB liability (asset) as a percentage of covered employee payroll	unavailable						
	2023	2022	2021	2020	2019	2018	2017
Schedule of Contributions							
Actuarially determined contribution	\$ 979,835	\$ 954,088	\$ 848,942	\$ 1,136,780	\$ 1,146,987	\$ 991,048	\$ 932,387
Contributions in relation to the actuarially determined contribution	<u>916,164</u>	<u>855,547</u>	<u>937,222</u>	<u>1,042,087</u>	<u>1,012,408</u>	<u>1,159,476</u>	<u>813,663</u>
Contribution deficiency (excess)	\$ 63,671	\$ 98,541	\$ (88,280)	\$ 94,693	\$ 134,579	\$ (168,428)	\$ 118,724
	2023	2022	2021	2020	2019	2018	2017
Schedule of Investment Returns							
Annual money weighted rate of return, net of investment expense	unavailable						

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

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

See independent auditors' report.