

TOWN OF READING, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Reading, Massachusetts

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Reading, Massachusetts, as of and for the year ended June 30, 2017, (except for the Reading Contributory Retirement System, which is as of and for the year ended December 31, 2016) and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Reading, Massachusetts, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Pension and OPEB schedules appearing on pages 89 to 93 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying supplementary information appearing on pages 94 through 104 is presented for purposes of additional analysis and is not a required part of the basic financial

statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Melanson Heath

March 26, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Reading, Massachusetts, we offer readers this narrative overview and analysis of the financial activities of the Town for the June 30, 2017.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the Town's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, facilities, health and human services, and culture and recreation. The business-type activities include water supply and distribution, sewer disposal, landfill, electric, and stormwater operations.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service 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. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for water, sewer, landfill, electric and stormwater operations, of which water and electric operations are considered to be major funds.

The Town does not maintain internal service funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other information. 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.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$232,670,351 (i.e., net position), a change of \$9,064,528 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$33,611,978, a change of \$(4,767,521) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$11,564,990, a change of 1,318,644 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years:

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 42,667,526	\$ 49,253,675	\$ 82,451,612	\$ 72,596,148	\$ 125,119,138	\$ 121,849,823
Capital assets	132,582,554	131,525,149	99,518,262	95,144,149	232,100,816	226,669,298
Total assets	175,250,080	180,778,824	181,969,874	167,740,297	357,219,954	348,519,121
Deferred outflows of resources	8,846,381	11,611,038	4,908,972	5,391,231	13,755,353	17,002,269
Long-term liabilities	80,689,329	88,465,967	36,125,085	30,851,445	116,814,414	119,317,412
Other liabilities	8,286,128	10,405,189	10,043,420	8,953,459	18,329,548	19,358,648
Total liabilities	88,975,457	98,871,156	46,168,505	39,804,904	135,143,962	138,676,060
Deferred inflows of resources	2,326,946	2,255,388	834,048	984,119	3,160,994	3,239,507
Net position:						
Net investment in capital assets	101,672,301	101,434,852	89,259,199	84,071,244	190,931,500	185,506,096
Restricted	17,761,046	17,526,723	11,250,323	10,105,058	29,011,369	27,631,781
Unrestricted	(26,639,289)	(27,698,257)	39,366,771	38,166,203	12,727,482	10,467,946
Total net position ⁽¹⁾	\$ 92,794,058	\$ 91,263,318	\$ 139,876,293	\$ 132,342,505	\$ 232,670,351	\$ 223,605,823

⁽¹⁾ as restated for Electric fund

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$232,670,351, a change of \$9,064,528 from the prior year.

The largest portion of net position, \$190,931,500, reflects our investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$29,011,369, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$12,727,482 may be used to meet the Town's ongoing obligations to citizens and creditors.

The following is a summary of condensed government-wide statement of changes in net position financial data for the current and prior fiscal years:

	CHANGES IN NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 8,704,119	\$ 9,508,325	\$ 106,630,695	\$ 102,329,822	\$ 115,334,814	\$ 111,838,147
Operating grants and contributions	25,350,989	21,508,696	67,797	125,000	25,418,786	21,633,696
Capital grants and contributions	1,454,456	1,397,510	968,198	317,871	2,422,654	1,715,381
General revenues:						
Property taxes	64,651,227	62,587,732	-	-	64,651,227	62,587,732
Excises	4,143,498	4,054,424	-	-	4,143,498	4,054,424
Penalties, interest, and other taxes	586,333	693,840	-	-	586,333	693,840
Grants and contributions not restricted to specific programs	3,356,933	3,211,690	-	-	3,356,933	3,211,690
Investment income	1,302,345	1,160,403	426,612	356,499	1,728,957	1,516,902
Other	325,689	343,327	693,772	530,175	1,019,461	873,502
Total revenues	109,875,589	104,465,947	108,787,074	103,659,367	218,662,663	208,125,314
Expenses						
General government	5,328,963	5,173,857	-	-	5,328,963	5,173,857
Public safety	15,722,993	14,394,749	-	-	15,722,993	14,394,749
Education	72,790,008	76,936,229	-	-	72,790,008	76,936,229
Public works	7,156,998	7,582,807	-	-	7,156,998	7,582,807
Facilities	1,663,004	1,762,944	-	-	1,663,004	1,762,944
Health and Human Services	1,253,232	1,212,347	-	-	1,253,232	1,212,347
Culture and recreation	4,747,487	3,780,076	-	-	4,747,487	3,780,076
Interest on long-term debt	1,055,194	1,144,836	-	-	1,055,194	1,144,836
Intergovernmental	1,011,638	1,013,830	-	-	1,011,638	1,013,830
Electric operations	-	-	87,127,810	84,200,166	87,127,810	84,200,166
Water operations	-	-	5,391,238	5,336,134	5,391,238	5,336,134
Other	-	-	6,349,570	6,134,609	6,349,570	6,134,609
Total expenses	110,729,517	113,001,675	98,868,618	95,670,909	209,598,135	208,672,584
Change in net position before transfers	(853,928)	(8,535,728)	9,918,456	7,988,458	9,064,528	(547,270)
Transfers in (out)	2,384,668	2,370,445	(2,384,668)	(2,370,445)	-	-
Change in net position	1,530,740	(6,165,283)	7,533,788	5,618,013	9,064,528	(547,270)
Net position - beginning of year ⁽¹⁾	91,263,318	97,428,601	132,342,505	126,724,492	223,605,823	224,153,093
Net position - end of year	\$ 92,794,058	\$ 91,263,318	\$ 139,876,293	\$ 132,342,505	\$ 232,670,351	\$ 223,605,823

⁽¹⁾ as restated for Electric fund

Governmental activities. Governmental activities for the year resulted in a change in net position of \$1,530,740. Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ (2,017,098)
PILOT from RMLD	2,384,668
Current year revenues used for the acquisition of capital assets	2,233,254
Capital grants and contributions	5,795,923
Depreciation expense exceeding debt service principal	(3,208,872)
Increase in net OPEB obligation	(2,128,250)
Net pension liability activity net of pension related deferred outflows/inflows of resources	(1,426,021)
Other	<u>(102,864)</u>
Total	<u>\$ 1,530,740</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$7,533,788. Key elements of this change and the impact on cash flows are as follows:

	<u>Revenues and Transfers In</u>	<u>Expenses and Transfers Out</u>	<u>Change in Net Position</u>
Electric division fund	\$ 93,985,128	\$ (89,512,478)	\$ 4,472,650
Water fund	6,850,738	(5,391,238)	1,459,500
Nonmajor funds	<u>7,951,208</u>	<u>(6,349,570)</u>	<u>1,601,638</u>
Total	<u>\$ 108,787,074</u>	<u>\$ (101,253,286)</u>	<u>\$ 7,533,788</u>

The change in net position for business-type activities is largely attributable to the reporting of acquisition of capital outlay (capital assets). These amounts are reported net of related outstanding debt obligations and are included in net position as net investment in capital assets. Business-type activities reported net investment in capital assets of \$89,259,199, an increase of \$5,187,955, or 6.17%, over the prior year.

Unrestricted net position of the Business-type activities at the end of the year amounted to \$39,366,771, a change of \$1,200,568 in comparison to the prior year. Key elements of this change are as follows:

<u>Fund</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
Electric ⁽¹⁾	\$ 22,622,447	\$ 22,587,938	\$ 34,509
Water	7,861,702	6,617,693	1,244,009
Nonmajor	<u>8,882,622</u>	<u>8,960,572</u>	<u>(77,950)</u>
Total	<u>\$ 39,366,771</u>	<u>\$ 38,166,203</u>	<u>\$ 1,200,568</u>

⁽¹⁾as restated for Electric fund

The change in unrestricted net position of the Business-type activities is mainly attributable to the water fund. This change is primarily due to increasing Water user charges by 9.17% which was effective September 1, 2016.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$33,611,978, a change of \$(4,767,521) in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ (2,017,098)
PILOT from RMLD	2,384,668
Premium on general obligation bonds	173,491
Special revenue fund revenues exceeding expenditures	393,024
Town capital project fund expenditures exceeding revenues	(2,483,643)
School capital project fund expenditures	(4,895,896)
School capital project fund proceeds from issuance of long-term debt	1,355,000
Permanent fund revenues exceeding expenditures	<u>322,933</u>
Total	\$ <u><u>(4,767,521)</u></u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$11,564,990, while total fund balance was \$16,585,797. The following table reflects the trend in all components of the general fund’s fund balance:

Fiscal Year	Last Five Fiscal Years					Total Fund Balance
	Restricted for Debt Service	Committed for Stabilization Fund	Assigned for Encumbrances	Assigned for Subsequent Year's Expenditures	Unassigned	
2013	\$ 817,305	\$ 365,413	\$ 1,086,291	\$ 1,400,000	\$ 10,507,772	\$ 14,176,781
2014	-	364,628	2,034,921	2,050,000	11,398,537	15,848,086
2015	-	503,000	2,827,211	1,800,000	11,852,773	16,982,984
2016	-	503,031	2,936,996	4,646,605 ⁽¹⁾	10,246,346	18,332,978
2017	62,468	503,000	2,855,339	1,600,000	11,564,990	16,585,797

⁽¹⁾ Includes \$2,197,000 for subsequent year free cash appropriation to fund litigation settlement.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 11,564,990	\$ 10,246,346	\$ 1,318,644	11.8%
Total fund balance	\$ 16,585,797	\$ 18,332,978	\$ (1,747,181)	16.9%

The decrease in the Town's June 30, 2017 unassigned fund balance from the prior year is primarily due to the Town's management reporting an assigned fund balance in fiscal year 2016 of \$2,196,605 for the amount of free cash appropriated for the High School construction litigation settlement in fiscal year 2017.

The total fund balance of the general fund changed by \$(1,747,181) during the current fiscal year. Key factors in this change are as follows:

<u>General Fund</u>	
Use of free cash and overlay surplus as a funding source	\$ (5,335,338)
Revenues in excess of budget	1,601,604
Expenditures less than budget	1,638,916
Expenditures of prior year encumbrances less than current year encumbrances	502,648
Other	<u>(155,011)</u>
Total	\$ <u><u>(1,747,181)</u></u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	<u>Fund Balance Classification</u>
Stabilization - general	\$ 1,584,336	\$ 1,565,475	\$ 18,861	Unassigned
Stabilization - smart growth	503,000	503,000	-	Committed
Stabilization - sick buy-back	<u>-</u>	<u>31</u>	<u>(31)</u>	Committed
Total	\$ <u><u>2,087,336</u></u>	\$ <u><u>2,068,506</u></u>	\$ <u><u>18,830</u></u>	

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$3,242,017. Major reasons for these amendments include:

- \$2,196,605 increase for Reading Memorial High School litigation
- \$579,000 increase for capital improvements
- \$250,000 increase for snow & ice budget
- \$216,415 increase for other Town operations

Of this increase, \$2,885,338 was funded by free cash, \$216,648 through the tax levy, \$140,000 from additional state aid, and \$31 from transfers in from other funds.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$232,100,816 (net of accumulated depreciation), a change of \$5,431,518 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Governmental additions:

- \$ 3,395,859 in library renovations
- \$ 2,600,520 in various school improvements
- \$ 717,692 for public safety vehicles
- \$ 593,273 for public works vehicles
- \$ 530,151 in roadway improvements

Business-type additions:

- \$ 4,786,765 in electric infrastructure and equipment
- \$ 589,397 in water infrastructure and vehicles
- \$ 1,004,378 in sewer infrastructure

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$47,719,902, all of which was backed by the full faith and credit of the government.

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

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The adopted FY2018 general fund budget of \$92,333,521 is a 2.2% increase over the prior year. The FY2018 budget is balanced.

FY2018 state aid will be \$14,109,667, which represents a 1.8% percent increase over prior year.

The tax levy for FY2018 of \$67,262,268 represents a 3.7% increase over the prior year. The FY2018 tax rate is \$13.87 per thousand for residential properties and \$13.92 per thousand for commercial properties, compared to \$14.03 in the prior year. Overall, property values increased 5.4% to \$4,874,351,402.

For FY2018, the Board of Selectmen, acting as the Water and Sewer Commissioners, voted to increase water rates by 3.73% and sewer rates by 2.94% for all customers, effective for all billings after September 10, 2017. The revenues are expected to cover all operations, planned infrastructure improvements, and debt.

The Commonwealth passed legislation allowing Massachusetts municipalities to pass a Local Option Meals Tax of 0.75%, with 100% of the revenue going to the Town. Reading voted to accept this local option at their November 2010 Town Meeting. The Town received revenue in FY2017 totaling \$390,794. The FY2018 revenue budgeted for this tax is \$350,000.

At the April 2012 Town Meeting, the Town voted to adopt Massachusetts General Laws Chapter 32B, Section 20 which allows the Town to set up an irrevocable trust for Other Post-Employment Benefits liabilities (OPEB). Currently, the funds set aside in this trust are invested in MMDT, which invests in US Treasuries, commercial paper, and very short-term bonds according to the prudent investor rule set forth in Chapter 203C. The Town is exploring the possibility of investing the funds in the State Retiree Benefits Trust Fund (SRBT) administered by PRIM. The SRBT funds are invested in Pension Reserve Investment Trust (PRIT). Investment in PRIT offers higher returns which would reduce the Town's unfunded OPEB liability. At the April 2017 Town Meeting, the Town voted to accept the provisions of Section 20 of Chapter 32B of MGL, as amended by Section 15 of Chapter 218 of the Acts of 2016. This will allow the Town to move forward with the process of investing the Town's OPEB funds with the State Retiree Benefits Trust.

REQUESTS FOR INFORMATION

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

Town Accountant
Town Hall
16 Lowell Street
Reading, MA 01867

TOWN OF READING, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Assets			
Current:			
Cash and short-term investments	\$ 13,805,298	\$ 37,140,527	\$ 50,945,825
Investments	27,341,020	-	27,341,020
Receivables, net of allowance for uncollectibles:			
Property taxes	288,836	-	288,836
Excises	259,258	-	259,258
User fees	-	13,522,732	13,522,732
Departmental and other	339,040	-	339,040
Intergovernmental	233,493	-	233,493
Prepaid assets	-	680,703	680,703
Inventory	-	1,752,915	1,752,915
Noncurrent:			
Restricted cash and short-term equivalents	-	26,482,494	26,482,494
Restricted investments	-	2,659,813	2,659,813
Investment in associated companies	-	212,428	212,428
Receivables, net of allowance for uncollectibles:			
Property taxes	400,581	-	400,581
Capital assets being depreciated, net	127,373,142	91,744,375	219,117,517
Capital assets not being depreciated	5,209,412	7,773,887	12,983,299
Deferred Outflows of Resources			
Related to pensions	<u>8,846,381</u>	<u>4,908,972</u>	<u>13,755,353</u>
Total Assets and Deferred Outflows of Resources	184,096,461	186,878,846	370,975,307
Liabilities			
Current:			
Warrants payable	1,608,001	7,391,553	8,999,554
Accrued liabilities	3,755,508	620,037	4,375,545
Unearned revenues	266,935	-	266,935
Tax refunds payable	95,685	-	95,685
Customer advances for construction	-	927,303	927,303
Customer deposits	-	1,080,257	1,080,257
Notes payable	1,490,000	-	1,490,000
Other current liabilities	1,069,999	24,270	1,094,269
Current portion of long-term liabilities:			
Bonds and loans payable	4,218,783	2,147,412	6,366,195
Compensated absences	113,006	23,695	136,701
Noncurrent:			
Bonds and loans payable, net of current portion	26,092,857	15,260,850	41,353,707
Compensated absences	1,017,057	3,186,223	4,203,280
Net OPEB obligation	19,681,914	604,150	20,286,064
Net pension liability	29,565,712	14,902,755	44,468,467
Deferred Inflows of Resources			
Related to pensions	2,083,876	834,048	2,917,924
Other	<u>243,070</u>	<u>-</u>	<u>243,070</u>
Total Liabilities and Deferred Inflows of Resources	91,302,403	47,002,553	138,304,956
Net Position			
Net investment in capital assets	101,672,301	89,259,199	190,931,500
Restricted for:			
Grants and other statutory restrictions	7,277,680	11,250,323	18,528,003
Permanent funds:			
Nonexpendable	3,310,195	-	3,310,195
Expendable	7,173,171	-	7,173,171
Unrestricted	<u>(26,639,289)</u>	<u>39,366,771</u>	<u>12,727,482</u>
Total Net Position	\$ <u>92,794,058</u>	\$ <u>139,876,293</u>	\$ <u>232,670,351</u>

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

TOWN OF READING, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental Activities					
General government	\$ 5,328,963	\$ 489,940	\$ 299,075	\$ -	\$ (4,539,948)
Public safety	15,722,993	2,319,485	107,336	-	(13,296,172)
Education	72,790,008	4,670,904	24,141,774	-	(43,977,330)
Public works	7,156,998	195,075	116,060	433,435	(6,412,428)
Facilities	1,663,004	-	-	-	(1,663,004)
Health and human services	1,253,232	73,886	442,898	-	(736,448)
Culture and recreation	4,747,487	954,829	243,846	1,021,021	(2,527,791)
Interest on long-term debt	1,055,194	-	-	-	(1,055,194)
Intergovernmental	1,011,638	-	-	-	(1,011,638)
Total governmental activities	110,729,517	8,704,119	25,350,989	1,454,456	(75,219,953)
Business-Type Activities					
Electric operations	87,127,810	92,616,756	67,797	335,198	5,891,941
Water operations	5,391,238	6,749,159	-	-	1,357,921
Other	6,349,570	7,264,780	-	633,000	1,548,210
Total business-type activities	98,868,618	106,630,695	67,797	968,198	8,798,072
Total	\$ <u>209,598,135</u>	\$ <u>115,334,814</u>	\$ <u>25,418,786</u>	\$ <u>2,422,654</u>	\$ <u>(66,421,881)</u>

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

(continued)

TOWN OF READING, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

(continued)

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Change in Net Position:			
Net (Expenses) revenues from previous page	\$ (75,219,953)	\$ 8,798,072	\$ (66,421,881)
General Revenues and Transfers			
Property taxes	64,651,227	-	64,651,227
Excises	4,143,498	-	4,143,498
Penalties, interest, and other taxes	586,333	-	586,333
Grants and contributions not restricted to specific programs	3,356,933	-	3,356,933
Investment income	1,302,345	426,612	1,728,957
Other	325,689	693,772	1,019,461
Transfers, net	<u>2,384,668</u>	<u>(2,384,668)</u>	<u>-</u>
Total general revenues and transfers	<u>76,750,693</u>	<u>(1,264,284)</u>	<u>75,486,409</u>
Change in Net Position	1,530,740	7,533,788	9,064,528
Net Position			
Beginning of year, as restated ⁽¹⁾	<u>91,263,318</u>	<u>132,342,505</u>	<u>223,605,823</u>
End of year	<u>\$ 92,794,058</u>	<u>\$ 139,876,293</u>	<u>\$ 232,670,351</u>

⁽¹⁾ as restated for Electric fund

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

TOWN OF READING, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Assets			
Cash and short-term investments	\$ 5,273,091	\$ 8,532,207	\$ 13,805,298
Investments	16,939,988	10,401,032	27,341,020
Receivables:			
Property taxes	764,156	-	764,156
Excises	373,901	-	373,901
Departmental and other	221,016	118,024	339,040
Intergovernmental	<u>-</u>	<u>233,493</u>	<u>233,493</u>
Total assets	<u>\$ 23,572,152</u>	<u>\$ 19,284,756</u>	<u>\$ 42,856,908</u>
Liabilities			
Warrants payable	\$ 1,248,331	\$ 359,670	\$ 1,608,001
Accrued liabilities	3,304,087	141,970	3,446,057
Unearned revenue	-	266,935	266,935
Notes payable	-	1,490,000	1,490,000
Other liabilities	<u>1,069,999</u>	<u>-</u>	<u>1,069,999</u>
Total liabilities	5,622,417	2,258,575	7,880,992
Deferred Inflows of Resources			
Unavailable revenues	1,363,938	-	1,363,938
Fund Balances			
Nonspendable	-	3,310,195	3,310,195
Restricted	62,468	15,342,236	15,404,704
Committed	503,000	-	503,000
Assigned	4,455,339	-	4,455,339
Unassigned	<u>11,564,990</u>	<u>(1,626,250)</u>	<u>9,938,740</u>
Total fund balances	<u>16,585,797</u>	<u>17,026,181</u>	<u>33,611,978</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 23,572,152</u>	<u>\$ 19,284,756</u>	<u>\$ 42,856,908</u>

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

TOWN OF READING, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2017

Total governmental fund balances	\$ 33,611,978
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	132,582,554
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	956,601
• Deferred outflows of resources related to pensions to be recognized as an increase to pension expense in future periods.	8,846,381
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(30,311,640)
Compensated absences	(1,130,063)
Net OPEB obligation	(19,681,914)
Net pension liability	(29,565,712)
• Deferred inflows of resources related to pensions to be recognized as a decrease to pension expense in future periods.	(2,083,876)
• Deferred inflows of resources related to gains on refunding bonds.	(120,800)
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(309,451)
Net position of governmental activities	<u>\$ 92,794,058</u>

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

TOWN OF READING, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues			
Property taxes	\$ 64,447,707	\$ -	\$ 64,447,707
Excises	4,108,000	-	4,108,000
Penalties, interest, and other taxes	586,333	-	586,333
Departmental	1,901,467	6,512,991	8,414,458
Licenses and permits	171,539	-	171,539
Fines and forfeitures	87,530	-	87,530
Intergovernmental	24,278,646	5,305,305	29,583,951
Investment income	419,311	481,599	900,910
Contributions	-	720,915	720,915
Other	313,860	11,934	325,794
	<u>96,314,393</u>	<u>13,032,744</u>	<u>109,347,137</u>
Expenditures			
Current:			
General government	4,018,523	140,845	4,159,368
Public safety	10,944,929	1,045,093	11,990,022
Education	52,780,624	13,052,413	65,833,037
Public works	5,100,393	665,937	5,766,330
Facilities	1,373,262	-	1,373,262
Health and human services	651,094	391,347	1,042,441
Culture and recreation	2,165,935	4,400,691	6,566,626
Employee benefits	15,413,653	-	15,413,653
Debt service	4,871,440	-	4,871,440
Intergovernmental	1,011,638	-	1,011,638
	<u>98,331,491</u>	<u>19,696,326</u>	<u>118,027,817</u>
Excess (deficiency) of revenues over (under) expenditures	(2,017,098)	(6,663,582)	(8,680,680)
Other Financing Sources (Uses)			
Issuance of general obligation bonds	-	1,355,000	1,355,000
Premium on issuance of bonds	173,491	-	173,491
Transfers in	2,678,031	2,715,102	5,393,133
Transfers out	(2,581,605)	(426,860)	(3,008,465)
	<u>269,917</u>	<u>3,643,242</u>	<u>3,913,159</u>
Net change in fund balances	(1,747,181)	(3,020,340)	(4,767,521)
Fund Balance at Beginning of Year	<u>18,332,978</u>	<u>20,046,521</u>	<u>38,379,499</u>
Fund Balance at End of Year	<u>\$ 16,585,797</u>	<u>\$ 17,026,181</u>	<u>\$ 33,611,978</u>

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

TOWN OF READING, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

Net changes in fund balances - Total governmental funds	\$ (4,767,521)																						
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">8,029,177</td> </tr> <tr> <td>Loss on disposal of capital assets</td> <td style="text-align: right;">(12,900)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(6,958,872)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, excises, etc.) differ between the two statements. This amount represents the net change in deferred revenue. (58,455) • The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of general obligation bonds</td> <td style="text-align: right;">(1,355,000)</td> </tr> <tr> <td>Repayments of general obligation and refunding bonds</td> <td style="text-align: right;">3,750,000</td> </tr> <tr> <td>Premiums from issuance of general obligation bonds</td> <td style="text-align: right;">(173,491)</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 51,146 • Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table border="0" style="margin-left: 40px;"> <tr> <td>Current year amortization of premiums from issuance of general obligation and refunding bonds</td> <td style="text-align: right;">401,435</td> </tr> <tr> <td>Change in tax refunds payable</td> <td style="text-align: right;">185,472</td> </tr> <tr> <td>Change in compensated absences</td> <td style="text-align: right;">(21,080)</td> </tr> <tr> <td>Change in net OPEB obligation</td> <td style="text-align: right;">(2,128,250)</td> </tr> <tr> <td>Change in net pension liability, net of related deferred outflows and inflows of resources</td> <td style="text-align: right;">(1,426,021)</td> </tr> </table> • Litigation settlement liability accrued in the prior year. 6,000,000 • Other 15,100 		Capital outlay purchases	8,029,177	Loss on disposal of capital assets	(12,900)	Depreciation	(6,958,872)	Issuance of general obligation bonds	(1,355,000)	Repayments of general obligation and refunding bonds	3,750,000	Premiums from issuance of general obligation bonds	(173,491)	Current year amortization of premiums from issuance of general obligation and refunding bonds	401,435	Change in tax refunds payable	185,472	Change in compensated absences	(21,080)	Change in net OPEB obligation	(2,128,250)	Change in net pension liability, net of related deferred outflows and inflows of resources	(1,426,021)
Capital outlay purchases	8,029,177																						
Loss on disposal of capital assets	(12,900)																						
Depreciation	(6,958,872)																						
Issuance of general obligation bonds	(1,355,000)																						
Repayments of general obligation and refunding bonds	3,750,000																						
Premiums from issuance of general obligation bonds	(173,491)																						
Current year amortization of premiums from issuance of general obligation and refunding bonds	401,435																						
Change in tax refunds payable	185,472																						
Change in compensated absences	(21,080)																						
Change in net OPEB obligation	(2,128,250)																						
Change in net pension liability, net of related deferred outflows and inflows of resources	(1,426,021)																						
Change in net position of governmental activities	\$ <u>1,530,740</u>																						

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

TOWN OF READING, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES -
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers				
Property taxes	\$ 63,974,776	\$ 64,191,424	\$ 64,447,707	\$ 256,283
Excise	3,735,000	3,735,000	4,108,000	373,000
Penalties, interest, and other taxes	565,000	565,000	586,294	21,294
Departmental	1,775,000	1,775,000	1,901,467	126,467
Licenses and permits	160,000	160,000	171,539	11,539
Fines and forfeitures	105,000	105,000	87,530	(17,470)
Intergovernmental	13,825,000	13,965,000	14,234,262	269,262
Investment income	175,000	175,000	419,311	244,311
Other	134,998	134,998	333,553	198,555
Transfers in	<u>2,559,668</u>	<u>2,559,699</u>	<u>2,678,062</u>	<u>118,363</u>
Total revenues and transfers	87,009,442	87,366,121	88,967,725	1,601,604
Expenditures and Transfers				
General government	4,162,992	4,205,416	4,076,369	129,047
Public safety	10,394,800	10,775,091	10,558,492	216,599
Education	43,365,281	44,156,202	43,477,169	679,033
Public works	6,186,264	6,594,589	6,287,618	306,971
Health and human services	754,025	756,801	651,646	105,155
Culture and recreation	2,681,130	2,321,805	2,248,618	73,187
Intergovernmental	1,026,450	976,450	1,011,638	(35,188)
Employee benefits	15,988,500	15,588,500	15,448,653	139,847
Debt service	4,900,000	4,900,000	4,875,735	24,265
Transfers out	<u>-</u>	<u>2,426,605</u>	<u>2,426,605</u>	<u>-</u>
Total expenditures and transfers	<u>89,459,442</u>	<u>92,701,459</u>	<u>91,062,543</u>	<u>1,638,916</u>
Excess (deficiency) of revenues and transfers in over (under) expenditures and transfers out	(2,450,000)	(5,335,338)	(2,094,818)	3,240,520
Other Financing Sources (Uses)				
Use of free cash:				
For operating budget support	2,150,000	2,838,733	-	(2,838,733)
For litigation settlement	-	2,196,605	-	(2,196,605)
Use of overlay surplus	<u>300,000</u>	<u>300,000</u>	<u>-</u>	<u>(300,000)</u>
Total other financing sources	<u>2,450,000</u>	<u>5,335,338</u>	<u>-</u>	<u>(5,335,338)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,094,818)</u>	<u>\$ (2,094,818)</u>

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

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-Type Activities			
	Electric Division Fund	Water Fund	Nonmajor Funds	Total Enterprise Funds
Assets				
Current:				
Cash and short-term investments	\$ 15,522,815	\$ 10,830,355	\$ 10,787,357	\$ 37,140,527
User fees, net of allowance for uncollectibles	8,761,845	2,271,107	2,489,780	13,522,732
Prepaid expenses	680,703	-	-	680,703
Inventory	1,648,675	100,748	3,492	1,752,915
Total current assets	26,614,038	13,202,210	13,280,629	53,096,877
Noncurrent:				
Restricted cash and short-term investments	26,482,494	-	-	26,482,494
Restricted investments	2,659,813	-	-	2,659,813
Investment in associated companies	212,428	-	-	212,428
Capital assets being depreciated, net	74,845,094	11,202,437	5,696,844	91,744,375
Capital assets not being depreciated	1,265,842	4,794,619	1,713,426	7,773,887
Total noncurrent assets	105,465,671	15,997,056	7,410,270	128,872,997
Deferred Outflows of Resources				
Related to pensions	4,135,078	610,402	163,492	4,908,972
Total Assets and Deferred Outflows of Resources	136,214,787	29,809,668	20,854,391	186,878,846
Liabilities				
Current:				
Warrants payable	7,193,756	80,089	117,708	7,391,553
Accrued liabilities	565,784	54,202	51	620,037
Customer deposits	1,080,257	-	-	1,080,257
Customer advances for construction	927,303	-	-	927,303
Other current liabilities	-	-	24,270	24,270
Current portion of long-term liabilities:				
Bonds and loans payable	-	1,775,739	371,673	2,147,412
Compensated absences	23,695	-	-	23,695
Total current liabilities	9,790,795	1,910,030	513,702	12,214,527
Noncurrent:				
Bonds and loans payable	-	12,879,160	2,381,690	15,260,850
Compensated absences	3,126,439	42,950	16,834	3,186,223
Net OPEB obligation	138,068	332,401	133,681	604,150
Net pension liability	13,076,538	1,382,076	444,141	14,902,755
Total noncurrent liabilities	16,341,045	14,636,587	2,976,346	33,953,978
Deferred Inflows of Resources				
Related to pensions	714,888	75,557	43,603	834,048
Total Liabilities and Deferred Inflows of Resources	26,846,728	16,622,174	3,533,651	47,002,553
Net Position				
Net investment in capital assets	76,110,937	5,325,792	7,822,470	89,259,199
Restricted for depreciation fund	10,634,675	-	-	10,634,675
Restricted for capital projects	-	-	615,648	615,648
Unrestricted	22,622,447	7,861,702	8,882,622	39,366,771
Total Net Position	\$ 109,368,059	\$ 13,187,494	\$ 17,320,740	\$ 139,876,293

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

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities			
	Electric Division <u>Fund</u>	Water <u>Fund</u>	Nonmajor <u>Funds</u>	Total <u>Enterprise Funds</u>
Operating Revenues				
Charges for services	\$ 91,822,764	\$ 6,749,159	\$ 7,264,780	\$ 105,836,703
Other	<u>793,992</u>	<u>-</u>	<u>-</u>	<u>793,992</u>
Total operating revenues	92,616,756	6,749,159	7,264,780	106,630,695
Operating Expenses				
Personnel expenses	-	1,714,475	825,026	2,539,501
Non-personnel expenses	-	456,070	258,700	714,770
Intergovernmental	1,433,143	2,109,549	4,769,928	8,312,620
Depreciation	4,101,308	813,140	446,192	5,360,640
Energy purchases	64,703,438	29,231	22,856	64,755,525
Operating	14,311,692	-	-	14,311,692
Maintenance	<u>2,578,229</u>	<u>-</u>	<u>-</u>	<u>2,578,229</u>
Total operating expenses	<u>87,127,810</u>	<u>5,122,465</u>	<u>6,322,702</u>	<u>98,572,977</u>
Operating Income	5,488,946	1,626,694	942,078	8,057,718
Nonoperating Revenues (Expenses)				
Intergovernmental revenue	67,797	-	-	67,797
Investment income	271,658	101,526	53,428	426,612
Interest expense	-	(268,773)	(26,868)	(295,641)
Other	<u>693,719</u>	<u>53</u>	<u>-</u>	<u>693,772</u>
Total nonoperating revenues (expenses)	<u>1,033,174</u>	<u>(167,194)</u>	<u>26,560</u>	<u>892,540</u>
Income Before Contributions and Transfers	6,522,120	1,459,500	968,638	8,950,258
Capital grants and contributions	335,198	-	633,000	968,198
Transfers out	<u>(2,384,668)</u>	<u>-</u>	<u>-</u>	<u>(2,384,668)</u>
Change in Net Position	4,472,650	1,459,500	1,601,638	7,533,788
Net Position at Beginning of Year, as restated ⁽¹⁾	<u>104,895,409</u>	<u>11,727,994</u>	<u>15,719,102</u>	<u>132,342,505</u>
Net Position at End of Year	<u>\$ 109,368,059</u>	<u>\$ 13,187,494</u>	<u>\$ 17,320,740</u>	<u>\$ 139,876,293</u>

⁽¹⁾ as restated for Electric fund

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

TOWN OF READING, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities			
	Electric Division Fund	Water Fund	Nonmajor Funds	Total Enterprise Funds
Cash Flows From Operating Activities				
Receipts from customers and users	\$ 91,442,858	\$ 6,946,123	\$ 7,628,978	\$ 106,017,959
Payments to vendors and employees	(80,175,335)	(2,830,126)	(1,124,719)	(84,130,180)
Customer purchase power charge adjustments	793,993	-	-	793,993
Payments to other governments	-	(2,109,549)	(4,769,928)	(6,879,477)
Net cash provided by operating activities	<u>12,061,516</u>	<u>2,006,448</u>	<u>1,734,331</u>	<u>15,802,295</u>
Cash Flows From Noncapital Financing Activities				
MMWEC surplus	148,898	-	-	148,898
Other	589,512	53	-	589,565
Transfer out	(2,384,668)	-	-	(2,384,668)
Net cash provided by (used for) noncapital financing activities	<u>(1,646,258)</u>	<u>53</u>	<u>-</u>	<u>(1,646,205)</u>
Cash Flows From Capital and Related Financing Activities				
Proceeds from issuance of bonds	-	3,500,736	2,640,484	6,141,220
Principal payments on bonds	-	(1,356,200)	(91,915)	(1,448,115)
Acquisition and construction of capital assets	(8,054,525)	(589,397)	(1,135,524)	(9,779,446)
Capital grants and contributions	323,156	-	633,000	956,156
Interest expense	-	(328,297)	(26,868)	(355,165)
Net cash provided by (used for) capital and related financing activities	<u>(7,731,369)</u>	<u>1,226,842</u>	<u>2,019,177</u>	<u>(4,485,350)</u>
Cash Flows From Investing Activities				
(Increase) in restricted cash and investments	(556,337)	-	-	(556,337)
Investment income	271,658	101,526	53,428	426,612
Net cash provided by (used for) investing activities	<u>(284,679)</u>	<u>101,526</u>	<u>53,428</u>	<u>(129,725)</u>
Net change in cash and short-term investments	2,399,210	3,334,869	3,806,936	9,541,015
Unrestricted Cash and Short Term Investments, Beginning of Year	13,123,605	7,495,486	6,980,421	27,599,512
Unrestricted Cash and Short Term Investments, End of Year	<u>\$ 15,522,815</u>	<u>\$ 10,830,355</u>	<u>\$ 10,787,357</u>	<u>\$ 37,140,527</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities				
Operating income	\$ 5,488,946	\$ 1,626,694	\$ 942,078	\$ 8,057,718
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	4,101,308	813,140	446,192	5,360,640
Changes in assets, liabilities, and deferred outflows/inflows:				
User fees receivables	(558,258)	196,964	364,198	2,904
Inventory	(58,346)	(8,925)	1,202	(66,069)
Other assets	305,054	-	-	305,054
Deferred outflows - related to pensions	703,140	(219,063)	(1,818)	482,259
Warrants payable	1,717,729	(758,189)	(31,570)	927,970
Accrued liabilities	-	(29,341)	(23,358)	(52,699)
Other liabilities	178,353	-	2,999	181,352
Net OPEB obligation	138,068	39,372	5,997	183,437
Net pension liability	213,806	341,674	14,320	569,800
Deferred inflows - related to pensions	(168,284)	4,122	14,091	(150,071)
Net cash provided by operating activities	<u>\$ 12,061,516</u>	<u>\$ 2,006,448</u>	<u>\$ 1,734,331</u>	<u>\$ 15,802,295</u>

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

TOWN OF READING, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2017

	Pension Trust Fund (As of December 31, 2016)	Other Post Employment Benefits Trust Fund	Electric Division Other Post Employment Benefits Trust Fund	Agency Funds
Assets				
Cash and short-term investments	\$ 2,439,240	\$ 3,621,148	\$ 2,857,150	\$ 467,254
Investments	121,496,781	-	-	-
Accounts receivable	56,221	-	-	-
Other	-	-	-	1,247
	<u>123,992,242</u>	<u>3,621,148</u>	<u>2,857,150</u>	<u>468,501</u>
Total assets				
Liabilities				
Warrants payable	-	-	-	17,687
Other liabilities	-	-	-	450,814
	<u>-</u>	<u>-</u>	<u>-</u>	<u>468,501</u>
Total liabilities				
Net Position				
Total net position restricted for pensions, OPEB, and other purposes	<u>\$ 123,992,242</u>	<u>\$ 3,621,148</u>	<u>\$ 2,857,150</u>	<u>\$ -</u>

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

TOWN OF READING, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Pension Trust Fund (for the year ended December 31, 2016)	Other Post Employment Benefits Trust Fund	Electric Division Other Post Employment Benefits Trust Fund
Additions			
Contributions:			
Employers	\$ 5,418,129	\$ 3,566,677	\$ 794,319
Intergovernmental	430,720	-	-
Plan members	2,500,355	-	-
Other	<u>8,043</u>	<u>-</u>	<u>-</u>
Total contributions	8,357,247	3,566,677	794,319
Investment Income:			
Increase in fair value of investments	9,280,195	27,438	22,561
Less: management fees	<u>(639,647)</u>	<u>-</u>	<u>-</u>
Net investment income	<u>8,640,548</u>	<u>27,438</u>	<u>22,561</u>
Total additions	16,997,795	3,594,115	816,880
Deductions			
Benefit payments to plan members, beneficiaries, and other systems	10,402,424	2,990,677	485,573
Refunds and transfers to other systems	443,883	-	-
Administrative expenses	<u>237,043</u>	<u>-</u>	<u>-</u>
Total deductions	<u>11,083,350</u>	<u>2,990,677</u>	<u>485,573</u>
Net change	5,914,445	603,438	331,307
Net position restricted for pensions, OPEB, and other purposes			
Beginning of year	<u>118,077,797</u>	<u>3,017,710</u>	<u>2,525,843</u>
End of year	<u>\$ 123,992,242</u>	<u>\$ 3,621,148</u>	<u>\$ 2,857,150</u>

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

TOWN OF READING, MASSACHUSETTS

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Reading, Massachusetts (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the Town and applicable component units for which the Town is considered to be financially accountable.

The Reading Contributory Retirement System (the System) was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report. Additional financial information of the System can be obtained by contacting the System located at 2 Haven Street, Unit 307, Reading, Massachusetts 01867.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items

not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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 non-operating 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 enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds 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.

The Town reports the following major proprietary funds:

- The *Electric Division Fund* is used to report the Town's electric distribution enterprise fund operations.
- The *Water Fund* is used to report the Town's water enterprise fund operations.

In addition, the Town has a *Sewer Fund*, a *Stormwater Fund*, and a *Landfill Fund* which are reported as nonmajor proprietary funds.

The fiduciary 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.

The Town reports the following fiduciary funds:

- The *Pension Trust Fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The *Other Post-Employment Benefit Trust Fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- The *Electric Division Other Post-Employment Benefit Trust Fund* is used to accumulate resources for health and life insurance benefits for retired employees.

- The *Agency Funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. This fund is primarily used for private public safety details, student activity funds, and developer escrow funds. Agency funds report only assets and liabilities and, therefore, have no measurement focus.

D. Cash, Cash Equivalents, and Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase. Municipalities having such funds in the custody of the treasurer in an aggregate amount in excess of two hundred and fifty thousand dollars may also invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the commonwealth; provided, that not more than fifteen percent of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent of such funds be invested in the stock of any one bank or insurance company.

Investments consist of marketable securities, bonds, and short-term money market investments. Investments are carried at fair value, except certificates of deposit which are reported at cost.

E. Property Tax Limitations

Legislation known as “Proposition 2½” limits the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2017 tax levy reflected an excess capacity of \$43,812.

F. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	20-50
Machinery, equipment, and furnishings	5-20
Infrastructure	50

H. Compensated Absences

It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary

fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. The general fund and applicable enterprise funds typically repay these obligations.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance - Generally, fund balance represents the difference between the current assets/deferred outflows of resources and current liabilities/deferred inflows of resources. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and, therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

The preparation of basic 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 basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

At the annual Town Meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by Town Meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special Town Meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 96,314,393	\$ 98,331,491
Other financing sources/uses (GAAP Basis)	<u>2,851,522</u>	<u>2,581,605</u>
Subtotal (GAAP Basis)	99,165,915	100,913,096
Reverse beginning of year appropriation carryforwards from expenditures	-	(2,371,070)
Add end-of-year appropriation carryforwards to expenditures	-	2,718,702
To reverse the effect of non- budgeted State contributions for teachers retirement	(10,044,384)	(10,044,384)
Other	<u>(153,806)</u>	<u>(153,801)</u>
Budgetary Basis	<u>\$ 88,967,725</u>	<u>\$ 91,062,543</u>

D. Excess of Expenditures Over Appropriations

There were no expenditures exceeding appropriations during the current fiscal year excluding intergovernmental expenditures related to state assessments.

E. Deficit Fund Equity

The Town reported various special revenue and capital project funds reflecting individual deficit account balances as of June 30, 2017. It is anticipated that the deficits in these funds will be eliminated through future intergovernmental and departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's 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. Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company. The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2017, \$52,158,635 of the Town's bank balances of \$86,370,624, were exposed to custodial credit risk. However, \$48,919,122 of the Town's exposed balance was on deposit with the Massachusetts Municipal Depository Trust (MMDT).

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Town does not have a policy for credit risk.

Presented below is the actual rating as of year-end for each investment of the Town:

<u>Investment Type</u>	<u>Amount</u>	Exempt From <u>Disclosure</u>	<u>Average Rating</u>
Domestic corporate bonds	\$ 5,984,184	\$ -	A-
Foreign corporate bonds	3,160,667	-	A
Certificates of deposits	18,533,354	18,533,354	N/A
Corporate equities	<u>2,322,628</u>	<u>2,322,628</u>	N/A
Total investments	\$ <u>30,000,833</u>	\$ <u>20,855,982</u>	

B. Custodial Credit Risk

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, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have policies for custodial credit risk.

The Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the Town's brokerage firm, which is also the Counterparty to these

securities. The Town manages this custodial credit risk by investing in counter-party's that participate in the Securities Investor Protection Corporation (SIPC) and excess SIPC coverages.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, government agency securities, and mutual funds) that represent 5% or more of total investments are as follows:

<u>Investment Issuer</u>	<u>Amount</u>
NBTC - CDARS - General Fund	\$ 16,939,988
SPDR S&P 500 ETF	<u>1,765,624</u>
Total	<u>\$ 18,705,612</u>

D. 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 Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt-related Securities:				
Domestic corporate bonds	\$ 5,984,184	\$ -	\$ 600,697	\$ 5,383,487
Foreign corporate bonds	<u>3,160,667</u>	<u>-</u>	<u>595,628</u>	<u>2,565,039</u>
Total	<u>\$ 9,144,851</u>	<u>\$ -</u>	<u>\$ 1,196,325</u>	<u>\$ 7,948,526</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

F. Fair Value

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

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following fair value measurements as of June 30, 2017:

Description	Fair Value Measurements Using:		
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:			
Debt securities:			
Domestic corporate bonds	\$ 5,984,184	\$ -	\$ 5,984,184
Foreign corporate bonds	3,160,667	-	3,160,667
Corporate equities	<u>2,322,628</u>	2,322,628	-
Total	<u>\$ 11,467,479</u>		

Corporate equities classified in Level 1 are valued using prices quoted in active markets for those equities.

Domestic and foreign corporate bonds classified in Level 2 are valued using standard inputs consisting of benchmark yields, reportable trades, benchmark securities (where available), and reference data including market research publications.

5. Taxes and Excises Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

The day after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Tax and excise receivables at June 30, 2017 consist of the following:

<u>Receivables</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 249,790	\$ (24,979)	\$ 224,811
Personal property taxes	15,045	(5,251)	9,794
Tax Liens	445,090	(44,509)	400,581
Deferred taxes	<u>54,231</u>	<u>-</u>	<u>54,231</u>
Total property taxes	764,156	(74,739)	689,417
Motor vehicle excise	<u>373,901</u>	<u>(114,643)</u>	<u>259,258</u>
Grand total	<u>\$ 1,138,057</u>	<u>\$ (189,382)</u>	<u>\$ 948,675</u>

6. User Fees Receivable

The Town provides water, sewer, and stormwater services for its residents. Bills are sent to residential customers on a quarterly basis, based on usage.

Receivables for water, sewer, and stormwater user charges, liens, and other fees at June 30, 2017 consist of the following:

<u>Receivables</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Water user charges	\$ 2,475,019	\$ (247,502)	\$ 2,227,517
Water liens	46,404	(10,504)	35,900
Water - other	<u>15,380</u>	<u>(7,690)</u>	<u>7,690</u>
Total Water	2,536,803	(265,696)	2,271,107
Sewer user charges	2,547,585	(254,759)	2,292,826
Sewer liens	44,779	(10,120)	34,659
Sewer - other	<u>19,107</u>	<u>(9,554)</u>	<u>9,553</u>
Total Sewer	2,611,471	(274,433)	2,337,038
Stormwater user charges	157,664	(7,170)	150,494
Stormwater liens	<u>2,248</u>	<u>-</u>	<u>2,248</u>
Total Stormwater	<u>159,912</u>	<u>(7,170)</u>	<u>152,742</u>
Grand Total	<u>\$ 5,308,186</u>	<u>\$ (547,299)</u>	<u>\$ 4,760,887</u>

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017.

8. Interfund Transfers In and (Out)

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2017.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>	
General Fund	\$ 2,678,031	\$ 2,581,605	(1) (2) (3) (4)
Nonmajor Governmental Funds:			
Revolving funds	-	218,363	(2)
Receipts reserved for appropriation	-	75,000	(2)
Town capital project funds	363,497	-	(4)
School capital project funds	2,351,605	133,497	(3) (4)
Major Enterprise Funds:			
Electric Division fund	-	2,384,668	(1)
Total	<u>\$ 5,393,133</u>	<u>\$ 5,393,133</u>	

- (1) Payment in lieu of taxes (PILOT)
(2) To general fund for operating budget and appropriations
(3) For high school litigation settlement
(4) For library renovation project

9. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, being depreciated:				
Land improvements	\$ 3,801,018	\$ 54,336	\$ -	\$ 3,855,354
Buildings and improvements	135,978,390	20,755,676	(411,958)	156,322,108
Machinery, equipment, and furnishings	10,566,595	1,569,880	(1,172,052)	10,964,423
Infrastructure	<u>31,876,830</u>	<u>433,435</u>	<u>-</u>	<u>32,310,265</u>
Total capital assets, being depreciated	182,222,833	22,813,327	(1,584,010)	203,452,150
Less accumulated depreciation for:				
Land improvements	(1,433,257)	(172,973)	-	(1,606,230)
Buildings and improvements	(46,018,992)	(4,580,411)	399,058	(50,200,345)
Machinery, equipment, and furnishings	(5,804,762)	(935,217)	1,172,052	(5,567,927)
Infrastructure	<u>(17,434,235)</u>	<u>(1,270,271)</u>	<u>-</u>	<u>(18,704,506)</u>
Total accumulated depreciation	<u>(70,691,246)</u>	<u>(6,958,872)</u>	<u>1,571,110</u>	<u>(76,079,008)</u>
Total capital assets, being depreciated, net	111,531,587	15,854,455	(12,900)	127,373,142
Capital assets, not being depreciated:				
Land	3,981,386	-	-	3,981,386
Construction in progress	<u>16,012,176</u>	<u>213,155</u>	<u>(14,997,305)</u>	<u>1,228,026</u>
Total capital assets, not being depreciated	<u>19,993,562</u>	<u>213,155</u>	<u>(14,997,305)</u>	<u>5,209,412</u>
Governmental activities capital assets, net	<u>\$ 131,525,149</u>	<u>\$ 16,067,610</u>	<u>\$ (15,010,205)</u>	<u>\$ 132,582,554</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets, being depreciated:				
Land improvements	\$ 1,436,717	\$ -	\$ -	\$ 1,436,717
Buildings and improvements	18,007,244	3,267,759	(919,537)	20,355,466
Machinery, equipment, and furnishings	36,198,395	1,357,634	(341,140)	37,214,889
Infrastructure	<u>116,521,570</u>	<u>3,938,717</u>	<u>(1,102,144)</u>	<u>119,358,143</u>
Total capital assets, being depreciated	172,163,926	8,564,110	(2,362,821)	178,365,215
Less accumulated depreciation for:				
Land improvements	(468,902)	(70,063)	-	(538,965)
Buildings and improvements	(10,580,594)	(497,054)	919,538	(10,158,110)
Machinery, equipment, and furnishings	(22,860,035)	(1,192,316)	341,138	(23,711,213)
Infrastructure	<u>(49,668,798)</u>	<u>(3,601,207)</u>	<u>1,057,453</u>	<u>(52,212,552)</u>
Total accumulated depreciation	<u>(83,578,329)</u>	<u>(5,360,640)</u>	<u>2,318,129</u>	<u>(86,620,840)</u>
Total capital assets, being depreciated, net	88,585,597	3,203,470	(44,692)	91,744,375
Capital assets, not being depreciated:				
Land	1,449,426	-	-	1,449,426
Construction in progress	<u>5,109,126</u>	<u>1,689,920</u>	<u>(474,585)</u>	<u>6,324,461</u>
Total capital assets, not being depreciated	<u>6,558,552</u>	<u>1,689,920</u>	<u>(474,585)</u>	<u>7,773,887</u>
Business-type activities capital assets, net	<u>\$ 95,144,149</u>	<u>\$ 4,893,390</u>	<u>\$ (519,277)</u>	<u>\$ 99,518,262</u>

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities

General government	\$ 238,214
Public safety	478,298
Education	3,632,452
Public works	1,702,190
Facilities	8,000
Health and human services	32,854
Culture and recreation	<u>866,864</u>
Total depreciation expense - governmental activities	<u>\$ 6,958,872</u>

Business-Type Activities

Electric	\$ 4,101,308
Water	813,140
Other - Sewer	406,040
Other - Stormwater	<u>40,152</u>
Total depreciation expense - business-type activities	<u>\$ 5,360,640</u>

10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68)*, are more fully discussed in Note 18.

11. Warrants Payable

Warrants payable represent fiscal year 2017 expenditures paid by July 15, 2017.

12. Accrued Liabilities

This balance primarily represents amounts accrued interest and other expenditures related to fiscal year 2017 paid subsequent to July 15, 2017.

13. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements, pending with the state Appellate Tax Board.

14. Notes Payable

The following summarizes activity in notes payable during fiscal year 2017:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Beginning Balance at 06/30/16</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Ending Balance at 06/30/17</u>
General Obligation BAN	1.25%	06/30/17	12/15/17	\$ -	\$ 1,490,000	\$ -	\$ 1,490,000
Total Governmental Activities				\$ -	\$ 1,490,000	\$ -	\$ 1,490,000

15. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/17</u>
Ladder Truck	07/01/17	3.05%	\$ 80,000
Parker Middle School Refunding	07/01/17	3.05%	150,000
Downtown Improvements	11/01/17	3.59%	65,000
RMHS Retaining Walls	11/01/20	1.26%	400,000
Killam Roof	02/01/22	1.83%	335,000
Birch Meadow Windows	02/01/22	1.83%	165,000
Elementary School Modular Classrooms	11/01/23	1.26%	1,050,000
RMHS Refunding	02/01/24	2.25%	7,730,000
Wood End Refunding - Sunset Rock I	04/15/24	1.49%	208,790
Wood End Refunding - Sunset Rock II	04/15/24	1.49%	308,000
Wood End School Refunding	04/15/24	1.49%	985,710
Wood End School Refunding	04/15/24	1.49%	63,800
Barrows School Refunding	04/15/24	1.49%	822,700
Library Renovation I	11/01/24	1.26%	1,880,000
Library Renovation II	04/15/25	1.49%	8,000,000
Roadway/Pedestrian Improvements I	04/15/25	1.49%	800,000
Roadway/Pedestrian Improvements II	04/15/25	1.49%	240,000
Energy Conservation	08/01/25	3.19%	2,655,000
RMHS Renovation Project	06/15/27	4.00%	<u>1,355,000</u>
Total Governmental Activities			<u>\$ 27,294,000</u>

<u>Business-Type Activities</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/17</u>
MWPAT Septic Loans	02/01/17	0.00%	\$ 4,639
MWRA Buy-in	07/01/17	3.05%	80,000
MWRA Inflo/Infiltration	05/19/19	0.00%	77,000
MWRA Sewer Bond	11/15/20	0.00%	31,240
MWRA Water System Pipeline	08/15/21	0.00%	1,025,000
MWRA Water System Pipeline	08/12/23	0.00%	2,808,400
Sewer Station	06/15/25	4.00%	2,183,500
Water GOB	11/01/25	1.26%	1,045,000
MWRA Sewer Bond	08/15/26	0.00%	211,000
MWRA Buy-in Refunding	04/15/27	1.49%	1,561,000
Water Improvements A-1 & A-2	06/15/27	4.00%	851,500
Water Main Improvements Phase I	06/15/27	4.00%	2,255,000
MWRA Buy-in	11/01/27	3.88%	390,000
MWRA Buy-in Refunding	11/01/27	1.26%	<u>3,600,000</u>
Total Business-Type Activities			<u>\$ 16,123,279</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,800,000	\$ 1,045,756	\$ 4,845,756
2019	3,550,000	908,833	4,458,833
2020	3,600,000	773,414	4,373,414
2021	3,630,000	635,158	4,265,158
2022	3,565,000	404,927	3,969,927
2023 - 2027	<u>9,149,000</u>	<u>761,478</u>	<u>9,910,478</u>
Total	<u>\$ 27,294,000</u>	<u>\$ 4,529,566</u>	<u>\$ 31,823,566</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,024,775	\$ 438,083	\$ 2,462,858
2019	1,904,775	397,030	2,301,805
2020	1,861,275	349,530	2,210,805
2021	1,861,254	302,130	2,163,384
2022	1,842,300	254,830	2,097,130
2023 - 2027	<u>6,278,900</u>	<u>578,055</u>	<u>6,856,955</u>
2028	<u>350,000</u>	<u>5,250</u>	<u>355,250</u>
Total	<u>\$ 16,123,279</u>	<u>\$ 2,324,908</u>	<u>\$ 18,448,187</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Total Balance 7/1/16	Additions	Reductions	Total Balance 6/30/17	Less Current Portion	Equals Long-Term Portion 6/30/17
Governmental Activities						
Bonds payable	\$ 29,689,000	\$ 1,355,000	\$ (3,750,000)	\$ 27,294,000	\$ (3,800,000)	\$ 23,494,000
Unamortized bond premiums	<u>3,245,584</u>	<u>173,491</u>	<u>(401,435)</u>	<u>3,017,640</u>	<u>(418,783)</u>	<u>2,598,857</u>
Total bonds payable	32,934,584	1,528,491	(4,151,435)	30,311,640	(4,218,783)	26,092,857
Accrued employee benefits	1,108,983	135,864	(114,784)	1,130,063	(113,006)	1,017,057
Net OPEB obligation	17,553,664	5,481,445	(3,353,195)	19,681,914	-	19,681,914
Net pension liability	30,868,736	-	(1,303,024)	29,565,712	-	29,565,712
Litigation settlement liability	<u>6,000,000</u>	<u>-</u>	<u>(6,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>\$ 88,465,967</u>	<u>\$ 7,145,800</u>	<u>\$ (14,922,438)</u>	<u>\$ 80,689,329</u>	<u>\$ (4,331,789)</u>	<u>\$ 76,357,540</u>

	Total Balance 7/1/16	Additions	Reductions	Total Balance 6/30/17	Less Current Portion	Equals Long-Term Portion 6/30/17
Business-Type Activities						
Bonds payable	\$ 12,070,394	\$ 5,501,000	\$ (1,448,115)	\$ 16,123,279	\$ (2,024,775)	\$ 14,098,504
Unamortized bond premiums	703,378	640,220	(58,615)	1,284,983	(122,637)	1,162,346
Total bonds payable	12,773,772	6,141,220	(1,506,730)	17,408,262	(2,147,412)	15,260,850
Accrued employee benefits	3,324,005	140,589	(254,676)	3,209,918	(23,695)	3,186,223
Net OPEB obligation	420,713	1,191,239	(1,007,802)	604,150	-	604,150
Net pension liability ⁽¹⁾	14,332,955	569,800	-	14,902,755	-	14,902,755
Total Business-Type	\$ 30,851,445	\$ 8,042,848	\$ (2,769,208)	\$ 36,125,085	\$ (2,171,107)	\$ 33,953,978

⁽¹⁾as restated for Electric fund

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2017 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
November 2012	MWRA I/I sewer loan	\$ 460,000
April 2013	Water improvements - A-1 and A-2	96,500
February 2014	Library renovations	1,037,367
September 2014	Water main improvements - Phase 1	257,000
April 2015	Birch Meadow field lighting	900,000
April 2015	MWRA Sewer I/I	1,477,000
	Total	\$ <u>4,227,867</u>

16. Deferred Inflows of Resources

Deferred inflows of resources refer to the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The Town reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 18.

The following is a summary of other deferred inflows of resources balances as of June 30, 2017:

	<u>Entity-wide Basis</u>	<u>Fund Basis</u>
	<u>Governmental Activities</u>	<u>Governmental Funds General Fund</u>
Gains on refunding bond	\$ 120,800	\$ -
Unavailable revenues	122,270	1,363,938
Total Deferred Inflows of Resources	\$ <u>243,070</u>	\$ <u>1,363,938</u>

Gains on refunding bonds are reported in the government-wide statement of net position in connection with the unamortized amount of gains resulting from the refunding of long-term bonds.

Unavailable revenues are reported in the government-wide statement of net position and governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

17. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2017:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes various special revenue funds, capital project funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes stabilization funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54). A similar action is needed to modify or rescind a commitment.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources in the subsequent budgetary period and surplus set aside to be used in the subsequent year's budget voted by Town Meeting.

Unassigned - Represents amounts that are available to be spent in future periods, the Town's general stabilization account, and deficit balances in nonmajor governmental funds.

Following is a breakdown of the Town's fund balances at June 30, 2017:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Permanent funds			
Cemetery	\$ -	\$ 2,505,498	\$ 2,505,498
Other	-	804,697	804,697
	<hr/>	<hr/>	<hr/>
Total Nonexpendable	-	3,310,195	3,310,195
Restricted			
For high school debt service	62,468	-	62,468
Federal grants	-	75,539	75,539
State grants			
Special Education (Circuit Breaker)	-	1,062,770	1,062,770
State aid to libraries	-	50,222	50,222
Other	-	43,506	43,506
Revolving funds:			
Extended day program	-	1,048,252	1,048,252
RISE preschool program	-	312,743	312,743
Special Education tuition	-	193,967	193,967
All-day kindergarten program	-	510,395	510,395
Inspection permit	-	677,914	677,914
Recreation	-	307,117	307,117
Athletic activities	-	58,254	58,254
School lunch	-	489,965	489,965
Other	-	264,815	264,815
Receipts reserved for appropriation			
Sale of real estate	-	601,584	601,584
Affordable housing fund	-	264,403	264,403
Sale of cemetery lots	-	219,249	219,249
Other	-	10,547	10,547
Gifts and donations	-	1,086,436	1,086,436
Permanent funds			
Healthcare	-	4,915,204	4,915,204
Cemetery	-	1,809,226	1,809,226
Other	-	448,741	448,741
Town capital project funds			
Library renovations	-	438,149	438,149
West street road improvements	-	424,889	424,889
Other	-	28,349	28,349
	<hr/>	<hr/>	<hr/>
Total Restricted	62,468	15,342,236	15,404,704

(continued)

(continued)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed			
Smart growth stabilization account	<u>503,000</u>	<u>-</u>	<u>503,000</u>
Total Committed	503,000	-	503,000
Assigned			
For encumbrances			
General government	284,744	-	284,744
Public safety	310,551	-	310,551
Education	1,295,501	-	1,295,501
Public works	660,738	-	660,738
Facilities	257,932	-	257,932
Culture and recreation	7,250	-	7,250
Employee benefits	38,623	-	38,623
For next year's expenditures	<u>1,600,000</u>	<u>-</u>	<u>1,600,000</u>
Total Assigned	4,455,339	-	4,455,339
Unassigned - operating fund	9,980,654	-	9,980,654
Unassigned - general stabilization	1,584,336	-	1,584,336
Unassigned - deficit balances	<u>-</u>	<u>(1,626,250)</u>	<u>(1,626,250)</u>
Total Unassigned	<u>11,564,990</u>	<u>(1,626,250)</u>	<u>9,938,740</u>
Total Fund Balance	<u>\$ 16,585,797</u>	<u>\$ 17,026,181</u>	<u>\$ 33,611,978</u>

18. **Reading Contributory Retirement System**

The Town follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68), with respect to the employees' retirement funds.

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) and Reading Housing Authority are members of the Reading Contributory Retirement System (the System), a cost-sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The Reading Contributory Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 2 Haven Street, Unit 304, Reading, Massachusetts 01867.

Participant Retirement Benefits

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.

If a participant was a member prior to February 2012, 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 Town 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.

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.

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 3.00%.

Participants 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. The percentages are as follows:

Before January 1, 1975	5.00%
January 1, 1975 - December 31, 1983	7.00%
January 1, 1984 - June 30, 1996	8.00%
Beginning July 1, 1996	9.00%
1979 - present	Additional 2.00% of salary in excess of \$30,000
Group 1 members hired on or after April 2, 2012	6.00% with 30 or more years of creditable service

Employer Contributions

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

The Town’s contribution to the System for the year ended June 30, 2017 was \$5,370,991 which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Town reported a liability of \$44,468,467 for its proportionate share of the net pension liability. The net pension liability was measured

as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 and rolled forward to December 31, 2016. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2016, the Town's proportion was 99.13%.

For the year ended June 30, 2017, the Town recognized pension expense of \$7,708,849. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings on pension plan investments	\$ 5,231,548	\$ -
Changes of assumptions	8,073,898	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	449,907	(486,855)
Differences between expected and actual experience	<u>-</u>	<u>(2,431,069)</u>
Total	<u>\$ 13,755,353</u>	<u>\$ (2,917,924)</u>

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

<u>Fiscal Year</u>	
2018	\$ 3,278,866
2019	3,278,866
2020	3,236,924
2021	<u>1,042,773</u>
Total	<u>\$ 10,837,429</u>

D. Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	January 1, 2015 rolled forward to December 31, 2016
Actuarial cost method	Entry age normal cost method
Inflation Rate	3.00% Annually
Salary increases	4.25% - 6.00% for Group 1 and 4.75% - 7.00% for Group 4
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Post-retirement cost-of-living adjustment	3.00% of first \$12,000
Mortality Rates:	
Pre-retirement and beneficiary mortality	RP-2014 Mortality Table with full generational mortality improvement using Scale MP-2014
Mortality for retired members	RP-2014 Mortality Table

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
International equity	22.00%	8.75%
Domestic equity	18.00%	7.63%
Core fixed income	13.00%	3.76%
Value-added fixed income	10.00%	6.45%
Private equity	10.00%	9.50%
Real estate	10.00%	6.50%
Hedge funds	9.00%	6.50%
Timber/natural resources	4.00%	7.07%
Portfolio completion strategies	4.00%	6.18%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.65%. 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.

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65%) or 1-percentage-point higher (8.65%) than the current rate:

<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
\$ 63,351,637	\$ 44,468,467	\$ 28,394,892

G. 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. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25 (GASB 67). MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the

MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member’s highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member’s age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS’ funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Membership Date</u>	<u>% of Compensation</u>
Before January 1, 1975	5.00%
January 1, 1975 - December 31, 1983	7.00%
January 1, 1984 - June 30, 1996	8.00%
Beginning July 1, 1996	9.00%
Beginning July 1, 2001	11.00% (for teachers who were hired after July 1, 2001 and accept the provisions of Chapter 114 of the Acts of 2000)
1979 - present	Additional 2.00% of salary in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.

Mortality rates were as follows:

Pre-retirement	RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
Post-retirement	RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct).
Disability	RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. 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 rates of return 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 rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.00%	6.90%
Core fixed income	13.00%	1.60%
Private equity	10.00%	8.70%
Real estate	10.00%	4.60%
Value added fixed income	10.00%	4.80%
Hedge funds	9.00%	4.00%
Portfolio completion strategies	4.00%	3.60%
Timber/natural resources	4.00%	5.40%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate (amounts in thousands):

<u>1% Decrease to (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase to (8.50%)</u>
\$ 27,464,000	\$ 22,357,928	\$ 18,022,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* (GASB 68) and the Commonwealth is a non-employer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Town Proportions

In fiscal year 2017 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the Town was \$98,468,028 and \$10,044,384, respectively, based on a proportionate share of 0.440417%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expenditure in the general fund.

20. Other Post-Employment Benefits – OPEB (GASB 45)

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45)*, requires governments to account for other post-employment benefits (OPEB), primarily health-care, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health and life insurance benefits for retired employees through the Town's Massachusetts Interlocal Insurance Association (MIIA) Health Benefits Trust. Benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2017, the actuarial valuation date, approximately 620 retirees and 581 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides post-employment medical, prescription drug, and life insurance benefits to all eligible retirees and their surviving spouses. All active employees who retire from the Town and meet the eligibility criteria will be eligible to receive these benefits.

C. Funding Policy

As of June 30, 2017, the actuarial valuation measurement date, retirees contribute 29% of the cost of the medical and prescription drug plan, as determined by the MIIA Health Benefits Trust. Retirees also contribute 50% of the premium for a \$5,000 life insurance benefit. The Town contributes the remainder of the medical, prescription drug, and life insurance plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal year 2017 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and the

change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2014.

	Governmental Funds	Water Fund	Sewer Fund	Stormwater Fund	Electric Fund	Total
Annual Required Contribution (ARC)	\$ 5,278,147	\$ 199,853	\$ 56,261	\$ 12,875	\$ 932,387	\$ 6,479,523
Interest on net OPEB obligation	1,316,525	21,977	8,097	1,479	-	1,348,078
Adjustment to ARC	<u>(1,113,227)</u>	<u>(29,038)</u>	<u>(10,698)</u>	<u>(1,954)</u>	<u>-</u>	<u>(1,154,917)</u>
Annual OPEB cost	5,481,445	192,792	53,660	12,400	932,387	6,672,684
Contributions made	<u>(3,353,195)</u>	<u>(153,420)</u>	<u>(53,996)</u>	<u>(6,067)</u>	<u>(794,319)</u>	<u>(4,360,997)</u>
Increase in net OPEB obligation	2,128,250	39,372	(336)	6,333	138,068	2,311,687
Net OPEB obligation - beginning of year	<u>17,553,664</u>	<u>293,029</u>	<u>107,962</u>	<u>19,722</u>	<u>-</u>	<u>17,974,377</u>
Net OPEB obligation - end of year	<u>\$ 19,681,914</u>	<u>\$ 332,401</u>	<u>\$ 107,626</u>	<u>\$ 26,055</u>	<u>\$ 138,068</u>	<u>\$ 20,286,064</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 and the two preceding fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 6,672,684	65.36%	\$ 20,286,064
2016	\$ 5,920,789	57.21%	\$ 17,974,377
2015	\$ 5,698,341	71.09%	\$ 16,331,636

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2017, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 75,292,954
Actuarial value of plan assets	<u>(6,478,298)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 68,814,656</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>8.60%</u>
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future. The

Schedule of OPEB Funding Progress, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following actuarial assumptions were applied to all periods included in the measurement, unless otherwise specified:

Valuation date	June 30, 2017
Actuarial cost method	Entry age normal - level percentage of payroll
Amortization method	Payments increasing at 2.50%
Inflation	2.50%
Salary increases	6.00% decreasing to 4.25% based on service for Group 1 and Group 2
	7.50% decreasing to 4.00% based on service for Teachers
	7.00% decreasing to 4.75% based on service for Group 4
Discount rate	7.50%
Investment rate of return	7.50%
Remaining amortization period	30-year closed for General Government and 14-year closed for all other departments
Asset valuation method	Market value
Medical/Prescription drug trend rate	7.00% decreasing by 0.50% for five years to an ultimate level of 4.50% per year

21. Other Post-Employment Benefits – OPEB (GASB 74)

In fiscal year 2011 the Town established an OPEB Trust fund to provide funding for future employee health care costs.

Investments

The OPEB Trust fund does not have a formal investment policy. At June 30, 2017, cash and short-term investments consisted of amounts held in money market and certificates of deposit. Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 75,292,954
Plan fiduciary net position	<u>(6,478,298)</u>
Net OPEB liability	<u>\$ 68,814,656</u>
Plan fiduciary net position as a percentage of the total OPEB liability	8.60%

Actuarial assumptions. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	June 30, 2017
Actuarial cost method	Entry age normal - level percentage of payroll
Inflation	2.50%
Salary increases	6.00% decreasing to 4.25% based on service for Group 1 and Group 2 7.50% decreasing to 4.00% based on service for Teachers 7.00% decreasing to 4.75% based on service for Group 4
Discount rate	7.50%
Investment rate of return	7.50%
Health care trend rates:	
Medical/Prescription Drug	7.00% decreasing by 0.50% for five years to an ultimate level of 4.50% per year
Mortality tables:	
Pre-retirement (non-teachers)	RP-2014 Healthy Employee Table projected generationally with Scale MP2014
Healthy (non-teachers)	RP-2014 Healthy Annuitant Table projected generationally with
Disabled (non-teachers)	RP-2014 Disabled Retiree Table projected generationally with
Pre-retirement (teachers)	RP-2014 White Collar Employee Mortality Table projected generationally with Scale MP-2016
Healthy (teachers)	RP-2014 White Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2016
Disabled (teachers)	RP-2014 Healthy Annuitant Mortality Table set forward 4 years projected generationally with Scale BB from 2014

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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	18.00%	6.44%
International developed markets equity	16.00%	7.40%
Hedge fund, GTAA, risk parity	13.00%	3.75%
Core fixed income	12.00%	2.02%
Private equity	11.00%	10.47%
High-yield fixed income	10.00%	4.43%
Real estate	10.00%	5.00%
International emerging markets equity	6.00%	9.42%
Commodities	4.00%	4.43%
Total	<u>100.00%</u>	

Discount rate. The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member 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.

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 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current discount rate:

1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
\$ 78,147,496	\$ 68,814,656	\$ 61,050,477

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 1-percentage-point lower (6.00% decreasing to 3.50%) or 1-percentage-point

higher (8.00% decreasing to 5.50%) than the current healthcare cost trend rates:

	Current Healthcare Cost Trend Rates	
1% Decrease (6.00% decreasing to 3.50%)	(7.00% decreasing to 4.50%)	1% Increase (8.00% decreasing to 5.50%)
<u>\$ 60,342,347</u>	<u>\$ 68,814,656</u>	<u>\$ 77,996,332</u>

22. Commitments and Contingencies

Outstanding Legal Issues – On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town’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.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to Town counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts, if any, to be immaterial.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

23. Beginning Net Position Restatement and Reclassification

In fiscal year 2017 the Governmental Accounting Standards Board (GASB) released Implementation Guide No. 2017-1. The implementation guide states that a municipality cannot reduce their net pension liability by the value of a separate pension trust. Furthermore, the implementation guide states that the pension trust should be presented as part of the proprietary Statement of Net Position and not a separate fiduciary fund. As a result of this implementation guide, the beginning (July 1, 2015) net position of the Department’s proprietary and fiduciary funds have been restated and reclassified as follows:

Government-Wide Financial Statements

	<u>Business-Type Activities</u>
As previously reported	\$ 132,261,583
Reclassification to Business-Type Activities	5,610,105
GASB 68 Restatement	<u>(5,529,183)</u>
As restated	<u>\$ 132,342,505</u>

Fund Basis Financial Statements

	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>
	<u>Electric Division Fund</u>	<u>Pension Trust Fund</u>
As previously reported	\$ 104,814,487	\$ 5,610,105
Reclassification to Business-Type Activities	5,610,105	(5,610,105)
GASB 68 Restatement	<u>(5,529,183)</u>	<u>-</u>
As restated	<u>\$ 104,895,409</u>	<u>\$ -</u>

24. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, replacing requirements of Statements No. 45 and 57 (GASB 75), effective for the Town beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/ expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

Town of Reading, Massachusetts Municipal Light Department

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

- A. Business Activity - The Department purchases electricity for distribution to more than 25,000 customers within the towns of Reading, North Reading, Wilmington, and Lynnfield.
- B. 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 non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department's proprietary fund are charges to customers for electric sales and services. Operating expenses for the Department's proprietary fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

- D. Retirement Trust - The Reading Municipal Light Department Employees' Retirement Trust (the "Pension Trust") was established by the Reading Municipal Light Board on December 30, 1966, pursuant to Chapter 64 of the General Laws of the Commonwealth of Massachusetts.

The Pension Trust constitutes 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.

In accordance with Government Accounting Standards Board Statement 68 (GASB 68), the Retirement Trust was consolidated into the Business-Type Proprietary Fund and is reflected in net position as "restricted for pension trust."

- E. Other Post-Employment Benefits Trust - The Other Post-Employment Benefits Liability 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.

- F. 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 period.

- G. 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 or short-term investments. For purposes of the Statements of Net Position, both the proprietary funds and fiduciary funds consider unrestricted and restricted investments with original maturities of three months or less to be short-term investments.

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

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

- I. 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.
- J. 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.

- K. 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.
- L. Long-Term Obligations - The proprietary fund financial statements report long-term debt and other long-term obligations as liabilities in the Statements of Net Position.
- M. 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.
- N. Rate of Return - The Department's rates must be set such that earnings attributable to electric operations do not exceed eight percent of the net cost

of plant. The Department's audited financial statements are prepared in accordance with auditing standards generally accepted in the United States of America. To determine the net income subject to the rate of return limitations, the Department performs the following calculation. Using the net income per the audited financial statements, the return on investment to the Town of Reading is added back, the fuel charge adjustment is added or deducted, and 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 and bond principal payments are 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 eight percent rate of return, which is calculated by adding the book value of net plant and the investment in associated companies multiplied by eight percent. From this calculation, the Municipal Light Board will determine what cash transfers need to be made at the end of the fiscal year.

2. Cash and Investments

Total cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Proprietary Fund:	
Unrestricted cash and short-term investments	\$ 15,522,815
Restricted cash and short-term investments	26,482,494
Restricted investments	2,659,813
Fiduciary Funds:	
Cash and short-term investments - OPEB Trust	<u>2,857,150</u>
Total cash and investments	<u>\$ 47,522,272</u>

Total cash and investments at June 30, 2017 consist of the following:

Cash on hand	\$ 3,500
Deposits with financial institutions	<u>47,518,772</u>
Total cash and investments	<u>\$ 47,522,272</u>

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that the fair value of an investment will be adversely affected by changes in market interest rates. 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 June 30, 2017, the Department (including the Pension Trust and 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 June 30, 2017, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying maturity dates as follows:

	Proprietary Fund	
	<u>Restricted Investments</u>	<u>Maturity Date</u>
<u>Corporate bonds</u>		
AT&T Inc	\$ 433,147	12/01/22
General Electric Cap Corp	429,272	01/09/23
Wells Fargo & Co	422,960	08/15/23
Rabobank Nederland Bank	522,140	11/09/22
Teva Pharmaceut Fin BV	427,700	12/18/22
BNP Paribas	<u>424,594</u>	03/03/23
Total	<u>\$ 2,659,813</u>	

Disclosures Relating to 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 June 30, 2017, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying ratings as follows:

	Proprietary Fund	
<u>Investment Type</u>	<u>Restricted Investments</u>	<u>Moody's Rating</u>
Corporate bonds:		
AT&T Inc	\$ 433,147	BAA1
General Electric Cap Corp	429,272	A1
Wells Fargo & Co	422,960	A3
Rabobank Nederland Bank	522,140	A3
Teva Pharmaceut Fin BV	427,700	BAA2
BNP Paribas	<u>424,594</u>	A1
Total	<u>\$ 2,659,813</u>	

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 June 30, 2017, the Department and Pension Trust investments were held in domestic and foreign fixed income bonds, as detailed in the sections above. Five of the bonds each individually represent approximately 16% of the Department's and System's total investments, while the investment in Rabobank Nederland Bank represents approximately 20%.

Custodial Credit Risk

Custodial Credit Risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the Department will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Massachusetts General Laws, Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Department follows the Massachusetts statute as written, as well as the Town of 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 June 30, 2017, cannot be reasonably determined.

As of June 30, 2017, none of the Department or Pension Trust investments were exposed to custodial credit risk because the related securities are registered in the Department's name.

Fair Value

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

<u>Description</u>	<u>Fair Value Measurements Using:</u>		
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:			
Debt securities			
Corporate bonds	\$ 2,659,813	\$ 2,659,813	\$ -
Total	\$ <u>2,659,813</u>		

3. Restricted Cash and Investments

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

	<u>6/30/17</u>		<u>6/30/16</u>	
	<u>Cash</u>	<u>Investments</u>	<u>Cash</u>	<u>Investments</u>
Depreciation fund	\$ 2,451,661	\$ -	\$ 4,494,953	\$ -
Construction fund	2,500,000	-	1,500,000	-
Deferred fuel reserve	5,841,567	-	5,116,875	-
Deferred energy conservation reserve	602,131	-	717,418	-
Rate stabilization	6,883,542	-	6,822,339	-
Reserve for uncollectible accounts	200,000	-	200,000	-
Sick leave benefits	1,820,228	1,329,907	1,912,146	1,345,663
Hazardous waste fund	750,000	-	150,000	-
Customer deposits	1,080,257	-	901,905	-
Pension trust	4,353,108	1,329,906	4,264,442	1,345,663
Total	\$ <u>26,482,494</u>	\$ <u>2,659,813</u>	\$ <u>26,080,078</u>	\$ <u>2,691,326</u>

The Department maintains the following reserves:

- Depreciation fund - The Department is normally required to reserve 3.0% of capital assets each year to fund capital improvements.
- Construction fund – This represents additional funds set aside to fund capital expenditures.
- 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 actuarially determined compensated absence liability.
- Hazardous waste fund - This reserve was set up by the Board of Commissioners 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 consists of the following at June 30, 2017:

Customer Accounts:		
Billed	\$	2,488,551
Less allowances:		
Uncollectible accounts		(200,000)
Sales discounts		<u>(98,570)</u>
Total billed		2,189,981
Unbilled, net		<u>6,118,951</u>
Total customer accounts		8,308,932
Other Accounts:		
Merchandise sales	249,384	
MMWEC surplus	147,193	
Intergovernmental grants	43,056	
Liens and other	<u>13,280</u>	
Total other accounts		<u>452,913</u>
Total net receivables	\$	<u><u>8,761,845</u></u>

5. Prepaid Expenses

Prepaid expenses consist of the following:

Insurance and other	\$	298,971
Purchase power		(201,947)
NYPA prepayment fund		307,573
WC Fuel - Watson		<u>276,106</u>
Total	\$	<u><u>680,703</u></u>

6. Inventory

Inventory comprises supplies and materials at June 30, 2017, and is valued using the average cost method.

7. Investment in Associated Companies

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 following 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.

Investment in associated companies consists of the following, at June 30, 2017:

New England Hydro-Transmission (NEH & NHH) \$ 212,428

8. Capital Assets

The following is a summary of fiscal year 2017 activity in capital assets (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Structures and improvements	\$ 16,146	\$ 3,268	\$ -	\$ 19,414
Equipment and furnishings	32,511	1,322	(241)	33,592
Infrastructure	88,053	3,465	(991)	90,527
Total capital assets, being depreciated	136,710	8,055	(1,232)	143,533
Less accumulated depreciation for:				
Structures and improvements	(8,949)	(465)	-	(9,414)
Equipment and furnishings	(20,856)	(905)	241	(21,520)
Infrastructure	(35,969)	(2,731)	946	(37,754)
Total accumulated depreciation	(65,774)	(4,101)	1,187	(68,688)
Total capital assets, being depreciated, net	70,936	3,954	(45)	74,845
Capital assets, not being depreciated:				
Land	1,266	-	-	1,266
Total capital assets, not being depreciated	1,266	-	-	1,266
Capital assets, net	\$ 72,202	\$ 3,954	\$ (45)	\$ 76,111

9. Deferred Outflows of Resources

Deferred outflows of resources represent the Department’s consumption of net position that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 16.

10. Accounts Payable

Accounts payable represent fiscal 2017 expenses that were paid after June 30, 2017.

11. Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2017:

Accrued payroll	\$ 143,561
Accrued sales tax	219,158
Other	<u>203,065</u>
Total	<u>\$ 565,784</u>

12. Customer Deposits

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

13. Customer Advances for Construction

This balance represents deposits received from vendors in advance for work to be performed by the Department. The Department recognizes these deposits as revenue after the work has been completed.

14. 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.

15. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Department that are applicable to future reporting periods. Deferred inflows of resources

have a negative effect on net position, similar to liabilities. The Department reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 16.

16. Reading Contributory Retirement System

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

A. 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 2 Haven Street, Unit 304, Reading, Massachusetts 01867.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-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 percent, 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.

If a participant was a member prior to February 2012, 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.

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.

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%.

Participants 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 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.

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 June 30, 2017 was \$1,579,345, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Department reported a liability of \$13,076,538 for its proportionate share of the System's net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to December 31, 2016. 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, 2016, the Department's proportion was 29.15%.

Town of Reading Municipal Light Department Employees' Retirement Trust ("Pension Trust"): The Department has established an irrevocable trust for the purpose of currently funding its annual required contribution to the Town of Reading Contributory Retirement System (RCRS). Annual contributions to the trust are actuarially determined to be the net normal cost for funding the Department's liability for pension benefits for covered employees, and both the principal and income of the trust is restricted for the exclusive benefit of Department employees and their beneficiaries. This Pension Trust is included in the proprietary fund statements in the Department's basic financial statements.

As noted in the first paragraph of this section, the Department's proportionate share of the RCRS net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to December 31, 2016. However, the actuarial valuation does not take into account the fiduciary net position of the Department's Pension Trust at December 31, 2016 (the measurement date). Accordingly, the following reconciliation is provided:

For the year ended June 30, 2017, the Department recognized pension expense of \$2,313,974. In addition, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between expected and actual experience	\$ -	\$ 714,888
Changes of assumptions	2,374,236	-
Net difference between projected and actual investment earnings on pension plan	1,538,405	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>222,437</u>	<u>-</u>
Total	<u>\$ 4,135,078</u>	<u>\$ 714,888</u>

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

Year ended June 30:

2018	\$ 1,028,288
2019	1,028,288
2020	1,015,954
2021	<u>347,660</u>
Total	<u>\$ 3,420,190</u>

D. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2015, rolled forward to the measurement date of December 31, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Investment rate of return	7.65%, net of pension plan investment expense,
Projected salary increases	4.25%-6.00% for Group 1 and 4.75%-7.00% for Group 4
Inflation rate	3.00% Annually
Post-retirement cost-of-living adjustment	3.00% of first \$12,000

Mortality rates were based on the RP-2014 Mortality Table with full generational mortality improvement using Scale MP-2014. For disabled lives, the mortality rates were based on the RP-2014 Disabled Mortality Table.

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, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Rates of Return</u>
International Equity	22.00%	8.75%
Domestic Equity	18.00%	7.63%
Core Fixed Income	13.00%	3.76%
Value-Added Fixed Income	10.00%	6.45%
Private Equity	10.00%	9.50%
Real estate	10.00%	6.50%
Hedge funds	9.00%	6.50%
Timber/Natural Resources	4.00%	7.07%
Portfolio Completion Strategies	4.00%	6.18%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.65%. 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.

F. 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 7.65%, 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 (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
\$ 18,629,075	\$ 13,076,538	\$ 8,349,754

G. Pension Plan Fiduciary Net Position

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

H. Town of Reading Municipal Light Department Employees Retirement Trust ("Pension Trust")

The Department has established an irrevocable trust for the purpose of currently funding its annual required contribution to the Town of Reading Contributory Retirement System (RCRS). Annual contributions to the trust are actuarially determined to be the net normal cost for funding the Department's liability for pension benefits for covered employees, and both the principal and income of the trust is restricted for the exclusive benefit of Department employees and their beneficiaries. This Pension Trust is included in the proprietary fund statements in the Department's basic financial statements.

As noted in the first paragraph of this section, the Department's proportionate share of the RCRS net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to December 31, 2016. However, the actuarial valuation does not take into account the fiduciary net position of the Department's Pension Trust at December 31, 2016 (the measurement date). As of December 31, 2016, the value of the pension trust was \$4,016,746.

17. Other Post-Employment Benefits – OPEB (GASB 45)

The Department follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement No. 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the proprietary fund Statements of Revenues, Expenses, and Changes in Net Position when a future retiree earns their post-employment benefits, rather than when they use them. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the proprietary fund Statements of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described in Note 18, the Department provides post-employment health and life insurance benefits to retired employees through the Town of Reading's participation in the Massachusetts Interlocal Insurance Association (MIIA) Health Benefits Trust. Benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2017, the actuarial valuation measurement date, approximately 91 retirees and 58 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Department provides post-employment medical, prescription drug, and life insurance benefits to all eligible retirees and their surviving spouses. All active employees who retire from the Department and meet the appropriate criteria are eligible to receive these benefits.

C. Funding Policy

As of the June 30, 2017, the actuarial valuation measurement date, retirees are required to contribute 29% of the cost of the medical and prescription drug plan, as determined by the MIIA Health Benefits Trust. Retirees also contribute 50% of the premium for a \$5,000 life insurance benefit. The Department contributes the remainder of the medical, prescription drug, and life insurance plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Department's fiscal 2017 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a remaining period of sixteen years.

The following table shows the components of the Department's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and the change in the Department's net OPEB obligation based on an actuarial valuation as of June 30, 2017.

Annual Required Contribution (ARC)	\$ <u>932,387</u>
Annual OPEB cost	932,387
Projected benefit payments	<u>(485,573)</u>
Increase in net OPEB obligation	446,814
Net OPEB obligation - beginning of year	-
Contributions to OPEB Trust	<u>(308,746)</u>
(1) Net OPEB obligation - end of year	\$ <u><u>138,068</u></u>

(1) See Part E for additional information

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 and the two preceding fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$932,387	85.2%	\$ 138,068
2016	\$782,939	100.0%	\$ -
2015	\$758,525	100.0%	\$ -
2014	\$768,378	100.0%	\$ -
2013	\$604,987	100.0%	\$ -

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2017, the most recent actuarial valuation measurement date was as follows:

Actuarial accrued liability (AAL)	\$ 10,015,425
Actuarial value of plan assets	<u>2,857,072</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u><u>7,158,353</u></u>
Funded ratio (actuarial value of plan assets/AAL)	28.53%
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

In 2010, the Department's Municipal Light Board voted to accept the provisions of Chapter 32B §20 of Massachusetts General Laws and create an

Other Post-Employment Benefits Liability Trust Fund as a mechanism to set aside monies to fund its OPEB liability. In 2013, the Commissioners voted to create an OPEB trust instrument in alignment with the Town of Reading. The assets and net position of this trust are reported in the Department's Fiduciary Funds Statements of Fiduciary Net Position.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Department and the plan members and include the types of benefits provided at the time of each actuarial valuation and the historical pattern of sharing of benefit costs between the Department and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2017 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The Department's actuarial value of plan assets was \$2,857,072. The actuarial assumptions included a 7.50% investment rate of return and an initial annual health care cost trend rate of 7.0% which decreases by 0.5% for five years to an ultimate level of 4.5% per year. The amortization costs for the initial UAAL is a level percentage of payroll amortization, with amortization payments increasing at 2.5% per year for a remaining period of 14 years.

18. Other Post-Employment Benefits – OPEB (GASB 74)

In 2010 the Government established an OPEB Trust fund to provide funding for future employee health care costs.

Cash and Short-term Investments

At June 30, 2017, cash and short-term investments consisted of amounts held in money market and certificates of deposit. Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 10,015,425
Plan fiduciary net position	<u>2,857,072</u>
Net OPEB liability	<u>\$ 7,158,353</u>
Plan fiduciary net position as a percentage of the total OPEB liability	28.5%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	6.00% decreasing to 4.25% for Groups 1 & 2 7.00% decreasing to 4.75% for Group 4
Investment rate of return	7.50% percent, net of OPEB plan investment expense, including inflation

Mortality rates were based on:

- Pre-Retirement – RP-2014 Healthy Employee Table projected generationally with Scale MP2014.
- Healthy – RP-2014 Healthy Annuitant Table projected generationally with Scale MP2014.
- Disabled – RP-2014 Disabled Retiree Table projected generationally with Scale MP2014.

The actuarial assumptions used in the June 30, 2017 valuation were the same used during the January 1, 2015 actuarial valuation of the Reading Contributory Retirement System.

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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	18.00%	6.44%
International developed markets equity	16.00%	7.40%
International emerging markets equity	6.00%	9.42%
Core fixed income	12.00%	2.02%
High-yield fixed income	10.00%	4.43%
Real estate	10.00%	5.00%
Commodities	4.00%	4.43%
Hedge Fund, GTAA, Risk parity	13.00%	3.75%
Private equity	11.00%	10.47%
Total	<u>100.00%</u>	

Discount rate. The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

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 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current discount rate:

<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
\$ 7,814,750	\$ 7,158,353	\$ 6,105,048

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 1-percentage-point lower (7.00% decreasing to 6.00%) or 1-percentage-point higher (7.00% increasing to 8.00%) than the current healthcare cost trend rates:

<u>1% Decrease (7.00% decreasing to 6.00%)</u>	<u>Healthcare Cost Trend Rates (7.00%)</u>	<u>1% Increase (7.00% increasing to 8.00%)</u>
\$ 6,034,235	\$ 7,158,353	\$ 7,799,633

19. Participation in Massachusetts Municipal Wholesale Electric Company

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

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own, or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC 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). 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, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. 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 to an additional amount not to exceed 25% of their original 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.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC, and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

MMWEC A substantial portion of MMWEC’s plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone 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 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.

The Reading Municipal Light Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

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.

After the July 1, 2017 principal payment, total capital expenditures amounted to \$1,704,467,000, of which \$126,846,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects from Power Supply System Revenue Bonds totals \$10,680,000, of which \$182,000 is associated with the Department's share of Project Capability. After the July 1, 2017 principal payment, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$11,540,000, of which \$190,000 is anticipated to be billed to the Department in the future.

The aggregate amount of the Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at June 30, 2017 and estimated for future years is shown below.

	<u>Annual Costs</u>
For years ending June 30, 2018	\$ <u>190,000</u>
Total	\$ <u><u>190,000</u></u>

In addition, under the PSAs, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O& M) costs of the Projects in which it participates. The Department's total O& M costs including debt service under the PSAs were \$9,548,000 and \$11,894,000 for the years ended June 30, 2017 and 2016, respectively.

20. Renewable Energy Certificates

In 2003, the Massachusetts Department of Energy and Environmental Affairs adopted the Massachusetts Renewable Energy Portfolio Standard (RPS), a regulation that requires Investor Owned Utilities (IOUs) to purchase mandated amounts of energy generated by renewable resources (Green Energy) as a percentage of their overall electricity sales. The Massachusetts RPS applies only to IOUs, so the Department is currently exempt from this mandate.

Energy suppliers meet their annual RPS obligations by acquiring a sufficient quantity of RPS-qualified renewable energy certificates (RECs) that are created and recorded at the New England Power Pool (NEPOOL) Generation Information System (GIS). Suppliers can purchase RECs from electricity generators or from other utilities that have acquired RECs.

As part of its ongoing commitment to Green Energy, the Department has entered into Purchase Power Agreements (PPAs) with Swift River Hydro LLC and Concord Steam Corporation to purchase power generated from renewable energy resources. These PPAs include the Department taking title to RECs, which certify that the energy produced was the product of a renewable resource. Because the Department is exempt from the RPS provisions, it has the option of holding these RECs until they expire or selling them through the NEPOOL GIS.

Information regarding the Department's fiscal year 2017 REC activity and balances is as follows:

REC Sales During Fiscal 2017

	<u>Certificates</u>	<u>Unit Price</u>	<u>Amount</u>
CT Class I	9,173	\$ 16.00	\$ 146,768
MA Class I	2,770	\$ 9.50	26,315
MA Class II	3,827	\$ 24.00	91,848
MA/RI/CT Class I	14,934	\$ 9.50	141,873
CT Class I	<u>3,155</u>	\$ 9.50	<u>29,973</u>
Total	<u>33,859</u>		<u>\$ 436,777</u> ⁽¹⁾

(1) Sale proceeds netted against fiscal year 2017 purchased power fuel charge

REC Holdings at June 30, 2017

	<u>Banked Certificates</u>	<u>Projected Certificates</u>	<u>Total Certificates</u>	<u>Estimated Value</u>
MA Class I & II	8,655	8,580	17,235	\$ 275,380
CT Class I	2,218	3,356	3,356	89,184
RI Class I	<u>8</u>	<u>20</u>	<u>20</u>	<u>828</u>
Total	<u>10,881</u>	<u>11,956</u>	<u>20,611</u>	<u>\$ 365,392</u>

A banked REC is a REC that has been processed by the NEPOOL GIS Coordinator and is in the Department's GIS account. A projected REC is the Department's estimate of what will be received based on invoices generated by REC-producing projects that the Department has entitlements to.

Because there is no formal accounting guidance under GAAP or IFRS for RECs and the Department does not have a formal policy for the future disposition of RECs, the estimated fair value of the Department's REC holdings at June 30, 2017 are not recognized as an asset on the proprietary fund Statements of Net Position.

21. Leases

Related Party Transaction - Property Sub-Lease

The Department is the lessor of facilities that are currently sub-leased to the Reading Town Employees Federal Credit Union. The original sub-lease agreement commenced in December 2000 and was extended by various amendments through November 30, 2017. Following is the future minimum rental income to be received by the Department under the terms of this lease for the year ending June 30:

2018	\$ <u>4,084</u>
Total	\$ <u>4,084</u>

Operating Lease - Warehouse

The Department is the lessee of a warehouse facility owned by JCM Real Estate Trust. The original lease agreement for this facility commenced in December 1998 and was extended by various amendments through May 31, 2016. Under the terms of the most recent lease amendment, the Department has exercised the option to extend the lease for an additional 24 months until May 31, 2018. Following is the future minimum rental expense to be paid by the Department for the year ending June 30:

2018	\$ <u>147,902</u>
Total	\$ <u>147,902</u>

TOWN OF READING, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(Unaudited)

Reading Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	December 31, 2016	99.130%	\$ 44,468,467	\$ 23,499,057	189.24%	73.43%
June 30, 2016	December 31, 2015	99.275%	\$ 41,172,508	\$ 22,534,225	182.71%	72.17%
June 30, 2015	December 31, 2014	99.275%	\$ 25,805,701	\$ 19,399,338	143.26%	79.89%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	June 30, 2016	0.440417%	\$ -	\$ 98,468,028	\$ 98,468,028	\$ 28,969,111	-	52.73%
June 30, 2016	June 30, 2015	0.439137%	\$ -	\$ 89,977,515	\$ 89,977,515	\$ 27,836,403	-	55.38%
June 30, 2015	June 30, 2014	0.425154%	\$ -	\$ 67,583,938	\$ 67,583,938	\$ 26,068,000	-	61.64%

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

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017

(Unaudited)

Reading Contributory Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$ 5,370,991	\$ (5,370,991)	-	\$ 23,499,057	22.86%
June 30, 2016	\$ 5,147,236	\$ (5,147,236)	-	\$ 22,534,225	22.84%
June 30, 2015	\$ 4,925,586	\$ (4,925,586)	-	\$ 20,764,089	23.72%

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

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS
SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/17	\$ 6,478,298	\$ 75,292,954	\$ 68,814,656	8.60%	N/A	N/A
06/30/14	\$ 3,722,552	\$ 66,759,344	\$ 63,036,792	5.58%	N/A	N/A
06/30/13	\$ 2,860,432	\$ 67,170,840	\$ 64,310,408	4.26%	N/A	N/A
06/30/11	\$ 1,167,161	\$ 94,458,486	\$ 93,291,325	1.24%	N/A	N/A
06/30/08	\$ -	\$ 83,501,922	\$ 83,501,922	0.0%	N/A	N/A

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY (GASB 74)

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 1,891,090
Interest on unfunded liability - time value of money	5,376,453
Benefit payments, including refunds of member contributions	<u>(3,476,250)</u>
Net change in total OPEB liability	3,791,293
Total OPEB liability - beginning	<u>71,501,661</u>
Total OPEB liability - ending (a)	<u><u>\$ 75,292,954</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 4,360,996
Net investment income	50,000
Benefit payments, including refunds of member contributions	<u>(3,476,250)</u>
Net change in plan fiduciary net position	934,746
Plan fiduciary net position - beginning	<u>5,543,552</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 6,478,298</u></u>
 Net OPEB liability (asset) - ending (a-b)	<u><u>\$ 68,814,656</u></u>

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

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

See Independent Auditors' Report.

**TOWN OF READING, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS
(GASB 74)**

(Unaudited)

Schedule of Net OPEB Liability

	<u>2017</u>
Total OPEB liability	\$ 75,292,954
Plan fiduciary net position	<u>6,478,298</u>
Net OPEB liability	<u>\$ 68,814,656</u>
Plan fiduciary net position as a percentage of the total OPEB liability	8.60%
Covered payroll	N/A
Participating employer net OPEB liability as a percentage of covered payroll	N/A

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 6,479,523
Contributions in relation to the actuarially determined contribution	<u>4,360,996</u>
Contribution deficiency	<u>\$ 2,118,527</u>
Covered payroll	N/A
Contributions as a percentage of covered payroll	N/A

Schedule of Investment Returns

	<u>2017</u>
Annual money weighted rate of return, net of investment expense	7.50%

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

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

TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2017

	<u>Special Revenue Funds</u>		
	<u>Federal Grants</u>	<u>State Grants</u>	<u>Revolving Funds</u>
Assets			
Cash and short-term investments	\$ (73,797)	\$ 1,094,579	\$ 4,084,669
Investments	-	-	-
Receivables:			
Departmental and other	-	-	118,024
Intergovernmental	<u>209,220</u>	<u>24,273</u>	<u>-</u>
Total assets	<u>\$ 135,423</u>	<u>\$ 1,118,852</u>	<u>\$ 4,202,693</u>
Liabilities			
Warrants payable	\$ 11,472	\$ 28,616	\$ 48,766
Accrued liabilities	103,965	-	38,005
Unearned revenue	-	-	266,935
Notes payable	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	115,437	28,616	353,706
Fund Balances			
Nonspendable	-	-	-
Restricted	75,539	1,156,498	3,863,422
Unassigned	<u>(55,553)</u>	<u>(66,262)</u>	<u>(14,435)</u>
Total fund balance	<u>19,986</u>	<u>1,090,236</u>	<u>3,848,987</u>
Total Liabilities and Fund Balance	<u>\$ 135,423</u>	<u>\$ 1,118,852</u>	<u>\$ 4,202,693</u>

See Independent Auditors' Report.

Special Revenue Funds

<u>Receipts Reserved</u>	<u>Gifts and Donations</u>	<u>Subtotals</u>
\$ 1,095,783	\$ 967,350	\$ 7,168,584
-	124,573	124,573
-	-	118,024
-	-	233,493
<u>\$ 1,095,783</u>	<u>\$ 1,091,923</u>	<u>\$ 7,644,674</u>
\$ -	\$ 5,487	\$ 94,341
-	-	141,970
-	-	266,935
-	-	-
<u>-</u>	<u>5,487</u>	<u>503,246</u>
-	-	-
1,095,783	1,086,436	7,277,678
-	-	(136,250)
<u>1,095,783</u>	<u>1,086,436</u>	<u>7,141,428</u>
<u>\$ 1,095,783</u>	<u>\$ 1,091,923</u>	<u>\$ 7,644,674</u>

(continued)

TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2017

(continued)

	<u>Capital Project Funds</u>		
	<u>Town Capital Project Funds</u>	<u>School Capital Project Funds</u>	<u>Subtotals</u>
Assets			
Cash and short-term investments	\$ 1,145,273	\$ -	\$ 1,145,273
Investments	-	-	-
Receivables:			
Departmental and other	-	-	-
Intergovernmental	-	-	-
Total assets	<u>\$ 1,145,273</u>	<u>\$ -</u>	<u>\$ 1,145,273</u>
Liabilities			
Warrants payable	\$ 253,886	\$ -	\$ 253,886
Accrued liabilities	-	-	-
Unearned revenue	-	-	-
Total liabilities	<u>-</u>	<u>1,490,000</u>	<u>1,490,000</u>
Total Liabilities	253,886	1,490,000	1,743,886
Fund Balances			
Nonspendable	-	-	-
Restricted	891,387	-	891,387
Unassigned	-	<u>(1,490,000)</u>	<u>(1,490,000)</u>
Total fund balance	<u>891,387</u>	<u>(1,490,000)</u>	<u>(598,613)</u>
Total Liabilities and Fund Balance	<u>\$ 1,145,273</u>	<u>\$ -</u>	<u>\$ 1,145,273</u>

See Independent Auditors' Report.

Permanent Funds			Total Nonmajor Governmental Funds
Town Trust Funds	School Trust Funds	Subtotals	
\$ 218,350	\$ -	\$ 218,350	\$ 8,532,207
10,090,690	185,769	10,276,459	10,401,032
-	-	-	118,024
-	-	-	233,493
<u>\$ 10,309,040</u>	<u>\$ 185,769</u>	<u>\$ 10,494,809</u>	<u>\$ 19,284,756</u>
\$ 11,379	\$ 64	\$ 11,443	\$ 359,670
-	-	-	141,970
-	-	-	266,935
-	-	-	1,490,000
11,379	64	11,443	2,258,575
3,184,845	125,350	3,310,195	3,310,195
7,112,816	60,355	7,173,171	15,342,236
-	-	-	(1,626,250)
<u>10,297,661</u>	<u>185,705</u>	<u>10,483,366</u>	<u>17,026,181</u>
<u>\$ 10,309,040</u>	<u>\$ 185,769</u>	<u>\$ 10,494,809</u>	<u>\$ 19,284,756</u>

TOWN OF READING, MASSACHUSETTS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Special Revenue Funds</u>		
	<u>Federal Grants</u>	<u>State Grants</u>	<u>Revolving Funds</u>
Revenues			
Departmental	\$ -	\$ -	\$ 6,457,996
Intergovernmental	1,943,937	2,092,332	248,015
Investment income	-	-	338
Contributions	-	-	-
Other	-	-	11,934
	<u>1,943,937</u>	<u>2,092,332</u>	<u>6,718,283</u>
Total revenues	1,943,937	2,092,332	6,718,283
Expenditures			
Current:			
General government	-	6,500	107,514
Public safety	30,623	61,286	950,918
Education	1,514,880	1,475,696	5,051,841
Public works	-	434,684	2,447
Health and human services	168,507	57,141	27,207
Culture and recreation	-	221,241	630,737
	<u>1,714,010</u>	<u>2,256,548</u>	<u>6,770,664</u>
Total expenditures	1,714,010	2,256,548	6,770,664
Excess (deficiency) of revenues over (under) expenditures	229,927	(164,216)	(52,381)
Other Financing Sources (Uses)			
Issuance of bonds	-	-	-
Transfers in	-	-	-
Transfers out	-	-	(218,363)
	<u>-</u>	<u>-</u>	<u>(218,363)</u>
Total other financing sources (uses)	-	-	(218,363)
Change in fund balances	229,927	(164,216)	(270,744)
Fund Balances at beginning of year	<u>(209,941)</u>	<u>1,254,452</u>	<u>4,119,731</u>
Fund Balances at end of year	<u>\$ 19,986</u>	<u>\$ 1,090,236</u>	<u>\$ 3,848,987</u>

See Independent Auditors' Report.

Special Revenue Funds

<u>Receipts Reserved</u>	<u>Gifts and Donations</u>	<u>Subtotals</u>
\$ 54,995	\$ -	\$ 6,512,991
-	-	4,284,284
8,277	-	8,615
-	573,489	573,489
<u>-</u>	<u>-</u>	<u>11,934</u>
63,272	573,489	11,391,313
3,063	2,066	119,143
-	2,266	1,045,093
-	95,011	8,137,428
-	-	437,131
-	1,806	254,661
<u>-</u>	<u>152,855</u>	<u>1,004,833</u>
<u>3,063</u>	<u>254,004</u>	<u>10,998,289</u>
60,209	319,485	393,024
-	-	-
-	-	-
<u>(75,000)</u>	<u>-</u>	<u>(293,363)</u>
<u>(75,000)</u>	<u>-</u>	<u>(293,363)</u>
(14,791)	319,485	99,661
<u>1,110,574</u>	<u>766,951</u>	<u>7,041,767</u>
<u>\$ 1,095,783</u>	<u>\$ 1,086,436</u>	<u>\$ 7,141,428</u>

(continued)

TOWN OF READING, MASSACHUSETTS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

(continued)

	<u>Capital Project Funds</u>		
	Town Capital Project Funds	School Capital Project Funds	Subtotals
Revenues			
Departmental	\$ -	\$ -	\$ -
Intergovernmental	1,021,021	-	1,021,021
Investment income	-	-	-
Contributions	-	-	-
Other	-	-	-
	<u>1,021,021</u>	<u>-</u>	<u>1,021,021</u>
Total revenues	1,021,021	-	1,021,021
Expenditures			
Current:			
General government	-	-	-
Public safety	-	-	-
Education	-	4,895,896	4,895,896
Public works	108,806	-	108,806
Health and human services	-	-	-
Culture and recreation	3,395,858	-	3,395,858
	<u>3,504,664</u>	<u>4,895,896</u>	<u>8,400,560</u>
Total expenditures	3,504,664	4,895,896	8,400,560
Excess (deficiency) of revenues over (under) expenditures	(2,483,643)	(4,895,896)	(7,379,539)
Other Financing Sources (Uses)			
Issuance of bonds	-	1,355,000	1,355,000
Transfers in	363,497	2,351,605	2,715,102
Transfers out	-	(133,497)	(133,497)
	<u>363,497</u>	<u>3,573,108</u>	<u>3,936,605</u>
Total other financing sources (uses)	363,497	3,573,108	3,936,605
Change in fund balances	(2,120,146)	(1,322,788)	(3,442,934)
Fund Balances at beginning of year	<u>3,011,533</u>	<u>(167,212)</u>	<u>2,844,321</u>
Fund Balances at end of year	<u>\$ 891,387</u>	<u>\$ (1,490,000)</u>	<u>\$ (598,613)</u>

See Independent Auditors' Report.

<u>Permanent Funds</u>			Total
Town Trust Funds	School Trust Funds	Subtotals	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 6,512,991
-	-	-	5,305,305
465,459	7,525	472,984	481,599
146,826	600	147,426	720,915
-	-	-	11,934
<u>612,285</u>	<u>8,125</u>	<u>620,410</u>	<u>13,032,744</u>
21,702	-	21,702	140,845
-	-	-	1,045,093
-	19,089	19,089	13,052,413
120,000	-	120,000	665,937
136,686	-	136,686	391,347
-	-	-	4,400,691
<u>278,388</u>	<u>19,089</u>	<u>297,477</u>	<u>19,696,326</u>
333,897	(10,964)	322,933	(6,663,582)
-	-	-	1,355,000
-	-	-	2,715,102
-	-	-	(426,860)
<u>-</u>	<u>-</u>	<u>-</u>	<u>3,643,242</u>
333,897	(10,964)	322,933	(3,020,340)
<u>9,963,764</u>	<u>196,669</u>	<u>10,160,433</u>	<u>20,046,521</u>
<u>\$ 10,297,661</u>	<u>\$ 185,705</u>	<u>\$ 10,483,366</u>	<u>\$ 17,026,181</u>

TOWN OF READING, MASSACHUSETTS
NONMAJOR PROPRIETARY FUNDS
COMBINING SCHEDULE OF NET POSITION

JUNE 30, 2017

	Business-Type Activities			Total Nonmajor Enterprise Funds
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	
Assets				
Current:				
Cash and short-term investments	\$ 9,361,736	\$ 38,889	\$ 1,386,732	\$ 10,787,357
User fees, net of allowance for uncollectibles	2,337,038	-	152,742	2,489,780
Inventory	<u>3,492</u>	<u>-</u>	<u>-</u>	<u>3,492</u>
Total current assets	11,702,266	38,889	1,539,474	13,280,629
Noncurrent:				
Capital assets being depreciated, net	4,982,281	-	714,563	5,696,844
Capital assets not being depreciated	<u>1,508,924</u>	<u>-</u>	<u>204,502</u>	<u>1,713,426</u>
Total noncurrent assets	6,491,205	-	919,065	7,410,270
Deferred Outflows of Resources				
Related to pensions	<u>138,644</u>	<u>-</u>	<u>24,848</u>	<u>163,492</u>
Total Assets and Deferred Outflows of Resources	18,332,115	38,889	2,483,387	20,854,391
Liabilities				
Current:				
Warrants payable	99,662	14,619	3,427	117,708
Accrued liabilities	-	-	51	51
Other current liabilities	-	24,270	-	24,270
Current portion of long-term liabilities:				
Bonds payable	<u>371,673</u>	<u>-</u>	<u>-</u>	<u>371,673</u>
Total current liabilities	471,335	38,889	3,478	513,702
Noncurrent:				
Bonds payable, net of current portion	2,381,690	-	-	2,381,690
Compensated absences	16,834	-	-	16,834
Net OPEB obligation	107,626	-	26,055	133,681
Net pension liability	<u>361,095</u>	<u>-</u>	<u>83,046</u>	<u>444,141</u>
Total noncurrent liabilities	2,867,245	-	109,101	2,976,346
Deferred Inflows of Resources				
Related to pensions	<u>19,741</u>	<u>-</u>	<u>23,862</u>	<u>43,603</u>
Total Liabilities and Deferred Inflows of Resources	3,358,321	38,889	136,441	3,533,651
Net Position				
Net investment in capital assets	6,903,405	-	919,065	7,822,470
Restricted for capital projects	615,648	-	-	615,648
Unrestricted	<u>7,454,741</u>	<u>-</u>	<u>1,427,881</u>	<u>8,882,622</u>
Total Net Position	<u>\$ 14,973,794</u>	<u>\$ -</u>	<u>\$ 2,346,946</u>	<u>\$ 17,320,740</u>

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

NONMAJOR PROPRIETARY FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities			Total Nonmajor Enterprise Funds
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	
Operating Revenues				
Charges for services	\$ 6,827,305	\$ -	\$ 437,475	\$ 7,264,780
Total operating revenues	6,827,305	-	437,475	7,264,780
Operating Expenses				
Personnel expenses	620,436	-	204,590	825,026
Non personnel expenses	224,748	-	33,952	258,700
Intergovernmental	4,769,928	-	-	4,769,928
Depreciation	406,040	-	40,152	446,192
Energy purchases	22,856	-	-	22,856
Total operating expenses	6,044,008	-	278,694	6,322,702
Operating income	783,297	-	158,781	942,078
Nonoperating Revenues (Expenses)				
Investment income	45,503	-	7,925	53,428
Interest expense	(26,868)	-	-	(26,868)
Total nonoperating revenues	18,635	-	7,925	26,560
Income Before Transfers	801,932	-	166,706	968,638
Capital grants and contributions	633,000	-	-	633,000
Change in Net Position	1,434,932	-	166,706	1,601,638
Net Position at Beginning of Year	13,538,862	-	2,180,240	15,719,102
Net Position at End of Year	\$ 14,973,794	\$ -	\$ 2,346,946	\$ 17,320,740

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS
NONMAJOR PROPRIETARY FUNDS
COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities			Total Nonmajor Enterprise Funds
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	
Cash Flows From Operating Activities				
Receipts from customers and users	\$ 7,191,691	\$ -	\$ 437,287	\$ 7,628,978
Payments to vendors and employees	(847,663)	(7,817)	(269,239)	(1,124,719)
Payments to other governments	(4,769,928)	-	-	(4,769,928)
Net cash provided by (used for) operating activities	1,574,100	(7,817)	168,048	1,734,331
Cash Flows From Capital and Related Financing Activities				
Proceeds from issuance of bonds	2,640,484	-	-	2,640,484
Principal payments on bonds and notes	(91,915)	-	-	(91,915)
Acquisition of capital assets	(1,135,524)	-	-	(1,135,524)
Capital grants and contributions	633,000	-	-	633,000
Interest expense	(26,868)	-	-	(26,868)
Net cash provided by capital and related financing activities	2,019,177	-	-	2,019,177
Cash Flows From Investing Activities				
Investment income	45,503	-	7,925	53,428
Net cash provided by investing activities	45,503	-	7,925	53,428
Net Change in Cash and Short-Term Investments	3,638,780	(7,817)	175,973	3,806,936
Cash and Short Term Investments, Beginning of Year	5,722,956	46,706	1,210,759	6,980,421
Cash and Short Term Investments, End of Year	<u>\$ 9,361,736</u>	<u>\$ 38,889</u>	<u>\$ 1,386,732</u>	<u>\$ 10,787,357</u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities				
Operating income	\$ 783,297	\$ -	\$ 158,781	\$ 942,078
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	406,040	-	40,152	446,192
Changes in assets and liabilities:				
User fees receivables	364,386	-	(188)	364,198
Inventory and prepayments	1,202	-	-	1,202
Deferred outflows of resources	(22,013)	-	20,195	(1,818)
Warrants payable	1,059	(10,816)	(21,813)	(31,570)
Accrued liabilities	(9,009)	-	(14,349)	(23,358)
Other liabilities	-	2,999	-	2,999
Net OPEB obligation	(336)	-	6,333	5,997
Net pension liability	51,023	-	(36,703)	14,320
Deferred inflows of resources	(1,549)	-	15,640	14,091
Net cash provided by (used for) operating activities	<u>\$ 1,574,100</u>	<u>\$ (7,817)</u>	<u>\$ 168,048</u>	<u>\$ 1,734,331</u>

See Independent Auditors' Report.