BOARD OF COMMISSIONERS

SUB-AUDIT COMMITTEE

MEETING

THURSDAY JUNE 15, 2023

Town of Reading
Meeting Posting with Agenda

2018-07-16 LAG

Board - Committee - Commission - Council:

RMLD Audit Committee

Date: 2023-06-15 Time: 5:30 PM

Building: Reading Municipal Light Building Location: Winfred Spurr Audio Visual Room

Address: 230 Ash Street Agenda:

Purpose: Review CY22 Audit Findings

Meeting Called By: Robert Coulter, Chair

Notices and agendas are to be posted 48 hours in advance of the meetings excluding Saturdays, Sundays and Legal Holidays. Please keep in mind the Town Clerk's hours of operation and make necessary arrangements to be sure your posting is made in an adequate amount of time. A listing of topics that the chair reasonably anticipates will be discussed at the meeting must be on the agenda.

All Meeting Postings must be submitted in typed format; handwritten notices will not be accepted.

Topics of Discussion:

ON MARCH 29, 2023, GOVERNOR HEALEY SIGNED INTO LAW A SUPPLEMENTAL BUDGET BILL WHICH, AMONG OTHER THINGS, EXTENDS THE TEMPORARY PROVISIONS PERTAINING TO THE OPEN MEETING LAW TO MARCH 31, 2025.

THIS MEETING WILL HELD IN PERSON, REMOTELY, AND STREAMED LIVE ON RCTV AND YOUTUBE: https://www.youtube.com/c/RCTVStudios/videos?view=57.

FOR REMOTE AND/OR PUBLIC PARTICIPATION: Please email emorse@RMLD.com. Please include your full name, address, and phone number. Comments and questions will be monitored during the meeting.

1. Call Meeting to Order

2. Review Calendar Year 2022 Audit Findings with Marcum, LLP, and the Town of Reading Audit Committee. **ACTION ITEM** *(attachment 1)* –Zackary Fentross, Director, MARCUM, LLP.

   Suggested Motion: Move that the Town of Reading Audit Committee recommend to the RMLD Board of Commissioners to accept the audit dated June 8, 2023.

   Suggested Motion: Move that the RMLD Board of Commissioners Sub-Audit Committee recommend to the RMLD Board of Commissioners to accept the audit dated June 8, 2023.

3. Approval of Meeting Minutes **ACTION ITEM** *(Attachment 2)*
   Suggested Motion: Move that the RMLD Board of Commissioners Sub-Audit Committee approve the open session meeting minutes of the November 9, 2017; November 29, 2018; May 23, 2019; July 16, 2020; May 19, 2021; and May 23, 2022, meetings.

4. Move to Adjourn– **Action Item**

ATTACHMENT 1

READING MUNICIPAL LIGHT DEPARTMENT

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

DRAFT DATED 2023-06-08

DRAFT 6.8.2023

RMLD

Reading Municipal Light Department
RELIABLE POWER

TOWN OF READING, MASSACHUSETTS
READING MUNICIPAL LIGHT DEPARTMENT

Annual Financial Statements
For the Year Ended December 31, 2022

(With Independent Auditor's Report Thereon)

DRAFT 6.8.2023

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DRAFT 6.8.2023

INDEPENDENT AUDITOR'S REPORT

To the Municipal Light Board
Town of Reading Municipal Light Department

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the Town of Reading Municipal Light Department (the Department) (an enterprise fund of the Town of Reading, Massachusetts), and its Other Post-Employment Benefits fiduciary fund, as of and for the year ended December 31, 2022, and the related notes to the financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Town of Reading Municipal Light Department and the fiduciary fund information as of December 31, 2022, 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 Opinion

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 Auditor's 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 opinion.

Responsibilities of Management for the Financial Statements

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

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 one year after the date that the financial statements are issued.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, and the changes in financial position and cash flows, where applicable, 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, 2022, and the changes in its financial position and its cash flows, where applicable, 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 the 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 sufficient evidence to express an opinion or provide any assurance.

Andover, Massachusetts
______________, 2023

DRAFT 6.8.2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Town of 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, 2022. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements

The basic financial statements include (1) the Proprietary Fund Statement of Net Position, (2) the Proprietary Fund Statement of Revenues, Expenses and Change in Net Position, (3) the Proprietary Fund Statement of Cash Flows, (4) the Fiduciary Funds Statement of Fiduciary Net Position, (5) the Fiduciary Fund Statement of Change in Fiduciary Net Position, and (6) Notes to Financial Statements.

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 government. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to Financial Statements

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

Other Information

In calendar year 2020, the Department implemented ASC 980, *Accounting for the Effects of Certain Types of Regulation*, which essentially adjusts for differences between how revenue/rates are budgeted and how they are accounted for in accordance with Generally Accepted Accounting Principles (GAAP). In the Department's case, contributions in aid of construction (CIAC) are set aside (deferred) and are recognized equal to the annual depreciation expense on the related assets.

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

Financial Highlights

The Proprietary Fund Statement of Net Position is designed to indicate our financial position at a specific point in time. At December 31, 2022, it shows our net worth of $131,929,309 which comprises $91,985,048 invested in capital assets, $6,741,031 restricted for depreciation fund, and $33,203,230 unrestricted.

The Proprietary Fund 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, 2022 was $9,896,503.

The Proprietary Fund Statement of Cash Flows provide information about cash receipts, cash payments, investing, and financing activities during the accounting period. A review of our Proprietary Fund Statement of Cash Flows indicates that cash receipts from operating activities adequately covered our operating expenses in the year ended December 31, 2022.

The following is a summary of the Department's financial data for the year ended December 31, 2022 (in thousands).

Summary of Net Position

		2022		2021
Assets:				
Current and other assets	$	70,836	$	63,765
Capital assets		91,985		86,306
Total assets		162,821		150,071
Deferred outflows of resources		6,113		6,754
Liabilities:				
Long-term liabilities		11,029		18,068
Other liabilities		15,550		12,396
Total liabilities		26,579		30,464
Deferred inflows of resources		10,426		4,328
Net position:				
Net investment in capital assets		91,985		86,032
Restricted for depreciation fund		6,741		8,268
Restricted for pension trust		-		6,809
Unrestricted		33,203		20,924
Total net position	$	131,929	$	122,033

Summary of Change in Net Position

		2022		2021
Operating revenues	$	100,202	$	86,404
Operating expenses		(88,864)		(82,255)
Operating income		11,338		4,149
Nonoperating revenues, net		1,062		1,036
Income Before Transfers		12,400		5,185
Return on investment to Town of Reading		(2,504)		(2,487)
Change in net position		9,896		2,698
Beginning net position		122,033		119,335
Ending net position	$	131,929	$	122,033

For the year ended December 31, 2022 electric sales (net of discounts) were $100,350,663, an increase of 14.12% from the prior year. During calendar year 2022, cost increases for purchased electricity were primarily the result of both supply and price volatility within the global energy market. The increase in costs was passed along to the customers of the Department. For the year ended December 31, 2022, kilowatt hours sold were 655,858,726, a decrease of 0.38% from the prior year.

Operating expenses totaled $88,864,067 for the year ended December 31, 2022, an increase of 8.04%. The largest portion of this total, $64,682,635, was for purchase power costs. Other operating expenses included $17,403,804 for general operating and maintenance costs, $1,720,644 for voluntary payments to Towns, and depreciation expense of $5,056,984. For the year ended December 31, 2022 the depreciation rate was 3.0%. Change in net position of $9,896,503 results primarily from rates and charges set at a level to fund future capital improvements.

In the year ended December 31, 2022, the Department contributed $2,352,753 to the Town of Reading Contributory Retirement System on behalf of the Department's employees.

For the year ended December 31, 2022, the Department contributed $274,087 to the Other Post-Employment Benefits Trust ("OPEB Trust"). Additional information on the Department's OPEB Trust Fund can be found in corresponding note on page 33 of this report.

Capital Asset and Debt Administration

Capital Assets

Total investment in land and construction in progress at year end amounted to $5,929,927, an increase of $4,389,875 from the prior year. The increase is primarily due to land purchased for the purpose of a new substation. Total investment in depreciable capital assets at year-end amounted to $86,055,122 (net of accumulated depreciation), an increase of $1,288,732 from the prior year. This investment in depreciable capital assets includes structures and improvements, equipment and furnishings, and infrastructure assets.

Debt and Other Long-Term Obligations

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

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

Requests for Information

This financial report is designed to provide a general overview of the 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

DRAFT 6.8.2023

TOWN OF READING, MASSACHUSETTS
READING MUNICIPAL LIGHT DEPARTMENT

Statement of Net Position
December 31, 2022

	2022
Assets	
Current:	
Unrestricted cash and short-term investments	$ 23,411,566
Receivables, net of allowance for uncollectable	9,287,089
Prepaid expenses	2,345,121
Inventory	2,295,222
Lease receivable	295,384
Total current assets	37,634,382
Noncurrent:	
Restricted cash and short-term investments	29,109,300
Restricted investments	793,916
Investment in associated companies	976,518
Lease receivable	2,321,554
Land and construction in progress	5,929,927
Capital assets, net of accumulated depreciation	86,055,122
Total noncurrent assets	125,186,337
Total Assets	162,820,719
Deferred Outflows of Resources	
Related to pension	4,967,090
Related to OPEB	1,146,297
Total Deferred Outflows of Resources	6,113,387
Liabilities	
Current:	
Accounts payable	9,763,660
Accrued liabilities	719,274
Customer deposits	1,681,059
Contributions in aid of construction	2,911,725
Other liabilities	200,000
Due to fiduciary fund	274,087
Current portion of long-term liabilities:	
Compensated absences	116,269
Total current liabilities	15,666,074
Noncurrent:	
Net pension liability	5,358,701
Net OPEB liability	4,269,089
Compensated absences	1,284,676
Total noncurrent liabilities	10,912,466
Total Liabilities	26,578,540
Deferred Inflows of Resources	
Related to pension	6,952,933
Related to OPEB	856,386
Related to leases	2,616,938
Total Deferred Inflows of Resources	10,426,257
Net Position	
Net investment in capital assets	91,985,048
Restricted for:	
Depreciation fund	6,741,031
Unrestricted	33,203,230
Total Net Position	$ 131,929,309

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

DRAFT 6.8.2023

TOWN OF READING, MASSACHUSETTS
READING MUNICIPAL LIGHT DEPARTMENT

Statement Of Revenues, Expenses, And Change In Net Position
For the Year Ended December 31, 2022

	2022
Operating Revenues	
Electric sales, net of discounts of $4,444,142	$ 100,350,663
Purchase power adjustments:	
Fuel charge adjustment	2,039,616
Capacity and transmission adjustment	(2,187,920)
Total Operating Revenues	100,202,359
Operating Expenses	
Purchase power	64,682,635
Operating	15,082,436
Maintenance	2,321,368
Voluntary payments to towns	1,720,644
Depreciation	5,056,984
Total Operating Expenses	88,864,067
Operating Income	11,338,292
Nonoperating Revenues (Expenses)	
Investment income	300,617
Intergovernmental grants	105,000
Loss on disposal of assets	(50,596)
Other revenues	768,248
Other expenses	(61,084)
Total Nonoperating Revenues, net	1,062,185
Income Before Transfers	12,400,477
Return on investment transfer to Town of Reading	(2,503,974)
Change in Net Position	9,896,503
Net Position at Beginning of Year	122,032,806
Net Position at End of Year	$ 131,929,309

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

DRAFT 6.8.2023

TOWN OF READING, MASSACHUSETTS
READING MUNICIPAL LIGHT DEPARTMENT

Statement of Cash Flows
For the Year Ended December 31, 2022

		2022
Cash Flows From Operating Activities		
Receipts from customers and users	$	99,789,866
Payments to vendors and employees		(84,787,398)
Customer purchase power adjustments		(148,304)
Net Cash Provided By Operating Activities		14,854,164
Cash Flows From Noncapital Financing Activities		
Return on investment to Town of Reading		(2,503,974)
Other revenues		768,248
Other expenses		(78,302)
Net Cash (Used For) Noncapital Financing Activities		(1,814,028)
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets		(10,811,016)
Contributions in aid of construction		440,521
Intergovernmental revenues		105,000
Net Cash (Used For) Capital and Related Financing Activities		(10,265,495)
Cash Flows From Investing Activities		
Investment income		300,617
Increase in investments		1,761,710
Net Cash Provided By Investing Activities		2,062,327
Net Change in Cash and Short-Term Investments		4,836,968
Cash and Short-Term Investments, Beginning of Period		47,683,898
Cash and Short-Term Investments, End of Period	$	52,520,866
Reconciliation of Operating Income to Net Cash provided by Operating Activities		
Operating income	$	11,338,292
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation expense		5,056,984
Changes in assets, liabilities, and deferred outflows/inflows		
Accounts receivable		(694,156)
Prepaid and other assets		629,093
Inventory		(465,687)
Accounts payable and accrued liabilities		944,732
Customer deposits		133,359
Due to fiduciary fund		274,087
Net pension liability and related deferrals		(2,076,024)
Net OPEB liability and related deferrals		(286,516)
Net Cash Provided By Operating Activities	$	14,854,164

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

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TOWN OF READING, MASSACHUSETTS
READING MUNICIPAL LIGHT DEPARTMENT

Statement of Fiduciary Net Position
December 31, 2022

	Other Post Employment Benefits Trust Fund 2022
Assets	
Investments:	
Pooled investments	$ 4,502,991
Total investments	4,502,991
Due from proprietary fund	274,087
Total Assets	4,777,078
Net Position	
Total net position held in trust	$ 4,777,078

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

DRAFT 6.8.2023

TOWN OF READING, MASSACHUSETTS
READING MUNICIPAL LIGHT DEPARTMENT

Statement of Change In Fiduciary Net Position
For the Year Ended December 31, 2022

	Other Post Employment Benefits Trust Fund 2022
Additions	
Contributions:	
Employer	$ 855,547
Investment Income (loss):	
Investment (loss)	(581,293)
Total additions	274,254
Deductions	
Benefit payments to plan members, beneficiaries and other systems	581,460
Net decrease	(307,206)
Net position restricted for OPEB purposes	
Beginning of year	5,084,284
End of year	$ 4,777,078

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

1. Summary of Significant Accounting Policies

Reporting Entity

These financial statements present only the Town of Reading Municipal Light Department (the Department), an enterprise fund of the Town of Reading, Massachusetts (the Town). These financial statements are not intended to and do not present fairly the financial position of the Town of Reading, Massachusetts, and the changes in its financial position and its cash flows where applicable, in conformity with accounting principles generally accepted in the United States of America.

Business Activity

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. The Department's policy is to prepare its financial statements in conformity with Generally Accepted Accounting Principles.

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

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

Concentrations

The Department operates within the electric utility industry. In 1998, the Commonwealth of Massachusetts (the Commonwealth) enacted energy deregulation legislation that restructured the Commonwealth's electricity industry to foster competition and promote reduced electric rates. Energy deregulation created a separation between the supply and delivery portions of electricity service and enabled consumers to purchase their energy from a retail supplier of their choice. Municipal utilities are not currently subject to this legislation.

Other Post-Employment Benefits Trust

The Other Post-Employment Benefits 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 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 discounts. Recognition is given to the amount of sales to customers which are unbilled at the end of the fiscal year.

Cash and Short-Term Investments

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

Investments

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

Inventory

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

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 on a straight-line basis over its useful life. 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 utility plant 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. Interest incurred during the construction phase of proprietary fund capital assets is included as part of the capitalized value of the constructed asset. When capital assets are retired, the cost of the retired asset, less accumulated depreciation, salvage value and any cash proceeds, is charged to the Department's unrestricted net position.

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

Accrued Compensated Absences

Employee vacation leave is vested annually but may only be carried forward to the succeeding year with supervisor approval and, if appropriate, within the terms of the applicable Department policy or union contract. Generally, sick leave may accumulate according to union and Department contracts and policy and is paid upon normal termination at the current rate of pay. 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.

Pension and OPEB Obligations

In accordance with GASB Statement No. 68, *Accounting and Reporting for Pensions*, employers report a net pension liability and related deferred outflows and inflows and related pension expense as determined by the plan. Disclosures required under GASB Statement No. 68 apply to the Department for its participation in the Town of Reading Contributory Retirement System defined benefit plan.

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, the Department reports net OPEB liability and related deferred outflows and inflows and related OPEB expense associated with the Department's OPEB plan.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.

Rate of Return

The Department's rates must be set such that earnings attributable to electric operations do not exceed 8% of the net cost of plant. The Department's audited financial statements are prepared in accordance with auditing standards generally accepted in the United States of America. To determine the net income subject to the rate of return limitations, the Department performs the following calculation. Using the net income per the audited financial statements, the 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 interest income is then deducted from this figure to determine the net income subject to the rate of return. The net income subject to the rate of return is then subtracted from the allowable 8% rate of return, which is calculated by adding the book value of net plant and the investment in associated companies multiplied by 8%. From this calculation, the Department did not exceed 8% in 2022.

2. Cash and Investments

Total cash and investments as of December 31, 2022 are classified in the accompanying financial statements as follows:

Proprietary Fund:		
Unrestricted cash and short-term investments	$	23,411,566
Restricted cash and short-term investments		29,109,300
Restricted investments		793,916
Fiduciary Fund:		
Pooled investments		4,502,991
Total cash and investments	$	57,817,773

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, 2022, the Department (including the OPEB Trust) 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, 2022, the Department held investments in domestic and foreign fixed income bonds with varying maturity dates as follows:

Corporate Bonds		Amount	Maturity Date
General Electric Cap Corp	$	206,936	01/09/23
Wells Fargo & Co		198,802	08/15/23
Simon Property		181,716	06/15/27
BNP Paribas		206,462	03/03/23
Total	$	793,916	

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, 2022, the Department held investments in domestic and foreign fixed income bonds with varying ratings as follows:

Investment Type		Amount	Moody's Rating
Corporate Bonds:			
General Electric Cap Corp	$	206,936	Baa1
Wells Fargo & Co		198,802	A3
Simon Property		181,716	A3
BNP Paribas		206,462	Aa3
Total	$	793,916	

Concentration of Credit Risk

The Department follows the Town of Reading'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, 2022, the Department investments were held in domestic and foreign fixed income bonds, as detailed in the sections above. Each of the bonds individually represent between approximately 23-26% of the Department's total investments.

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 of Reading'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, 2022, cannot be reasonably determined.

As of December 31, 2022, 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 (GASB 72).*

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

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

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 has the following fair value measurements as of December 31, 2021:

		Fair Value Measurements Using:		
Description	Amount	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	$ 793,916	$ -	$ 793,916	$ -
Investments measured at the net asset value (NAV):				
External investment pool	4,502,991			
Total	$ 5,296,907			

Description	Amount	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
External investment pool	$ 4,502,991	$ -	Quarterly	30 days

3. Restricted Cash and Investments

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

	12/31/22	
	Cash	Investments
Depreciation fund	$ 6,741,031	$ -
Construction fund	6,500,000	-
Deferred fuel reserve	3,708,756	-
Deferred energy conservation reserve	1,978,335	-
Rate stabilization	6,939,999	-
Reserve for uncollectible accounts	200,000	-
Sick leave benefits	607,029	793,916
Hazardous waste fund	750,000	-
Customer deposits	1,681,059	-
Pension trust	3,091	-
Total	$ 29,109,300	$ 793,916

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.
- 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.
- 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.

4. Accounts Receivable

Accounts receivable consist of the following at December 31, 2022:

Customer Accounts:		
Billed	$ 3,314,789	
Less allowances:		
Uncollectible accounts	(200,000)	
Sales discounts	(211,153)	
Total billed		2,903,636
Unbilled, net of sales discounts		5,817,864
Total customer accounts		8,721,500
Other Accounts:		
Liens and other	565,589	
Total other accounts		565,589
Total net receivables		$ 9,287,089

5. Prepaid Expenses

Prepaid expenses consist of the following:

Insurance and other	$ 1,628,916
Purchase power	15,794
NYPA prepayment fund	307,572
WC Fuel - Watson	392,839
Total	$ 2,345,121

6. Inventory

Inventory comprises supplies and materials at December 31, 2022, and is valued using the average cost method.

7. Investment in Associated Companies

Investment in associated companies consists of the following, at December 31, 2022:

New England Hydro-Transmission (NEH & NHH)	$ 308,113
Energy New England	619,567
Black Rock Funding - Saddleback Ridge	48,838
Total	$ 976,518

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, 2022 is based on ENE's capital, retained earnings, and the net profit from April 2019 through December of 2022.

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.

8. Leases Receivable

In calendar year 2022, the Department adopted GASB Statement No. 87, *Leases*. This statement requires the recording of a lease receivable asset and a deferred inflow of resources by the lessor (the Department) in the case of a lease which does not transfer ownership of the leased asset.

As of December 31, 2022, the Department's receivable, and deferred inflow of resources for lease payments was $2,616,938. The Department recognized lease revenue of $275,811 in calendar year 2022. These leases are summarized as follows:

Light Tower Fiber LLC – The Department 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 2031. These lease agreements include an extension clause for 5 three-year renewal term, that is expected to be exercised for each individual agreement.

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9. Capital Assets

The following is a summary of the year ended December 31, 2022 activity in capital assets (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Structures and improvements	$ 21,101	$ 66	$ -	$ 21,167
Equipment and furnishings	37,021	773	(102)	37,692
Infrastructure	111,846	5,582	(428)	117,000
Total capital assets, being depreciated	169,968	6,421	(530)	175,859
Less accumulated depreciation for:				
Structures and improvements	(11,914)	(566)	-	(12,480)
Equipment and furnishings	(24,887)	(941)	102	(25,726)
Infrastructure	(48,401)	(3,592)	395	(51,598)
Total accumulated depreciation	(85,202)	(5,099)	497	(89,804)
Total capital assets, being depreciated, net	84,766	1,322	(33)	86,055
Capital assets, not being depreciated:				
Land	1,266	4,009	-	5,275
Construction in progress	274	381	-	655
Total capital assets, not being depreciated	1,266	4,390	-	5,930
Capital assets, net	$ 86,032	$ 5,712	$ (33)	$ 91,985

10. 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.

11. Accounts Payable

Accounts payable represent 2022 expenses that were paid after December 31, 2022.

12. Accrued Liabilities

Accrued liabilities consist of the following at December 31, 2022:

Accrued payroll	$	632,190
Accrued sales tax		87,084
Total	$	719,274

13. Customer Deposits

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

14. Contributions in Aid of Construction

The application of ASC 980 results in certain revenues and expenses being removed from the Statement of Revenues, Expenses and Changes in Fund Net Position and reflected in the Statement of Net Position as contributions in aid of construction. The revenues that have been removed from the Statement of Revenues, Expenses, and Changes in Fund Net Position and added to the Statement of Net Position are the Department's contributions in aid of construction. These deferred inflows will be amortized over the life of the corresponding capital assets.

15. Accrued Employee Compensated Absences

Department employees are granted sick leave in varying amounts. Upon retirement, normal termination, or death, employees are compensated for unused sick leave (subject to certain limitations) at their then current rates of pay.

16. Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended December 31, 2022, the following changes occurred in long-term liabilities (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Net pension liability	$ 11,954	$ -	$ (6,595)	$ 5,359	$ -	$ 5,359
Net OPEB liability	4,159	110	-	4,269	-	4,269
Compensated absences	1,955	-	(554)	1,401	(116)	1,285
Totals	$ 18,068	$ 110	$ (7,149)	$ 11,029	$ (116)	$ 10,913

17. 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 are related to pension and OPEB, in accordance with GASB Statements No. 69 and 75, 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 calendar year 2022 and are offset with leases receivable.

18. 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 the employees' retirement funds.

Plan Description

Substantially all employees of the Department are members of the Town of 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. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, as well as contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports, which are publicly available from the System's administrative offices located at 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 the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of $30,000 per year. The percentages are as follows:

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

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

Participant Retirement Benefits

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

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

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

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

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

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

Methods of Payment

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

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds

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

Employer Contributions

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

The Department's contribution to the System for the year ended December 31, 2022 was $2,352,753 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 System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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

At December 31, 2022, the Department reported a liability of $5,358,701 for its proportionate share of the System's net pension liability. The net pension liability was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2021. 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, 2021, the Department's proportion was 26.56%.

For the year ended December 31, 2022, the Department recognized pension expense of $276,705 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	$ 779,777	$ 79,309
Changes of assumptions	1,834,560	374,897
Net difference between projected and actual investment earnings on pension plan	-	5,953,442
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	545,285
Contributions subsequent to the measurement date	2,352,753	-
Total	$ 4,967,090	$ 6,952,933

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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as increases (decreases) in pension expense as follows:

Year ended December 31:		
2023		$ (614,787)
2024		(1,572,398)
2025		(1,079,283)
2026		(1,067,375)
2027		(4,753)
	Total	$ (4,338,596)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2021 using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2021
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Investment rate of return	7.00%, 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.

Target Allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2021 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-term Expected Rates of Return
Global equity	38.00%	4.22%
Core Fixed income	15.00%	0.70%
Private equity	15.00%	7.70%
Portfolio completion	10.00%	3.00%
Real estate	10.00%	3.60%
Value-added fixed income	8.00%	4.00%
Timberland	4.00%	4.20%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
$11,893,214	$ 5,358,701	$ (173,793)

Pension Plan Fiduciary Net Position

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

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of 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*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of December 31, 2022.

General Information about the OPEB Plan

Plan Description

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

Benefits Provided

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

Funding Policy

The Department'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 June 30, 2022 (actuarial valuation date), the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	103
Active employees	47
Total	150

Investments

The OPEB trust fund assets consist of investments with the State Retiree Benefit Trust Fund (SRBTF) in the Pension Reserves Investment Trust (PRIT).

For the year ended December 31, 2022, 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.

Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of June 30, 0222, 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: 7.00% decreasing by 0.25% for 10 years 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

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of June 30, 2022.

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 June 30, 2022 are summarized in the following table.

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Domestic equity	22.00%	6.11%
Core fixed income	15.00%	0.38%
Private equity	15.00%	9.93%
International developed markets equity	11.50%	6.49%
Real estate	10.00%	3.72%
Hedge fund, GTAA, risk parity	10.00%	2.63%
High yield fixed income	8.00%	2.48%
International emerging markets equity	4.50%	8.12%
Timber	4.00%	3.44%
Total	100.00%	

Contributions

In addition to the implicit subsidy contribution, the Department's policy is to contribute the actuarial determined contributions.

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, 2022, were as follows:

Total OPEB liability	$ 9,046,167
Plan fiduciary net position	4,777,078
Net OPEB liability	$ 4,269,089
Plan fiduciary net position as a percentage of the total OPEB liability	52.81%

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

Changes in the Net OPEB Liability

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

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	$ 9,242,982	$ 5,084,284	$ 4,158,698
Changes for the year:			
Service cost	281,106	-	281,106
Interest	646,679	-	646,679
Contributions - employer	-	855,547	(855,547)
Net investment income	-	(581,293)	581,293
Changes of benefit terms	11,777	-	11,777
Differences between expected and actual experience	(53,878)	-	(53,878)
Changes in assumptions or other inputs	(501,039)	-	(501,039)
Benefit payments	(581,460)	(581,460)	-
Net Changes	(196,815)	(307,206)	110,391
Balances, end of year	$ 9,046,167	$ 4,777,078	$ 4,269,089

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%)
$ 5,287,339	$ 4,269,089	$ 3,413,194

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 (6.00%)	Current Healthcare Cost Trend Rates (7.00%)	1% Increase (8.00%)
$ 3,317,467	$ 4,269,089	$ 5,414,258

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

For the year ended December 31, 2022, the Department recognized an OPEB expense of $569,031. At December 31, 2022, 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	$ 148,268	$ 35,918
Changes in assumptions	-	820,468
Net difference between projected and actual earnings on OPEB investment	998,029	-
Total	$ 1,146,297	$ 856,386

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

Year Ended December 31:		
2023	$	(40,396)
2024		(78,900)
2025		219,850
2026		189,357
Total	$	289,911

20. 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.

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, 2022 and 2021, respectively are listed in the table below.

		Years Ended			
Projects	Percentage Share	Total Capital Expenditures 2022	Total Capital Expenditures 2021	Capacity, Fuel & Transmission Billed 2022	Capacity, Fuel & Transmission Billed 2021
Stony Brook Peaking Project	19.5163%	$ 12,091,392	$ 12,088,787	$ 1,045,900	$ 778,875
Stony Brook Intermediate Project	15.9249%	29,176,852	29,170,553	3,670,187	2,320,014
Nuclear Mix No. 1-Seabrook	14.7191%	1,525,857	1,513,418	70,580	63,124
Nuclear Mix No. 1-Millstone	14.7191%	9,404,582	9,169,163	874,493	978,120
Nuclear Project No. 3-Millstone	5.2617%	8,141,098	7,973,312	621,229	696,645
Nuclear Project No. 4-Seabrook	12.5560%	38,451,668	38,169,208	1,584,513	1,438,529
Nuclear Project No. 5-Seabrook	6.1186%	5,068,413	5,033,573	200,217	180,368
		$ 103,859,862	$ 103,118,014	$ 8,067,119	$ 6,455,675

21. Non-Carbon Certificates

In April of 2021, 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.

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.

Information regarding the Department's year ending December 31, 2022 non-carbon certificate balances is as follows:

Non-Carbon Certificates Holdings at December 31, 2022

	Projected Certificates	Estimated Value
MA Class I	22,435	$ 818,878
CT Class 1	1,645	60,043
RI Class 1	2,345	56,280
MA Class 2	981	28,449
CT Class 2	5,555	136,098
ME Class 2	10,985	107,104
VT Tier 1	380	2,660
EFECs	85,287	170,574
Total	129,613	$ 1,380,086

Currently, there is no formal accounting guidance under GAAP for non-carbon certificates, including renewable energy certificates. The Department's non-carbon certificates holdings at December 31, 2022 are not recognized as an asset in the Statement of Net Position.

22. Subsequent Events

Management has evaluated subsequent events through ______ 2023, which is the date the financial statements were available to be issued.

23. Change in Accounting Principle

During calendar year 2022, the Department adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. This statement enhances the relevance and consistency of information of the Department's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. See Note 5 for further details.

24. Commitments and Contingencies

COVID-19

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

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.

25. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (P3s and APAs), and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), effective for the Town beginning with its fiscal year June 30, 2023. These statements establish new reporting and disclosure requirements for P3s, APAs, and SBITAs. Management is currently evaluating the impact of implementing these GASB pronouncements.

DRAFT 6.8.2023

TOWN OF READING, MASSACHUSETTS
READING MUNICIPAL LIGHT DEPARTMENT
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability

December 31, 2022
(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, 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 Auditor's Report.

DRAFT 6.8.2023

TOWN OF READING, MASSACHUSETTS
READING MUNICIPAL LIGHT DEPARTMENT
Required Supplementary Information
Schedule of Pension Contributions

December 31, 2022
(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, 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 Auditor's Report.

DRAFT 6.8.2023

TOWN OF READING, MASSACHUSETTS
READING MUNICIPAL LIGHT DEPARTMENT
Required Supplementary Information
Other Post-Employment Benefits (OPEB)
Schedule of Changes in the Net OPEB Liability

(Unaudited)

	2022	2021	2020	2019	2018	2017
Total OPEB Liability						
Service cost	$ 281,106	$ 346,715	$ 336,113	$ 245,905	$ 238,384	$ 230,880
Interest	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	(501,039)	(972,882)	-	(252,156)	-	-
Benefit payments, including refunds of member contributions	(581,460)	(549,629)	(655,233)	(577,471)	(552,351)	(504,917)
Net change in total OPEB liability	(196,815)	(2,431,780)	492,617	476,255	452,572	459,243
Total OPEB liability - beginning	9,242,982	11,674,762	11,182,145	10,705,890	10,253,318	9,794,075
Total OPEB liability - ending (a)	9,046,167	9,242,982	11,674,762	11,182,145	10,705,890	10,253,318
Plan Fiduciary Net Position						
Contributions - employer	855,547	937,222	1,042,087	1,012,408	1,159,476	813,663
Net investment income	(581,293)	188,435	33,826	90,920	75,522	35,045
Benefit payments, including refunds of member contributions	(581,460)	(549,629)	(655,233)	(577,471)	(552,351)	(504,917)
Net change in plan fiduciary net position	(307,206)	576,028	420,680	525,857	682,647	343,791
Plan fiduciary net position - beginning	5,084,284	4,508,256	4,087,576	3,561,719	2,879,072	2,535,281
Plan fiduciary net position - ending (b)	4,777,078	5,084,284	4,508,256	4,087,576	3,561,719	2,879,072
Net OPEB liability - ending (a-b)	$ 4,269,089	$ 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 Auditor's Report.

DRAFT 6.8.2023

TOWN OF READING, MASSACHUSETTS
READING MUNICIPAL LIGHT DEPARTMENT

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

(Unaudited)

	2022	2021	2020	2019	2018	2017
Schedule of Net OPEB Liability						
Total OPEB liability	$ 9,046,167	$ 9,242,982	11,674,762	$ 11,182,145	$ 10,705,890	$ 10,253,318
Plan fiduciary net position	4,777,078	5,084,284	4,508,256	4,087,576	3,561,719	2,879,072
Net OPEB liability	$ 4,269,089	$ 4,158,698	7,166,506	$ 7,094,569	$ 7,144,171	$ 7,374,246
Plan fiduciary net position as a percentage of the total OPEB liability	52.81%	55.01%	38.62%	36.55%	33.27%	28.08%
Covered employee payroll	$ unavailable	$ unavailable	unavailable	unavailable	$ unavailable	unavailable
Participating employer net OPEB liability (asset) as a percentage of covered employee payroll	$ unavailable	$ unavailable	unavailable	unavailable	$ unavailable	unavailable

	2022	2021	2020	2019	2018	2017
Schedule of Contributions						
Actuarially determined contribution	$ 954,088	$ 848,942	1,136,780	$ 1,146,987	$ 991,048	$ 932,387
Contributions in relation to the actuarially determined contribution	855,547	937,222	1,042,087	1,012,408	1,159,476	813,663
Contribution deficiency (excess)	$ 98,541	$ (88,280)	94,693	$ 134,579	$ (168,428)	$ 118,724

	2022	2021	2020	2019	2018	2017
Schedule of Investment Returns						
Annual money weighted rate of return, net of investment expense	unavailable	unavailable	unavailable	unavailable	unavailable	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 Auditor's Report.

ATTACHMENT 2

APPROVAL OF MEETING MINUTES

November 9, 2017

November 29, 2018

May 23, 2019

July 16, 2020

May 19, 2021

May 23, 2022

Town of Reading
Meeting Minutes

2016-09-22 LAG

Board - Committee - Commission - Council:

RMLD Audit Committee

Date: 2017-11-09 Time: 6:30 PM

Building: Reading Municipal Light Building Location: General Managers Conference Room

Address: 230 Ash Street Session:

Purpose: Review 2017 Audit Findings Version: Draft

Attendees: **Members - Present:**

Philip B. Pacino, Chair, Audit Committee Chair; Dave Hennessy, Vice Chair, Secretary Pro Tem; Tom O'Rourke, Commissioner, Audit Committee Member; John Stempeck, Commissioner;

Members - Not Present:

Dave Talbot, Commissioner

Others Present:

RMLD Staff: Coleen O'Brien, General Manager; Hamid Jaffari, Director of Engineering and Operations; William Seldon, Assistant Director of Integrated Resources; Wendy Markiewicz, Director of Business/Finance.

Town Audit Committee Members: Peter Lydecker, Finance Committee; Stephen Herrick, Selectmen; Jeanne Borawski, School Committee; Philip B. Pacino, RMLD

Guests: Frank Biron, Melanson Heath & PC, Zackary Fentross, Melanson Heath & PC

Minutes Respectfully Submitted By: Philip B. Pacino, Audit Committee Chair

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Topics of Discussion:

Call Meeting to Order
Chair Pacino called the meeting to order.

Ms. Markiewicz introduced Zack Fentross, the Audit Manager in charge of the audit this year and Frank Biron, partner in charge of the audit. Everyone at the table introduced themselves.

June 30, 2017 Audit Findings with Melanson, Heath & Company, PC and the Town of Reading's Audit Committee (Attachment)
Mr. Biron explained that this year's financials were delayed because the actuaries now need to wait until after the Town's books are closed to complete their work. This is due to Governmental Accounting Standards Board (GASB) Statement 74, which applies to the accounting of other post-employment benefits (OPEB).

Mr. Biron stated that the independent auditor's report issued the RMLD a clean opinion. This is the best opinion that you can receive in an independent audit.

Mr. Biron explained that the statement of net position, referred to as a balance sheet in the commercial world, has some changes from last year due to a new accounting standard. RMLD has its own pension trust fund; it's about $5.5 million that is set aside in a restricted cash account. In the past, as participants in the Town's contributory retirement system, RMLD would get a proportionate share of the overall liability of the Town's pension system. But then that $5.5 million would be subtracted from RMLD's liability to arrive at a lesser amount. GASB addressed the question, how do you handle situations when there is a separate pension reserve? Their response was that you do not use that to reduce liability, nor do you report it in a separate fiduciary fund. The net pension now includes the $5.5 million.

Mr. Stempeck asked if this was done for transparency reasons?

Mr. Biron explained it had more to do with how funds are transferred and paid out. Mr. Biron then stated that next year GASB 75 will require the liability from other post-employment benefits (OPEB) be reported on RMLD's financial statements. Mr. Biron explained the overall OPEB liability for the Department is $10 million, but the Department has $3 million set aside in a trust fund. In this situation, you get to subtract that trust fund, so the liability will show next year as $7 million.

June 30, 2017 Audit Findings with Melanson, Heath & Company, PC and the Town of Reading's Audit Committee (Attachment)
Chair Pacino stated we've known about this for a long time.

Mr. Stempeck asked if that will change the discount interest rate?

Mr. Biron answered that since RMLD has $3 million of the $10 million funded, the likelihood is that the discount rate that the actuaries use is based on the investment rate of return. When the actuaries did the evaluation for OPEB, they used a discount rate of 7.5 percent. That's something RMLD is going to want to address: RMLD doesn't want money sitting, earning less than one percent, while actuaries assume it's going to be earning seven and a half percent.

Ms. Borawski asked how the $3 million set aside to address the liability stacks up to similar municipal utilities. Mr. Fentross answered that, as of June 30th, 28.5 percent was funded. Compared to other towns, RMLD is in a significantly better position and is on par with other municipal light departments.

Vice Chair Hennessy asked if it should be 100 percent funded. Mr. Biron replied that 100 percent would be the goal, but this is such a new issue that most municipalities, cities, and towns don't have money. Because of the new accounting standards this is out in the open now and raising discussions.

Mr. Stempeck stated that every corporation is having the same issue. Vice Chair Hennessy clarified that no one is 100 percent funded? Mr. Stempeck said that it's rare, and it fluctuates with the interest rate. Mr. Biron added that its similar to pension liability; it is actuarily determined based on a discount rate and based on what the actual returns are.

Mr. Stempeck asked how RMLD can get its investment dollars higher? Mr. Biron answered that RMLD could pool funds at the statewide level and Mr. Fentross added that some of the municipal light departments in the Commonwealth use MMWEC to invest.

Mr. Biron stated that the Department is in a very strong financial position and in a better position than it was a year ago. The cash balance is $15.5 million, which is two months' worth of cash requirements. Receivables are $8.7 million. Seventy percent of that is an accrual of unbilled services provided through June 30th. The rest is for billed and almost all of that is current. The Department does a very good job of managing receivables. Restricted cash totals $26.4 million and restricted investments total $2.6 million. Capital assets were $70.9 million last year and $74.8 million this year. This represents capital asset additions of about $8 million and a $4 million depreciation expense. The Department consistently invests in its capital needs without bonding and uses its own reserves to fund capital additions; the Department has no debt.

The Town's contributory retirement system is about 73 percent funded. This is better than most retirement systems in Massachusetts, which are in the 55-60 percent funded range.

Vice Chair Hennessy asked why is it not a problem it isn't 100 percent? Mr. Biron answered because all contributory retirement systems in Massachusetts are on a funding schedule. It was on pay as you go, but then changed to an actuary schedule, but towns were given time to get there. Ms. Markiewicz stated she believes until 2028.

Mr. Biron then moved on to the statement of revenues and change in position, otherwise known as the income statement. It is comparable to the prior year. Operating expenses were $14.3 million, which was an increase over the prior year of $12.9 million, because of the $1.2 million pension adjustment. The change in net position was $4.4 million. For a business, that would be the net income for the year.

Mr. Biron explained that the Massachusetts Department of Public Utilities (DPU) places limitations on the amount of net income. Maximum return on capital is 8 percent of fixed assets. Ms. Markiewicz stated that she had done the necessary calculations and 7.3 percent.

June 30, 2017 Audit Findings with Melanson, Heath & Company, PC and the Town of Reading's Audit Committee (Attachment)

Mr. Biron asked Mr. Fentross to comment on the condition of the accounting records-Mr. Fentross stated that RMLD was well-prepared for audit. Seventy percent of clients get management letters and RMLD did not receive any. That's a great indication that things are taken seriously and that controls are in place.

Ms. Markiewicz thanked Mr. Fentross for his diligence on obtaining the OPEB report.

Mr. Herrick asked the auditors if they recommend getting more aggressive? Mr. Biron replied yes, if the actuaries are using 7.5 percent, you should try to achieve 7.5 percent.

Ms. Borawski stated that two months' worth of cash feels low. Mr. Biron explained that it's consistently there and doesn't fluctuate. The Department also has a lot of reserve cash if needed.

Chair Pacino made a motion, seconded by Mr. Lydecker, that the Reading Audit Committee accept the Audit Report as presented, and recommend that the Board of Commissioners accept it also.
Motion Approved: 4:0:0.

Mr. O'Rourke made a motion, seconded by Chair Pacino, to accept the RMLD Audit Committee accept the Audit Report as presented, and recommend that the Board of Commissioners accept it also.
Motion Approved: 2:0:0.

Motion to Adjourn
Chair Pacino made a motion to adjourn.
Motion Approved: 4:0:0.
Motion Approved: 2:0:0.

Town of Reading
Meeting Minutes

2016-09-22 LAG

Board - Committee - Commission - Council:

RMLD Board of Commissioners

Date: 2018-11-29 Time: 06:00 PM

Building: Reading Municipal Light Building Location: General Managers Conference Room

Address: 230 Ash Street Session: Joint Meeting

Purpose: RMLD Audit Version: Final

Attendees: **Members - Present:**

David Hennessy, Chair; David Talbot, Vice Chair; John Stempeck, Commissioner; Tom O'Rourke, Commissioner; Philip B. Pacino, Commissioner

Members - Not Present:

Others Present:

Town of Reading Audit Committee: Eric Burkhart, Financial Committee; Nicholas Bolvin, School Committee; Elaine Webb, School Committee; Stephen Herrick, Select Board; Mark Dockser, Financial Committee.

RMLD Staff: Coleen O'Brien, General Manager; Hamid Jaffari, Director of Engineering and Operations; Charles Underhill, Director of Integrated Resources; Wendy Markiewicz, Director of Business, Finance, and Technology; Tracy Schultz, Executive Assistant

Melanson & Heath: Zackary Fentross

Town of Reading: Vanessa Alvarado, Select Board Andy Friedmann, Select Board

KP Law: Christopher Pollart, Attorney

Minutes Respectfully Submitted By: Philip B. Pacino

Topics of Discussion:

Call Meeting to Order
The meeting was called to order. All present introduced themselves.

Review June 30, 2018 Audit Findings with Melanson, Heath & Company, PC and the Town of Reading's Audit Committee (Attachment)
Mr. Fentross began to review the RMLD's FY 2018 financial statements. Mr. Fentross explained that the financial statements are not final because Government Accounting Standards Board (GASB) Statement 74 information is not included - highlighted in yellow in the report. Mr. Fentross explained that the financial statements are normally presented in a comparative format. Due to the implementation of GASB Statement 75 that is not the case this year. Mr. Fentross stated that **Review June 30, 2018 Audit Findings with**

Melanson, Heath & Company, PC and the Town of Reading's Audit Committee (Attachment)

RMLD received a clean opinion, meaning there are no exceptions, and is the same opinion that RMLD has received in the past. It is the best opinion that can be received from an independent auditing firm. Mr. Fentross directed the group's attention to RMLD's Statement of Net Position. The 2018 pension trust and enterprise fund are consolidated and presented in one column.

Mr. Fentross stated that under "Capital Assets" the Net Accumulated Depreciation has a balance of $76 million. This is a $2.1 million increase and represents the Department's investments in capital assets. The major capital item was the completion of the LED streetlight project. Mr. Fentross then reviewed non-current liabilities and explained that the net pension liability has a balance of $10 million which represents RMLD's portion of the unfunded liability of the Reading Contributory Retirement System. RMLD's portion of the unfunded liability is about 29 percent. RMLD has an additional $5.7 million set aside. Despite the money set aside, Accounting Standards state that the liability cannot be reduced on the financial statement. So, technically the statement shows about $10 million but the $5.7 million that has been set aside brings the amount down to about $5.1 million. Liability decreased by about $2.3 million compared to the prior year due to strong investment results of the Reading Contributory Retirement System in CY 2017. In CY17 the Reading Contributory Retirement System received $11.7 million in investment results greater than what was anticipated. The Reading Contributory Retirement System is currently funded at about 79 percent. The net Other Post-Employment Benefits (OPEB) is the liability area affected by the implementation of GASB Standard 75. That resulted in a $7 million increase from the prior year. In the past this line item was presented in accordance with GASB Statement 45 and was recognized over a thirty-year period. Statement 75, which is being implemented by all municipalities in 2018, no longer recognizes the liability over 30 years: it is recognized in full. RMLD has always been aware of the total liability, but now it is brought to the front of the financial statements.

Mr. Fentross then discussed the Schedule of Net OPEB Liability Contributions and Investment Returns. The 2018 column is highlighted in yellow because that information is not available yet. Mr. Fentross discussed 2017's numbers. Mr. Dockser asked if the schedule of contributions is on track. Mr. Fentross affirmed. Mr. Fentross then discussed the Statement of Fiduciary Net Position and explained that it's where the other post-employment trust fund is presented in the financial statements. As of June 30, 2018, the balance is $3,519,000. Mr. Fentross explained that it's in cash and short-term investments. Mr. Fentross clarified that he is not telling RMLD what to invest in. Mr. Fentross explained the actuaries are using a 7.5 percent investment rate of return and a short-term investment returning 7.5 percent is unlikely. Recommendation to consider changing the investments or changing the discount rate to reflect what is going on with the OPEB trust fund. Mr. Herrick asked about how the OPEB liability is determined, which Mr. Fentross explained.

Mr. Fentross stated that the OPEB trust fund for RMLD currently has $1.9 million sitting in MMDT, $1.5 million in a CD with the Northern Bank Trust Company and $64,000 sitting in money market. Mr. Fentross explained that the investments of $3.5 million only earned $55,517, which is low. Ms. Markiewicz clarified that the investments are determined by the Town of Reading, who invests the funds for RMLD. Ms. Markiewicz stated that the 7.5 percent, which comes from the actuary, is also determined by the Town of Reading; RMLD is not part of that decision-making process. Mr. Fentross stated that there are no big swings. Costs for current employee benefits pay-as-you-go expenses are incurred as operating expenses. Discussion followed as when is the tipping point of fully covered self-supporting funds. Mr. Fentross stated it is a management decision - two items highlighted tell what pay-as-you-go transfer and how much.

Mr. Pacino clarified that if money is put aside it can cover maybe 20 years. Mr. Fentross said that the actuary never coming to a zero-balance fund will never run out of money, it creates a fully funded date in 15 years.

Mr. O'Rourke commented about changing the investment profile, is it an action item for the committee? Mr. Pacino said that the committee would like to give that instruction to the commission. Mr. Stempeck said that must be assessed with the risk. Ms. Webb said that the committee should go back to the town to adjust the rate.

Review June 30, 2018 Audit Findings with Melanson, Heath & Company, PC and the Town of Reading's Audit Committee (Attachment)

Mr. Dockser added that the discussion should be balance change asset classes. Mr. Stempeck questioned the 7.5 percent. Mr. Fentross said that 7.5 percent is the average for the actuarial assumptions.

Mr. Herrick clarified there are restrictions on the way monies are invested. Mr. Fentross responded, yes. Ms. Webb said that the restrictions forcing more conservative investments.

Mr. Dockser commented that the net effect is that it drives the funding liability and requirements through the roof.

Mr. Stempeck added that it is a function of how much risk you want, however, it is worth reviewing. Mr. Pacino said the sense of the committee is to look at some evaluation of actuarial recommendations with no motion. A discussion of the CD with a little more aggressive actual rate of return. Discussion then addressed the investments fees assessed to be checked with the Town of Reading.

Mr. Stempeck asked who would provide information on the funds form a historical perspective with the asset classes. Mr. Fentross suggested that Retirement Board may be able to provide that information as well.

Discussion followed on using the OPEB funds as a funding mechanism. Attorney Pollart stated that relative to the OPEB funds he would have to look into it. The idea of the Light Department lending money to the Town, he does not think that you can do it with above the line maybe below-the-line he will have to investigate this.

Ms. Markiewicz said that RMLD has no control of cash. Ms. Markiewicz stated that a couple of years ago RMLD performed a power supply audit, which is RMLD's big ticket item. Mr. Talbot suggested performing it regularly where it is a large portion of the budget.

There will be two audits this year due to the transitioning from fiscal year to calendar year. Ms. Markiewicz said that it with power suppliers it will work better with the calendar year as well as for better budget processes.

Mr. Fentross said that there is no management letter this year and has not been one for a number of years, it demonstrates Mses. O'Brien and Markiewicz commitment to internal controls they take it very seriously which they do a great job on.

Discussion followed on RMLD compared to other electric municipalities. Mr. Fentross pointed out to ensure that there are appropriate funds on hand to cover expenses. The unrestricted cash and receivables are $23 million then taken out are accounts payable $5.3 million, the result, $17 million. Take three months' operating expenses $91 million divided by, twelve, months multiplied by 3 equals $22.8 million. RMLD has about 2.3 months of assets on hand. We recommend three but 2.3 is above average compared to other municipalities.

Ms. Markiewicz said that if an invoice is not process immediately, there is a problem with the thirty-day parameters due to the two-week lag time in processing. RMLD's vendors are aware of the process, so RMLD will not incur penalties with exception of power supply. Power supply there is a two percent penalty if late more than twice annually. The penalty can be $600,000 to $2 million on any given wire. RMLD pays it power supply by wires. Ms. Markiewicz explained the wire process utilized for the power supply.

Ms. Markiewicz reported that with the auto-debit there was a slip-up, not enough money in account several months ago on a transition. They met with the Town Manager to discuss this. A suggestion was made to look at the process. Ms. Markiewicz said that they have met on this over the last couple of years. They have met with the Ms. Angstrom and Mr. Kume as well.

Mr. Pacino made a motion seconded by Ms. Webb that the Town of Reading Audit Committee accept the Audit Report as presented.
Motion carried 4:0:0.

Mr. Pacino made a motion, seconded by Mr. Stempeck that the RMLD Board of Commissioners Audit Committee recommends to the RMLD Board of Commissioners to accept the Audit Report as presented.
Motion carried 2:0:0.

Mr. Fentross thanked Mses. Markiewicz and O'Brien for everything they do. The records were ready the first week of August. Ms. Markiewicz said that the Melanson team is a big help as well as staff at RMLD.

Mr. Dockser asked about the capital assets which are up $2.1 million how is that compared to other utilities. Mr. Fentross said that he will get that information and provide it to Ms. Markiewicz. Mr. Dockser commented relative to the December close - the GASB 75 comparatives Mr. Fentross said that the information on the December report will be the same presented here. Mr. Fentross suggested showing comparatives for December 31, 2019.

Discussion then addressed the Town of Reading audit. The three items that have been asked, for are the discount rate why is 7.5% utilized, benchmarking other community's asset mixes asset set class allocation, fees associated with each asset class – management fees for the funds.

Ms. O'Brien clarified that should Attorney Pollart look at borrowing any other funds other than the pension. There was agreement.

Mr. Hennessy clarified that the three-months of cash on hand is the standard per Mr. Fentross, how is that determined. Mr. Fentross explained that it is the municipal industry standard.

Discussion then addressed if hypothetically there was a system failure, funding undertakings. Ms. O'Brien responded that she and Mr. Jaffari perform single failure analysis and substation failure analysis. They also consult with Ms. Markiewicz to ensure there is enough cash on hand but RMLD does not have a separate contingency fund. To keep the power going in a system failure would require getting mobile units in place to assist in the restoration of power.

Ms. O'Brien added that she and Mr. Jaffari conducted a thorough engineering analysis of all RMLD substations. If you look at RMLD's capital plan, is laid out in a six-year plan which shows maintenance it is very transparent. We are proceeding at an expedited pace to get maintenance up to where it needs to be. We have fixed the substations to sustain the RMLD. The reliability is excellent therefore the maintenance items are in the capital plan. If there any questions, please reach out to Ms. O'Brien on any of the capital projects.

Mr. Dockser asked if there is utility software to help with maintenance and scheduling. The Town of Reading has added software that has successfully changed the maintenance programs and systems. Ms. O'Brien said that RMLD do have systems in place.

Mr. Jaffari explained that a study for transformers 25 years and older was performed in 2015 as part of a reliability study performed by Booth (an outside consultant). Based on the findings that represents $9 million in assets need to be addressed. In the next three years, it will be required. In addition, meter replacement is necessary for the outage management system with a cost of $2 million. Mr. Jaffari reported that $1 million was spent cleaning up leaking transformers which they are trying to decrease this with the improved maintenance.

Motion to Adjourn
At 7:16 p.m. Mr. Pacino made a motion seconded by Mr. Stempeck to adjourn the meeting. **Motion carried 2:0:0**.

Town of Reading
Meeting Minutes

2016-09-22 LAG

Board - Committee - Commission - Council:

RMLD Board of Commissioners

Date: 2019-05-23 Time: 06:00 PM

Building: Reading Municipal Light Building Location: General Managers Conference Room

Address: 230 Ash Street Session: Open Session

Purpose: General Business Version: Draft

Attendees: **Members - Present:**

Philip B. Pacino, Commissioner, Thomas O'Rourke, Commissioner;

Members - Not Present:

Others Present:

RMLD Staff: Coleen O'Brien, General Manager; Wendy Markiewicz, Director of Business, Finance and Utility Technology; Tracy Schultz, Executive Assistant

Melanson Heath & P.C.: Zackary Fentross, CPA

Town of Reading: Mark Dockser, Audit Committee, Stephen Herrick, Audit Committee, Eric Burkhart, Finance Committee

Minutes Respectfully Submitted By: Philip B. Pacino, Chair

Topics of Discussion:

Call Meeting to Order
Mr. Pacino called the meeting to order.

Review December 31, 2018 Audit Findings with Melanson, Heath & Company, PC and the Town of Reading's Audit Committee (Attachment)
Mr. Fentross, from Melanson & Heath, introduced himself and explained his firm conducted a six-month audit for the period ending December 31, 2018. Mr. Fentross stated that the Financial Statements for light departments are typically presented on a comparative basis however, not this year because the Income Statement Revenues and Expenses are only reflective for a six-month period. In December 2020, the audit will be presented on a comparative basis when there are two full years to present.

Mr. Dockser clarified this audit is it for the second six months? Mr. Fentross replied that this is the first and only six-month audit. Mr. Fentross explained that the last audit was July 1, 2017 to June 30, 2018. This audit is from July 1, 2018 to December 31, 2018.

Ms. O’Brien pointed out that from a kilowatt sales standpoint, the audit ending on June 30, 2018 will reflect different sales, due to more air conditioning, peak and cooling days, it will not be an even split. Mr. Fentross added that you will see swings due to the six-month timeframe and he will provide illustrative examples. Mr. Burkhart asked are there particular issues that may be highlighted in the audit presentation whereas, not having a comparable is odd. Mr. Fentross stated that the differences will be pointed out throughout his presentation.

Mr. Fentross stated that the RMLD had positive operating results and a well-funded Other Post-Employment Benefits (OPEB) Trust Fund. The audit did not result in a Management Letter.

The Department received a clean opinion, which is the best opinion that can be received from an independent auditing firm. It is the same opinion that the Department has received in prior years.

Mr. Fentross then discussed the Statement of Net Position. The asset and liability figures from December 31 to June 30, for the most part, comparable. The number with the biggest difference between June 30 and December 31 is Unrestricted Cash and Short-Term investments $20,832,000 representing a $8.4 million increase compared to June 30. Mr. Fentross explained that (this in part due to operations), the Department had a change in Net Position/Net Income of $4.9 million coupled with the timing on the Account Payables representing a $4.4 million increase from June 30. The reason this happened was due to large purchase power invoices that were not paid, due to timing.

Receivables for net of allowances for Uncollectibles, had a balance of $8,705,000 representing a $1.6 million decrease from June 30. This is primarily due to the Department's calculation for unbilled revenues. When RMLD bills go out for July or January that represents activity that occurred in the prior month. The Department has a methodology in place for the value of these bills and how they should be allocated to the prior fiscal year. In July generally speaking, there is higher revenue. July bills include a lot of air conditioning use, the revenues that the Department receives in July are typically higher than the revenues received in January.

Mr. Fentross then addressed the cash balance. Mr. Fentross explained that they looked at the Unrestricted Cash position of the $20,832,000 then add in the Receivable balance $8,705,000 then subtract the Accounts Payable of $9,718,000 comparing that to average monthly expenditures. We like to see the average of three months operating cash on hand. RMLD has about 2.5 months, cash on hand which up from June 30, 2018 the ratio was at 2.3 months, the Department is trending in the right direction towards the 3 months operating cash on hand.

Mr. Fentross then discussed Net Pension Liability, stating that it has a balance of about $10,781,000. It is the same number presented in the June 30, 2018 Financial Statements. This represents the Department's portion of the Reading Contributory Retirement System total unfunded pension liability. The Department's portion of that total unfunded liability is about 29%. The contributory retirement system is about 79% funded. The average in the Commonwealth is 70%, Reading is above average in its funding. Mr. Fentross reminded the Commissioners that the Department has set aside some funds to help fund the liability. The Pension Trust has a balance of $5,878,000. However, considering the funds set aside, the Department's true liability is about $4.9 million, the net effect of $10,781,000 less the $5,878,000.

According to accounting standards, that cannot reduce the liability that is presented, because it is not in the control of the contributory retirement system. Mr. Fentross suggested not giving the $5.9 million to the retirement system because it will not decrease the liability for the RMLD dollar for dollar. It will decrease the liability for everyone equally. He suggested to keep the funds at the RMLD. It was asked if this is common practice for other light boards to set aside their funds? Mr. Fentross replied that it is not, RMLD is the only one that he audits that has a Pension Trust.

Mr. Dockser clarified if there was a desire to raise funds such as bonding, would the bonding authority look at it that RMLD has a liability of $10.8 million, a Pension Trust of $5.8 million so it is $5 million. Mr. Fentross said that may require some clarification from management to walk the bonding company through that. Mr. Dockser commented that from a legal point of view the Pension Trust is for the pension, Mr. Fentross concurred. The liability did not change and there are two options that were discussed with management. The Department could present this liability as of December 31, 2017 and be within the accounting standards or present it as of December 31, 2018 - however, the audit and figures would not be available until the future. Mr. Fentross stated that management decided they did not want to wait therefore the numbers did not change from June 30 to December 31. With the retirement system, they are going to have to change their methodology for their valuation. They will be working on a prior valuation but are moving to a current valuation so there will be no issue moving forward. They have been in contact with the Town of Reading, its actuary, auditors, and everyone is on the same page.

Mr. Fentross then discussed the net Other Post Employment Benefits (OPEB) liability, which has a balance of $7,374,000, there was an increase of $216,000 from June 30, 2018. Mr. Fentross reported that the actuary issued a separate Governmental Accounting Standards Board Statement Numbers 74 and 75 specifically for the Department. Originally the actuaries comingled the Town of Reading and RMLD together and issued this as one report for June 30. 2018. The actuary issued a separate report for the December 31 year end. There was an increase in the net liability due to poor investment results. The assumption was the earnings on those assets sitting in the OPEB Trust Fund were expected to be $200,000 whereas $40,000 was earned. The $160,000 less than the anticipated projection resulted in the increase in that liability.

Mr. Fentross said that the Department does have a well-funded OPEB Trust Fund at 33%. Mr. O'Rourke clarified the $200,000 what was the percentage of earnings anticipated. Mr. Fentross responded, 7.5% rate of return. Mr. Fentross stated that one of the questions is why the 7.5% rate of return valuation utilized. Mr. Fentross noted that he went back over Governmental Accounting Standards Board Statement Number 74, paragraph 52 states that the discount rate should be based off current and future investment earnings. Mr. Fentross stated that they spoke with the Town of Reading, Ms. Angstrom the plan is ultimately to put those funds in with PRIT. If the funds are with PRIT the 7.5% makes sense. Using the 7.5% discount rate is in conformance with Governmental Accounting Standards Board Statement Number 74, paragraph 52. Mr. Fentross said that 7.5% makes sense to him with the expectation that the Town will be moving those funds into PRIT. Currently the funds are in a MMDT earning less than 1% with a CD the earnings would be 2.3%.

Mr. Fentross then addressed the next question is there any benchmark data available for the asset mix. Mr. Fentross performed extensive research and could not find anything. It is a fantastic question and the person to handle that question more effectively would be a financial advisor.

The final question is what was the percentage of management fees that are charged on investments. Mr. Fentross performed extensive research but could not come up with anything firm. He performed an analysis comparing it to other clients by looking at their statements, the fees are not specifically laid out how they are being calculated within the information provided to him. He would defer to an investment advisor on how those fees are being charged and calculated. It is a fantastic question, but the ultimate Board of Trustees for the OPEB Trust Fund and financial advisor would be better able to answer that question.

Mr. Dockser asked Mr. Burkhart if they should bring this to Ms. Angstrom, so she can approach the advisor, he agreed.

Mr. Fentross said that there is a Massachusetts general law that relates to OPEB Trust Funds that changed with the Massachusetts Modernization Act. It is his understanding that the RMLD Board reauthorized the OPEB Trust Fund under that Massachusetts General Law in April 2018. Part of the new requirements under the Massachusetts law is to have a formal trust document. He has been told that document is currently with legal counsel. The additional piece is that there needs to be a Board of Trustees for OPEB Trust Fund. From what he understands, the Town is looking into individuals who could be on that Trust Board.

Mr. Dockser asked for clarification relative to the Accounts Payable. Mr. Fentross replied that there was nothing done incorrectly by the Department, it was a timing issue.

Mr. Fentross then moved on to the Statement of Revenues, Expenses and Changes in Net Position. The figures presented are only for a six-month period. However, as part of the audit, the auditors doubled the six-month figures and then compared them to 12-month periods: Fiscal Year 18 and Fiscal Year 17 were comparable.

Mr. Fentross then stated that the change in Net Position has a balance of $4,891,000. There was a question because this was for a six-month period, whether the Department of Public Utilities (DPU) 8% rate of return applied for a six-month period, or should it be for 4% rate of return. He spoke with Paul Osborne, DPU Director of Rates and from the DPU's perspective 8% is fine. The $4.9 million was compared to the rate of return for the Department, it comes in below 8%.

The Statement of Fiduciary Net Position is where the OPEB Trust Fund is presented. It has a balance of $3,561,000. In 2018, the total OPEB liability was $10,705,000. However, the Department has put aside $3,561,000 towards funding that liability, which leaves a total unfunded liability of $7,144,000. It is about 33% funded, which is a strong position for the Department to be in. When comparing the OPEB liability to towns, they are generally well below 10% funded. Other light departments are anywhere between 20% to 40%, to be at 33% is a strong position for the Department. Mr. Fentross concluded by stating that the Department had positive operating results, has a well-funded OPEB Trust Fund, and there was no Management Letter.

Mr. Dockser asked about the OPEB, the schedule of contributions what is the formulation for what that contribution is going to be because it is not an actuarially determined number. Mr. Fentross said that the Department wants to fund what is actuarially determined. There was a bit of confusion in 2017 as to what was to be funded. There was a contribution excess in 2018 to cover the deficiency in 2017. Ms. Markiewicz said that we had an old actuarial report that we were using, there was not anything new. When the report was updated, the fund was higher than what was paid. This past year, RMLD funded what it missed last year. Mr. Dockser said that the goal would be what is actuarially determined. Mr. Fentross explained that the actuary determined that contributions should match what was actually contributed in full.

Mr. O'Rourke asked Mr. Fentross if there were any recommendations. Mr. Fentross responded that there is nothing to be presented in a Management Letter and there were a couple of verbal recommendations. Mr. Fentross noted that any verbal recommendations Ms. Markiewicz corrects immediately and does a great job to ensure internal controls are up to par and are operating appropriately. Ms. Markiewicz added that she is always trying to make improvements.

Mr. Pacino made a motion seconded by Mr. Dockser that the Audit Committee accept the Audit Report as presented.
Motion carried unanimously.

At this point in the meeting Mr. Herrick arrived apologized for being so late. Mr. Fentross recapped the findings presented earlier in this meeting to Mr. Herrick. Mr. Fentross added that he is not recommending to present comparative again because the figures in this report on the Net Income side are for six months therefore not comparable for a full year. Mr. Herrick asked that there will be no effort to make a representative year. Mr. Fentross said that it would not be a correct accounting approach to show the full year. The year that was audited is six months. Mr. Pacino suggested looking at the Statement of Net Positions that would be comparable. Mr. Fentross said that he will investigate it, he is not sure if it is appropriate to present it on a comparative basis and the other schedule on a non-comparative basis. If allowable will bring it to management's attention. Mr. Herrick commented that would be helpful to see that you are trying to capture the trend. Mr.

Fentross noted that in addition to the Income Statement side of the equation, essentially it was doubled up. In our audit workpapers to make sure that figures where comparable work was performed to ensure what was to be expected for a full year, they looked at 2017 and 2018. Mr. Herrick asked if there was seasonal fluctuation. Mr. Fentross replied that was a little bit of this effecting unbilled revenues. It affects the receivables as opposed to the revenues side. Bills go out in July for activities that take place in June. In July there is an increase in revenue due to the customers using a lot of air conditioners. There was a higher calculation for that Unbilled Receivable. It is generally recorded on the June 30 Financial Statements. When the Department moved to December 31, now that calculation is being billed off of January bills, but those bills do not have the air conditioning component. Those revenues were a bit less. This represents a seasonal fluctuation. It was a $1.5 million swing between them.

Mr. Fentross concluded that the Department is in a strong financial position. Positive operating results of approximately $4.9 million over the six-month period. The OPEB Trust Fund is well funded at approximately 33%, most towns in the Commonwealth of Massachusetts are below 10% comparative to other light departments that are at 25% to 40%, RMLD's is in the middle of this. There was no Management Letter.

Ms. Markiewicz added that Mr. Fentross and his team do a great job.

Mr. Fentross said that from his previous statements that Ms. Markiewicz and her team are always well prepared which makes the audit process smooth as possible and extended his thanks. The general ledger is in good working condition and Ms. Markiewicz is held in high regards for being prepared before her contemporaries. Ms. Markiewicz thanked the management staff as well.

Motion to Adjourn
Mr. Pacino made a motion seconded by Mr. O'Rourke to adjourn the meeting.
Motion carried 2:0:0.

Town of Reading
Meeting Minutes

2016-09-22 LAG

Board - Committee - Commission - Council:

Audit Committee RMLD Board of Commissioners

Date: 7-16-2020 Time: 5:30 PM

Building: Reading Municipal Light Building Location:

Address: 230 Ash Street Session: Open Session

Purpose: General Business Version: Draft

Attendees: **Members - Present:**

Philip B. Pacino, Commissioner, John Stempeck, Commissioner

Members - Not Present:

Others Present:

RMLD Staff: Coleen O'Brien, General Manager; Wendy Markiewicz, Director of Business, Finance and Utility Technology; Tracy Schultz, Executive Assistant

Melanson: Zackary Fentross, Andrew Gordon

Vivek Soni, Reading CAB Repesentative

Town of Reading: Mark Dockser, Audit Committee, Stephen Herrick, Audit Committee, Carla Nazzaro, Audit Committee, Ed Ross, Finance Committee, Shawn Brandt, School Committee

Minutes Respectfully Submitted By: Philip B. Pacino

Topics of Discussion:

Due to the pandemic and the March 12, 2020 Governor's Executive Order Suspending Certain Provisions of the Open Meeting Law, all participants attended remotely.

Call Meeting to Order
Mr. Pacino called the meeting to order.

Review Calendar Year 2019 Audit Findings with Melanson, Heath & Company, PC and the Town of Reading's Audit Committee (Attachment)
Mr. Fentross introduced himself and explained that the financial statements are not presented on a comparative basis because the prior audit was for a six-month period. This was due to RMLD moving from a fiscal year ending June 30 to a calendar year ending December 31. Comparative financials will be presented starting with the December 31, 2020 audit.

Mr. Fentross stated that the RMLD had positive operating results for calendar year 2019, a well-funded OPEB trust fund, and no management letter. RMLD received a clean opinion, which is the best opinion that can be received from an independent audit and is the same opinion that the has been received in prior years. Mr. Fentross presented the Statement of Net Position. The capital assets net of accumulated depreciation has a balance of about

$79,084,000, which is approximately a $1.8 million increase from the previous year. The increase is primarily due to **Review Calendar Year 2019 Audit Findings with Melanson, Heath & Company, PC and the Town of Reading's Audit Committee (Attachment)**
improvements in infrastructure. The Department spent $6.5 million in total capital asset additions, but that was softened by $4.5 million in depreciation expense, which results in the $1.9 million increase.

Major capital asset additions that took place in calendar year 2019 included $1.1 million for new poles and fixtures, $2 million on overhead conductors, and $1.3 million on underground conduit and devices.

Mr. Fentross then discussed non-current liabilities. The net pension liability has a balance of about $14,610,000 and represents the Department's portion (28 percent) of the total unfunded liability for the Reading Contributory Retirement System. The system as a total is at 72 percent funded. The average in the Commonwealth is 65 to 70 percent. This is a $3.8 million increase from the prior year, which is due to the retirement system's investments coming in at $13.4 million less than what was anticipated. The net OPEB liability has a balance of about $7,094,000, which is a decrease of about $280,000 compared to the prior year. RMLD has set aside funds to fund about 36 percent of that liability. This is a strong position for RMLD: most towns in the Commonwealth have only funded one to ten percent. Other light departments in Massachusetts have funded between 20 to 40 percent of that liability. Mr. Fentross reported on purchase power expenses, which has a balance of about $61,027,000. This is a decrease of about $9 million from the prior year. Electric sales under operating revenues has a balance of roughly $89,475,000. RMLD had savings on the cost of power that it purchased and passed those savings on to the customers. Mr. Fentross noted that the change in net position has a balance of approximately $4,319,000. This is essentially RMLD's net income. RMLD had strong operating results.

Mr. Pacino asked for a change to the draft Financial Statements relative to Note 22, page 39, to capture the gravity and unknown of the pandemic situation.

The Audit Committee requested Melanson to provide information on the following:

- How much debt would be a reasonable amount for an electric light department of Reading's size.
- How much debt did each of the eight utilities have, how many have them, its use, and amount of current debt?
- How many of RMLDs eight departments have no debt.
- What was the debt used for in each department?
- How often municipal light departments utilize debt?

Mr. Pacino made a motion seconded by Mr. Stempeck to approve that the Audit Report from Melanson, Calendar Year ended December 31, 2019 as presented and as amended by the Audit Committee, on the recommendation of the General Manager.
Motion carried unanimously by a roll call vote.

Motion to Adjourn
Mr. Pacino made a motion seconded by Stempeck.
Motion carried by a roll call vote 2:0:0.

Town of Reading
Meeting Minutes

2016-09-22 LAG

Board - Committee - Commission - Council:

RMLD Audit Committee

Date: 2021-05-19	Time: 5:30 PM
Building:	Location:
Address:	Session: Open Session
Purpose: Review 2022 RMLD Audit Findings	Version: Draft

Attendees: **Members - Present:**

Mr. Edward Ross, Chair, Finance Committee, Town of Reading; Mr. Shawn Brandt, School Committee, Town of Reading; Ms. Carla Nazzaro, School Committee, Town of Reading; Mr. Philip B. Pacino, Commissioner, RMLD; Mr. John Stempeck, Commissioner, RMLD.

Members - Not Present:

Mr. Eric Burkhart, Finance Committee, Town of Reading; Mr. Mark Dockser, Select Board, Town of Reading; Mr. Stephen Herrick, Select Board, Town of Reading.

Others Present:

Presenting: Mr. Zack Fentross, Melanson; Mr. Andrew Gordon, Melanson.

RMLD Staff: Ms. Coleen O'Brien, General Manager, RMLD; Ms. Wendy Markiewicz, Director of Business and Finance, RMLD; Mr. Greg Phipps, Director of Integrated Resources, RMLD; Ms. Janet Walsh, Director of Human Resources, RMLD; Ms. Kathleen Rybak, Operational Assistant to Engineering & Operations, RMLD; Ms. Erica Morse, Executive Assistant, RMLD.

Others: Mr. Christopher Haley, Select Board, Town of Reading; Ms. Sharon Angstrom, Finance Director / Town Accountant, Town of Reading; Mr. Mark Zarrow, Finance Committee, Town of Reading.

Minutes Respectfully Submitted By: Mr. Phil Pacino, Secretary Pro Team.

Topics of Discussion:

Due to the pandemic and the March 12, 2020, Governor's Executive Order Suspending the Certain Provisions of the Open Meeting Law, all participants attended remotely.

1. Call Meeting to Order
   Chair Ross called the Town of Reading Annual Audit Committee Meeting to order at 5:30PM.

   Sub Committee Chair Pacino called the RMLD Board of Commissioners Sub Committee to order at 5:35PM.

2. Opening Remarks
   Mr. Ross opened the meeting by restating the purpose and agenda: to review the RMLD 2020 Audit findings from Melanson.

3. Introductions
   Mr. Pacino initiated attendee introductions. Ms. Markiewicz welcomed the group and introduced the presenters from Melanson: Mr. Zack Fentross, Audit Manager, and Andrew Gordon, Audit Supervisor.

4. Calendar Year 2020 Audit Findings – Melanson; Town of Reading's Audit Committee
   Materials: Annual Financial Statements- December 31, 2020 (Draft, dated May 12, 2021)
   Presentation, PDF Document of Financial Report
   Audit Findings Presentation: Mr. Fentross reported that the financial statements would be presented in a comparative basis. Mr. Fentross noted that this was a result of the department moving to a December 31 year end from a June 30 year end and the implementation of GASB 74 and 75, which do not allow comparative statements. The takeaway of the 2020 Audit Findings was that the department had positive operating results; a well-funded OPEB Trust Fund; and there was no management letter. Mr. Fentross reported that RMLD received a clean opinion; the best opinion you can receive from an Independent Audit, and there are no exceptions. This opinion is consistent with prior years (*Independent Auditor Report, Pages 1-2).*

   Mr. Fentross noted that (*Management's Discussion and Analysis, Pages 3-7)* summarizes the results of operations and a few major financial areas; this section touches on the same topics found in *(Enterprise Fund-Statement of Net Position, Page 8).*

   Mr. Fentross noted that the *(Statement of Net Position, Page 8)* is essentially a balance sheet, and highlighted the assets, liabilities, and fund balance. These items were consistent from CY19 to CY20. A few items had a decent swing from CY19 to CY20: capital assets; net pension liability; net OPEB liability; electrical sales and purchase power; and intergovernmental grants*.*

   Mr. Fentross reported that the net of accumulated depreciation increased from CY19 ($2.4m). This increase was a result of additions to capital assets ($7.3m), which was softened by depreciation expense ($4.7m). Some major capital item additions in CY20 were pole and fixture distributions; overhead conductors; underground conductors and devices; and line transformers. *(Enterprise Fund-Statement of Net Position, Page 8)*

   Mr. Fentross noted that net pension liability represents the department's portion of total unfunded liability for the Reading Contributory Retirement System as of December 31, 2019 and is being presented one year in arrears (allowable per GASB standards). There was a decrease in total net pension liability in CY20 ($2.5m to $2.6m). The primary reason for the decrease is due to the Retirement System's investment results for CY20 coming in greater than anticipated in CY19 ($10.1m); RMLD's benefit was about $2.9m. RMLD's proportionate share of total unfunded liability is about 28%.

   The Reading Retirement System is funded higher (78%) than the average seen in the Commonwealth (66%). RMLD has money set aside ($6.6m) to help fund the net pension liability and make contributions to the retirement system in the future. These funds (Per GASB) cannot reduce the net pension liability. This is a strong financial position for RMLD to be in. *(Enterprise Fund-Statement of Net Position, Page 8)*

   Mr. Fentross reported that the Net OPEB liability remains relatively unchanged from CY19. This liability is actuarially determined to understand the future liability and payments that RMLD will have to make for Health Insurance. RMLD has begun to fund this liability ($7.166m; 38.62% of the Total OPEB Liability). RMLD is in a favorable position compared to Towns in the Commonwealth (average 0-10% funded) and on the higher end compared to light departments (average 20%-40%

funded). This data will be viewed favorably by users of the financial statements. *(Enterprise Fund-Statement of Net Position, Page 8), (Required Supplementary Information- OPEB Page 44)*

Mr. Fentross stated that the Net OPEB Liability is based on an actuarial valuation reported June 30, 2018. GASB 74 and GASB 75 relate to this liability; GASB 75 states that the actuarial valuation must be within 30 months and one day from the date of the financial statements, where GASB 74 states the actuarial valuation must be within 24 months from the date of the financial statements. The presentation of this liability is in accordance with the GASB 75 standards but is not with GASB 74. Mr. Fentross consulted Segal and determined that this fact would not have a material impact on the company's financial statements. From this determination, Melanson concluded that it was not necessary to qualify their opinion or wait to receive an updated valuation in accordance with those standards. After bringing this point over to Ms. Kathy Riley, Senior VP and Actuary at Segal, Melanson formed the opinion that it was a simple oversight.

Mr. Fentross recommended that a discussion take place between the town, RMLD, the actuary, and Melanson to ensure that this situation does not reoccur and to find a decision best for all parties involved. One option worth discussion is to have a separate valuation for RMLD. He recounted a conversation with Ed Boyd, Principal for the Town of Reading's Audit, and stated that Mr. Boyd supported this option, which he felt would allow for ease of financial reporting on the Town's financial statements and provide clarification. Contrarily, Mr. Fentross recounted a conversation with Ms. Riley who was unsure if that would be in the best interest given certain factors. Mr. Fentross did not want to speak for Ms. Riley further in this meeting.

Mr. Fentross reported a decrease in electric sales, net of discounts, ($2.6m) in conjunction with a decrease of purchase power ($3.7m). In CY20 there was a decrease in cost of power; the cost savings that RMLD saw as a result passed through to the customer. These factors off set each other as they resulted in both the decrease in revenue and expense. *(Statement of Revenues, Expenses, and Changes in Net Position, Page 9)*

Mr. Fentross reported that the CY20 intergovernmental grant was primarily made up of a State Grant for a battery project ($445k) and the remaining balance ($7K) was CARES federal money. The department only received a small fraction of the funds that were out there to ensure proper social distancing within the building and did not receive any additional grants besides a small balance for COVID funding. *(Statement of Revenues, Expenses, and Changes in Net Position, Page 9)*

Mr. Fentross reported that RMLD had positive cash flows from their operating activities: RMLD used their operating activities on the acquisition and construction of capital assets ($2.3m). *(Statement of Cash Flows, Page 10)*

Mr. Brandt asked about RMLD's Pension liabilities, to which Mr. Fentross clarified are actuarially determined pension liabilities derived from the Retirement System (Not the Town). Mr. Brandt asked a follow up question: In the same way that the numbers here are not strictly in compliance with GASB 74, is that also true of the Retirement System? Mr. Fentross responded that the net pension liability shown here is governed by GASB 67 and 68 and is in line with no issues.

Mr. Brandt asked a follow up question: Is it safe to assume that part of the suggestion to separate out and do an actuary valuation of RMLD is rooted in the fact that the applicable GASB rules are not consistent with one another? Mr. Fentross responded that the recommendation is to ensure that this does not happen again; there may be a year where the actuary would say that it does have a material impact and is not in line and then we (Melanson) would have to qualify our opinion. The intent is to keep the department away from having to qualify their opinion over a small item such as a 20-month difference in an actuary valuation and date of the financial statements. Ms. Markiewicz stated that RMLD has had separate valuations in the past (5-6 years ago) until it was decided to combine the valuation with the town.

Mr. Ross asked about the consistency of the financial statements; Has there ever been a time where the statements were inconsistent? Mr. Fentross responded that the statements have been consistent year after year with RMLD. The only swings that you will see year to year are the following: decrease in the cost of purchase power passed along to the customer as well as with net pensions and OPEB liabilities which can change dramatically depending on the market, which is outside the control of RMLD. *(Enterprise Fund-Statement of Net Position, Page 8)*

Mr. Ross asked about the intergovernmental grants: Is the portion of the Battery Project Grant (CY20) included in the CY19 balance? Mr. Fentross responded that the CY19 balance was primarily refunds from FEMA and MEMA for costs associated with natural disasters that the department was being reimbursed for. Typically, that line item does not carry over year to year, usually varies, and is not consistent with the same grant. Town financials will be consistent, but Light Departments vary with type of grants or dollar amount received. Ms. Markiewicz agreed that the most consistent items are FEMA and MEMA. Ms. Markiewicz noted that going forward it can be expected that RMLD will get another grant for the battery storage: Mr. Ross asked in addition to? Ms. Markiewicz responded yes as everything has a timeline.

Mr. Pacino made a **motion** that the Town of Reading Audit Committee recommend to the RMLD Board of Commissioners they accept the audit as performed and as presented by Melanson, seconded by Mr. Brant.
Motion Carried (4:0) (4 in favor, 0 opposed).

Mr. Pacino made a **motion** that the Audit Subcommittee of the RMLD Board of Commissioners recommend that the RMLD Board of Commissioners accept the Audit, seconded by Mr. Stempeck.
Motion Carried (2:0) (2 in favor, 0 opposed)

5. Motion to Adjourn.

At 6:00PM Mr. Pacino made a **motion** to adjourn the RMLD Audit Subcommittee, seconded by Mr. Stempeck.
Motion Carried (2:0) (2 in favor, 0 opposed)

At 6:02PM Mr. Pacino made a **motion** to adjourn the Regular Town of Reading Audit Committee Meeting, Mr. Ross, Chair, agreed, seconded by Mr. Brandt.
Motion Carried (4:0) (4 in favor, 0 opposed)

The RMLD Audit Committee Meeting adjourned at 6:02PM.

Town of Reading
Meeting Minutes

2016-09-22 LAG

Board - Committee - Commission - Council:

RMLD Audit Committee

Date: 2022-05-23 | Time:

Building: Reading Municipal Light Building | Location: Winfred Spurr Audio Visual Room

Address: 230 Ash Street | Session: Open Session

Purpose: Review of RMLD 2021 Audit Findings | Version: Draft

Attendees: **Members - Present:**

RMLD Board of Commissioners: Philip Pacino, Vice Chair, Sub-Audit Committee Chair; Robert Coulter, Commissioner.

Town of Reading Audit Committee: Jeanne Borawski, Acting Chair, Finance Committee; Shawn Brandt, ; Stephen Herrick, Carla Nazzaro,

Members - Not Present:

Town of Reading Audit Committee: Edward Ross, Finance Committee; Mark Dockser, Select Board.

Others Present:

RMLD Staff: Coleen O'Brien, General Manager; Hamid Jaffari, Director of Engineering and Operations; Wendy Markiewicz, Director of Business & Finance; Gregory Phipps, Director of Integrated Resources; Janet Walsh, Director of Human Resources; Erica Morse, Executive Assistant.

Presenter: Zachary Fentross, CPA, Audit Manager, Melanson.

Minutes Respectfully Submitted By: Philip B. Pacino

Topics of Discussion:

<u>Call Meeting to Order</u>

Mr. Pacino called the RMLD Board of Commissioners (BoC) Sub-Audit Committee meeting to order at 6:00 PM.

Chair Borawski called the Town of Reading Audit Committee meeting to order at 6:00 PM.

Opening Remarks and Introductions
Chair Borawski asked all attendees to identify themselves.

Mr. Brandt, Mr. Haley, and Ms. Angstrom attended remotely.

<u>Presentation of 2021 Financial Audit Findings</u>
Zackary Fentross, CPA, Melanson, presented the 2021 Financial Audit findings.

Key points included:

- RMLD had positive operating results, a well-funded OPEB (Other Post-Employment Benefits), and there was no management letter. RMLD received a clean opinion with no exceptions, consistent with prior years.

- The Management's Discussion and Analysis section offers a narrative summary of operational results and major financial areas.

- Mr. Fentross discussed the statement of net position, which was presented on a comparative basis, and highlighted the changes between 2020 and 2021.

- Unrestricted cash and short-term investments decreased by $3.3 million, due to the use of operating funds for capital improvements in 2021.

- Capital assets net of accumulated depreciation increased by $3.3 million, largely due to capital improvements made in 2021, which were funded through operating cash rather than bonding.

- Mr. Fentross provided examples of various capital improvements in 2021 and emphasized that the two largest were overhead and underground conductors.

- The net pension liability was largely unchanged from the prior year and represents RMLD's proportional share of the total unfunded liability for the Reading Contributory Retirement System, which is about 79% funded.

- Mr. Fentross discussed the pension trust, which was dissolved in January 2022, and noted that this will result in a swing between restricted and unrestricted cash next year.

- Mr. Fentross discussed the net OPEB liability (essentially health insurance), which decreased by $3 million from 2020 due to a change in benefit terms. This change allowed the actuary to reduce RMLD’s long-term liability.

- RMLD's OPEB liability is 55% funded, which is a good financial position compared to other towns and cities.

- Mr. Fentross addressed a question concerning the rationale and consequences of the benefit term change, explaining that it pertains to Part A and Part B premiums, resulting in an increased liability for the Town. Ms. Angstrom further clarified that the change is due to individuals over 65 who were on the Blue Cross Blue Shield plan being transitioned to the more cost-effective Medicare supplement.

- In response to Chair Borawski's query about when RMLD can expect to fully pay off the OPEB and Pension Trust liabilities, Ms. Angstrom indicated that the Pension Trust's target date has been extended from 2029 to 2030, and the OPEB is likely to follow a similar timeline, as RMLD is currently ahead of schedule.

- Mr. Fentross presented the Statement of Revenues, Expenses, & Change in Net Position on a comparative basis, emphasizing the increase in purchase power expenses and the decrease in operating expenses.

- Purchase Power increased by 3 million dollars, due to RMLD making a concerted effort to increase their energy buying portfolio to contain more non-carbon resources (wind, hydro etc.), which are more expensive than carbon resources.

- Mr. Fentross noted that the increase in purchase power expenses was offset because power supply is a pass-through charge to the rate payers.

- Operating expenses decreased by 2.3 million dollars, due to the decrease in the OPEB liability. Fentross noted that this decrease is slightly misleading. When there is a change in benefit terms, the associated income statement impact for that item hits within 1 year. Although there appears to be a decrease, operating expenses were about the same as last year.

- Mr. Pacino raised a point regarding purchased power and Renewable Energy Certificates (RECs), confirming that when RMLD sells RECs, the purchased power number is reduced.

- Mr. Fentross clarified that a REC is acquired when RMLD purchases renewable energy, and the department can either sell or retire the certificates. Currently, there is no accounting treatment for RECs, and they have always been recorded as a reduction in purchased power expenses. RMLD's REC holdings as of December 31, 2021, are not recognized as an asset, and their valuation is only noted in the financial statement footnotes on pages 39 and 41.

- Mr. Coulter emphasized that this situation applies to anyone purchasing RECs, not just RMLD, as it is an industry-wide practice.

- The discussion clarified that the credits on the statements represent the selling of RECs. Mr. Herrick inquired about RECs, and Mr. Phipps explained RMLD's process of retiring and selling RECs according to Policy 30 to meet 2021 Climate goal targets. Mr. Phipps emphasized that to avoid rate shock, RMLD retires certificates at a level of 23% of annual 2021 kWh sales, with the retirement level increasing by 3% annually through 2030.

- Chair Borawski confirmed that RECs are solely an asset with no liability, and Phipps noted that they have a shelf life, as they must be transacted, retired or sold, within six months of year end.

- Mr. Pacino mentioned that GASB is working on a research project for an accounting standard related to RECs. Mr. Pacino also asked Mr. Fentross if he had more information about the Environmental Social Governance reporting and International Sustainability Standard Board.

- Mr. Fentross responded that he was unaware of both and would provide more information to the Boards later.

- Mr. Fentross discussed the change in net position, essentially RMLD's net income, noting that the Department of Public Utilities (DPU) guidelines state that any MA Light Department cannot make more than 8% of their capital assets each year. Melanson calculated the net income for CY21 at a 4.26% rate of return, well below the 8% limit.

- The requirement of 8% of net plant applies specifically to RMLD only. A question arose regarding the consequences of exceeding 8% of net plant. Mr. Fentross explained that occasional exceedances would not cause issues, but consistent violations could result in the DPU inquiries to RMLD.

- Ms. Markiewicz mentioned that RMLD had previously exceeded the 8% limit and had allocated the excess funds to the rate stabilization fund. Mr. Pacino added that during the 1990s, excess funds were returned to the ratepayers.

- Mr. Fentross confirmed that RMLD has good internal controls in place and assets are being appropriately safeguarded. Mr. Fentross thanked the RMLD staff and General Manager for their efficient work and well-maintained records.

- Mr. Fentross mentioned that any areas of improvement would be recommended in a formal management letter, which the RMLD has not received in ten years. Approximately only 10% of Melanson clients do not receive a management letter, putting RMLD in high esteem.

- Mr. Pacino referenced the Governmental Accounting Standard Board (GASB) issuing Statement No. 87 Leases, which the Department will be required to implement next year.

- Mr. Fentross clarified that GASB No. 87 pertains to situations where RMLD serves as both lessee and lessor. In some cases, RMLD may lease out to others or lease from others. As a result, new liabilities and assets may appear on the balance sheet next year in connection with GASB 87.

- Mr. Fentross pointed out that situations where RMLD is a lessor should be considered, particularly in cases where RMLD rents pole space to companies like Verizon. This could lead to a new asset for RMLD if there is a 20-30 year agreement to utilize RMLD poles.

- Mr. Coulter asked whether this issue was already addressed under state law.

- Mr. Fentross responded that, from an accounting perspective, it was not. Government accounting typically lags a few years behind commercial practices, and the reporting requirement will not be finalized until next year.

- Mr. Herrick confirmed that RMLD has no debt and noted that it is a capital-intensive organization with significant projects on the horizon, such as the new substation. He asked how often companies like RMLD operate without debt and whether this is a positive attribute or indicative of missed opportunities.

- Mr. Fentross stated that one or two Municipal Light Plants (MLPs) audited by Melanson have no debt, while the majority of other MLPs have some debt on their books. He could not determine if this was good or bad, as it is a management decision, and he needs to maintain independence. Mr. Fentross suggested consulting with an expert who could better advise on the advantages and disadvantages of debt.

- Ms. Markiewicz explained RMLD's strategy regarding debt, emphasizing that RMLD has not needed to issue bonds and that the associated interest from bonding could become a burden for customers.

- Chair Borawski inquired about the liquidation of the pension trust fund. Fentross replied that it would occur in 2022. Currently, the $5.5 million from the pension trust fund is listed under noncurrent assets, restricted cash, and short-term investments. Next year, the funds will move to current assets, unrestricted cash, and short-term investments.

- Chair Borawski asked why the pension trust fund was being treated differently. Ms. Markiewicz responded that it was based on legal advice. RMLD was informed that the trust was no longer necessary and the funds are now considered operating expenses.

- The below-the-line payment to the Town of Reading was discussed. Ms. Markiewicz explained that, prior to 2018, the payment was calculated based on the Consumer Price Index (CPI) percent change for the year. In 2019, the Board directed RMLD to make payments from the available below-the-line unappropriated earned surplus for calendar years 2019 and 2020 at the rate currently in place for FY19. In 2020, the Board of Commissioners (BoC) voted to extend the 2020 payment for the dates of June 30, 2021, and December 31, 2021. In a separate vote, the BoC decided to change the calculation to 3.875 mils/kWh based on the previous 3-year average of kWh sales from audited financial statements, beginning with the payment date of June 30, 2022.

- Mr. Pacino added that using the CPI formula was not sustainable in the long run, as RMLD would eventually need to draw from capital funds, harming the system. The new formula provides a better balance.

- Mr. Pacino made a **motion**, seconded by Mr. Herrick, that the Town of Reading Audit Committee recommend to the RMLD Board of Commissioners to accept the audit dated May 23rd, 2022. **Motion Carried: 5:0:2** (5 in favor, 2 absent). Roll Call: Jeanne Borawski, Aye; Shawn Brandt, Aye; Stephen Herrick, Aye; Carla Nazzaro, Aye; Philip Pacino, Aye. Edward Ross and Mark Dockser were absent from the meeting.

- Mr. Pacino made a **motion**, seconded by Mr. Coulter, that the RMLD Board of Commissioners Sub- Audit Committee recommend to the RMLD Board of Commissioners to accept the audit dated May 23rd, 2022. **Motion Carried: 2:0:0** (2 in favor). Roll Call: Philip Pacino, Aye; Robert Coulter, Aye.

Adjournment

Mr. Pacino made a **motion,** seconded by Mr. Coulter, to adjourn the RMLD Board of Commissioners Sub- Audit Committee. **Motion Carried: 2:0:0** (2 in favor). Roll Call: Philip Pacino, Aye; Robert Coulter, Aye.

Mr. Pacino made a motion, seconded by Mr. Herrick, to adjourn the Town of Reading Audit Committee meeting. **Motion Carried: 5:0:2** (5 in favor, 2 absent). Roll Call: Jeanne Borawski, Aye; Shawn Brandt, Aye; Stephen Herrick, Aye; Carla Nazzaro, Aye; Philip Pacino, Aye. Edward Ross and Mark Dockser were absent from the meeting.

The meeting adjourned at 6:47 PM.

Materials

Town of Reading, Massachusetts, Reading Municipal Light Department, Annual Financial Statement for the Year Ended December 31, 2021.

All meeting materials can be found on the RMLD website (www.rmld.com) in the BoC meeting packet.