

**TOWN OF READING, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2018**

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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, 2018, (except for the Reading Contributory Retirement System, which is as of and for the year ended December 31, 2017) 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, 2018, 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 99 to 102 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.

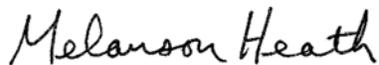
### *Other Information*

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 104 through 114 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 27, 2019 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 solely 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 the effectiveness of the Town's 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.



March 27, 2019

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Town of Reading, Massachusetts (the Town), we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018.

### **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, deferred outflows of resources, liabilities, and deferred 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 electric division operations, water supply and distribution, sewer disposal, landfill, 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 funds balance sheet and the governmental funds 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. Included in the proprietary fund category are the Town's enterprise funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. 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 electric division, water, sewer, landfill, and stormwater operations, of which electric division, water, and sewer and 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 \$192,323,477 (i.e., net position), a change of \$10,191,287 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$32,391,135, a change of \$3,815,953 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$13,852,018, a change of \$2,287,028 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:

	<b>NET POSITION</b>					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017 <sup>(1)</sup>	2018	2017 <sup>(1)</sup>	2018	2017 <sup>(1)</sup>
Current and other assets	\$ 41,562,429	\$ 42,667,526	\$ 83,436,180	\$ 82,451,612	\$ 124,998,609	\$ 125,119,138
Capital assets	128,379,352	132,582,554	103,351,691	99,518,262	231,731,043	232,100,816
Total Assets	169,941,781	175,250,080	186,787,871	181,969,874	356,729,652	357,219,954
Deferred Outflows of Resources	7,954,088	8,846,381	4,712,612	4,908,972	12,666,700	13,755,353
Long-term liabilities	111,911,827	80,689,329	39,635,404	36,125,085	151,547,231	116,814,414
Other liabilities	8,416,315	8,286,128	9,436,400	10,043,420	17,852,715	18,329,548
Total Liabilities	120,328,142	88,975,457	49,071,804	46,168,505	169,399,946	135,143,962
Deferred Inflows of Resources	5,259,309	2,326,946	2,413,620	834,048	7,672,929	3,160,994
Net position:						
Net investment in capital assets	102,926,593	101,672,301	94,747,230	89,259,199	197,673,823	190,931,500
Restricted	12,962,345	17,761,046	9,767,995	11,250,323	22,730,340	29,011,369
Unrestricted	(63,580,520)	(26,639,289)	35,499,834	39,366,771	(28,080,686)	12,727,482
Total Net Position	<u>\$ 52,308,418</u>	<u>\$ 92,794,058</u>	<u>\$ 140,015,059</u>	<u>\$ 139,876,293</u>	<u>\$ 192,323,477</u>	<u>\$ 232,670,351</u>

<sup>(1)</sup> Fiscal year 2017 amounts were not restated as the Town applied GASB 75 prospectively.

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. At the close of the most recent fiscal year, total net position was \$192,323,477, a change of \$10,191,287 from the prior year.

The largest portion of net position, \$197,673,823, 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, \$22,730,340, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$(28,080,686), primarily results from the Town's unfunded net pension liability and net OPEB liability.

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

	<b>CHANGES IN NET POSITION</b>					
	Governmental Activities		Business-Type Activities		Total	
	<u>2018</u>	<u>2017<sup>(1)</sup></u>	<u>2018</u>	<u>2017<sup>(1)</sup></u>	<u>2018</u>	<u>2017</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 9,723,339	\$ 8,704,119	\$ 111,427,378	\$ 106,630,695	\$ 121,150,717	\$ 115,334,814
Operating grants and contributions	25,820,694	25,350,989	-	67,797	25,820,694	25,418,786
Capital grants and contributions	1,906,371	1,454,456	1,005,680	968,198	2,912,051	2,422,654
General revenues:						
Property taxes	67,024,574	64,651,227	-	-	67,024,574	64,651,227
Excises	4,345,158	4,143,498	-	-	4,345,158	4,143,498
Penalties, interest, and other taxes	578,670	586,333	-	-	578,670	586,333
Grants and contributions not restricted to specific programs	3,637,261	3,356,933	-	-	3,637,261	3,356,933
Investment income	1,388,888	1,302,345	521,682	426,612	1,910,570	1,728,957
Other	453,117	325,689	694,309	693,772	1,147,426	1,019,461
<b>Total Revenues</b>	<b>114,878,072</b>	<b>109,875,589</b>	<b>113,649,049</b>	<b>108,787,074</b>	<b>228,527,121</b>	<b>218,662,663</b>
<b>Expenses</b>						
General government	5,536,833	5,328,963	-	-	5,536,833	5,328,963
Public safety	14,610,104	15,722,993	-	-	14,610,104	15,722,993
Education	76,817,852	72,790,008	-	-	76,817,852	72,790,008
Public works	8,400,180	7,156,998	-	-	8,400,180	7,156,998
Facilities	1,740,647	1,663,004	-	-	1,740,647	1,663,004
Health and Human Services	1,054,153	1,253,232	-	-	1,054,153	1,253,232
Culture and recreation	4,650,855	4,747,487	-	-	4,650,855	4,747,487
Interest on long-term debt	1,007,435	1,055,194	-	-	1,007,435	1,055,194
Intergovernmental	1,077,974	1,011,638	-	-	1,077,974	1,011,638
Electric division operations	-	-	91,196,214	87,127,810	91,196,214	87,127,810
Water operations	-	-	5,544,322	5,391,238	5,544,322	5,391,238
Sewer operations	-	-	6,359,280	6,070,876	6,359,280	6,070,876
Other	-	-	339,985	278,694	339,985	278,694
<b>Total Expenses</b>	<b>114,896,033</b>	<b>110,729,517</b>	<b>103,439,801</b>	<b>98,868,618</b>	<b>218,335,834</b>	<b>209,598,135</b>
Change in net position before transfers	(17,961)	(853,928)	10,209,248	9,918,456	10,191,287	9,064,528
Transfers in (out)	2,419,770	2,384,668	(2,419,770)	(2,384,668)	-	-
Change in net position	2,401,809	1,530,740	7,789,478	7,533,788	10,191,287	9,064,528
Net position - beginning of year <sup>(1)</sup>	49,906,609	91,263,318	132,225,581	132,342,505	182,132,190	223,605,823
Net position - end of year	\$ 52,308,418	\$ 92,794,058	\$ 140,015,059	\$ 139,876,293	\$ 192,323,477	\$ 232,670,351

<sup>(1)</sup> Fiscal year 2017 amounts were not restated as the Town applied GASB 75 prospectively.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$2,401,809. Key elements of this change are as follows:

PILOT from RMLD	\$	2,419,770
Capital acquisitions net of related debt service activity and depreciation		934,877
Decrease in net pension liability, net of related deferred outflows/inflows of resources		531,652
Increase in net OPEB liability, net of related deferred outflows of resources		(1,917,440)
Other		432,950
Total	\$	<u><u>2,401,809</u></u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$7,789,478. Key elements of this change and the impact on cash flows are as follows:

	Revenues and <u>Transfers In</u>	Expenses and <u>Transfers Out</u>	Change in <u>Net Position</u>
Electric division fund	\$ 98,469,191	\$ (93,615,984)	\$ 4,853,207
Water fund	7,032,005	(5,544,322)	1,487,683
Sewer fund	7,698,593	(6,359,280)	1,339,313
Nonmajor funds	<u>449,260</u>	<u>(339,985)</u>	<u>109,275</u>
Total	<u>\$ 113,649,049</u>	<u>\$ (105,859,571)</u>	<u>\$ 7,789,478</u>

The change in net position for business-type activities is largely attributable to the Town's ongoing investment in capital improvements. 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 \$94,747,230, an increase of \$5,488,031, or 6.15%, over the prior year.

Unrestricted net position of the business-type activities at the end of the fiscal year amounted to \$35,499,834, a change of \$(3,866,937) in comparison to the prior year. Key elements of this change are as follows:

<u>Fund</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>
Electric division	\$ 19,523,546	\$ 22,622,447	\$ (3,098,901)
Water	6,552,073	7,861,702	(1,309,629)
Sewer	8,066,467	7,454,741	611,726
Nonmajor	<u>1,357,748</u>	<u>1,427,881</u>	<u>(70,133)</u>
Total	<u>\$ 35,499,834</u>	<u>\$ 39,366,771</u>	<u>\$ (3,866,937)</u>

The change in unrestricted net position of the Business-type activities is mainly attributable to the implementation of GASB Statement No. 75 with regard to the Town's net other post-employment benefits (OPEB) liability as further discussed in the Notes to the Financial Statements.

The change in unrestricted net position of the Sewer fund is largely attributable to a 2.94% increase in sewer rates.

#### **D. FINANCIAL ANALYSIS OF THE TOWN'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 the Town'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 \$32,391,135, a change of \$3,815,953 in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ (467,486)
PILOT from RMLD	2,419,770
Special revenue fund revenues exceeding expenditures	498,583
Town capital project fund expenditures exceeding revenues	(100,368)
MSBA grant revenues	1,339,079
Permanent fund revenues exceeding expenditures	<u>126,375</u>
Total	<u>\$ 3,815,953</u>

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was \$13,852,018, while total fund balance was \$18,806,419. The following table reflects the trend in all components of the general fund's fund balance:

Fiscal Year	Last Five Fiscal Years					
	Restricted for Debt Service	Committed for Stabilization Fund	Assigned for Encumbrances	Assigned for Subsequent Year's Expenditures	Unassigned	Total Fund Balance
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 <sup>(1)</sup>	10,246,346	18,332,978
2017	62,468	503,000	2,855,339	1,600,000	11,564,990	16,585,797
2018	62,468	503,000	2,788,933	1,600,000	13,852,018	18,806,419

<sup>(1)</sup> 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 as illustrated in the table below:

<u>General Fund</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 13,852,018	\$ 11,564,990	\$ 2,287,028	14.46%
Total fund balance	\$ 18,806,419	\$ 16,585,797	\$ 2,220,622	19.64%

The increase in the Town's June 30, 2018 unassigned fund balance over the prior year is primarily due to current year actual revenues exceeded those budgeted and actual expenditures less than budgeted, as illustrated in the budget and actual page in the basic financial statements.

The total fund balance of the general fund changed by \$2,220,622 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	\$ (1,900,000)
Revenues in excess of budget	2,103,330
Expenditures less than budget	1,868,528
Expenditures of prior year encumbrances less than current year encumbrances	115,616
Change in stabilization accounts	33,115
Other	33
Total	<u>\$ 2,220,622</u>

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

	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>	<u>Fund Balance Classification</u>
Stabilization - general	\$ 1,617,451	\$ 1,584,336	\$ 33,115	Unassigned
Stabilization - smart growth	<u>503,000</u>	<u>503,000</u>	<u>-</u>	Committed
Total	<u>\$ 2,120,451</u>	<u>\$ 2,087,336</u>	<u>\$ 33,115</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 \$739,210. Major reasons for these amendments include:

- \$299,000 increase for capital improvements
- \$300,000 increase for snow & ice budget
- \$140,210 increase for other Town operations

Of this increase, \$300,000 was funded by free cash, \$383,474 through the tax levy, \$100,736 from additional state aid, and \$(45,000) in local receipts.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$231,731,043 (net of accumulated depreciation), a change of \$(369,773) from the prior year. This investment in capital assets includes land, land improvements, infrastructure, buildings and improvements, machinery, equipment, and furnishings.

### Governmental additions:

- \$ 1,475,169 in roadway improvements
- \$ 727,818 for public safety vehicles and equipment
- \$ 410,431 for public works vehicles
- \$ 185,375 in various school improvements

### Business-type additions:

- \$ 4,272,663 in electric division infrastructure
- \$ 1,413,518 in sewer infrastructure
- \$ 870,805 in water infrastructure and vehicles
- \$ 393,462 in stormwater improvements and vehicles

Additional information on capital assets can be found in Note 9 of the Notes to the Financial Statements.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$41,564,707, all of which was backed by the full faith and credit of the Town.

Additional information on capital assets and long-term debt can be found in Note 15 of the Notes to the Financial Statements.

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

The adopted FY2019 general fund budget of \$99,724,095 is an 8.00% increase over the prior year. There was a \$4.15 million override approved as part of the FY2019 budget. The FY2019 budget is balanced.

FY2019 state aid will be \$14,343,893, which represents a 1.7% percent increase over prior year.

The tax levy for FY2019 of \$73,730,299 represents a 9.3% increase over the prior year. The FY2019 tax rate is \$14.23 per thousand for residential properties and \$14.48 per thousand for commercial properties, compared to \$13.87 per thousand for residential properties and \$13.92 per thousand for commercial properties in the prior year. Overall, property values increased 6.5% to \$5,192,898,690.

For FY2019, the Select Board, acting as the Water and Sewer Commissioners, voted not to increase water rates and sewer rates for all customers, effective for all billings after September 10, 2018. 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 FY2018 totaling \$410,011. The FY2019 revenue budgeted for this tax is \$385,000.

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, 2018

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>Assets</b>			
Current:			
Cash and short-term investments	\$ 16,922,639	\$ 33,559,555	\$ 50,482,194
Investments	22,604,269	-	22,604,269
Receivables, net of allowance for uncollectibles:			
Property taxes	288,229	-	288,229
Excises	216,294	-	216,294
User fees	-	15,043,163	15,043,163
Departmental and other	536,474	-	536,474
Intergovernmental	545,298	-	545,298
Prepaid assets	-	727,717	727,717
Inventory	-	1,439,947	1,439,947
Noncurrent:			
Restricted cash and short-term equivalents	-	29,904,641	29,904,641
Restricted investments	-	2,502,561	2,502,561
Investment in associated companies	-	258,596	258,596
Receivables, net of allowance for uncollectibles:			
Property taxes	449,226	-	449,226
Capital assets being depreciated, net	123,062,518	93,998,975	217,061,493
Capital assets not being depreciated	5,316,834	9,352,716	14,669,550
<b>Deferred Outflows of Resources</b>			
Related to pensions	7,205,928	3,958,491	11,164,419
Related to OPEB	748,160	754,121	1,502,281
<b>Total Assets and Deferred Outflows of Resources</b>	<u>177,895,869</u>	<u>191,500,483</u>	<u>369,396,352</u>
<b>Liabilities</b>			
Current:			
Warrants payable	1,988,876	5,602,604	7,591,480
Accrued liabilities	3,909,028	495,532	4,404,560
Unearned revenues	339,225	-	339,225
Tax refunds payable	68,108	-	68,108
Customer advances for construction	-	2,149,463	2,149,463
Customer deposits	-	1,155,870	1,155,870
Notes payable	1,490,000	-	1,490,000
Other current liabilities	621,078	32,931	654,009
Current portion of long-term liabilities:			
Bonds and loans payable	3,968,362	2,048,512	6,016,874
Compensated absences	124,307	498,719	623,026
Noncurrent:			
Bonds and loans payable, net of current portion	22,124,495	13,423,338	35,547,833
Compensated absences	1,118,764	2,760,719	3,879,483
Net pension liability	24,377,732	12,287,627	36,665,359
Net OPEB liability	60,198,167	8,616,489	68,814,656
<b>Deferred Inflows of Resources</b>			
Related to pensions	5,099,751	2,413,620	7,513,371
Other	159,558	-	159,558
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>125,587,451</u>	<u>51,485,424</u>	<u>177,072,875</u>
<b>Net Position</b>			
Net investment in capital assets	102,926,593	94,747,230	197,673,823
Restricted for:			
Grants and other statutory restrictions	7,389,400	9,767,995	17,157,395
Permanent funds:			
Nonexpendable	3,164,493	-	3,164,493
Expendable	2,408,452	-	2,408,452
Unrestricted	<u>(63,580,520)</u>	<u>35,499,834</u>	<u>(28,080,686)</u>
<b>Total Net Position</b>	<u>\$ 52,308,418</u>	<u>\$ 140,015,059</u>	<u>\$ 192,323,477</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, 2018

	<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>
<b>Governmental Activities</b>					
General government	\$ 5,536,833	\$ 619,146	\$ 234,720	\$ -	\$ (4,682,967)
Public safety	14,610,104	3,182,723	334,529	-	(11,092,852)
Education	76,817,852	4,828,826	24,810,623	1,339,079	(45,839,324)
Public works	8,400,180	190,844	96,020	567,292	(7,546,024)
Facilities	1,740,647	-	-	-	(1,740,647)
Health and human services	1,054,153	68,248	293,061	-	(692,844)
Culture and recreation	4,650,855	833,552	51,741	-	(3,765,562)
Interest on long-term debt	1,007,435	-	-	-	(1,007,435)
Intergovernmental	1,077,974	-	-	-	(1,077,974)
Total Governmental Activities	114,896,033	9,723,339	25,820,694	1,906,371	(77,445,629)
<b>Business-Type Activities</b>					
Electric operations	91,196,214	97,206,743	-	372,680	6,383,209
Water operations	5,544,322	6,851,222	-	-	1,306,900
Sewer operations	6,359,280	6,935,238	-	633,000	1,208,958
Other	339,985	434,175	-	-	94,190
Total Business-Type Activities	103,439,801	111,427,378	-	1,005,680	8,993,257
Total	\$ <u>218,335,834</u>	\$ <u>121,150,717</u>	\$ <u>25,820,694</u>	\$ <u>2,912,051</u>	(68,452,372)

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, 2018

(continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Change in Net Position:			
Net (Expenses) Revenues from previous page	\$ (77,445,629)	\$ 8,993,257	\$ (68,452,372)
<b>General Revenues and Transfers</b>			
Property taxes	67,024,574	-	67,024,574
Excises	4,345,158	-	4,345,158
Penalties, interest, and other taxes	578,670	-	578,670
Grants and contributions not restricted to specific programs	3,637,261	-	3,637,261
Investment income	1,388,888	521,682	1,910,570
Other	453,117	694,309	1,147,426
Transfers, net	<u>2,419,770</u>	<u>(2,419,770)</u>	<u>-</u>
Total General Revenues and Transfers	<u>79,847,438</u>	<u>(1,203,779)</u>	<u>78,643,659</u>
Change in net position	2,401,809	7,789,478	10,191,287
<b>Net Position</b>			
Beginning of year, as restated <sup>(1)</sup>	<u>49,906,609</u>	<u>132,225,581</u>	<u>182,132,190</u>
End of year	<u>\$ 52,308,418</u>	<u>\$ 140,015,059</u>	<u>\$ 192,323,477</u>

<sup>(1)</sup> see restatement footnote in notes to financial statements

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

TOWN OF READING, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Assets</b>			
Cash and short-term investments	\$ 7,072,315	\$ 9,850,324	\$ 16,922,639
Investments	17,246,043	5,358,226	22,604,269
Receivables:			
Property taxes	815,882	-	815,882
Excises	332,654	-	332,654
Departmental and other	329,406	207,068	536,474
Intergovernmental	-	545,298	545,298
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	\$ 25,796,300	\$ 15,960,916	\$ 41,757,216
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Liabilities</b>			
Warrants payable	\$ 1,597,913	\$ 390,963	\$ 1,988,876
Accrued liabilities	3,485,300	156,012	3,641,312
Unearned revenue	-	339,225	339,225
Notes payable	-	1,490,000	1,490,000
Other liabilities	621,078	-	621,078
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities	5,704,291	2,376,200	8,080,491
<b>Deferred Inflows of Resources</b>			
Unavailable revenues	1,285,590	-	1,285,590
<b>Fund Balances</b>			
Nonspendable	-	3,164,493	3,164,493
Restricted	62,468	10,588,867	10,651,335
Committed	503,000	-	503,000
Assigned	4,388,933	-	4,388,933
Unassigned	13,852,018	(168,644)	13,683,374
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Fund Balances	18,806,419	13,584,716	32,391,135
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 25,796,300	\$ 15,960,916	\$ 41,757,216
	<u>                    </u>	<u>                    </u>	<u>                    </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, 2018

<b>Total governmental fund balances</b>	\$ 32,391,135
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	128,379,352
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	968,837
• Deferred outflows of resources to be recognized as an increase to pension and OPEB expense in future periods:	
Related to Pensions	7,205,928
Related to OPEB	748,160
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(26,092,857)
Compensated absences	(1,243,071)
Net pension liability	(24,377,732)
Net OPEB liability	(60,198,167)
• Deferred inflows of resources related to pensions to be recognized as a decrease to pension expense in future periods.	(5,099,751)
• Deferred inflows of resources related to gains on refunding bonds.	(105,700)
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(267,716)
<b>Net position of governmental activities</b>	<u>\$ 52,308,418</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, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 66,950,236	\$ -	\$ 66,950,236
Excises	4,388,124	-	4,388,124
Penalties, interest, and other taxes	578,670	-	578,670
Departmental	2,070,060	7,391,992	9,462,052
Licenses and permits	161,084	-	161,084
Fines and forfeitures	113,136	-	113,136
Intergovernmental	19,983,990	5,675,933	25,659,923
Investment income	785,756	184,349	970,105
Contributions	-	493,290	493,290
Other	276,241	177,415	453,656
	<u>95,307,297</u>	<u>13,922,979</u>	<u>109,230,276</u>
<b>Expenditures</b>			
Current:			
General government	3,982,419	257,848	4,240,267
Public safety	10,838,151	1,638,468	12,476,619
Education	49,257,277	8,357,474	57,614,751
Public works	5,508,141	759,868	6,268,009
Facilities	1,308,327	-	1,308,327
Health and human services	631,028	241,113	872,141
Culture and recreation	2,301,943	804,539	3,106,482
Employee benefits	16,005,253	-	16,005,253
Debt service	4,864,270	-	4,864,270
Intergovernmental	1,077,974	-	1,077,974
	<u>95,774,783</u>	<u>12,059,310</u>	<u>107,834,093</u>
Excess (deficiency) of revenues over (under) expenditures	(467,486)	1,863,669	1,396,183
<b>Other Financing Sources (Uses)</b>			
Transfers in	2,688,108	-	2,688,108
Transfers out	-	(268,338)	(268,338)
	<u>2,688,108</u>	<u>(268,338)</u>	<u>2,419,770</u>
Net change in fund balances	2,220,622	1,595,331	3,815,953
Fund Balance at Beginning of Year, as restated	<u>16,585,797</u>	<u>11,989,385</u>	<u>28,575,182</u>
Fund Balance at End of Year	<u>\$ 18,806,419</u>	<u>\$ 13,584,716</u>	<u>\$ 32,391,135</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, 2018

<b>Net changes in fund balances - Total governmental funds</b>	<b>\$ 3,815,953</b>																
<ul style="list-style-type: none"> <li>• 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 style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Capital outlay</td> <td style="text-align: right;">3,139,387</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(7,342,589)</td> </tr> </table> </li> <li>• 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 unavailable revenue. <span style="float: right;">(15,341)</span></li> <li>• 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 style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Repayments of general obligation and refunding bonds</td> <td style="text-align: right;">3,800,000</td> </tr> </table> </li> <li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. This amount reflects the change in accrued interest. <span style="float: right;">41,735</span></li> <li>• 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 style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Current year amortization of premiums from issuance of general obligation and refunding bonds</td> <td style="text-align: right;">418,783</td> </tr> <tr> <td>Change in tax refunds payable</td> <td style="text-align: right;">27,577</td> </tr> <tr> <td>Change in compensated absences</td> <td style="text-align: right;">(113,008)</td> </tr> <tr> <td>Change in net pension liability, net of related deferred outflows and inflows of resources</td> <td style="text-align: right;">531,652</td> </tr> <tr> <td>Change in net OPEB liability, net of related deferred outflows of resources</td> <td style="text-align: right;">(1,917,440)</td> </tr> </table> </li> <li>• Other <span style="float: right;">15,100</span></li> </ul>		Capital outlay	3,139,387	Depreciation	(7,342,589)	Repayments of general obligation and refunding bonds	3,800,000	Current year amortization of premiums from issuance of general obligation and refunding bonds	418,783	Change in tax refunds payable	27,577	Change in compensated absences	(113,008)	Change in net pension liability, net of related deferred outflows and inflows of resources	531,652	Change in net OPEB liability, net of related deferred outflows of resources	(1,917,440)
Capital outlay	3,139,387																
Depreciation	(7,342,589)																
Repayments of general obligation and refunding bonds	3,800,000																
Current year amortization of premiums from issuance of general obligation and refunding bonds	418,783																
Change in tax refunds payable	27,577																
Change in compensated absences	(113,008)																
Change in net pension liability, net of related deferred outflows and inflows of resources	531,652																
Change in net OPEB liability, net of related deferred outflows of resources	(1,917,440)																
<b>Change in net position of governmental activities</b>	<b>\$ <u>2,401,809</u></b>																

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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		Positive (Negative)
<b>Revenues and Transfers</b>				
Property taxes	\$ 66,154,643	\$ 66,538,117	\$ 66,950,236	\$ 412,119
Excise	4,025,000	4,040,000	4,388,124	348,124
Penalties, interest, and other taxes	575,000	540,000	578,669	38,669
Departmental	1,850,000	1,850,000	2,070,060	220,060
Licenses and permits	165,000	160,000	161,084	1,084
Fines and forfeitures	110,000	90,000	113,136	23,136
Intergovernmental	14,118,931	14,219,667	14,411,642	191,975
Investment income	180,000	180,000	752,641	572,641
Other	135,312	135,312	276,241	140,929
Transfers in	2,533,515	2,533,515	2,688,108	154,593
Total Revenues and Transfers	89,847,401	90,286,611	92,389,941	2,103,330
<b>Expenditures</b>				
General government	4,389,495	4,478,545	4,230,476	248,069
Public safety	10,585,875	10,828,375	10,642,129	186,246
Education	43,991,391	44,529,891	44,344,440	185,451
Public works	6,728,295	6,949,295	6,264,923	684,372
Health and human services	756,825	714,609	631,352	83,257
Culture and recreation	2,353,133	2,351,633	2,274,735	76,898
Employee benefits	16,496,047	16,343,547	15,990,777	352,770
Debt service	5,057,915	4,880,915	4,861,277	19,638
Intergovernmental	1,088,425	1,109,801	1,077,974	31,827
Total Expenditures	91,447,401	92,186,611	90,318,083	1,868,528
Excess (deficiency) of revenues and transfers in over (under) expenditures and transfers out	(1,600,000)	(1,900,000)	2,071,858	3,971,858
<b>Other Financing Sources (Uses)</b>				
Use of free cash:				
For operating budget support	1,200,000	1,500,000	-	(1,500,000)
Use of overlay surplus for operating budget support	400,000	400,000	-	(400,000)
Total Other Financing Sources	1,600,000	1,900,000	-	(1,900,000)
Excess of Revenues and Other Sources over Expenditures and Other Uses	\$ -	\$ -	\$ 2,071,858	\$ 2,071,858

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

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-Type Activities				
	Electric Division Fund	Water Fund	Sewer Fund	Nonmajor Funds	Total Enterprise Funds
<b>Assets</b>					
Current:					
Cash and short-term investments	\$ 12,411,639	\$ 10,508,845	\$ 9,387,352	\$ 1,251,719	\$ 33,559,555
User fees, net of allowance for uncollectibles	10,285,725	2,286,702	2,328,922	141,814	15,043,163
Prepaid expenses	727,717	-	-	-	727,717
Inventory	1,330,729	105,709	3,509	-	1,439,947
<b>Total Current Assets</b>	<b>24,755,810</b>	<b>12,901,256</b>	<b>11,719,783</b>	<b>1,393,533</b>	<b>50,770,382</b>
Noncurrent:					
Restricted cash and short-term investments	29,904,641	-	-	-	29,904,641
Restricted investments	2,502,561	-	-	-	2,502,561
Investment in associated companies	258,596	-	-	-	258,596
Capital assets being depreciated, net	76,988,531	11,199,760	4,764,060	1,046,624	93,998,975
Capital assets not being depreciated	1,286,675	4,866,719	3,020,090	179,232	9,352,716
<b>Total Noncurrent Assets</b>	<b>110,941,004</b>	<b>16,066,479</b>	<b>7,784,150</b>	<b>1,225,856</b>	<b>136,017,489</b>
<b>Deferred Outflows of Resources</b>					
Related to pensions	3,348,332	479,671	110,261	20,227	3,958,491
Related to OPEB	749,951	2,974	963	233	754,121
<b>Total Assets and Deferred Outflows of Resources</b>	<b>139,795,097</b>	<b>29,450,380</b>	<b>19,615,157</b>	<b>2,639,849</b>	<b>191,500,483</b>
<b>Liabilities</b>					
Current:					
Warrants payable	5,331,888	35,539	209,985	25,192	5,602,604
Accrued liabilities	420,427	72,636	2,414	55	495,532
Customer deposits	1,155,870	-	-	-	1,155,870
Customer advances for construction	2,149,463	-	-	-	2,149,463
Other current liabilities	-	-	-	32,931	32,931
Current portion of long-term liabilities:					
Bonds and loans payable	-	1,659,239	389,273	-	2,048,512
Compensated absences	498,719	-	-	-	498,719
<b>Total Current Liabilities</b>	<b>9,556,367</b>	<b>1,767,414</b>	<b>601,672</b>	<b>58,178</b>	<b>11,983,631</b>
Noncurrent:					
Bonds and loans payable, net of current portion	-	11,219,921	2,203,417	-	13,423,338
Compensated absences	2,694,957	47,245	18,517	-	2,760,719
Net pension liability	10,781,819	1,139,620	297,759	68,429	12,287,627
Net OPEB liability	7,158,353	1,039,915	336,708	81,513	8,616,489
<b>Total Noncurrent Liabilities</b>	<b>20,635,129</b>	<b>13,446,701</b>	<b>2,856,401</b>	<b>149,942</b>	<b>37,088,173</b>
<b>Deferred Inflows of Resources</b>					
Related to pensions	2,105,560	222,554	58,149	27,357	2,413,620
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>32,297,056</b>	<b>15,436,669</b>	<b>3,516,222</b>	<b>235,477</b>	<b>51,485,424</b>
<b>Net Position</b>					
Net investment in capital assets	78,275,207	7,461,638	7,963,761	1,046,624	94,747,230
Restricted for:					
Depreciation fund	4,003,292	-	-	-	4,003,292
Pension trust	5,695,996	-	-	-	5,695,996
Capital projects	-	-	68,707	-	68,707
Unrestricted	19,523,546	6,552,073	8,066,467	1,357,748	35,499,834
<b>Total Net Position</b>	<b>\$ 107,498,041</b>	<b>\$ 14,013,711</b>	<b>\$ 16,098,935</b>	<b>\$ 2,404,372</b>	<b>\$ 140,015,059</b>

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, 2018

	Business-Type Activities				
	Electric Division Fund	Water Fund	Sewer Fund	Nonmajor Funds	Total Enterprise Funds
<b>Operating Revenues</b>					
Charges for services	\$ 96,747,035	\$ 6,851,222	\$ 6,935,238	\$ 434,175	\$ 110,967,670
Other	<u>459,708</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>459,708</u>
Total Operating Revenues	97,206,743	6,851,222	6,935,238	434,175	111,427,378
<b>Operating Expenses</b>					
Personnel expenses	-	1,678,720	633,823	212,648	2,525,191
Non-personnel expenses	-	435,211	258,487	65,936	759,634
Intergovernmental	1,497,473	2,211,232	4,939,434	-	8,648,139
Depreciation	4,305,989	801,382	407,180	61,401	5,575,952
Energy purchases	69,506,184	38,861	30,152	-	69,575,197
Operating	13,228,683	-	-	-	13,228,683
Maintenance	<u>2,594,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,594,040</u>
Total Operating Expenses	<u>91,132,369</u>	<u>5,165,406</u>	<u>6,269,076</u>	<u>339,985</u>	<u>102,906,836</u>
Operating income	6,074,374	1,685,816	666,162	94,190	8,520,542
<b>Nonoperating Revenues (Expenses)</b>					
Investment income	195,459	180,783	130,355	15,085	521,682
Interest expense	-	(378,916)	(90,204)	-	(469,120)
Loss on disposal of capital assets	(63,845)	-	-	-	(63,845)
Other	<u>694,309</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>694,309</u>
Total Nonoperating Revenues (Expenses)	<u>825,923</u>	<u>(198,133)</u>	<u>40,151</u>	<u>15,085</u>	<u>683,026</u>
Income before contributions and transfers	6,900,297	1,487,683	706,313	109,275	9,203,568
Capital grants and contributions	372,680	-	633,000	-	1,005,680
Transfers out	<u>(2,419,770)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,419,770)</u>
Change in net position	4,853,207	1,487,683	1,339,313	109,275	7,789,478
Net Position at Beginning of Year, as restated <sup>(1)</sup>	<u>102,644,834</u>	<u>12,526,028</u>	<u>14,759,622</u>	<u>2,295,097</u>	<u>132,225,581</u>
Net Position at End of Year	<u>\$ 107,498,041</u>	<u>\$ 14,013,711</u>	<u>\$ 16,098,935</u>	<u>\$ 2,404,372</u>	<u>\$ 140,015,059</u>

<sup>(1)</sup> As restated for OPEB

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, 2018

	Business-Type Activities				
	Electric Division <u>Fund</u>	Water <u>Fund</u>	Sewer <u>Fund</u>	Nonmajor <u>Funds</u>	Total <u>Enterprise Funds</u>
<b>Cash Flows From Operating Activities</b>					
Receipts from customers and users	\$ 95,298,769	\$ 6,835,627	\$ 6,943,354	\$ 445,103	\$ 109,522,853
Payments to vendors and employees	(89,089,325)	(2,119,206)	(790,657)	(265,898)	(92,265,086)
Customer purchase power charge adjustments	459,708	-	-	-	459,708
Payments to other governments	-	(2,211,232)	(4,939,434)	-	(7,150,666)
Net cash provided by operating activities	<u>6,669,152</u>	<u>2,505,189</u>	<u>1,213,263</u>	<u>179,205</u>	<u>10,566,809</u>
<b>Cash Flows From Noncapital Financing Activities</b>					
MMWEC surplus	32,412	-	-	-	32,412
Other	641,359	-	-	-	641,359
Transfer out	(2,419,770)	-	-	-	(2,419,770)
Net cash (used for) noncapital financing activities	<u>(1,745,999)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,745,999)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>					
Proceeds from issuance of bonds	-	-	211,000	-	211,000
Principal payments on bonds	-	(1,677,700)	(347,075)	-	(2,024,775)
Acquisition and construction of capital assets	(6,513,566)	(870,805)	(1,700,126)	(368,192)	(9,452,689)
Capital grants and contributions	1,594,841	-	633,000	-	2,227,841
Interest expense	-	(458,977)	(114,801)	-	(573,778)
Net cash (used for) capital and related financing activities	<u>(4,918,725)</u>	<u>(3,007,482)</u>	<u>(1,318,002)</u>	<u>(368,192)</u>	<u>(9,612,401)</u>
<b>Cash Flows From Investing Activities</b>					
(Increase) in restricted cash and investments	111,084	-	-	-	111,084
Investment income	195,459	180,783	130,355	15,085	521,682
Net cash provided by investing activities	<u>306,543</u>	<u>180,783</u>	<u>130,355</u>	<u>15,085</u>	<u>632,766</u>
Net change in cash and short-term investments	310,971	(321,510)	25,616	(173,902)	(158,825)
Unrestricted Cash and Short Term Investments, Beginning of Year	<u>42,005,309</u>	<u>10,830,355</u>	<u>9,361,736</u>	<u>1,425,621</u>	<u>63,623,021</u>
Unrestricted Cash and Short Term Investments, End of Year	<u>\$ 42,316,280</u>	<u>\$ 10,508,845</u>	<u>\$ 9,387,352</u>	<u>\$ 1,251,719</u>	<u>\$ 63,464,196</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>					
Operating income	\$ 6,074,374	\$ 1,685,816	\$ 666,162	\$ 94,190	\$ 8,520,542
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	4,305,989	801,382	407,180	61,401	5,575,952
Changes in assets, liabilities, and deferred outflows/inflows:					
User fees receivables	(1,523,880)	(15,595)	8,116	10,928	(1,520,431)
Inventory	216,610	(4,961)	(17)	-	211,632
Other assets	(47,016)	-	-	-	(47,016)
Deferred outflows - related to pensions	786,746	124,783	26,457	4,155	942,141
Deferred outflows - related to OPEB	(339,869)	2,974	963	233	(335,699)
Warrants payable	-	(44,550)	110,323	4,074	69,847
Accrued liabilities	(1,963,683)	4,751	4,097	4	(1,954,831)
Other liabilities	75,614	-	-	11,733	87,347
Net pension liability	(2,294,719)	(242,456)	(63,336)	(14,617)	(2,615,128)
Net OPEB liability	(11,686)	46,048	14,910	3,609	52,881
Deferred inflows - related to pensions	1,390,672	146,997	38,408	3,495	1,579,572
Net cash provided by operating activities	<u>\$ 6,669,152</u>	<u>\$ 2,505,189</u>	<u>\$ 1,213,263</u>	<u>\$ 179,205</u>	<u>\$ 10,566,809</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, 2018

	<u>Pension and OPEB Trust Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>			
Cash and short-term investments	\$ 14,545,322	\$ 206,658	\$ 539,803
Investments	134,972,190	4,860,269	-
Accounts receivable	153,657	-	-
Other	-	-	903
	<u>149,671,169</u>	<u>5,066,927</u>	<u>540,706</u>
<b>Liabilities</b>			
Warrants payable	-	11,893	38,847
Other liabilities	-	-	501,859
	<u>-</u>	<u>11,893</u>	<u>\$ 540,706</u>
<b>Net Position</b>			
Restricted for:			
Pensions	141,905,918	-	
OPEB	7,765,251	-	
Other purposes	-	5,055,034	
	<u>-</u>	<u>5,055,034</u>	
Total Net Position	<u>\$ 149,671,169</u>	<u>\$ 5,055,034</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, 2018

	<u>Pension and OPEB Trust Funds</u>	<u>Private Purpose Trust Funds</u>
<b>Additions</b>		
Contributions:		
Employers	\$ 10,582,039	\$ -
Plan members	3,075,199	-
Intergovernmental	397,128	-
Other	<u>3,000</u>	<u>13,550</u>
Total contributions	14,057,366	13,550
Investment Income:		
Increase in fair value of investments	21,378,375	156,026
Less: management fees	<u>(681,393)</u>	<u>-</u>
Net investment income	<u>20,696,982</u>	<u>156,026</u>
Total Additions	34,754,348	169,576
<b>Deductions</b>		
Benefit payments to plan members and beneficiaries	14,943,890	-
Refunds to plan members	169,838	-
Transfers to other systems	209,854	-
Administrative expenses	230,215	-
Scholarship payments	-	16,170
Hospital payments	<u>-</u>	<u>135,168</u>
Total Deductions	<u>15,553,797</u>	<u>151,338</u>
Net change	19,200,551	18,238
<b>Net position restricted for pensions, OPEB, and other purposes</b>		
Beginning of year, as restated	<u>130,470,618</u>	<u>5,036,796</u>
End of year	<u>\$ 149,671,169</u>	<u>\$ 5,055,034</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. Revenue from grants, entitlements, and donations is recognized when all eligibility requirements have been satisfied and they are measurable and available. All other revenue items are considered to be measurable and available only when cash is received by the Town. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, certain expenditures such as debt

service, claims and judgments, compensated absences, pension, and OPEB 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 Town, 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.
- The *Sewer Fund* is used to report the Town's sewer enterprise fund operations.

In addition, the Town has 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 and OPEB Trust Funds* are used to accumulate resources for retiree pension and other post-employment benefits.
- The *Private Purpose Trust Funds* is used to account for hospital and scholarship trust arrangements, under which principal and

investment income exclusively benefit individuals, private organizations, or other governments.

- 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 and Short-Term 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.

#### E. 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 for the Town consist of marketable securities, bonds, and certificates of deposit. Investments are carried at fair value, except certificates of deposit which are reported at cost.

Investments for the Reading Contributory Retirement System, presented in the Town’s fiduciary funds, consist of investments in the State Investment Pool (PRIT).

*F. 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 2018 tax levy reflected an excess capacity of \$5,592.

*G. 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.

*H. 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 summarized in the below table:

<u>Asset Type</u>	<u>Minimum Capitalization Amount</u>	<u>Minimum Useful Life (Years)</u>
Equipment	\$ 5,000	5
Land	10,000	N/A
Land Improvements	10,000	20
Buildings	50,000	40
Building Improvements	25,000	20
Plant (Water) (B&I)	50,000	50
Passenger Vehicles	5,000	5
Heavy Vehicular Equipment	5,000	10
Fire Apparatus	5,000	20
Equipment	5,000	10
Technology Equipment	5,000	5
Infrastructure	50,000	20

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 estimated useful lives noted in the previous table.

*I. 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.

*J. 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.

*K. 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.

L. *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)	\$ 95,307,297	\$ 95,774,783
Other Financing Sources/Uses (GAAP Basis)	<u>2,688,108</u>	<u>-</u>
Subtotal (GAAP Basis)	97,995,405	95,774,783
Reverse beginning of year appropriation carryforwards from expenditures	-	(2,430,089)
Add end-of-year appropriation carryforwards to expenditures	-	2,545,705
To reverse the effect of non- budgeted State contributions for teachers retirement	(5,572,349)	(5,572,349)
To record stabilization activity	(33,115)	-
Other	<u>-</u>	<u>33</u>
Budgetary Basis	<u>\$ 92,389,941</u>	<u>\$ 90,318,083</u>

*D. Excess of Expenditures Over Appropriations*

There were no expenditures exceeding appropriations during the current fiscal year.

*E. Deficit Fund Equity*

The Town reported various special revenue and capital project funds reflecting individual deficit account balances as of June 30, 2018. 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 formal deposit policies related to custodial credit risk.

As of June 30, 2018, \$62,378,094 of the Town's bank balances of \$120,448,259, were exposed to custodial credit risk. However, \$59,006,415 of the Town's exposed balance was on deposit with the Massachusetts Municipal Depository Trust (MMDT).

#### 4. Investments

The following is a summary of Town's investments as of June 30, 2018, with the exception of the Reading Contributory Retirement System's (the System) investments presented in the Pension Trust Fund as of December 31, 2017:

<u>Investment Type</u>	<u>Fair Value</u>
Town of Reading:	
Domestic corporate bonds	\$ 6,473,247
Foreign corporate bonds	2,045,569
Certificates of deposit	18,760,724
Equity securities	<u>2,687,559</u>
Total Town	<u>\$ 29,967,099</u>

<u>Investment Type</u>	<u>Fair Value</u>
Pension Trust Fund:	
State Investment Pool (PRIT)*	\$ 134,972,190

\*Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

##### 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 formal investment policies related to credit risk.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Average Rating</u>		
		<u>A</u>	<u>A-</u>	<u>Unrated</u>
Domestic corporate bonds	\$ 6,473,247	\$ -	\$ 6,473,247	\$ -
Foreign corporate bonds	2,045,569	2,045,569	-	-
State Investment Pool (PRIT)	134,972,190	-	-	134,972,190
Total	\$ <u>143,491,006</u>	\$ <u>2,045,569</u>	\$ <u>6,473,247</u>	\$ <u>134,972,190</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 formal investment policies related to 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.

The System’s investments are not subject to custodial credit risk as investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

**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	\$ 17,153,489

**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 formal investment policies limiting

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>1-5</u>	<u>6-10</u>
Debt-related Securities:			
Domestic corporate bonds	\$ 6,473,247	\$ 3,209,922	\$ 3,263,325
Foreign corporate bonds	<u>2,045,569</u>	<u>1,566,391</u>	<u>479,178</u>
Total	<u>\$ 8,518,816</u>	<u>\$ 4,776,313</u>	<u>\$ 3,742,503</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 formal investment policies related to 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 fair value hierarchy is based on the valuation inputs used to measure the fair value of the asset. The fair value hierarchy categorized the inputs to valuation techniques used for fair value measurement into three levels as follows:

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

The Town has the following fair value measurements as of June 30, 2018:

<u>Description</u>	<u>Fair Value</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:				
Domestic corporate bonds	\$ 6,473,247	\$ -	\$ 6,473,247	\$ -
Foreign corporate bonds	2,045,569	-	2,045,569	-
Equity securities	<u>2,687,559</u>	2,687,559	-	-
Total	<u>\$ 11,206,375</u>			

The System has the following fair value measurements as of December 31, 2017:

<u>Description</u>	<u>Fair Value</u>
Investments measured at the net asset value (NAV):	
State investment pool (PRIT)	\$ 134,972,190

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

Securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

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

## **5. Property 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.

Property tax and excises receivables at June 30, 2018 consist of the following:

<u>Receivables</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Property taxes:			
Real estate taxes	\$ 244,043	\$ (24,404)	\$ 219,639
Personal property taxes	13,356	(4,109)	9,247
Tax Liens	499,140	(49,914)	449,226
Deferred taxes	<u>59,343</u>	<u>-</u>	<u>59,343</u>
Total property taxes	<u>\$ 815,882</u>	<u>\$ (78,427)</u>	737,455
Less: non-current portion			<u>(449,226)</u>
Total current taxes receivable			<u>\$ 288,229</u>
Excises:			
Motor vehicle excise	\$ 332,654	\$ (116,360)	\$ 216,294

## **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, 2018 consist of the following:

<u>Receivables</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Water user charges	\$ 2,556,408	\$ (322,657)	\$ 2,233,751
Water liens	59,357	(13,948)	45,409
Water - other	15,085	(7,543)	7,542
Total Water	2,630,850	(344,148)	2,286,702
Sewer user charges	2,609,749	(328,030)	2,281,719
Sewer liens	50,275	(12,466)	37,809
Sewer - other	18,673	(9,279)	9,394
Total Sewer	2,678,697	(349,775)	2,328,922
Stormwater user charges	149,871	(10,800)	139,071
Stormwater liens	2,743	-	2,743
Total Stormwater	152,614	(10,800)	141,814
Grand Total	\$ <u>5,462,161</u>	\$ <u>(704,723)</u>	\$ <u>4,757,438</u>

**7. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal year 2018.

**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 2018.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>	
General Fund	\$ 2,688,108	\$ -	(1) (2) (3)
Nonmajor Governmental Funds:			
Revolving funds	-	243,338	(2) (3)
Receipts reserved for appropriation	-	25,000	(2)
Major Enterprise Funds:			
Electric Division fund	-	2,419,770	(1)
Total	<u>\$ 2,688,108</u>	<u>\$ 2,688,108</u>	

(1) Payment in lieu of taxes (PILOT)

(2) To general fund for operating budget and appropriations

(3) To general fund for excess recreation revenues

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital assets, depreciable:				
Land improvements	\$ 3,855,354	\$ -	\$ -	\$ 3,855,354
Buildings and improvements	156,322,108	195,413	(139,699)	156,377,822
Machinery, equipment, and furnishings	10,964,423	1,576,546	(695,088)	11,845,881
Infrastructure	<u>32,310,265</u>	<u>1,260,006</u>	<u>(1,706,112)</u>	<u>31,864,159</u>
Total capital assets, depreciable	203,452,150	3,031,965	(2,540,899)	203,943,216
Less accumulated depreciation for:				
Land improvements	(1,606,230)	(174,964)	-	(1,781,194)
Buildings and improvements	(50,200,345)	(4,888,468)	139,699	(54,949,114)
Machinery, equipment, and furnishings	(5,567,927)	(1,020,822)	695,088	(5,893,661)
Infrastructure	<u>(18,704,506)</u>	<u>(1,258,335)</u>	<u>1,706,112</u>	<u>(18,256,729)</u>
Total accumulated depreciation	<u>(76,079,008)</u>	<u>(7,342,589)</u>	<u>2,540,899</u>	<u>(80,880,698)</u>
Total capital assets, depreciable, net	127,373,142	(4,310,624)	-	123,062,518
Capital assets, non-depreciable:				
Land	3,981,386	-	-	3,981,386
Construction in progress	<u>1,228,026</u>	<u>215,164</u>	<u>(107,742)</u>	<u>1,335,448</u>
Total capital assets, non-depreciable	5,209,412	215,164	(107,742)	5,316,834
Governmental activities capital assets, net	<u>\$ 132,582,554</u>	<u>\$ (4,095,460)</u>	<u>\$ (107,742)</u>	<u>\$ 128,379,352</u>

	Beginning	Increases	Decreases	Ending
<b>Business-Type Activities</b>				
Capital assets, depreciable:				
Land improvements	\$ 1,436,717	\$ -	\$ -	\$ 1,436,717
Buildings and improvements	20,355,466	856,187	(177,223)	21,034,430
Machinery, equipment, and furnishings	37,214,889	1,837,040	(363,919)	38,688,010
Infrastructure	<u>119,358,143</u>	<u>5,180,633</u>	<u>(1,331,617)</u>	<u>123,207,159</u>
Total capital assets, depreciable	178,365,215	7,873,860	(1,872,759)	184,366,316
Less accumulated depreciation for:				
Land improvements	(538,965)	(70,059)	-	(609,024)
Buildings and improvements	(10,158,110)	(564,448)	177,223	(10,545,335)
Machinery, equipment, and furnishings	(23,711,213)	(1,310,246)	363,919	(24,657,540)
Infrastructure	<u>(52,212,552)</u>	<u>(3,631,199)</u>	<u>1,288,309</u>	<u>(54,555,442)</u>
Total accumulated depreciation	<u>(86,620,840)</u>	<u>(5,575,952)</u>	<u>1,829,451</u>	<u>(90,367,341)</u>
Total capital assets, depreciable, net	91,744,375	2,297,908	(43,308)	93,998,975
Capital assets, non-depreciable:				
Land	1,449,426	20,832	-	1,470,258
Construction in progress	<u>6,324,461</u>	<u>1,762,498</u>	<u>(204,501)</u>	<u>7,882,458</u>
Total capital assets, non-depreciable	<u>7,773,887</u>	<u>1,783,330</u>	<u>(204,501)</u>	<u>9,352,716</u>
Business-type activities capital assets, net	<u>\$ 99,518,262</u>	<u>\$ 4,081,238</u>	<u>\$ (247,809)</u>	<u>\$ 103,351,691</u>

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

Governmental Activities

General government	\$ 199,129
Public safety	548,676
Education	3,674,396
Public works	1,741,135
Facilities	22,730
Health and human services	32,854
Culture and recreation	<u>1,123,669</u>
Total depreciation expense - governmental activities	<u>\$ 7,342,589</u>

Business-Type Activities

Electric division	\$ 4,305,989
Water	801,382
Sewer	407,180
Nonmajor - Stormwater	<u>61,401</u>
Total depreciation expense - business-type activities	<u>\$ 5,575,952</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 and OPEB, in accordance with *GASB Statement No. 68, Accounting and Financial Reporting for Pensions* –

an amendment of GASB Statement No. 27 (GASB 68) and GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75) are more fully discussed in the corresponding pension and OPEB notes.

**11. Warrants Payable**

Warrants payable represent fiscal year 2018 expenditures paid by July 15, 2018.

**12. Accrued Liabilities**

This balance primarily represents amounts accrued interest and other expenditures related to fiscal year 2018 paid subsequent to July 15, 2018.

**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 2018:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Beginning Balance at 06/30/17</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Ending Balance at 06/30/18</u>
Reading Memorial High School repairs and additions	1.25%	06/30/17	12/15/17	\$ 1,490,000	\$ -	\$ (1,490,000)	\$ -
Reading Memorial High School repairs and additions	2.00%	12/15/17	08/17/18	-	1,490,000	-	1,490,000
Total Governmental Activities				\$ 1,490,000	\$ 1,490,000	\$ (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 6/30/18</u>
RMHS Retaining Walls	11/01/20	1.26%	\$ 300,000
Killam Roof	02/01/22	1.83%	268,000
Birch Meadow Windows	02/01/22	1.83%	132,000
Elementary School Modular Classrooms	11/01/23	1.26%	900,000
RMHS Refunding	02/01/24	2.25%	6,765,000
Wood End Refunding - Sunset Rock I	04/15/24	1.49%	178,790
Wood End Refunding - Sunset Rock II	04/15/24	1.49%	263,000
Wood End School Refunding	04/15/24	1.49%	840,710
Wood End School Refunding	04/15/24	1.49%	53,800
Barrows School Refunding	04/15/24	1.49%	702,700
Library Renovation I	11/01/24	1.26%	1,645,000
Library Renovation II	04/15/25	1.49%	7,000,000
Roadway/Pedestrian Improvements I	04/15/25	1.49%	700,000
Roadway/Pedestrian Improvements II	04/15/25	1.49%	210,000
Energy Conservation	08/01/25	3.19%	2,320,000
RMHS Renovation Project	06/15/27	4.00%	<u>1,215,000</u>
Total Governmental Activities			<u>\$ 23,494,000</u>

<u>Business-Type Activities</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/18</u>
MWRA Info/Infiltration	05/19/19	0.00%	\$ 38,500
MWPAT Septic Loans	08/01/20	0.00%	3,474
MWRA Sewer Bond	11/15/20	0.00%	23,430
MWRA Water System Pipeline	08/15/21	0.00%	820,000
MWRA Water System Pipeline	08/12/23	0.00%	2,407,200
Sewer Station	06/15/25	4.00%	1,905,000
Water GOB	11/01/25	1.26%	925,000
MWRA Sewer Bond	08/15/26	0.00%	189,900
MWRA Buy-in Refunding	04/15/27	1.49%	1,396,000
Water Improvements A-1 & A-2	06/15/27	4.00%	765,000
Water Main Improvements Phase I	06/15/27	4.00%	2,025,000
MWRA Sewer Bond	08/15/27	0.00%	211,000
MWRA Buy-in	11/01/27	3.88%	<u>3,600,000</u>
Total Business-Type Activities			<u>\$ 14,309,504</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	496,927	4,061,927
2023	3,504,000	358,433	3,862,433
2024 - 2027	<u>5,645,000</u>	<u>311,045</u>	<u>5,956,045</u>
Total	<u>\$ 23,494,000</u>	<u>\$ 3,483,810</u>	<u>\$ 26,977,810</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,925,875	\$ 397,030	\$ 2,322,905
2020	1,882,375	349,530	2,231,905
2021	1,882,354	302,130	2,184,484
2022	1,863,400	254,830	2,118,230
2023	1,654,400	207,830	1,862,230
2024 - 2028	<u>5,101,100</u>	<u>375,475</u>	<u>5,476,575</u>
Total	<u>\$ 14,309,504</u>	<u>\$ 1,886,825</u>	<u>\$ 16,196,329</u>

### C. Changes in General Long-Term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/17</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/18</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/18</u>
<b>Governmental Activities</b>						
Bonds payable	\$ 27,294,000	\$ -	\$ (3,800,000)	\$ 23,494,000	\$ (3,550,000)	\$ 19,944,000
Unamortized bond premiums	<u>3,017,640</u>	-	<u>(418,783)</u>	<u>2,598,857</u>	<u>(418,362)</u>	<u>2,180,495</u>
Total bonds payable	30,311,640	-	(4,218,783)	26,092,857	(3,968,362)	22,124,495
Accrued employee benefits	1,130,063	218,274	(105,266)	1,243,071	(124,307)	1,118,764
Net pension liability	29,565,712	-	(5,187,980)	24,377,732	-	24,377,732
Net OPEB liability <sup>(1)</sup>	<u>57,532,568</u>	<u>5,656,276</u>	<u>(2,990,677)</u>	<u>60,198,167</u>	-	<u>60,198,167</u>
Total Governmental Activities	<u>\$ 118,539,983</u>	<u>\$ 5,874,550</u>	<u>\$ (12,502,706)</u>	<u>\$ 111,911,827</u>	<u>\$ (4,092,669)</u>	<u>\$ 107,819,158</u>

	Total Balance <u>7/1/17</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/18</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/18</u>
<b>Business-Type Activities</b>						
Bonds payable	\$ 16,123,279	\$ 211,000	\$ (2,024,775)	\$ 14,309,504	\$ (1,925,875)	\$ 12,383,629
Unamortized bond premiums	<u>1,284,983</u>	-	<u>(122,637)</u>	<u>1,162,346</u>	<u>(122,637)</u>	<u>1,039,709</u>
Total bonds payable	17,408,262	211,000	(2,147,412)	15,471,850	(2,048,512)	13,423,338
Accrued employee benefits	3,209,918	105,342	(55,822)	3,259,438	(498,719)	2,760,719
Net pension liability	14,902,755	-	(2,615,128)	12,287,627	-	12,287,627
Net OPEB liability <sup>(1)</sup>	<u>8,422,541</u>	<u>679,521</u>	<u>(485,573)</u>	<u>8,616,489</u>	-	<u>8,616,489</u>
Total Business-Type	<u>\$ 43,943,476</u>	<u>\$ 995,863</u>	<u>\$ (5,303,935)</u>	<u>\$ 39,635,404</u>	<u>\$ (2,547,231)</u>	<u>\$ 37,088,173</u>

<sup>(1)</sup>As restated for implementation of GASB 75

**D. Bond Authorizations**

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2018 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
April 2013	MWRA I/I sewer loan	\$ 460,000
February 2014	Library renovations	16,345
April 2015	Birch Meadow field lighting	900,000
April 2015	MWRA sewer I/I	633,000
December 2016	RMHS renovation project	150,921
	Total	<u>\$ 2,160,266</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. Deferred inflows of resources related to pension and OPEB will be recognized as decreases in the respective expense in future years and is more fully described in the corresponding pension and OPEB notes.

The following is a summary of other deferred inflows of resources balances as of June 30, 2018:

	<u>Entity-wide Basis</u>	<u>Fund Basis</u>
	<u>Governmental</u>	<u>Governmental Funds</u>
	<u>Activities</u>	<u>General Fund</u>
Gains on refunding bonds	\$ 105,700	\$ -
Unavailable revenues related to:		
Outstanding receivables	-	1,231,732
Taxes collected in advance	<u>53,858</u>	<u>53,858</u>
Total Deferred Inflows of Resources	<u>\$ 159,558</u>	<u>\$ 1,285,590</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 (1) receivables for which revenues are not considered available to liquidate liabilities of the current year and (2) property taxes collected in advance for periods subsequent to the reporting date.

**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, 2018:

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 general fund restrictions for debt service, 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, 2018:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Permanent funds:			
Cemetery	\$ -	\$ 2,892,328	\$ 2,892,328
Other	-	272,165	272,165
	<hr/>	<hr/>	<hr/>
Total Nonspendable	-	3,164,493	3,164,493
Restricted			
For high school debt service	62,468	-	62,468
Federal grants	-	39,744	39,744
State grants:			
Special education (circuit breaker)	-	943,866	943,866
State aid to libraries	-	44,214	44,214
Other	-	36,756	36,756
Revolving funds:			
Extended day program	-	997,055	997,055
Inspection permit	-	659,919	659,919
All-day kindergarten program	-	590,280	590,280
School lunch	-	555,665	555,665
Recreation	-	307,617	307,617
RISE preschool program	-	220,309	220,309
Special education tuition	-	111,367	111,367
Public health clinics	-	91,700	91,700
Athletic activities	-	68,078	68,078
Other	-	340,548	340,548
Receipts reserved for appropriation:			
Sale of real estate	-	611,921	611,921
Affordable housing fund	-	303,597	303,597
Sale of cemetery lots	-	234,339	234,339
Other	-	10,797	10,797
Gifts and donations	-	1,221,624	1,221,624
Permanent funds:			
Cemetery	-	1,967,351	1,967,351
Other	-	441,101	441,101
Town capital project funds:			
Library renovations	-	395,514	395,514
West street road improvements	-	367,156	367,156
Other	-	28,349	28,349
	<hr/>	<hr/>	<hr/>
Total Restricted	62,468	10,588,867	10,651,335

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Committed			
Smart growth stabilization account	503,000	-	503,000
Total Committed	503,000	-	503,000
Assigned			
For encumbrances:			
General government	470,843	-	470,843
Public safety	108,251	-	108,251
Education	1,703,253	-	1,703,253
Public works	395,056	-	395,056
Facilities	90,400	-	90,400
Employee benefits	21,130	-	21,130
For next year's expenditures	1,600,000	-	1,600,000
Total Assigned	4,388,933	-	4,388,933
Unassigned - operating fund	12,267,682	-	12,267,682
Unassigned - general stabilization	1,584,336	-	1,584,336
Unassigned - deficit balances	-	(168,644)	(168,644)
Total Unassigned	13,852,018	(168,644)	13,683,374
Total Fund Balance	\$ 18,806,419	\$ 13,584,716	\$ 32,391,135

## 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, 2018 was \$5,612,453 which was equal to its annual required contribution.

#### *B. Summary of Significant Accounting Policies*

For purposes of measuring the net pension liability, deferred outflows 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, 2018, the Town reported a liability of \$36,665,359 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 and rolled forward to December 31, 2017. 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, 2017, the Town's proportion was 99.13%.

For the year ended June 30, 2018, the Town recognized pension expense of \$4,995,783. 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	\$ -	\$ (5,397,110)
Changes of assumptions	5,855,801	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	326,334	(353,066)
Differences between expected and actual experience	<u>4,982,284</u>	<u>(1,763,195)</u>
Total	<u>\$ 11,164,419</u>	<u>\$ (7,513,371)</u>

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

<u>Fiscal Year</u>	
2019	\$ 2,130,197
2020	2,088,251
2021	(105,909)
2022	(1,148,700)
2023	<u>687,209</u>
Total	<u>\$ 3,651,048</u>

#### D. Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	January 1, 2017 rolled forward to
Actuarial cost method	Entry age normal cost method
Amortization method:	
UAAL:	Increasing dollar amount at 4.50% to reduce the Unfunded Actuarial Accrued Liability (UAAL) to zero on or before June 30, 2029. The annual increase in appropriation is further limited to 5.31%
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
Morality for retired members	RP-2014 Mortality Table

#### Target Allocations

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of 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>
Global equity	40.00%	4.91%
Hedge funds & portfolio completion	13.00%	3.40%
Fixed income	12.00%	0.71%
Private equity	11.00%	6.50%
Value-added fixed income	10.00%	3.64%
Real estate	10.00%	3.70%
Timber/natural resources	<u>4.00%</u>	3.25%
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>
\$ 56,597,071	\$ 36,665,359	\$ 19,935,993

*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) establish 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, 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, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. 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	RPT-2014 White Collar Employees table projected generationally with Scale MP-2016 (gender distinct).
Post-retirement	RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).
Disability	RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 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, 2017 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%	5.00%
Portfolio completion strategies	13.00%	3.60%
Core fixed income	12.00%	1.10%
Private equity	11.00%	6.60%
Real estate	10.00%	3.80%
Value added fixed income	10.00%	3.60%
Timber/natural resources	4.00%	3.20%
Hedge funds	<u>0.00%</u>	3.60%
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 (6.50%) or 1-percentage-point higher (8.50%) 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>
\$ 28,424,300	\$ 22,885,391	\$ 18,193,400

### 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 \$103,216,357 and \$10,772,992, respectively, based on a proportionate share of 0.451014%. As required by GASB 68, the Town has recognized its portion of the Commonwealth's contribution as both a revenue and expenditure in the general fund, and its portion of the collective pension expense as both a revenue and expense in the governmental activities.

## **20. Other Post-Employment Benefits (GASB 75)**

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

All the following OPEB disclosures are based on a measurement date of June 30, 2017.

### A. General Information about the OPEB Plan

#### Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through Blue Cross Blue Shield. The benefits, benefit levels,

employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

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

Plan Membership

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	620
Active employees	<u>581</u>
Total	<u><u>1,201</u></u>

*B. Actuarial Assumptions and Other Inputs*

The net 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% based on service for Group 1 and Group 2; 7.00% decreasing to 4.75% based on service for Group 4; 7.50% decreasing to 4.00% based on service for teachers
Investment rate of return	7.50%
Discount rate	7.50%
Healthcare cost trend rates	Medical prescription drug: 7.00% decreasing by 0.50% to an ultimate level of 4.50% per year Contributions: Retiree contributions are expected to increase with medical trend

Mortality rates were based on the following:

- Pre-Retirement (Non-Teachers): RP-2014 Healthy Employee Mortality Table projected generationally with Scale MP-2014
- Healthy (Non-Teachers): RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale MP-2014
- Disabled (Non-Teachers): RP-2014 Disabled Retiree Table projected generationally with Scale MP-2014

- 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

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of June 30, 2017.

### Target Allocations

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 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>	

### C. Discount Rate

The discount rate used to measure the net OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.



G. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$ 60,509,380	\$ 68,814,656	\$ 77,831,955

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Town recognized an OPEB expense of \$6,898,386. At June 30, 2018, the Town reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>
Contributions subsequent to the measurement date	\$ 1,183,125
Net difference between projected and actual OPEB investment earnings	<u>319,156</u>
Total	<u>\$ 1,502,281</u>

The \$1,183,125 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30:</u>	
2019	\$ 79,788
2020	79,788
2021	79,789
2022	<u>79,791</u>
Total	<u>\$ 319,156</u>

**21. Other Post-Employment Benefits (GASB 74)**

*GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) (GASB 74)*, replaces the requirements of *Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2012, the Town established an OPEB Trust Fund to provide funding for future employee health care costs.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

**A. Investments**

The OPEB trust fund assets consist of amounts on deposit with the Massachusetts Municipal Depository Trust (MMDT).

*Rate of return.* For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was not available. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**B. Actuarial Assumptions and Other Inputs**

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, 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% based on service for Group 1 and Group 2; 7.00% decreasing to 4.75% based on service for Group 4; 7.50% decreasing to 4.00% based on service for teachers
Investment rate of return	7.50%
Discount rate	7.50%
Healthcare cost trend rates	Medical prescription drug: 7.00% decreasing by 0.50% to an ultimate level of 4.50% per year Contributions: Retiree contributions are expected to increase with medical trend

Mortality rates were based on the following:

- Pre-Retirement: RP-2014 Healthy Employee Mortality Table projected generationally with Scale MP-2014

- Healthy: RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale MP-2014
- Disabled: RP-2014 Disabled Retiree Table projected generationally with Scale MP-2014

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of June 30, 2017.

Target Allocations

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 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	17.50%	6.15%
International developed markets equity	15.50%	7.11%
Hedge fund, GTAA, risk parity	13.00%	3.94%
Core fixed income	12.00%	1.68%
Private equity	12.00%	10.28%
High yield fixed income	10.00%	4.13%
Real estate	10.00%	4.90%
International emerging markets equity	6.00%	9.41%
Commodities	4.00%	4.71%
Total	<u>100.00%</u>	

C. 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 members will be made at the current contribution rate.

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

*D. Net OPEB Liability*

The components of the net OPEB liability, measured as of June 30, 2018, were as follows:

Total OPEB liability	\$ 79,164,345
Plan fiduciary net position	<u>(7,765,251)</u>
Net OPEB liability	<u>\$ 71,399,094</u>
Plan fiduciary net position as a percentage of the total OPEB liability	9.81%

*E. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

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

<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
\$ 81,109,189	\$ 71,399,094	\$ 63,318,204

*F. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

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

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$ 61,942,094	\$ 71,399,094	\$ 81,674,260

**22. Pension and OPEB Trust Funds**

The Reading Contributory Retirement System, the Town of Reading OPEB Trust Fund, and the Electric Division OPEB Trust Fund, are presented in a

single column in the accompanying fiduciary fund financial statements. Details of the financial position and changes in net position are as follows:

	Pension Trust Fund (As of December 31, 2017)	Electric Division OPEB Trust Fund	Other Post Employment Benefits Trust Fund	Pension and OPEB Trust Funds
<b>Assets</b>				
Cash and short-term investments	\$ 6,780,071	\$ 3,519,792	\$ 4,245,459	\$ 14,545,322
Investments	134,972,190	-	-	134,972,190
Accounts receivable	153,657	-	-	153,657
Total Assets	141,905,918	3,519,792	4,245,459	149,671,169
<b>Net Position</b>				
Restricted for:				
Pensions	141,905,918	-	-	141,905,918
OPEB	-	3,519,792	4,245,459	7,765,251
Total Net Position	\$ 141,905,918	\$ 3,519,792	\$ 4,245,459	\$ 149,671,169
	Pension Trust Fund (for the year ended December 31, 2017)	Electric Division OPEB Trust Fund	Other Post Employment Benefits Trust Fund	Pension and OPEB Trust Funds
<b>Additions</b>				
Contributions:				
Employers	\$ 5,661,945	\$ 1,129,116	\$ 3,790,978	\$ 10,582,039
Plan members	3,075,199	-	-	3,075,199
Intergovernmental	397,128	-	-	397,128
Other	3,000	-	-	3,000
Total contributions	9,137,272	1,129,116	3,790,978	14,057,366
Investment Income:				
Increase in fair value of investments	21,274,625	55,517	48,233	21,378,375
Less: management fees	(681,393)	-	-	(681,393)
Net investment income	20,593,232	55,517	48,233	20,696,982
Total Additions	29,730,504	1,184,633	3,839,211	34,754,348
<b>Deductions</b>				
Benefit payments to plan members and beneficiaries	11,206,921	521,991	3,214,978	14,943,890
Refunds to plan members	169,838	-	-	169,838
Transfers to other systems	209,854	-	-	209,854
Administrative expenses	230,215	-	-	230,215
Total Deductions	11,816,828	521,991	3,214,978	15,553,797
Net change	17,913,676	662,642	624,233	19,200,551
<b>Net position restricted for pensions and OPEB</b>				
Beginning of year	123,992,242	2,857,150	3,621,226	130,470,618
End of year	\$ 141,905,918	\$ 3,519,792	\$ 4,245,459	\$ 149,671,169

## 23. 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 indeterminate, 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.

## 24. Beginning Net Position/Fund Balance Restatement

The beginning (June 1, 2017) net position/fund balance of the Town of Reading has been restated as follows:

### Government-Wide Financial Statements

	Governmental Activities	Business-Type Activities				
		Electric Division Fund	Water Fund	Sewer Fund	Nonmajor Proprietary Funds	Total Enterprise Funds
As previously reported	\$ 92,794,058	\$ 109,368,059	\$ 13,187,494	\$ -	\$ 17,320,740	\$ 139,876,293
Reclassify Sewer fund from Nonmajor proprietary funds	-	-	-	14,973,794	(14,973,794)	-
Implementation of GASB 75 OPEB	(37,850,653)	(6,723,225)	(661,466)	(214,172)	(51,849)	(7,650,712)
Restate governmental funds to fiduciary funds	<u>(5,036,796)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
As restated	\$ <u>49,906,609</u>	\$ <u>102,644,834</u>	\$ <u>12,526,028</u>	\$ <u>14,759,622</u>	\$ <u>2,295,097</u>	\$ <u>132,225,581</u>

### Fund Basis Financial Statements

	Nonmajor Governmental Funds	Fiduciary Funds
		Private Purpose Trust Funds
As previously reported	\$ 17,026,181	\$ -
Restate permanent funds to private purpose trust funds	<u>(5,036,796)</u>	<u>5,036,796</u>
As restated	\$ <u>11,989,385</u>	\$ <u>5,036,796</u>

## 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 68,000 residents within the towns of Reading, North Reading, Wilmington, and Lynnfield Center.
- 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, 2018 are classified in the accompanying financial statements as follows:

Proprietary Fund:	
Unrestricted cash and short-term investments	\$ 12,411,639
Restricted cash and short-term investments	29,904,641
Restricted investments	2,502,561
Fiduciary Funds:	
Cash and short-term investments - OPEB Trust	<u>3,519,792</u>
Total cash and investments	<u>\$ 48,338,633</u>

Total cash and investments at June 30, 2018 consist of the following:

Deposits with financial institutions	<u>\$ 48,338,633</u>
Total cash and investments	<u>\$ 48,338,633</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, 2018, 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, 2018, 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	\$ 418,601	12/01/22
General Electric Cap Corp	404,606	01/09/23
Wells Fargo & Co	402,020	08/15/23
Simon Property	372,899	06/15/27
Rabobank Nederland Bank	495,010	11/09/22
BNP Paribas	<u>409,425</u>	03/03/23
Total	<u>\$ 2,502,561</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, 2018, 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	\$ 418,601	BAA2
General Electric Cap Corp	404,606	A2
Wells Fargo & Co	402,020	A3
Simon Property	372,899	A3
Rabobank Nederland Bank	495,010	BAA1
BNP Paribas	<u>409,425</u>	AA3
Total	<u>\$ 2,502,561</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, 2018, 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, 2018, cannot be reasonably determined.

As of June 30, 2018, 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	\$ <u>2,502,561</u>	\$ 2,502,561	\$ -      \$ -
Total	\$ <u>2,502,561</u>		

### 3. Restricted Cash and Investments

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

	<u>Cash</u>	<u>Investments</u>
Depreciation fund	\$ 4,012,622	\$ -
Deferred fuel reserve	6,032,006	-
Deferred energy conservation reserve	577,759	-
Rate stabilization	6,989,273	-
Reserve for uncollectible accounts	200,000	-
Sick leave benefits	1,942,396	1,251,281
Hazardous waste fund	750,000	-
Customer deposits	1,155,870	-
Pension trust	4,444,715	1,251,280
Total	\$ <u>29,904,641</u>	\$ <u>2,502,561</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.
- 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. Accounts Receivable

#### 4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2018:

Customer Accounts:		
Billed	\$	4,316,528
Less allowances:		
Uncollectible accounts		(200,000)
Sales discounts		<u>(231,940)</u>
Total billed		3,884,588
Unbilled, net		<u>5,710,527</u>
Total customer accounts		9,595,115
Other Accounts:		
Liens and other		<u>690,610</u>
Total other accounts		<u>690,610</u>
Total net receivables	\$	<u><u>10,285,725</u></u>

#### 5. Prepaid Expenses

Prepaid expenses consist of the following:

Insurance and other	\$	284,072
Purchase power		(120,787)
NYPA prepayment fund		307,573
WC Fuel - Watson		<u>256,859</u>
Total	\$	<u><u>727,717</u></u>

## 6. Inventory

Inventory comprises supplies and materials at June 30, 2018, 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, 2018:

New England Hydro-Transmission (NEH & NHH)      \$ 258,596

## 8. Capital Assets

The following is a summary of fiscal year 2018 activity in capital assets (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Structures and improvements	\$ 19,414	\$ 856	\$ -	\$ 20,270
Equipment and furnishings	33,592	1,364	(222)	34,734
Infrastructure	90,527	4,273	(1,006)	93,794
Total capital assets, being depreciated	143,533	6,493	(1,228)	148,798
Less accumulated depreciation for:				
Structures and improvements	(9,414)	(540)	-	(9,954)
Equipment and furnishings	(21,520)	(1,009)	222	(22,307)
Infrastructure	(37,754)	(2,757)	962	(39,549)
Total accumulated depreciation	(68,688)	(4,306)	1,184	(71,810)
Total capital assets, being depreciated, net	74,845	2,187	(44)	76,988
Capital assets, not being depreciated:				
Land	1,266	21	-	1,287
Total capital assets, not being depreciated	1,266	21	-	1,287
Capital assets, net	\$ 76,111	\$ 2,208	\$ (44)	\$ 78,275

**9. Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of net position by the Department 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 and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

**10. Accounts Payable**

Accounts payable represent fiscal 2018 expenses that were paid after June 30, 2018.

**11. Accrued Liabilities**

Accrued liabilities consist of the following at June 30, 2018:

Accrued payroll	\$ 164,776
Accrued sales tax	248,952
Other	<u>6,699</u>
Total	<u>\$ 420,427</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. Long-Term Debt

### Changes in General Long-Term Obligations

During the year ended June 30, 2018, the following changes occurred in long-term obligations (in thousands):

	Total Balance 7/1/17	Additions	Reductions	Total Balance 6/30/18	Less Current Portion	Equals Long-Term Portion 6/30/18
<u>Business-Type Activities</u>						
Net pension liability	\$ 13,076	\$ -	\$ (2,294)	\$ 10,782	\$ -	\$ 10,782
Net OPEB liability	138	7,020	-	7,158	-	7,158
Other:						
Compensated absences	3,150	44	-	3,194	(499)	2,695
Subtotal - other	3,150	44	-	3,194	(499)	2,695
Totals	<u>\$ 16,364</u>	<u>\$ 7,064</u>	<u>\$ (2,294)</u>	<u>\$ 21,134</u>	<u>\$ (499)</u>	<u>\$ 20,635</u>

## 16. 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. Deferred inflows of resources related to pension will be recognized as expense in future years and is more fully described in the corresponding pension note.

## 17. 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 Reading Town Hall, 16 Lowell Street, 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 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, 2018 was \$1,650,416 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, 2018, the Department reported a liability of \$10,781,819 for its proportionate share of the System's net pension liability. The net pension

liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to December 31, 2017. 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, 2017, the Department's proportion was 29.15%.

For the year ended June 30, 2018, the Department recognized pension expense of \$1,533,131. 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	\$ 1,465,091	\$ 518,485
Changes of assumptions	1,721,957	-
Net difference between projected and actual investment earnings on pension plan	-	1,587,075
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>161,284</u>	<u>-</u>
Total	<u>\$ 3,348,332</u>	<u>\$ 2,105,560</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:	
2019	\$ 690,475
2020	678,142
2021	9,861
2022	(337,787)
2023	<u>202,081</u>
Total	<u>\$ 1,242,772</u>

#### *D. Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation as of January 1, 2017, rolled forward to the measurement date of December 31,

2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
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 fully 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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Rates of Return</u>
Global Equity	40.00%	4.91%
Hedge Funds & Portfolio Completion	13.00%	3.40%
Fixed Income	12.00%	0.71%
Private Equity	11.00%	6.50%
Value-Added Fixed Income	10.00%	3.64%
Real Estate	10.00%	3.70%
Timber/Natural Resources	4.00%	3.25%
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:

<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
\$ 16,642,839	\$ 10,781,819	\$ 5,811,342

*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, 2017 rolled forward to December 31, 2017. However, the actuarial valuation does not take into account the fiduciary net position of the Department's Pension Trust at December 31, 2017 (the measurement date). As of December 31, 2017, the value of the pension trust was \$5,695,996.

**18. Other Post-Employment Benefits (GASB 75)**

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

All the following OPEB disclosures are based on a measurement date of June 30, 2017.

A. General Information about the OPEB Plan

Plan Description

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

Benefits Provided

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

Plan Membership

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	91
Active employees	<u>87</u>
Total	<u><u>178</u></u>

*B. Actuarial Assumptions and Other Inputs*

The net 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	6.0% decreasing to 4.25% based on service for Group 1 and Group 2 7.0% decreasing to 4.75% based on service for Group 4 7.5% decreasing to 4.00% based on service for Teachers
Investment rate of return	7.50%
Discount rate	7.50%
Healthcare cost trend rates	Medical/Prescription Drug: 7.0% decreasing by 0.5% for 5 years to an ultimate level of 4.5% per year. Contributions: Retiree contributions are expected to increase with medical trend.

Mortality rates were based on:

- Pre-Retirement: RP-2014 Healthy Employee Table projected generationally with Scale MP-2014
- Healthy: RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale MP-2014
- Disabled: RP-2014 Disabled Retiree Table projected generationally with Scale MP-2014

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of June 30, 2017.

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>	

**C. Discount Rate**

The discount rate used to measure the net OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

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

**D. Net OPEB Liability**

The components of the net OPEB liability, measured as of June 30, 2017, 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>

**E. Changes in the Net OPEB Liability**

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (a) - (b)</u>
Balances at 6/30/16	\$ 9,556,217	\$ 2,525,842	\$ 7,030,375
Changes for the year:			
Service cost	245,842	-	245,842
Interest	698,939	-	698,939
Contributions - employer	-	794,319	(794,319)
Net investment income	-	22,484	(22,484)
Benefit payments	<u>(485,573)</u>	<u>(485,573)</u>	<u>-</u>
Net Changes	<u>459,208</u>	<u>331,230</u>	<u>127,978</u>
Balances at 6/30/17	<u>\$ 10,015,425</u>	<u>\$ 2,857,072</u>	<u>\$ 7,158,353</u>

*F. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

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

<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
\$ 8,129,189	\$ 7,158,353	\$ 6,350,695

*G. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

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

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$ 6,277,032	\$ 7,158,353	\$ 8,113,465

*H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

For the year ended June 30, 2018, the Department recognized an OPEB expense of \$896,790. At June 30, 2018, the Department reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>
Contributions subsequent to the measurement date	\$ 607,125
Net difference between projected and actual OPEB investment earnings	<u>142,826</u>
Total	<u>\$ 749,951</u>

The \$648,615 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30:</u>	
2019	\$ 35,706
2020	35,706
2021	35,707
2022	<u>35,707</u>
Total	\$ <u>142,826</u>

**19. Other Post-Employment Benefits (GASB 74)**

*GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of *Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2010, the Department established an OPEB Trust Fund to provide funding for future employee health care costs.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

*A. Investments*

The OPEB trust fund assets consist of equities, fixed income, real estate, and alternatives. (specify)

*Rate of return.* For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was not available. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*B. Actuarial Assumptions and Other Inputs*

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	6.0% decrease to 4.25% based on service
Investment rate of return	7.50%, net of OPEB plan investment expense
Discount rate	7.50%
Healthcare cost trend rates	7.0% for 2018, fluctuating 0.5%, to an ultimate rate of 4.5% as of 2023 and later years

Mortality rates were based on RP-2014 Healthy Employee Mortality Table projected generationally with Scale MP-2014 for pre-retirement. RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale MP-2014 for healthy and RP-2014 Disabled Retiree Table projected generationally with Scale MP-2014 for disabled individuals.

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, 2018 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	17.50%	6.15%
International developed markets equity	15.50%	7.11%
International emerging markets equity	6.00%	9.41%
Core fixed income	12.00%	1.68%
High-yield fixed income	10.00%	4.13%
Real estate	10.00%	4.90%
Commodities	4.00%	4.71%
Hedge fund, GTAA, risk parity	13.00%	3.94%
Private equity	12.00%	10.28%
Total	<u>100.00%</u>	

C. 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 members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. As a result, the discount rate and the investment rate of return are the same.

*D. Net OPEB Liability*

The components of the net OPEB liability, measured as of June 30, 2018, were as follows:

Total OPEB liability	\$ 10,477,535
Plan fiduciary net position	<u>3,519,714</u>
Net OPEB liability	<u>\$ 6,957,821</u>

Plan fiduciary net position as a percentage of the total OPEB liability	33.59%
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*E. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

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

<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
\$ 8,156,713	\$ 6,957,821	\$ 5,952,284

*F. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

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

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$ 5,794,302	\$ 6,957,821	\$ 8,202,679

**20. 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.

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, 2018 principal payment, total capital expenditures amounted to \$1,499,468,000, of which \$127,174,000 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, 2018 principal payment, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$7,959,000, none of which is anticipated to be billed to the Department in the future.

The Department has no required payments under the PSAs and PPAs.

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 \$8,578,000 and \$9,548,000 for the years ended June 30, 2018 and 2017, respectively.

## **21. 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 2018 REC activity and balances is as follows:

REC Sales During Fiscal 2018

	<u>Certificates</u>	<u>Unit Price</u>	<u>Amount</u>
CT Class I	6,756	\$ 12.75	\$ 86,139
CT Class I	1,875	\$ 2.00	3,750
MA Class I	1,939	\$ 12.75	24,722
MA Class I	4,503	\$ 2.00	9,006
MA Class II	4,085	\$ 25.00	102,125
MA Class II	616	\$ 25.00	15,400
NH/MA/CT/RI Class I	8,286	\$ 12.75	105,647
NH/MA/CT/RI Class I	6,655	\$ 2.00	13,310
NH/MA/RI Class I	<u>3,973</u>	\$ 12.75	<u>50,656</u>
Total	<u>38,688</u>		<u>\$ 410,755</u> <sup>(1)</sup>

(1) Sale proceeds netted against fiscal year 2018 purchased power fuel charge

REC Holdings at June 30, 2018

	<u>Banked Certificates</u>	<u>Projected Certificates</u>	<u>Total Certificates</u>	<u>Estimated Value</u>
CT Class I	6,888	8,631	15,519	\$ 106,764
MA Class I & II	6,837	6,995	13,832	153,626
MA/RI/NH 1	5,279	14,942	20,221	79,185
MA/CT/RI/NH 1	<u>10,507</u>	<u>8,121</u>	<u>18,628</u>	<u>162,859</u>
Total	<u>29,511</u>	<u>38,689</u>	<u>68,200</u>	<u>\$ 502,434</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, 2018 are not recognized as an asset on the proprietary fund Statements of Net Position.

## 22. 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, 2018. 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:

2019	\$ <u>4,084</u>
Total	\$ <u><u>4,084</u></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, 2020. Following is the future minimum rental expense to be paid by the Department for the year ending June 30:

2019	\$ <u>147,902</u>
Total	\$ <u><u>147,902</u></u>

## 23. Commitments and Contingencies

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

**24. Beginning Net Position Restatement and Reclassification**

In fiscal year 2018, the Department implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions. As a result of the implementation, the beginning (July 1, 2017) net position of the Department's proprietary fund has been restated as follows:

	<u>Business-Type Activities</u> Proprietary Fund
As previously reported	\$ 109,368,059
Implementation of GASB 75 OPEB	<u>(6,723,225)</u>
As restated	<u>\$ 102,644,834</u>

**TOWN OF READING, MASSACHUSETTS**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY (GASB 68)**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2018**  
**(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, 2018	December 31, 2017	99.13%	\$ 36,665,359	\$ 24,761,758	148.07%	79.32%
June 30, 2017	December 31, 2016	99.13%	\$ 44,468,467	\$ 23,499,057	189.24%	73.43%
June 30, 2016	December 31, 2015	99.28%	\$ 41,172,508	\$ 22,534,225	182.71%	72.17%
June 30, 2015	December 31, 2014	99.28%	\$ 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, 2018	June 30, 2017	0.451014%	\$ -	\$ 103,216,357	\$ 103,216,357	\$ 30,625,961	-	54.25%
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, 2018**

**(Unaudited)**

**Reading Contributory Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$ 5,612,453	\$ 5,612,453	-	\$ 24,761,758	22.67%
June 30, 2017	December 31, 2016	\$ 5,370,991	\$ 5,370,991	-	\$ 23,499,057	22.86%
June 30, 2016	December 31, 2015	\$ 5,147,236	\$ 5,147,236	-	\$ 22,534,225	22.84%
June 30, 2015	December 31, 2014	\$ 4,925,586	\$ 4,925,586	-	\$ 20,764,089	23.72%

**Massachusetts Teachers' Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	June 30, 2017	\$ 5,572,348	\$ 5,572,348	\$ -	\$ 30,625,961	18.19%
June 30, 2017	June 30, 2016	\$ 4,952,850	\$ 4,952,850	\$ -	\$ 28,969,111	17.10%
June 30, 2016	June 30, 2015	\$ 4,487,668	\$ 4,487,668	\$ -	\$ 27,836,403	16.12%
June 30, 2015	June 30, 2014	\$ 3,985,303	\$ 3,985,303	\$ -	\$ 26,068,000	15.29%

*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**  
**OTHER POST-EMPLOYMENT BENEFITS (OPEB)**  
**SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY (GASB 74 and 75)**

(Unaudited)

	<u>2018</u>	<u>2017</u>
<b>Total OPEB liability</b>		
Service cost	\$ 1,952,551	\$ 1,891,090
Interest on unfunded liability - time value of money	5,655,809	5,376,453
Benefit payments, including refunds of member contributions	<u>(3,736,969)</u>	<u>(3,476,250)</u>
Net change in total OPEB liability	3,871,391	3,791,293
Total OPEB liability - beginning	<u>75,292,954</u>	<u>71,501,661</u>
<b>Total OPEB liability - ending (a)</b>	79,164,345	75,292,954
<b>Plan fiduciary net position</b>		
Contributions - employer	4,920,094	4,360,996
Net investment income	103,828	50,000
Benefit payments, including refunds of member contributions	<u>(3,736,969)</u>	<u>(3,476,250)</u>
Net change in plan fiduciary net position	1,286,953	934,746
Plan fiduciary net position - beginning	<u>6,478,298</u>	<u>5,543,552</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>7,765,251</u>	<u>6,478,298</u>
<b>Net OPEB liability (asset) - ending (a-b)</b>	<u>\$ 71,399,094</u>	<u>\$ 68,814,656</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 and 75)**

(Unaudited)

**Schedule of Net OPEB Liability**

	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 79,164,345	\$ 75,292,954
Plan fiduciary net position	<u>(7,765,251)</u>	<u>(6,478,298)</u>
Net OPEB liability	<u>\$ 71,399,094</u>	<u>\$ 68,814,656</u>
Plan fiduciary net position as a percentage of the total OPEB liability	9.81%	8.60%

**Schedule of Contributions**

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 6,839,422	\$ 6,479,523
Contributions in relation to the actuarially determined contribution	<u>(4,920,094)</u>	<u>(4,360,996)</u>
Contribution deficiency	<u>\$ 1,919,328</u>	<u>\$ 2,118,527</u>

**Schedule of Investment Returns**

	<u>2018</u>	<u>2017</u>
Annual money weighted rate of return, net of investment expense	unavailable	unavailable

*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.

See Independent Auditors' Report.

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TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2018

	<u>Special Revenue Funds</u>		
	<u>Federal Grants</u>	<u>State Grants</u>	<u>Revolving Funds</u>
<b>Assets</b>			
Cash and short-term investments	\$ 115,651	\$ 749,103	\$ 4,196,294
Investments	-	-	-
Receivables:			
Departmental and other	-	-	207,068
Intergovernmental	<u>80,097</u>	<u>465,201</u>	<u>-</u>
Total Assets	<u>\$ 195,748</u>	<u>\$ 1,214,304</u>	<u>\$ 4,403,362</u>
<b>Liabilities</b>			
Warrants payable	\$ 38,555	\$ 197,748	\$ 92,479
Accrued liabilities	124,496	-	31,516
Unearned revenue	-	-	339,225
Notes payable	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	163,051	197,748	463,220
<b>Fund Balances</b>			
Nonspendable	-	-	-
Restricted	39,744	1,024,836	3,942,538
Unassigned	<u>(7,047)</u>	<u>(8,280)</u>	<u>(2,396)</u>
Total Fund Balance	<u>32,697</u>	<u>1,016,556</u>	<u>3,940,142</u>
Total Liabilities and Fund Balance	<u>\$ 195,748</u>	<u>\$ 1,214,304</u>	<u>\$ 4,403,362</u>

See Independent Auditors' Report.

Special Revenue Funds

<u>Receipts Reserved</u>	<u>Gifts and Donations</u>	<u>Subtotals</u>
\$ 1,160,654	\$ 1,246,463	\$ 7,468,165
-	-	-
-	-	207,068
-	-	<u>545,298</u>
<u>\$ 1,160,654</u>	<u>\$ 1,246,463</u>	<u>\$ 8,220,531</u>
\$ -	\$ 24,839	\$ 353,621
-	-	156,012
-	-	339,225
-	-	-
-	24,839	848,858
-	-	-
1,160,654	1,221,624	7,389,396
-	-	<u>(17,723)</u>
<u>1,160,654</u>	<u>1,221,624</u>	<u>7,371,673</u>
<u>\$ 1,160,654</u>	<u>\$ 1,246,463</u>	<u>\$ 8,220,531</u>

(continued)

TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2018

(continued)

	<u>Capital Project Funds</u>		
	<u>Town Capital Project Funds</u>	<u>School Capital Project Funds</u>	<u>Subtotals</u>
<b>Assets</b>			
Cash and short-term investments	\$ 827,760	\$ 1,339,079	\$ 2,166,839
Investments	-	-	-
Receivables:			
Departmental and other	-	-	-
Intergovernmental	-	-	-
Total Assets	<u>\$ 827,760</u>	<u>\$ 1,339,079</u>	<u>\$ 2,166,839</u>
<b>Liabilities</b>			
Warrants payable	\$ 36,741	\$ -	\$ 36,741
Accrued liabilities	-	-	-
Unearned revenue	-	-	-
Notes payable	-	1,490,000	1,490,000
Total Liabilities	36,741	1,490,000	1,526,741
<b>Fund Balances</b>			
Nonspendable	-	-	-
Restricted	791,019	-	791,019
Unassigned	-	(150,921)	(150,921)
Total Fund Balance	<u>791,019</u>	<u>(150,921)</u>	<u>640,098</u>
Total Liabilities and Fund Balance	<u>\$ 827,760</u>	<u>\$ 1,339,079</u>	<u>\$ 2,166,839</u>

See Independent Auditors' Report.

<u>Permanent Funds</u>			Total Nonmajor Governmental Funds
Cemetery Trust Funds	Other Trust Funds	<u>Subtotals</u>	
\$ 187,238	\$ 28,082	\$ 215,320	\$ 9,850,324
4,672,441	685,785	5,358,226	5,358,226
-	-	-	207,068
-	-	-	545,298
<u>\$ 4,859,679</u>	<u>\$ 713,867</u>	<u>\$ 5,573,546</u>	<u>\$ 15,960,916</u>
\$ -	\$ 601	\$ 601	\$ 390,963
-	-	-	156,012
-	-	-	339,225
-	-	-	1,490,000
-	601	601	2,376,200
2,892,328	272,165	3,164,493	3,164,493
1,967,351	441,101	2,408,452	10,588,867
-	-	-	(168,644)
<u>4,859,679</u>	<u>713,266</u>	<u>5,572,945</u>	<u>13,584,716</u>
<u>\$ 4,859,679</u>	<u>\$ 713,867</u>	<u>\$ 5,573,546</u>	<u>\$ 15,960,916</u>

TOWN OF READING, MASSACHUSETTS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Special Revenue Funds</u>		
	<u>Federal Grants</u>	<u>State Grants</u>	<u>Revolving Funds</u>
<b>Revenues</b>			
Departmental	\$ -	\$ -	\$ 7,348,920
Intergovernmental	1,714,317	2,297,689	324,848
Investment income	-	-	596
Contributions	-	-	-
Other	-	-	142,415
	<u>1,714,317</u>	<u>2,297,689</u>	<u>7,816,779</u>
Total Revenues	1,714,317	2,297,689	7,816,779
<b>Expenditures</b>			
Current:			
General government	-	24,119	221,298
Public safety	170,006	69,454	1,392,681
Education	1,400,735	1,612,600	5,186,071
Public works	-	568,542	13,594
Health and human services	130,865	52,054	24,023
Culture and recreation	-	44,600	644,619
	<u>1,701,606</u>	<u>2,371,369</u>	<u>7,482,286</u>
Total Expenditures	1,701,606	2,371,369	7,482,286
Excess (deficiency) of revenues over (under) expenditures	12,711	(73,680)	334,493
<b>Other Financing Sources (Uses)</b>			
Transfers out	-	-	(243,338)
	<u>12,711</u>	<u>(73,680)</u>	<u>91,155</u>
Change in fund balances	12,711	(73,680)	91,155
Fund Balances at beginning of year, as restated	<u>19,986</u>	<u>1,090,236</u>	<u>3,848,987</u>
Fund Balances at end of year	<u>\$ 32,697</u>	<u>\$ 1,016,556</u>	<u>\$ 3,940,142</u>

See Independent Auditors' Report.

Special Revenue Funds

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<u>Receipts Reserved</u>	<u>Gifts and Donations</u>	<u>Subtotals</u>
\$ 43,072	\$ -	\$ 7,391,992
-	-	4,336,854
14,531	-	15,127
-	395,985	395,985
<u>35,000</u>	<u>-</u>	<u>177,415</u>
92,603	395,985	12,317,373
2,732	9,699	257,848
-	6,327	1,638,468
-	158,068	8,357,474
-	-	582,136
-	14,019	220,961
<u>-</u>	<u>72,684</u>	<u>761,903</u>
<u>2,732</u>	<u>260,797</u>	<u>11,818,790</u>
89,871	135,188	498,583
<u>(25,000)</u>	<u>-</u>	<u>(268,338)</u>
64,871	135,188	230,245
<u>1,095,783</u>	<u>1,086,436</u>	<u>7,141,428</u>
<u>\$ 1,160,654</u>	<u>\$ 1,221,624</u>	<u>\$ 7,371,673</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, 2018

(continued)

	<u>Capital Project Funds</u>		
	<u>Town Capital Project Funds</u>	<u>School Capital Project Funds</u>	<u>Subtotals</u>
<b>Revenues</b>			
Departmental	\$ -	\$ -	\$ -
Intergovernmental	-	1,339,079	1,339,079
Investment income	-	-	-
Contributions	-	-	-
Other	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	-	1,339,079	1,339,079
<b>Expenditures</b>			
Current:			
General government	-	-	-
Public safety	-	-	-
Education	-	-	-
Public works	57,732	-	57,732
Health and human services	-	-	-
Culture and recreation	42,636	-	42,636
	<u>100,368</u>	<u>-</u>	<u>100,368</u>
Total Expenditures	100,368	-	100,368
Excess (deficiency) of revenues over (under) expenditures	(100,368)	1,339,079	1,238,711
<b>Other Financing Sources (Uses)</b>			
Transfers out	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances	(100,368)	1,339,079	1,238,711
Fund Balances at beginning of year, as restated	<u>891,387</u>	<u>(1,490,000)</u>	<u>(598,613)</u>
Fund Balances at end of year	<u>\$ 791,019</u>	<u>\$ (150,921)</u>	<u>\$ 640,098</u>

See Independent Auditors' Report.

<u>Permanent Funds</u>			Total Nonmajor Governmental Funds
Cemetery Trust Funds	Other Trust Funds	<u>Subtotals</u>	
\$ -	\$ -	\$ -	\$ 7,391,992
-	-	-	5,675,933
147,101	22,121	169,222	184,349
93,520	3,785	97,305	493,290
-	-	-	177,415
<u>240,621</u>	<u>25,906</u>	<u>266,527</u>	<u>13,922,979</u>
-	-	-	257,848
-	-	-	1,638,468
-	-	-	8,357,474
120,000	-	120,000	759,868
-	20,152	20,152	241,113
-	-	-	804,539
<u>120,000</u>	<u>20,152</u>	<u>140,152</u>	<u>12,059,310</u>
120,621	5,754	126,375	1,863,669
-	-	-	(268,338)
<u>120,621</u>	<u>5,754</u>	<u>126,375</u>	<u>1,595,331</u>
<u>4,739,058</u>	<u>707,512</u>	<u>5,446,570</u>	<u>11,989,385</u>
<u>\$ 4,859,679</u>	<u>\$ 713,266</u>	<u>\$ 5,572,945</u>	<u>\$ 13,584,716</u>

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

JUNE 30, 2018

	Business-Type Activities		
	Landfill Closure and Postclosure	Stormwater Management	Total Nonmajor Enterprise Funds
<b>Assets</b>			
Current:			
Cash and short-term investments	\$ 32,931	\$ 1,218,788	\$ 1,251,719
User fees, net of allowance for uncollectibles	<u>-</u>	<u>141,814</u>	<u>141,814</u>
Total Current Assets	32,931	1,360,602	1,393,533
Noncurrent:			
Capital assets being depreciated, net	-	1,046,624	1,046,624
Capital assets not being depreciated	<u>-</u>	<u>179,232</u>	<u>179,232</u>
Total Noncurrent Assets	-	1,225,856	1,225,856
<b>Deferred Outflows of Resources</b>			
Related to pensions	-	20,227	20,227
Related to OPEB	<u>-</u>	<u>233</u>	<u>233</u>
<b>Total Assets and Deferred Outflows of Resources</b>	32,931	2,606,918	2,639,849
<b>Liabilities</b>			
Current:			
Warrants payable	-	25,192	25,192
Accrued liabilities	-	55	55
Other current liabilities	<u>32,931</u>	<u>-</u>	<u>32,931</u>
Total Current Liabilities	32,931	25,247	58,178
Noncurrent:			
Net pension liability	-	68,429	68,429
Net OPEB obligation	<u>-</u>	<u>81,513</u>	<u>81,513</u>
Total Noncurrent Liabilities	-	149,942	149,942
<b>Deferred Inflows of Resources</b>			
Related to pensions	<u>-</u>	<u>27,357</u>	<u>27,357</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	32,931	202,546	235,477
<b>Net Position</b>			
Net investment in capital assets	-	1,046,624	1,046,624
Unrestricted	<u>-</u>	<u>1,357,748</u>	<u>1,357,748</u>
Total Net Position	<u>\$ -</u>	<u>\$ 2,404,372</u>	<u>\$ 2,404,372</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, 2018

	Business-Type Activities		
	Landfill Closure and Postclosure	Stormwater Management	Total Nonmajor Enterprise Funds
<b>Operating Revenues</b>			
Charges for services	\$ -	\$ 434,175	\$ 434,175
Total Operating Revenues	-	434,175	434,175
<b>Operating Expenses</b>			
Personnel expenses	-	212,648	212,648
Non personnel expenses	-	65,936	65,936
Depreciation	-	61,401	61,401
Total Operating Expenses	-	339,985	339,985
Operating income	-	94,190	94,190
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	-	15,085	15,085
Change in net position	-	109,275	109,275
Net Position at Beginning of Year, as restated	-	2,295,097	2,295,097
Net Position at End of Year	\$ -	\$ 2,404,372	\$ 2,404,372

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS  
NONMAJOR PROPRIETARY FUNDS  
COMBINING SCHEDULE OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities		
	Landfill Closure and Postclosure	Stormwater Management	Total Nonmajor Enterprise Funds
<b>Cash Flows From Operating Activities</b>			
Receipts from customers and users	\$ -	\$ 445,103	\$ 445,103
Payments to vendors and employees	<u>(5,958)</u>	<u>(259,940)</u>	<u>(265,898)</u>
Net cash provided by (used for) operating activities	(5,958)	185,163	179,205
<b>Cash Flows From Capital and Related Financing Activities</b>			
Acquisition of capital assets	<u>-</u>	<u>(368,192)</u>	<u>(368,192)</u>
Net cash (used for) capital and related financing activities	-	(368,192)	(368,192)
<b>Cash Flows From Investing Activities</b>			
Investment income	<u>-</u>	<u>15,085</u>	<u>15,085</u>
Net cash provided by investing activities	<u>-</u>	<u>15,085</u>	<u>15,085</u>
Net change in cash and short-term investments	(5,958)	(167,944)	(173,902)
Cash and Short Term Investments, Beginning of Year	<u>38,889</u>	<u>1,386,732</u>	<u>1,425,621</u>
Cash and Short Term Investments, End of Year	<u>\$ 32,931</u>	<u>\$ 1,218,788</u>	<u>\$ 1,251,719</u>
<b>Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities</b>			
Operating income	\$ -	\$ 94,190	\$ 94,190
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation	-	61,401	61,401
Changes in assets and liabilities:			
User fees receivables	-	10,928	10,928
Deferred outflows of resources	-	4,388	4,388
Warrants payable	(17,691)	21,765	4,074
Accrued liabilities	-	4	4
Other liabilities	11,733	-	11,733
Net OPEB obligation	-	3,609	3,609
Net pension liability	-	(14,617)	(14,617)
Deferred inflows of resources	<u>-</u>	<u>3,495</u>	<u>3,495</u>
Net cash provided by (used for) operating activities	<u>\$ (5,958)</u>	<u>\$ 185,163</u>	<u>\$ 179,205</u>

See Independent Auditors' Report.