



TOWN OF READING, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Select Board
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, 2019, (except for the Reading Contributory Retirement System and Electric Division, which are as of and for the year ended, and the six months ended, December 31, 2018, respectively) 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, 2019 (except for the Reading Contributory Retirement System and Electric Division, which are as of and for the year ended, and the six months ended, December 31, 2018, respectively), 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.

Emphasis of Matters

The Reading Municipal Light Department (Electric Division) changed from a June 30 fiscal year-end to a December 31 calendar year-end. Where applicable, the accompanying financial statements reflect Electric Division activities for a six month period from July 1, 2018 to December 31, 2018.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and certain Pension and OPEB schedules, be presented to supplement the basic financial statements. Such information, 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 112 through 124 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 February 26, 2020 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.

Melanson Heath

February 26, 2020

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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, 2019 (except for the Electric Division which is as of December 31, 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 sick 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 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 Town. 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 for the Town's governmental activities by \$50,974,405 (i.e., net position), a change of \$(1,334,013) in comparison to the prior year.
- 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 for the Town's business-type activities by \$147,234,804 (i.e., net position), a change of \$7,219,745 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$38,588,734, a change of \$6,197,599 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$18,781,232, a change of \$4,929,214 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019 ¹	2018	2019 ¹	2018
Current and other assets	\$ 46,856,674	\$ 41,562,429	\$ 89,945,473	\$ 83,436,180	\$ 136,802,147	\$ 124,998,609
Capital assets	124,352,767	128,379,352	106,388,736	103,351,691	230,741,503	231,731,043
Total Assets	171,209,441	169,941,781	196,334,209	186,787,871	367,543,650	356,729,652
Deferred Outflows of Resources	17,946,348	7,954,088	6,975,287	4,712,612	24,921,635	12,666,700
Long-term liabilities	124,250,679	111,911,827	38,738,050	39,635,404	162,988,729	151,547,231
Other liabilities	7,406,494	8,416,315	14,878,859	9,436,400	22,285,353	17,852,715
Total Liabilities	131,657,173	120,328,142	53,616,909	49,071,804	185,274,082	169,399,946
Deferred Inflows of Resources	6,524,211	5,259,309	2,457,783	2,413,620	8,981,994	7,672,929
Net investment in capital assets	102,789,291	102,926,593	96,748,349	94,747,230	199,537,640	197,673,823
Restricted	13,452,691	12,962,345	12,984,552	9,767,995	26,437,243	22,730,340
Unrestricted	(65,267,577)	(63,580,520)	37,501,903	35,499,834	(27,765,674)	(28,080,686)
Total Net Position	<u>\$ 50,974,405</u>	<u>\$ 52,308,418</u>	<u>\$ 147,234,804</u>	<u>\$ 140,015,059</u>	<u>\$ 198,209,209</u>	<u>\$ 192,323,477</u>

¹ Included in the Town's Business-Type activities is the Electric Division which is presented as of December 31, 2018

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 \$198,209,209, a change of \$5,885,732 in comparison to the prior year.

The largest portion of net position, \$199,537,640, 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, \$26,437,243, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit of \$(27,765,674) primarily resulting from unfunded pension and OPEB liabilities.

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

	CHANGES IN NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019 ¹	2018	2019 ¹	2018
Revenues						
Program revenues:						
Charges for services	\$ 10,611,027	\$ 9,723,339	\$ 64,391,661	\$ 111,427,378	\$ 75,002,688	\$ 121,150,717
Operating grants and contributions	25,408,684	25,820,694	-	-	25,408,684	25,820,694
Capital grants and contributions	717,683	1,906,371	881,395	1,005,680	1,599,078	2,912,051
General revenues:						
Property taxes	73,560,941	67,024,574	-	-	73,560,941	67,024,574
Excises	4,434,079	4,345,158	-	-	4,434,079	4,345,158
Penalties, interest, and other taxes	599,869	578,670	-	-	599,869	578,670
Grants and contributions not restricted to specific programs	3,613,974	3,637,261	-	-	3,613,974	3,637,261
Investment income	2,399,713	1,388,888	612,582	521,682	3,012,295	1,910,570
Other	427,149	453,117	380,168	694,309	807,317	1,147,426
Total Revenues	121,773,119	114,878,072	66,265,806	113,649,049	188,038,925	228,527,121
Expenses						
General government	6,437,581	5,575,808	-	-	6,437,581	5,575,808
Public safety	17,233,365	14,642,864	-	-	17,233,365	14,642,864
Education	79,667,962	74,603,267	-	-	79,667,962	74,603,267
Public works	9,729,267	8,400,805	-	-	9,729,267	8,400,805
Facilities	4,116,162	3,850,642	-	-	4,116,162	3,850,642
Health and human services	1,094,414	1,054,153	-	-	1,094,414	1,054,153
Culture and recreation	5,291,728	4,683,085	-	-	5,291,728	4,683,085
Interest on long-term debt	874,077	1,007,435	-	-	874,077	1,007,435
Intergovernmental	1,143,082	1,077,974	-	-	1,143,082	1,077,974
Electric division operations	-	-	45,085,315	91,196,214	45,085,315	91,196,214
Water operations	-	-	5,744,137	5,544,322	5,744,137	5,544,322
Sewer operations	-	-	6,618,484	6,359,280	6,618,484	6,359,280
Other	-	-	357,872	339,985	357,872	339,985
Total Expenses	125,587,638	114,896,033	57,805,808	103,439,801	183,393,446	218,335,834
Change in net position before transfers	(3,814,519)	(17,961)	8,459,998	10,209,248	4,645,479	10,191,287
Transfers in (out)	2,480,506	2,419,770	(1,240,253)	(2,419,770)	1,240,253	-
Change in net position	(1,334,013)	2,401,809	7,219,745	7,789,478	5,885,732	10,191,287
Net position - beginning of year	52,308,418	49,906,609	140,015,059	132,225,581	192,323,477	182,132,190
Net position - end of year	\$ 50,974,405	\$ 52,308,418	\$ 147,234,804	\$ 140,015,059	\$ 198,209,209	\$ 192,323,477

¹ Included in the Town's Business-Type activities is the activities of the Electric Division which is presented as of the six months ended December 31, 2018

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(1,334,013). Key elements of this change are as follows:

Change in governmental funds	\$ 6,197,599
Increase in net pension liability, net of related deferred outflows/inflows of resources	(2,172,590)
Increase in net OPEB liability, net of related deferred outflows/inflows of resources	(5,777,920)
Other	418,898
Total	\$ (1,334,013)

Business-type activities. Business-type activities for the year resulted in a change in net position of \$7,219,745. Key elements of this change and the impact on cash flows are as follows:

	<u>Revenues and Transfers In</u>	<u>Expenses and Transfers Out</u>	<u>Change in Net Position</u>
Electric division fund ¹	\$ 51,217,336	\$ (46,325,568)	\$ 4,891,768
Water fund	6,778,031	(5,744,137)	1,033,894
Sewer fund	7,635,424	(6,618,484)	1,016,940
Nonmajor funds	<u>635,015</u>	<u>(357,872)</u>	<u>277,143</u>
Total	<u>\$ 66,265,806</u>	<u>\$ (59,046,061)</u>	<u>\$ 7,219,745</u>

¹ Activity for the Electric division is reported for the six months ended December 31, 2018

The change in net position for business-type activities is largely attributable to Electric divisions sales and other revenues exceeding operating expenses by \$5,436,188 (operating income).

Additional changes in the business-type activities are 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 \$96,748,349, an increase of \$2,001,119, or 2.11%, over the prior year.

Unrestricted net position of the business-type activities at the end of the fiscal year amounted to \$37,501,903, a change of \$2,002,069 in comparison to the prior year. Key elements of this change are as follows:

<u>Fund</u>	<u>12/31/18</u>	<u>6/30/18</u>	<u>Change</u>
Electric division	\$ 21,701,945	\$ 19,523,546	\$ 2,178,399
	<u>6/30/19</u>		
Water	6,678,523	6,552,073	126,450
Sewer	7,773,719	8,066,467	(292,748)
Nonmajor	<u>1,347,716</u>	<u>1,357,748</u>	<u>(10,032)</u>
Total	<u>\$ 37,501,903</u>	<u>\$ 35,499,834</u>	<u>\$ 2,002,069</u>

The change in unrestricted net position of the business-type activities is largely attributable to the use of current resources for capital improvements as well as the change in the business-type activities proportionate share of the net pension and net OPEB liabilities, as further discussed the notes to the financial statements.

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 \$38,588,734, a change of \$6,197,599 in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ 2,201,496
Payment in lieu of taxes (PILOT) from RMLD	2,480,506
Special revenue fund revenues exceeding expenditures	1,071,541
Permanent fund revenues exceeding expenditures	<u>444,056</u>
Total	<u>\$ 6,197,599</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 \$18,781,232, while total fund balance was \$24,668,636. The following table reflects the trend in all components of the general fund's fund balance:

Fiscal Year	<u>Last Five Fiscal Years</u>					
	Restricted for Debt Service	Committed for Stabilization Fund	Assigned for Encumbrances	Assigned for Subsequent Year's Expenditures	Unassigned	Total Fund Balance
2015	\$ -	\$ 503,000	\$ 2,827,211	\$ 1,800,000	\$ 11,852,773	\$ 16,982,984
2016	-	503,031	2,936,996	4,646,605	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
2019	36,078	503,000	3,973,326	1,375,000	18,781,232	24,668,636

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 following table:

<u>General Fund</u>	<u>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 18,781,232	\$ 13,852,018	\$ 4,929,214	18.58%
Total fund balance	24,668,636	18,806,419	5,862,217	24.41%

The increase in the Town's June 30, 2019 unassigned fund balance over the prior year is primarily due to current year actual revenues exceeding those budgeted and current year actual expenditures coming in 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 \$5,862,217 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	\$ (1,600,000)
Revenues and transfers in excess of budget	3,019,903
Expenditures less than budget	2,673,540
Expenditures of prior year encumbrances less than current year encumbrances	1,715,783
Change in stabilization accounts	<u>52,991</u>
Total	\$ <u><u>5,862,217</u></u>

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

	<u>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>	<u>Fund Balance Classification</u>
General	\$ 1,670,442	\$ 1,617,451	\$ 52,991	Unassigned
Smart growth	<u>503,000</u>	<u>503,000</u>	<u>-</u>	Committed
Total	\$ <u><u>2,173,442</u></u>	\$ <u><u>2,120,451</u></u>	\$ <u><u>52,991</u></u>	

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

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$1,235,502. Major reasons for these amendments include:

- \$800,000 increase for land acquisitions
- \$386,000 increase for capital improvements
- \$49,502 increase for other Town operations

Of this increase, \$800,000 was directly related to land acquisitions funded through transfers from special revenue funds as voted at the Town's Special Town Meeting held in April 2019.

Additional increases of \$435,502 were funded through the tax levy and local receipts by \$304,018 and \$131,484, respectively.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$230,741,503 (net of accumulated depreciation), a change of \$(989,540) from the prior year. This investment in capital assets includes land, land improvements, infrastructure, buildings and improvements, machinery, equipment, and furnishings.

Major capital asset acquisitions are attributable to the following:

Governmental additions:

- \$ 1,134,907 in roadway improvements
- 930,601 in various school improvements
- 800,000 for purchase of land parcels
- 134,425 for public safety vehicles

Business-type additions:

- \$ 2,302,494 in electric division infrastructure
- 1,522,076 in water infrastructure and improvements
- 136,008 in sewer infrastructure
- 179,620 in stormwater improvements and vehicles

Additional information on capital assets can be found in note 9 and note 31 of the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$35,807,833, 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 FY2020 general fund budget of \$103,016,753 is a 3.00% increase over the prior year. The FY2020 budget is balanced.

FY2020 state aid will be \$14,701,465, which represents a 1.7% percent increase over the prior year.

The tax levy for FY2020 of \$73,110,687 represents a 3.2% increase over the prior year. The FY2020 tax rate is \$13.95 per thousand for residential properties and \$14.20 per thousand for commercial properties, compared to \$14.23 per thousand for residential properties and \$14.48 per thousand for commercial properties in the prior year. Overall, property values increased 5.3% to \$5,467,372,988.

For FY2020, the Select Board, acting as the Water and Sewer Commissioners, voted to increase water rates by 3.70% and sewer rates by 8.46% for all customers, effective for all billings after September 10, 2019. 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 FY2019 totaling \$442,632. The FY2020 revenue budgeted for this tax is \$400,000.

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 interested in 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. In April 2017 Town Meeting, the Town voted to re-accept the provisions of Section 20 of Chapter 32B of MGL, as amended by Section 15 of Chapter 218 of the Acts of 2016. The Select Board approved and signed the OPEB Trust Agreement on October 15, 2019. With all these steps completed, the Town is now eligible to apply to invest 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, 2019

(Except for the Electric Division Fund which is as of December 31, 2018)

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Assets			
Current:			
Cash and short-term investments	\$ 19,416,927	\$ 41,275,997	\$ 60,692,924
Investments	23,545,405	-	23,545,405
Receivables, net of allowance for uncollectibles:			
Property taxes	387,805	-	387,805
Excises	132,164	-	132,164
User fees	-	13,249,422	13,249,422
Departmental and other	2,341,517	-	2,341,517
Intergovernmental	559,506	-	559,506
Prepaid assets	-	2,097,356	2,097,356
Inventory	-	1,597,469	1,597,469
Noncurrent:			
Restricted cash and short-term investments	-	28,827,501	28,827,501
Restricted investments	-	2,490,210	2,490,210
Investment in associated companies	-	289,474	289,474
Receivables, net of allowance for uncollectibles:			
Property taxes	473,350	-	473,350
Capital assets depreciable, net	117,919,051	94,961,645	212,880,696
Capital assets non-depreciable	6,433,716	11,427,091	17,860,807
Other assets	-	118,044	118,044
Deferred Outflows of Resources			
Related to pensions	14,312,403	6,146,796	20,459,199
Related to OPEB	3,633,945	828,491	4,462,436
Total Assets and Deferred Outflows of Resources	189,155,789	203,309,496	392,465,285
Liabilities			
Current:			
Warrants payable	2,161,351	11,094,007	13,255,358
Accrued liabilities	4,199,451	324,382	4,523,833
Unearned revenues	389,086	-	389,086
Tax refunds payable	52,470	-	52,470
Customer advances for construction	-	2,262,718	2,262,718
Customer deposits	-	1,197,752	1,197,752
Other current liabilities	604,136	-	604,136
Current portion of long-term liabilities:			
Bonds and loans payable	4,018,362	2,031,012	6,049,374
Compensated absences	87,539	530,245	617,784
Noncurrent:			
Bonds and loans payable, net of current portion	18,106,133	11,652,326	29,758,459
Compensated absences, net of current portion	787,853	2,522,741	3,310,594
Net pension liability	34,307,165	13,005,953	47,313,118
Net OPEB liability	66,943,627	8,995,773	75,939,400
Deferred Inflows of Resources			
Related to pensions	4,449,383	2,411,320	6,860,703
Related to OPEB	1,918,245	46,463	1,964,708
Other	156,583	-	156,583
Total Liabilities and Deferred Inflows of Resources	138,181,384	56,074,692	194,256,076
Net Position			
Net investment in capital assets	102,789,291	96,748,349	199,537,640
Restricted for:			
Grants and other statutory restrictions	7,435,690	12,984,552	20,420,242
Permanent funds:			
Nonexpendable	3,314,553	-	3,314,553
Expendable	2,702,448	-	2,702,448
Unrestricted	(65,267,577)	37,501,903	(27,765,674)
Total Net Position	\$ 50,974,405	\$ 147,234,804	\$ 198,209,209

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

TOWN OF READING, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

(Except for the Electric Division Fund which is for the six months ended December 31, 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>	
Governmental Activities					
General government	\$ 6,437,581	\$ 331,867	\$ 358,838	\$ -	\$ (5,746,876)
Public safety	17,233,365	3,783,812	222,238	-	(13,227,315)
Education	79,667,962	5,354,285	24,266,006	-	(50,047,671)
Public works	9,729,267	221,828	188,840	717,683	(8,600,916)
Facilities	4,116,162	-	-	-	(4,116,162)
Health and human services	1,094,414	42,008	317,747	-	(734,659)
Culture and recreation	5,291,728	877,227	55,015	-	(4,359,486)
Interest on long-term debt	874,077	-	-	-	(874,077)
Intergovernmental	1,143,082	-	-	-	(1,143,082)
Total Governmental Activities	<u>125,587,638</u>	<u>10,611,027</u>	<u>25,408,684</u>	<u>717,683</u>	<u>(88,850,244)</u>
Business-Type Activities					
Electric division operations	45,085,315	50,463,442	-	99,509	5,477,636
Water operations	5,744,137	6,635,436	-	-	891,299
Sewer operations	6,618,484	6,675,872	-	781,886	839,274
Nonmajor operations	357,872	616,911	-	-	259,039
Total Business-Type Activities	<u>57,805,808</u>	<u>64,391,661</u>	<u>-</u>	<u>881,395</u>	<u>7,467,248</u>
Total	<u>\$ 183,393,446</u>	<u>\$ 75,002,688</u>	<u>\$ 25,408,684</u>	<u>\$ 1,599,078</u>	<u>(81,382,996)</u>

(continued)

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

TOWN OF READING, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

(Except for the Electric Division Fund which is for the six months ended December 31, 2018)

(continued)

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Change in Net Position:			
Net (Expenses) Revenues from previous page	\$ (88,850,244)	\$ 7,467,248	\$ (81,382,996)
General Revenues and Transfers			
Property taxes	73,560,941	-	73,560,941
Excises	4,434,079	-	4,434,079
Penalties, interest, and other taxes	599,869	-	599,869
Grants and contributions not restricted to specific programs	3,613,974	-	3,613,974
Investment income	2,399,713	612,582	3,012,295
Other	427,149	380,168	807,317
Transfers, net	<u>2,480,506</u>	<u>(1,240,253)</u>	<u>1,240,253</u>
Total General Revenues and Transfers	<u>87,516,231</u>	<u>(247,503)</u>	<u>87,268,728</u>
Change in net position	(1,334,013)	7,219,745	5,885,732
Net Position			
Beginning of year	<u>52,308,418</u>	<u>140,015,059</u>	<u>192,323,477</u>
End of year	<u>\$ 50,974,405</u>	<u>\$ 147,234,804</u>	<u>\$ 198,209,209</u>

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

TOWN OF READING, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and short-term investments	\$ 11,827,339	\$ 7,589,588	\$ 19,416,927
Investments	17,579,145	5,966,260	23,545,405
Receivables:			
Property taxes	954,740	-	954,740
Excises	244,594	-	244,594
Departmental and other	1,831,485	510,032	2,341,517
Intergovernmental	<u>-</u>	<u>559,506</u>	<u>559,506</u>
Total Assets	<u>\$ 32,437,303</u>	<u>\$ 14,625,386</u>	<u>\$ 47,062,689</u>
Liabilities			
Warrants payable	\$ 2,011,441	\$ 149,820	\$ 2,161,261
Accrued liabilities	3,805,131	166,382	3,971,513
Unearned revenue	-	389,086	389,086
Other liabilities	<u>604,136</u>	<u>-</u>	<u>604,136</u>
Total Liabilities	6,420,708	705,288	7,125,996
Deferred Inflows of Resources			
Unavailable revenues	1,347,959	-	1,347,959
Fund Balances			
Nonspendable	-	3,314,553	3,314,553
Restricted	36,078	10,699,158	10,735,236
Committed	503,000	-	503,000
Assigned	5,348,326	-	5,348,326
Unassigned	<u>18,781,232</u>	<u>(93,613)</u>	<u>18,687,619</u>
Total Fund Balances	<u>24,668,636</u>	<u>13,920,098</u>	<u>38,588,734</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 32,437,303</u>	<u>\$ 14,625,386</u>	<u>\$ 47,062,689</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, 2019

Total governmental fund balances	\$ 38,588,734
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	124,352,767
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,023,491
• Deferred outflows of resources to be recognized as an increase to pension and OPEB expense in future periods:	
Related to pensions	14,312,403
Related to OPEB	3,633,945
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(22,124,495)
Compensated absences	(875,392)
Net pension liability	(34,307,165)
Net OPEB liability	(66,943,627)
• Deferred inflows of resources to be recognized as a decrease to pension and OPEB expense in future periods:	
Related to pensions	(4,449,383)
Related to OPEB	(1,918,245)
• Deferred inflows of resources related to gains on refunding bonds.	(90,600)
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(228,028)
Net position of governmental activities	<u>\$ 50,974,405</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, 2019

	<u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues			
Property taxes	\$ 73,440,816	\$ -	\$ 73,440,816
Excises	4,518,208	-	4,518,208
Penalties, interest, and other taxes	599,869	-	599,869
Departmental	2,312,514	8,013,675	10,326,189
Licenses and permits	161,819	-	161,819
Fines and forfeitures	101,396	-	101,396
Intergovernmental	20,417,819	4,296,274	24,714,093
Investment income	1,513,149	468,202	1,981,351
Contributions	-	423,045	423,045
Other	212,556	215,136	427,692
	103,278,146	13,416,332	116,694,478
Expenditures			
Current:			
General government	5,281,210	234,519	5,515,729
Public safety	11,498,415	1,618,751	13,117,166
Education	50,076,779	8,186,252	58,263,031
Public works	4,738,102	848,664	5,586,766
Facilities	3,771,257	-	3,771,257
Health and human services	606,863	243,558	850,421
Culture and recreation	2,514,322	768,991	3,283,313
Employee benefits	16,967,755	-	16,967,755
Debt service	4,478,865	-	4,478,865
Intergovernmental	1,143,082	-	1,143,082
	101,076,650	11,900,735	112,977,385
Excess of revenues over expenditures	2,201,496	1,515,597	3,717,093
Other Financing Sources (Uses)			
Transfers in	3,811,642	150,921	3,962,563
Transfers out	(150,921)	(1,331,136)	(1,482,057)
	3,660,721	(1,180,215)	2,480,506
Net change in fund balances	5,862,217	335,382	6,197,599
Fund Balance at Beginning of Year	18,806,419	13,584,716	32,391,135
Fund Balance at End of Year	\$ 24,668,636	\$ 13,920,098	\$ 38,588,734

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, 2019

Net changes in fund balances - Total governmental funds	\$	6,197,599																								
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;">Capital outlay</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">3,363,554</td> </tr> <tr> <td>Depreciation</td> <td></td> <td style="text-align: right;">(7,390,139)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, excises, etc.) differ between the two statements. This amount represents the net change in unavailable revenue. 39,016 • 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: 70%;">Repayments of general obligation and refunding bonds</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">3,550,000</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. This amount reflects the change in accrued interest. 39,688 • 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: 70%;">Current year amortization of premiums from issuance of general obligation and refunding bonds</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">418,362</td> </tr> <tr> <td>Change in tax refunds payable</td> <td></td> <td style="text-align: right;">15,638</td> </tr> <tr> <td>Change in compensated absences</td> <td></td> <td style="text-align: right;">367,679</td> </tr> <tr> <td>Change in net pension liability, net of related deferred outflows and inflows of resources</td> <td></td> <td style="text-align: right;">(2,172,590)</td> </tr> <tr> <td>Change in net OPEB liability, net of related deferred outflows and inflows of resources</td> <td></td> <td style="text-align: right;">(5,777,920)</td> </tr> </table> • Other 15,100 			Capital outlay		3,363,554	Depreciation		(7,390,139)	Repayments of general obligation and refunding bonds		3,550,000	Current year amortization of premiums from issuance of general obligation and refunding bonds		418,362	Change in tax refunds payable		15,638	Change in compensated absences		367,679	Change in net pension liability, net of related deferred outflows and inflows of resources		(2,172,590)	Change in net OPEB liability, net of related deferred outflows and inflows of resources		(5,777,920)
Capital outlay		3,363,554																								
Depreciation		(7,390,139)																								
Repayments of general obligation and refunding bonds		3,550,000																								
Current year amortization of premiums from issuance of general obligation and refunding bonds		418,362																								
Change in tax refunds payable		15,638																								
Change in compensated absences		367,679																								
Change in net pension liability, net of related deferred outflows and inflows of resources		(2,172,590)																								
Change in net OPEB liability, net of related deferred outflows and inflows of resources		(5,777,920)																								
Change in net position of governmental activities	\$	<u>(1,334,013)</u>																								

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

TOWN OF READING, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Property taxes	\$ 72,760,019	\$ 73,064,037	\$ 73,440,816	\$ 376,779
Excises	4,185,000	4,285,000	4,518,208	233,208
Penalties, interest, and other taxes	570,000	570,000	599,856	29,856
Departmental	1,878,471	1,878,471	2,312,514	434,043
Licenses and permits	170,000	170,000	161,819	(8,181)
Fines and forfeitures	95,000	95,000	101,396	6,396
Intergovernmental	14,622,409	14,503,893	14,852,262	348,369
Investment income	200,000	350,000	1,460,158	1,110,158
Other	138,695	138,695	212,556	73,861
	94,619,594	95,055,096	97,659,585	2,604,489
Total Revenues				
Expenditures				
General government	4,746,672	5,689,672	5,343,970	345,702
Public safety	11,597,775	11,671,775	11,445,761	226,014
Education	45,415,275	45,415,275	45,111,548	303,727
Public works	5,379,375	5,506,125	5,055,451	450,674
Facilities	4,606,775	4,901,775	4,683,829	217,946
Health and human services	776,375	709,375	607,152	102,223
Culture and recreation	2,485,065	2,496,315	2,389,450	106,865
Employee benefits	18,207,600	17,855,700	16,967,755	887,945
Debt service	4,471,158	4,491,723	4,478,865	12,858
Intergovernmental	1,129,752	1,162,668	1,143,082	19,586
	98,815,822	99,900,403	97,226,863	2,673,540
Total Expenditures				
Excess (deficiency) of revenues over (under) expenditures	(4,196,228)	(4,845,307)	432,722	5,278,029
Other Financing Sources (Uses)				
Transfers in	2,596,228	3,396,228	3,811,642	415,414
Transfers out	-	(150,921)	(150,921)	-
Use of free cash:				
For operating budget support	1,200,000	1,200,000	-	(1,200,000)
Use of overlay surplus:				
For operating budget support	400,000	400,000	-	(400,000)
	4,196,228	4,845,307	3,660,721	(1,184,586)
Total Other Financing Sources (Uses)				
Excess of revenues and other financing sources sources over expenditures and other financing uses	\$ -	\$ -	\$ 4,093,443	\$ 4,093,443

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

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2019

(Except for the Electric Division Fund which is as of December 31, 2018)

	Business-Type Activities				
	Electric Division Fund	Water Fund	Sewer Fund	Nonmajor Funds	Total Enterprise Funds
Assets					
Current:					
Cash and short-term investments	\$ 20,832,516	\$ 10,189,963	\$ 8,796,015	\$ 1,457,503	\$ 41,275,997
User fees, net of allowance for uncollectibles	8,705,414	2,146,729	2,197,965	199,314	13,249,422
Prepaid assets	2,097,356	-	-	-	2,097,356
Inventory	1,486,470	107,379	3,620	-	1,597,469
Total Current Assets	33,121,756	12,444,071	10,997,600	1,656,817	58,220,244
Noncurrent:					
Restricted cash and short-term investments	28,827,501	-	-	-	28,827,501
Restricted investments	2,490,210	-	-	-	2,490,210
Investment in associated companies	289,474	-	-	-	289,474
Capital assets depreciable, net	77,217,470	10,403,864	6,006,512	1,333,799	94,961,645
Capital assets non-depreciable	1,265,842	6,388,794	3,772,455	-	11,427,091
Other assets	118,044	-	-	-	118,044
Total Noncurrent Assets	110,208,541	16,792,658	9,778,967	1,333,799	138,113,965
Deferred Outflows of Resources					
Related to pensions	5,039,390	936,866	160,640	9,900	6,146,796
Related to OPEB	740,468	62,776	20,326	4,921	828,491
Total Assets and Deferred Outflows of Resources	149,110,155	30,236,371	20,957,533	3,005,437	203,309,496
Liabilities					
Current:					
Warrants payable	9,718,305	670,778	547,684	157,240	11,094,007
Accrued liabilities	280,307	41,533	2,542	-	324,382
Customer advances for construction	2,262,718	-	-	-	2,262,718
Customer deposits	1,197,752	-	-	-	1,197,752
Current portion of long-term liabilities:					
Bonds and loans payable	-	1,654,239	376,773	-	2,031,012
Compensated absences	530,245	-	-	-	530,245
Total Current Liabilities	13,989,327	2,366,550	926,999	157,240	17,440,116
Noncurrent:					
Bonds and loans payable, net of current portion	-	9,565,682	2,086,644	-	11,652,326
Compensated absences, net of current portion	2,469,394	44,554	8,793	-	2,522,741
Net pension liability	10,781,819	1,827,397	371,674	25,063	13,005,953
Net OPEB liability	7,374,246	1,156,442	374,438	90,647	8,995,773
Total Noncurrent Liabilities	20,625,459	12,594,075	2,841,549	115,710	36,176,793
Deferred Inflows of Resources					
Related to pensions	2,105,560	195,004	62,381	48,375	2,411,320
Related to OPEB	-	33,137	10,729	2,597	46,463
Total Liabilities and Deferred Inflows of Resources	36,720,346	15,188,766	3,841,658	323,922	56,074,692
Net Position					
Net investment in capital assets	78,483,312	8,369,082	8,562,156	1,333,799	96,748,349
Restricted for:					
Depreciation fund	6,326,373	-	-	-	6,326,373
Pension trust	5,878,179	-	-	-	5,878,179
Capital projects	-	-	780,000	-	780,000
Unrestricted	21,701,945	6,678,523	7,773,719	1,347,716	37,501,903
Total Net Position	\$ 112,389,809	\$ 15,047,605	\$ 17,115,875	\$ 2,681,515	\$ 147,234,804

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, 2019

(Except for the Electric Division Fund which is for the six months ended December 31, 2018)

	Business-Type Activities				
	Electric Division Fund	Water Fund	Sewer Fund	Nonmajor Funds	Total Enterprise Funds
Operating Revenues					
Charges for services	\$ 50,205,195	\$ 6,635,436	\$ 6,675,872	\$ 616,911	\$ 64,133,414
Other	<u>258,247</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>258,247</u>
Total Operating Revenues	50,463,442	6,635,436	6,675,872	616,911	64,391,661
Operating Expenses					
Personnel	-	1,948,161	730,729	157,608	2,836,498
Non-personnel	-	449,193	307,603	128,586	885,382
Intergovernmental	767,705	2,296,922	5,090,525	-	8,155,152
Depreciation	2,231,977	809,346	404,429	71,678	3,517,430
Energy purchases	34,727,304	47,228	32,296	-	34,806,828
Operating	6,492,375	-	-	-	6,492,375
Maintenance	<u>807,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>807,893</u>
Total Operating Expenses	<u>45,027,254</u>	<u>5,550,850</u>	<u>6,565,582</u>	<u>357,872</u>	<u>57,501,558</u>
Operating income	5,436,188	1,084,586	110,290	259,039	6,890,103
Nonoperating Revenues (Expenses)					
Investment income	274,217	142,595	177,666	18,104	612,582
Interest expense	-	(193,287)	(52,902)	-	(246,189)
Loss on disposal of capital assets	(58,061)	-	-	-	(58,061)
Other	<u>380,168</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>380,168</u>
Total Nonoperating Revenues (Expenses)	<u>596,324</u>	<u>(50,692)</u>	<u>124,764</u>	<u>18,104</u>	<u>688,500</u>
Income before capital contributions and transfers	6,032,512	1,033,894	235,054	277,143	7,578,603
Capital grants and contributions	99,509	-	781,886	-	881,395
Transfers out	<u>(1,240,253)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,240,253)</u>
Change in net position	4,891,768	1,033,894	1,016,940	277,143	7,219,745
Net Position at Beginning 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>
Net Position at End of Year	<u>\$ 112,389,809</u>	<u>\$ 15,047,605</u>	<u>\$ 17,115,875</u>	<u>\$ 2,681,515</u>	<u>\$ 147,234,804</u>

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, 2019

(Except for the Electric Division Fund which is for the six months ended December 31, 2018)

	Business-Type Activities				
	Electric Division Fund	Water Fund	Sewer Fund	Nonmajor Funds	Total Enterprise Funds
Cash Flows From Operating Activities					
Receipts from customers and users	\$ 51,827,386	\$ 6,775,409	\$ 6,806,829	\$ 559,411	\$ 65,969,035
Payments to vendors and employees	(41,852,122)	(1,521,809)	(685,772)	(192,110)	(44,251,813)
Customer purchase power charge adjustments	258,248	-	-	-	258,248
Payments to other governments	-	(2,296,922)	(5,090,525)	-	(7,387,447)
Net cash provided by operating activities	10,233,512	2,956,678	1,030,532	367,301	14,588,023
Cash Flows From Noncapital Financing Activities					
Other	380,168	-	-	-	380,168
Transfer out	(1,240,253)	-	-	-	(1,240,253)
Net cash (used for) noncapital financing activities	(860,085)	-	-	-	(860,085)
Cash Flows From Capital and Related Financing Activities					
Proceeds from issuance of bonds	-	-	260,000	-	260,000
Principal payments on bonds	-	(1,561,200)	(364,675)	-	(1,925,875)
Acquisition and construction of capital assets	(2,498,143)	(1,535,525)	(2,399,246)	(179,621)	(6,612,535)
Capital grants and contributions	212,763	-	781,886	-	994,649
Interest expense	-	(321,430)	(77,500)	-	(398,930)
Net cash (used for) capital and related financing activities	(2,285,380)	(3,418,155)	(1,799,535)	(179,621)	(7,682,691)
Cash Flows From Investing Activities					
(Decrease) in restricted cash and investments	(18,527)	-	-	-	(18,527)
Investment income	274,217	142,595	177,666	18,104	612,582
Net cash provided by investing activities	255,690	142,595	177,666	18,104	594,055
Net change in cash and short-term investments	7,343,737	(318,882)	(591,337)	205,784	6,639,302
Unrestricted Cash and Short Term Investments, Beginning of Year	42,316,280	10,508,845	9,387,352	1,251,719	63,464,196
Unrestricted Cash and Short Term Investments, End of Year	\$ 49,660,017	\$ 10,189,963	\$ 8,796,015	\$ 1,457,503	\$ 70,103,498
Reconciliation of Operating Income to Net Cash Provided By Operating Activities					
Operating income	\$ 5,436,188	\$ 1,084,586	\$ 110,290	\$ 259,039	\$ 6,890,103
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	2,231,977	809,346	404,429	71,678	3,517,430
Changes in assets, liabilities, and deferred outflows/inflows:					
User fees receivables	1,580,311	139,973	130,957	(57,500)	1,793,741
Inventory	(54,405)	(1,670)	(111)	-	(56,186)
Other assets	(1,487,682)	-	-	-	(1,487,682)
Deferred outflows of resources:					
Related to pensions	(1,691,058)	(457,195)	(50,379)	10,327	(2,188,305)
Related to OPEB	(91,853)	(59,802)	(19,363)	(4,688)	(175,706)
Deferred inflows of resources:					
Related to pensions	-	(27,550)	4,232	21,018	(2,300)
Related to OPEB	-	33,137	10,729	2,597	46,463
Warrants payable	4,052,260	635,239	337,699	132,049	5,157,247
Accrued liabilities	-	(3,690)	(9,596)	(56)	(13,342)
Other liabilities	41,881	-	-	(32,931)	8,950
Net pension liability	-	687,777	73,915	(43,366)	718,326
Net OPEB liability	215,893	116,527	37,730	9,134	379,284
Net cash provided by operating activities	\$ 10,233,512	\$ 2,956,678	\$ 1,030,532	\$ 367,301	\$ 14,588,023

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

TOWN OF READING, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2019

	<u>Pension and OPEB Trust Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
Assets			
Cash and short-term investments	\$ 21,816,458	\$ 50,026	\$ 470,003
Investments			
Certificates of deposit	-	1,428,107	-
Domestic corporate bonds	-	2,191,839	-
External investment pool	123,159,975	-	-
Foreign corporate bonds	-	1,391,957	-
Market linked certificates of deposit	-	222,653	-
Total investments	<u>123,159,975</u>	<u>5,234,556</u>	-
Accounts receivable	58,692	-	-
Other	<u>-</u>	<u>-</u>	<u>2,271</u>
Total Assets	145,035,125	5,284,582	472,274
Liabilities			
Warrants payable	585	5,508	22,480
Other liabilities	<u>-</u>	<u>-</u>	<u>449,794</u>
Total Liabilities	<u>585</u>	<u>5,508</u>	<u>\$ 472,274</u>
Net Position			
Restricted for:			
Pensions	136,261,046	-	
OPEB	8,773,494	-	
Other purposes	<u>-</u>	<u>5,279,074</u>	
Total Net Position	<u>\$ 145,034,540</u>	<u>\$ 5,279,074</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, 2019

	<u>Pension and OPEB Trust Funds</u>	<u>Private Purpose Trust Funds</u>
Additions		
Contributions:		
Employers	\$ 10,706,545	\$ -
Plan members	2,801,575	-
Other	-	1,908
	<hr/>	<hr/>
Total contributions	13,508,120	1,908
Investment Income (Loss):		
Increase (decrease) in fair value of investments	(1,833,841)	376,135
Less: management fees	(694,633)	-
	<hr/>	<hr/>
Net investment income	(2,528,474)	376,135
	<hr/>	<hr/>
Total Additions	10,979,646	378,043
Deductions		
Benefit payments to plan members and beneficiaries	15,404,195	-
Administrative expenses	212,080	-
Scholarship payments	-	22,275
Hospital payments	-	131,728
	<hr/>	<hr/>
Total Deductions	15,616,275	154,003
	<hr/>	<hr/>
Net change	(4,636,629)	224,040
Net position restricted for pensions, OPEB, and other purposes		
Beginning of year	<u>149,671,169</u>	<u>5,055,034</u>
End of year	<u>\$ 145,034,540</u>	<u>\$ 5,279,074</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. For information pertaining to the Electric Division please refer to the Electric Division notes to the financial statements beginning on page 76. The following is a summary of the more significant policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected Select Board. 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 Fund* accounts 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 Pension Reserves Investment Trust (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% (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2019 tax levy reflected an excess capacity of \$97,166.

In fiscal year 2019 the Town voted a Proposition 2½ override of \$4.15 million to be funded through the tax levy for general operations of the public schools, five police officers, four firefighter/paramedics, and various general government operations.

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 following 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 sick pay benefits. All vested sick 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, expenditures and other financing sources/uses, to conform to the budgetary basis of accounting:

<u>General Fund</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources/Uses</u>
GAAP Basis	\$ 103,278,146	\$ 101,076,650	\$ 3,660,721
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,938,415)	-
Add end-of-year appropriation carryforwards to expenditures	-	3,654,179	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(5,565,557)	(5,565,557)	-
Remove effect of combining stabilization fund with general fund	(52,991)	-	-
Other	<u>(13)</u>	<u>6</u>	<u>-</u>
Budgetary Basis	\$ <u>97,659,585</u>	\$ <u>97,226,863</u>	\$ <u>3,660,721</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 funds reflecting individual deficit account balances as of June 30, 2019. 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 60% 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 10% 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, 2019, \$41,151,391 of the Town's bank balances of \$49,475,961, were exposed to custodial credit risk. However, \$40,143,297 of the Town's exposed balance was on deposit with the Massachusetts Municipal Depository Trust (MMDT).

4. Investments

Town (Excluding the Pension Trust Fund)

The following is a summary of the Town's investments as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>
Certificates of deposits	\$ 19,187,659
Corporate equities	2,849,925
Domestic corporate bonds	5,350,420
Foreign corporate bonds	<u>1,391,957</u>
Total investments	<u>\$ 28,779,961</u>

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 type of the Town:

<u>Investment Type</u>	<u>Amount</u>	<u>Average Rating as of Year End</u>	
		<u>A</u>	<u>A-</u>
Domestic corporate bonds	\$ 5,350,420	\$ 5,350,420	\$ -
Foreign corporate bonds	<u>1,391,957</u>	<u>-</u>	<u>1,391,957</u>
Total	<u>\$ 6,742,377</u>	<u>\$ 5,350,420</u>	<u>\$ 1,391,957</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.

As of June 30, 2019, \$9,592,302 of the Town's total investments were 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 as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Held by Counterparty</u>
Corporate equities	\$ 2,849,925	\$ 2,849,925
Domestic corporate bonds	5,350,420	5,350,420
Foreign corporate bonds	<u>1,391,957</u>	<u>1,391,957</u>
Total	\$ <u>9,592,302</u>	\$ <u>9,592,302</u>

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town does not have formal investment policies related to concentration of credit risk exposure.

As of June 30, 2019, the Town does not have an investment in one issuer greater than 5% of total investments.

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>
Domestic corporate bonds	\$ 5,350,420	\$ 2,792,018	\$ 2,558,402
Foreign corporate bonds	<u>1,391,957</u>	<u>671,245</u>	<u>720,712</u>
Total	\$ <u>6,742,377</u>	\$ <u>3,463,263</u>	\$ <u>3,279,114</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 hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that 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.
- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

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 has the following fair value measurements as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</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:				
Corporate equities	\$ 2,849,925	\$ 2,849,925	\$ -	\$ -
Debt securities:				
Domestic corporate bonds	5,350,420	-	5,350,420	-
Foreign corporate bonds	<u>1,391,957</u>	-	1,391,957	-
Total	<u>\$ 9,592,302</u>			

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt 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 debt 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.

Pension Trust Fund (The System)

The following is a summary of the System's investments as of December 31, 2018:

<u>Investment Type</u>	<u>Amount</u>
External investment pool (PRIT)*	\$ 123,159,975

**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 Management 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. Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in

savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

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

<u>Investment Type</u>	<u>Average Rating as of Year End</u>	
	<u>Amount</u>	<u>Unrated</u>
External investment pool (PRIT)	\$ 123,159,975	\$ 123,159,975

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 System does not have formal investment policies related to custodial credit risk.

As of December 31, 2018, none of the System's investments are exposed to custodial credit risk as investments in external investment pools are not exposed to custodial credit risk as their existence is not evidenced by securities that exist in physical or book entry form.

C. Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund. The System does not have formal policies related to concentration of credit risk.

As of December 31, 2018, the System did not have any investments subject to concentration of credit risk as investments in external investment pools are excluded from concentration of credit risk disclosure.

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 System 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.

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 System does not have formal investment policies related to foreign currency risk.

F. Fair Value

The System 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. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that 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.
- Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

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

The System has the following fair value measurements as of December 31, 2018:

<u>Investment Type</u>	<u>Amount</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Investments measured at the net asset value (NAV):				
External investment pool (PRIT)	\$ 123,159,975	\$ -	Monthly	30 Days

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, 2019 consist of the following:

	Gross Amount <u>(fund basis)</u>	Allowance for Doubtful <u>Accounts</u>	Current <u>Portion</u>	Long- Term <u>Portion</u>
Real estate taxes	\$ 340,008	\$ (34,001)	\$ 306,007	\$ -
Personal property taxes	22,802	(6,990)	15,812	-
Tax liens	525,944	(52,594)	-	473,350
Deferred taxes	<u>65,986</u>	<u>-</u>	<u>65,986</u>	<u>-</u>
Total property taxes	<u>\$ 954,740</u>	<u>\$ (93,585)</u>	<u>\$ 387,805</u>	<u>\$ 473,350</u>
Motor vehicle excise	\$ 244,594	\$ (112,430)	\$ 132,164	\$ -

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, 2019 consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Water user charges	\$ 2,391,621	\$ (299,162)	\$ 2,092,459
Water liens	60,599	(18,180)	42,419
Other	<u>23,703</u>	<u>(11,852)</u>	<u>11,851</u>
Total Water	2,475,923	(329,194)	2,146,729
Sewer user charges	2,446,213	(304,721)	2,141,492
Sewer liens	53,874	(16,162)	37,712
Other	<u>37,523</u>	<u>(18,762)</u>	<u>18,761</u>
Total Sewer	2,537,610	(339,645)	2,197,965
Stormwater user charges	224,423	(27,842)	196,581
Stormwater liens	3,320	(996)	2,324
Other	<u>819</u>	<u>(410)</u>	<u>409</u>
Total Stormwater	<u>228,562</u>	<u>(29,248)</u>	<u>199,314</u>
Total	<u>\$ 5,242,095</u>	<u>\$ (698,087)</u>	<u>\$ 4,544,008</u>

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal year 2019.

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 2019:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>					
General Fund	\$ 3,811,642	\$ 150,921	(1)	(2)	(3)	(4)	(5) (6)
Nonmajor Governmental Funds:							
Revolving funds:							
School rentals fund	-	100,000	(1)				
Recreation fund	-	176,136	(2)				
Receipts reserved for appropriation:							
Sale of cemetery lots	-	25,000	(1)				
Sale of real estate	-	600,000	(3)				
Gifts and donations	-	200,000	(3)				
Town capital project funds	-	230,000	(4)				
School capital project funds	150,921	-	(6)				
Major Enterprise Funds:							
Electric Division fund	-	2,480,506	(5)				
Total	\$ <u>3,962,563</u>	\$ <u>3,962,563</u>					

To General Fund for:

- (1) Operating budget and appropriations
- (2) Excess recreation revenues
- (3) Purchase of land
- (4) Reclassification of prior year bond premiums
- (5) Payment in lieu of taxes (PILOT)

From General Fund for:

- (6) Difference between project expenditures and final MSBA payment

9. Capital Assets

Capital asset activity for the year ended June 30, 2019 for the Town's Governmental Activities was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, depreciable:				
Land improvements	\$ 3,855,354	\$ 14,945	\$ -	\$ 3,870,299
Buildings and improvements	156,377,822	289,725	(447,597)	156,219,950
Machinery, equipment, and furnishings	11,845,881	807,095	(567,297)	12,085,679
Infrastructure	31,864,159	1,134,907	-	32,999,066
Total capital assets, depreciable	203,943,216	2,246,672	(1,014,894)	205,174,994
Less accumulated depreciation for:				
Land improvements	(1,781,194)	(174,962)	-	(1,956,156)
Buildings and improvements	(54,949,114)	(4,825,960)	447,597	(59,327,477)
Machinery, equipment, and furnishings	(5,893,661)	(1,076,996)	567,297	(6,403,360)
Infrastructure	(18,256,729)	(1,312,221)	-	(19,568,950)
Total accumulated depreciation	(80,880,698)	(7,390,139)	1,014,894	(87,255,943)
Total capital assets, depreciable, net	123,062,518	(5,143,467)	-	117,919,051
Capital assets, non-depreciable:				
Land	3,981,386	800,000	-	4,781,386
Construction in progress	1,335,448	474,313	(157,431)	1,652,330
Total capital assets, non-depreciable	5,316,834	1,274,313	(157,431)	6,433,716
Governmental activities capital assets, net	\$ 128,379,352	\$ (3,869,154)	\$ (157,431)	\$ 124,352,767

Capital asset activity for the year ended June 30, 2019 for the Town's Business-Type Activities was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Enterprise Fund				
Capital assets, depreciable:				
Land improvements	\$ 1,410,225	\$ -	\$ -	\$ 1,410,225
Buildings and improvements	587,299	-	(89,719)	497,580
Machinery, equipment, and furnishings	2,145,260	13,450	(134,569)	2,024,141
Infrastructure	16,018,719	-	(49,392)	15,969,327
Total capital assets, depreciable	20,161,503	13,450	(273,680)	19,901,273
Less accumulated depreciation for:				
Land improvements	(589,817)	(69,398)	-	(659,215)
Buildings and improvements	(463,226)	(16,480)	89,719	(389,987)
Machinery, equipment, and furnishings	(1,498,017)	(157,705)	134,569	(1,521,153)
Infrastructure	(6,410,683)	(565,763)	49,392	(6,927,054)
Total accumulated depreciation	(8,961,743)	(809,346)	273,680	(9,497,409)
Total capital assets, depreciable, net	11,199,760	(795,896)	-	10,403,864
Capital assets, non-depreciable:				
Land	121,823	-	-	121,823
Construction in progress	4,744,896	1,522,075	-	6,266,971
Total capital assets, non-depreciable	4,866,719	1,522,075	-	6,388,794
Water enterprise capital assets, net	\$ 16,066,479	\$ 726,179	\$ -	\$ 16,792,658

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Sewer Enterprise Fund				
Capital assets, depreciable:				
Land improvements	\$ 26,492	\$ -	\$ -	\$ 26,492
Buildings and improvements	176,850	-	-	176,850
Machinery, equipment, and furnishings	1,154,687	-	-	1,154,687
Infrastructure	<u>12,730,925</u>	<u>1,646,881</u>	<u>(202,001)</u>	<u>14,175,805</u>
Total capital assets, depreciable	14,088,954	1,646,881	(202,001)	15,533,834
Less accumulated depreciation for:				
Land improvements	(19,207)	(662)	-	(19,869)
Buildings and improvements	(128,216)	(4,422)	-	(132,638)
Machinery, equipment, and furnishings	(609,829)	(109,776)	-	(719,605)
Infrastructure	<u>(8,567,642)</u>	<u>(289,569)</u>	<u>202,001</u>	<u>(8,655,210)</u>
Total accumulated depreciation	<u>(9,324,894)</u>	<u>(404,429)</u>	<u>202,001</u>	<u>(9,527,322)</u>
Total capital assets, depreciable, net	4,764,060	1,242,452	-	6,006,512
Capital assets, non-depreciable:				
Land	61,761	-	-	61,761
Construction in progress	<u>2,958,329</u>	<u>2,263,238</u>	<u>(1,510,873)</u>	<u>3,710,694</u>
Total capital assets, non-depreciable	<u>3,020,090</u>	<u>2,263,238</u>	<u>(1,510,873)</u>	<u>3,772,455</u>
Sewer enterprise capital assets, net	<u>\$ 7,784,150</u>	<u>\$ 3,505,690</u>	<u>\$ (1,510,873)</u>	<u>\$ 9,778,967</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Nonmajor Enterprise Funds				
Capital assets, depreciable:				
Machinery, equipment, and furnishings	\$ 653,406	\$ -	\$ -	\$ 653,406
Infrastructure	<u>663,987</u>	<u>358,853</u>	<u>-</u>	<u>1,022,840</u>
Total capital assets, depreciable	1,317,393	358,853	-	1,676,246
Less accumulated depreciation for:				
Machinery, equipment, and furnishings	(242,164)	(49,860)	-	(292,024)
Infrastructure	<u>(28,605)</u>	<u>(21,818)</u>	<u>-</u>	<u>(50,423)</u>
Total accumulated depreciation	<u>(270,769)</u>	<u>(71,678)</u>	<u>-</u>	<u>(342,447)</u>
Total capital assets, depreciable, net	1,046,624	287,175	-	1,333,799
Capital assets, non-depreciable:				
Construction in progress	<u>179,232</u>	<u>-</u>	<u>(179,232)</u>	<u>-</u>
Total capital assets, non-depreciable	<u>179,232</u>	<u>-</u>	<u>(179,232)</u>	<u>-</u>
Nonmajor enterprise capital assets, net	<u>\$ 1,225,856</u>	<u>\$ 287,175</u>	<u>\$ (179,232)</u>	<u>\$ 1,333,799</u>

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

Governmental Activities:	
General government	\$ 182,306
Public safety	592,007
Education	3,622,265
Public works	1,801,566
Facilities	42,265
Health and human services	32,854
Culture and recreation	<u>1,116,876</u>
Total governmental activities	<u>\$ 7,390,139</u>
Business-Type Activities:	
Water Enterprise Fund	\$ 809,346
Sewer Enterprise Fund	404,429
Nonmajor Enterprise Fund	<u>71,678</u>
Total business-type activities	<u>\$ 1,285,453</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* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* are more fully discussed in the corresponding pension and OPEB notes.

11. Warrants Payable

Warrants payable represent fiscal year 2019 expenditures paid by July 15, 2019.

12. Accrued Liabilities

This balance primarily represents amounts accrued interest and other expenditures related to fiscal year 2019 paid subsequent to July 15, 2019.

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 2019:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Beginning Balance at 06/30/18</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Ending Balance at 06/30/19</u>
Reading Memorial High School repairs and additions	2.00%	12/15/17	08/17/18	\$ 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 6/30/19</u>
General Obligation Bonds	06/15/27	1.26 - 4.00%	\$ 19,944,000

<u>Water Enterprise Fund</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/19</u>
General Obligation Bonds	06/15/27	1.26 - 4.00%	\$ 3,285,000
Massachusetts Clean Water Trust	11/01/27	0.00 - 1.49%	7,092,000
Total Water enterprise			\$ 10,377,000

<u>Sewer Enterprise Fund</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/19</u>
General Obligation Bonds	06/15/25	4.00%	\$ 1,630,000
Massachusetts Clean Water Trust	05/15/29	0.00%	636,629
Total Sewer enterprise			\$ 2,266,629

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding, payable by fiscal year, as of June 30, 2019 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,545,000	222,557	3,767,557
2025 - 2027	<u>2,100,000</u>	<u>88,488</u>	<u>2,188,488</u>
Total	\$ <u>19,944,000</u>	\$ <u>2,574,977</u>	\$ <u>22,518,977</u>

<u>Water</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 425,000	\$ 129,100	\$ 554,100
2021	425,000	112,100	537,100
2022	425,000	95,100	520,100
2023	425,000	78,100	503,100
2024	425,000	61,100	486,100
2025 - 2027	<u>1,160,000</u>	<u>83,600</u>	<u>1,243,600</u>
Total	\$ <u>3,285,000</u>	\$ <u>559,100</u>	\$ <u>3,844,100</u>

<u>Sewer</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 275,000	\$ 65,200	\$ 340,200
2021	275,000	54,200	329,200
2022	270,000	43,200	313,200
2023	270,000	32,400	302,400
2024	270,000	21,600	291,600
2025	<u>270,000</u>	<u>10,800</u>	<u>280,800</u>
Total	\$ <u>1,630,000</u>	\$ <u>227,400</u>	\$ <u>1,857,400</u>

The Town has issued direct borrowings from the Massachusetts Pollution Abatement Trust (MWPAT), a state revolving loan fund (SRF) of the Massachusetts Clean Water Trust (MCWT), a component unit of the Commonwealth of Massachusetts. MCWT issues special obligation bonds under its SRF programs to provide low cost financing to Cities, Towns, and other eligible borrowers, primarily for the construction and improvement of drinking water and wastewater infrastructure. There were no unused lines of credit or assets pledged as collateral for debt. The Town certified that rates and charges in the Water and Sewer Enterprise funds have been set at a

sufficient level to cover estimated operating expenses and debt service related to direct borrowings. In addition, the Town as an “obligated person” with respect to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, agrees with MCWT to provide an annual report, not later than 270 days after the close of each fiscal year, that incorporates the most recently available audited financial statements to meet continuing disclosure requirements.

The annual payments to retire all state revolving loan direct borrowings outstanding, payable by fiscal year, as of June 30, 2019 are as follows:

<u>Water</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,131,200	\$ 155,230	\$ 1,286,430
2021	1,131,200	135,830	1,267,030
2022	1,126,200	116,530	1,242,730
2023	917,200	97,330	1,014,530
2024	916,200	78,250	994,450
2025 - 2028	<u>1,870,000</u>	<u>120,125</u>	<u>1,990,125</u>
Total	<u>\$ 7,092,000</u>	<u>\$ 703,295</u>	<u>\$ 7,795,295</u>

<u>Sewer</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 77,175	\$ -	\$ 77,175
2021	77,154	-	77,154
2022	68,200	-	68,200
2023	68,200	-	68,200
2024	68,200	-	68,200
2025 - 2029	<u>277,700</u>	<u>-</u>	<u>277,700</u>
Total	<u>\$ 636,629</u>	<u>\$ -</u>	<u>\$ 636,629</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2019, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion</u>
Governmental Activities						
Bonds payable	\$ 23,494,000	\$ -	\$ (3,550,000)	\$ 19,944,000	\$ (3,600,000)	\$ 16,344,000
Unamortized bond premiums	<u>2,598,857</u>	<u>-</u>	<u>(418,362)</u>	<u>2,180,495</u>	<u>(418,362)</u>	<u>1,762,133</u>
Total bonds payable	26,092,857	-	(3,968,362)	22,124,495	(4,018,362)	18,106,133
Accrued employee benefits	1,243,071	215,166	(582,845)	875,392	(87,539)	787,853
Net pension liability	24,377,732	9,929,433	-	34,307,165	-	34,307,165
Net OPEB liability	<u>60,198,167</u>	<u>6,745,460</u>	<u>-</u>	<u>66,943,627</u>	<u>-</u>	<u>66,943,627</u>
Total Governmental Activities	<u>\$ 111,911,827</u>	<u>\$ 16,890,059</u>	<u>\$ (4,551,207)</u>	<u>\$ 124,250,679</u>	<u>\$ (4,105,901)</u>	<u>\$ 120,144,778</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Water Enterprise Fund						
Bonds payable	\$ 3,715,000	\$ -	\$ (430,000)	\$ 3,285,000	\$ (425,000)	\$ 2,860,000
Unamortized bond premiums	940,960	-	(98,039)	842,921	(98,039)	744,882
State revolving loans (direct borrowings)	<u>8,223,200</u>	<u>-</u>	<u>(1,131,200)</u>	<u>7,092,000</u>	<u>(1,131,200)</u>	<u>5,960,800</u>
Total bonds payable	12,879,160	-	(1,659,239)	11,219,921	(1,654,239)	9,565,682
Accrued employee benefits	47,245	5,368	(8,059)	44,554	-	44,554
Net pension liability	1,139,620	687,777	-	1,827,397	-	1,827,397
Net OPEB liability	<u>1,039,915</u>	<u>116,527</u>	<u>-</u>	<u>1,156,442</u>	<u>-</u>	<u>1,156,442</u>
Total Water enterprise	\$ <u>15,105,940</u>	\$ <u>809,672</u>	\$ <u>(1,667,298)</u>	\$ <u>14,248,314</u>	\$ <u>(1,654,239)</u>	\$ <u>12,594,075</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Sewer Enterprise Fund						
Bonds payable	\$ 1,905,000	\$ -	\$ (275,000)	\$ 1,630,000	\$ (275,000)	\$ 1,355,000
Unamortized bond premiums	221,386	-	(24,598)	196,788	(24,598)	172,190
State revolving loans (direct borrowings)	<u>466,304</u>	<u>260,000</u>	<u>(89,675)</u>	<u>636,629</u>	<u>(77,175)</u>	<u>559,454</u>
Total bonds payable	2,592,690	260,000	(389,273)	2,463,417	(376,773)	2,086,644
Accrued employee benefits	18,517	11,287	(21,011)	8,793	-	8,793
Net pension liability	297,759	73,915	-	371,674	-	371,674
Net OPEB liability	<u>336,708</u>	<u>37,730</u>	<u>-</u>	<u>374,438</u>	<u>-</u>	<u>374,438</u>
Total Sewer enterprise	\$ <u>3,245,674</u>	\$ <u>382,932</u>	\$ <u>(410,284)</u>	\$ <u>3,218,322</u>	\$ <u>(376,773)</u>	\$ <u>2,841,549</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Nonmajor Enterprise Funds						
Net pension liability	\$ 68,429	\$ -	\$ (43,366)	\$ 25,063	\$ -	\$ 25,063
Net OPEB liability	<u>81,513</u>	<u>9,134</u>	<u>-</u>	<u>90,647</u>	<u>-</u>	<u>90,647</u>
Total Nonmajor enterprise	\$ <u>149,942</u>	\$ <u>9,134</u>	\$ <u>(43,366)</u>	\$ <u>115,710</u>	\$ <u>-</u>	\$ <u>115,710</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2019 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
April 2013	MWRA I/I sewer loan	\$ 460,000
April 2015	Birch meadow field lighting	900,000
November 2018	MWRA sewer I & I phase 12	1,040,000
November 2018	MWRA sewer I & I phase 13	1,040,000
April 2019	Turf II with lighting	2,225,000
April 2019	Building security	4,000,000
April 2019	Auburn water tank replacement	4,500,000
April 2019	Grove street water main improvements	1,000,000
	Total	\$ <u>15,165,000</u>

E. Long-Term Debt Supporting Governmental and Business-Type Activities

General obligation bonds and state revolving loans issued by the Town for various municipal projects are approved by Town Meeting and repaid with revenues recorded in the general fund and user fees recorded in enterprise funds. All other long-term debt is repaid from the funds that the cost relates to, primarily the general fund and enterprise funds.

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, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* 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, 2019:

	<u>Entity-wide Basis</u>	<u>Fund Basis</u>
	<u>Governmental Activities</u>	<u>Governmental Funds General Fund</u>
Gains on refunding bonds	\$ 90,600	\$ -
Unavailable revenues related to:		
Outstanding receivables	-	1,281,976
Taxes collected in advance	<u>65,983</u>	<u>65,983</u>
Total deferred inflows of resources	<u>\$ 156,583</u>	<u>\$ 1,347,959</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, 2019:

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. The Town's stabilization account is authorized in accordance with Massachusetts General Law Chapter 40, section 5B. The creation of, appropriation into, and appropriation out of the stabilization account requires two-thirds approval at Town Meeting.

Following is a breakdown of the Town's fund balances at June 30, 2019:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable			
Permanent funds:			
Cemetery	\$ -	\$ 3,042,388	\$ 3,042,388
Other	-	272,165	272,165
Total Nonspendable	-	3,314,553	3,314,553
Restricted			
For high school debt service	36,078	-	36,078
Federal grants	-	17,284	17,284
State grants:			
Special education (circuit breaker)	-	1,058,625	1,058,625
State aid to libraries	-	42,060	42,060
Other	-	116,225	116,225
Revolving funds:			
Inspection permit	-	946,114	946,114
Extended day program	-	923,244	923,244
All-day kindergarten program	-	832,234	832,234
School lunch	-	583,449	583,449
Recreation	-	311,071	311,071
RISE preschool program	-	222,644	222,644
Athletic activities	-	141,907	141,907
Special education tuition	-	83,313	83,313
Public health clinics	-	64,893	64,893
Other	-	371,293	371,293
Receipts reserved for appropriation:			
Affordable housing fund	-	345,862	345,862
Sale of cemetery lots	-	248,989	248,989
Sale of real estate	-	26,153	26,153
Other	-	43,179	43,179
Gifts and donations	-	1,057,152	1,057,152
Permanent funds:			
Cemetery	-	2,228,974	2,228,974
Other	-	473,474	473,474
Town capital project funds:			
West street road improvements	-	367,156	367,156
Library renovations	-	165,514	165,514
Other	-	28,349	28,349
Total Restricted	36,078	10,699,158	10,735,236

(continued)

(continued)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed			
Smart growth stabilization account	\$ 503,000	\$ -	\$ 503,000
Total Committed	503,000	-	503,000
Assigned			
For encumbrances:			
General government	414,866	-	414,866
Public safety	55,039	-	55,039
Education	1,357,338	-	1,357,338
Public works	733,118	-	733,118
Facilities	1,391,835	-	1,391,835
Employee benefits	21,130	-	21,130
For next year's expenditures	<u>1,375,000</u>	<u>-</u>	<u>1,375,000</u>
Total Assigned	5,348,326	-	5,348,326
Unassigned			
Operating fund	17,110,790	-	17,110,790
General stabilization	1,670,442	-	1,670,442
Deficit balances	<u>-</u>	<u>(93,613)</u>	<u>(93,613)</u>
Total Unassigned	<u>18,781,232</u>	<u>(93,613)</u>	<u>18,687,619</u>
Total Fund Balance	<u>\$ 24,668,636</u>	<u>\$ 13,920,098</u>	<u>\$ 38,588,734</u>

18. Reading Contributory Retirement System

The Town follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, 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 Contributions

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

Before January 1, 1975	5.00%
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

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

Participant Retirement Benefits

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

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

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

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

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left 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.

Methods of Payment

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

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the

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

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3.00%.

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, 2019 was \$4,228,374 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

The following disclosures are reported as of June 30, 2019 and do not include the Electric division which is reported as of December 31, 2018 with a net pension liability reported as of December 31, 2017.

At June 30, 2019, the Town reported a liability of \$36,531,299 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019. 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, 2018, the Town's proportion was 70.90%.

For the year ended June 30, 2019, the Town recognized pension expense of \$6,619,746. 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	\$ 4,084,782	\$ -
Changes of assumptions	2,601,643	(3,114,934)
Changes in proportion and differences between employer contributions and proportionate share of contributions	988,898	(856,849)
Differences between expected and actual experience	<u>7,744,486</u>	<u>(783,360)</u>
Total	<u>\$ 15,419,809</u>	<u>\$ (4,755,143)</u>

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

<u>Fiscal Year Ended June 30:</u>	
2020	\$ 3,800,508
2021	2,254,296
2022	1,549,449
2023	2,862,474
2024	<u>197,939</u>
Total	<u>\$ 10,664,666</u>

D. Actuarial Assumptions

The total pension liability in the January 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	January 1, 2019
Actuarial cost method	Entry age normal
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 5.00%, with the exception of the 2021 appropriation (no limit)
Inflation Rate	3.00%
Salary increases	6.00% - 4.25%, based on service for Groups 1 and 2; 7.00% - 4.75% based on service for Group 4
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Post-retirement cost-of-living adjustment	3.00% of first \$12,000
Mortality Rates:	
Pre-retirement, retirement, and beneficiary mortality	RP-2000 Mortality table, base year 2009, projected with fully generational mortality improvement using Scale BB
Mortality for disabled members	RP-2000 Mortality table, base year 2012, projected with fully generational mortality improvement using Scale BB

E. 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	39.00%	4.75%
Fixed income	15.00%	1.05%
Private equity	13.00%	8.15%
Hedge funds and portfolio completion	11.00%	3.76%
Real estate	10.00%	3.43%
Value-added fixed income	8.00%	4.58%
Timber/natural resources	4.00%	4.00%
Total	<u>100.00%</u>	

F. 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 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.

G. 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 7.50%, 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 one percentage-point lower or one percentage-point higher than the current rate:

	1% Decrease (<u>6.50%</u>)	Current Discount Rate (<u>7.50%</u>)	1% Increase (<u>8.50%</u>)
\$	51,163,209	\$ 36,531,299	\$ 24,105,809

H. 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*. 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 3-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last 5 years or any 5 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 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of creditable service or upon reaching the age of 55 with 10 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, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. This valuation used the following assumptions:

- (a) 7.35% 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 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct)

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, 2018 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	39.00%	5.00%
Portfolio completion strategies	13.00%	3.70%
Core fixed income	12.00%	0.90%
Private equity	12.00%	6.60%
Real estate	10.00%	3.80%
Value added fixed income	10.00%	3.80%
Timber/natural resources	<u>4.00%</u>	3.40%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.35%. 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 one percentage-point lower or one percentage-point higher than the current discount rate (amounts in thousands):

1% Decrease to (6.35%)	Current Discount Rate (7.35%)	1% Increase to (8.35%)
\$ 29,482,300	\$ 23,711,289	\$ 18,771,300

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* and the Commonwealth is a nonemployer 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 2018 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability was approximately \$100,371,336 based on a proportionate share of 0.423306%. As required by GASB 68, the Town has recognized its portion of the Commonwealth's contribution of approximately \$5,565,557 as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of approximately \$10,171,182 as both a revenue and expense in the governmental activities.

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirement 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.

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, 2019 (excluding the Electric division).

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.

Funding Policy

The Town’s funding policy includes financing the implicit subsidy on a pay-as-you-go basis, as required by statute. Additional contributions are based annual budget limitations/authorizations.

Plan Membership

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	634
Active employees	<u>526</u>
Total	<u><u>1,160</u></u>

B. Investments

The OPEB trust fund assets consist of cash and short-term investments.

Rate of return. For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was not available.

C. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary increases	6.00% decreasing to 4.25% based on service for Group 1 and Group 2; 7.00% decreasing to 4.75% based on service for Group 4; 7.50% decreasing to 4.00% based on service for teachers
Discount rate	7.25%
Healthcare cost trend rates	7.00% decreasing by 0.25% for 10 years to an ultimate level of 4.50% per year

Mortality rates were based on the following:

- Pre-Retirement (Non-Teachers): RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2018
- Healthy (Non-Teachers): RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally using Scale MP-2018
- Disabled (Non-Teachers): RP-2014 Healthy Annuitant Mortality Table set forward one year projected generationally using Scale MP-2018
- 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 using Scale MP-2016
- Disabled (Teachers): RP-2014 White Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2016

D. 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, 2019 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%	6.16%
International developed markets equity	15.50%	6.69%
Hedge fund, GTAA, risk parity	13.00%	3.68%
Core fixed income	12.00%	1.89%
Private equity	12.00%	10.00%
High yield fixed income	10.00%	4.00%
Real estate	10.00%	4.58%
International emerging markets equity	6.00%	9.47%
Commodities	4.00%	4.77%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the net OPEB liability was 7.25%. 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.

F. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2019, were as follows:

Total OPEB liability	\$ 73,776,929
Plan fiduciary net position	<u>(5,211,775)</u>
Net OPEB liability	<u>\$ 68,565,154</u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.06%

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

G. Changes in the Net OPEB Liability

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

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 68,686,810	\$ 4,245,537	\$ 64,441,273
Changes for the year:			
Service cost	1,760,928	-	1,760,928
Interest	5,149,105	-	5,149,105
Contributions - employer	-	4,466,003	(4,466,003)
Net investment income	-	86,238	(86,238)
Differences between expected and actual experience	(2,455,887)	-	(2,455,887)
Changes in assumptions or other inputs	4,221,976	-	4,221,976
Benefit payments	<u>(3,586,003)</u>	<u>(3,586,003)</u>	<u>-</u>
Net Changes	<u>5,090,119</u>	<u>966,238</u>	<u>4,123,881</u>
Balances, end of year	<u>\$ 73,776,929</u>	<u>\$ 5,211,775</u>	<u>\$ 68,565,154</u>

Changes of assumptions and other inputs reflect the following:

- Change in the discount rate from 7.50% in prior years to 7.25 in fiscal year 2019
- The mortality assumptions for non-teachers were updated based on experience with similar systems and the mortality assumptions for teachers were updated to match the Massachusetts Teachers' Retirement System Actuarial Valuation Report as of January 1, 2018, dated October 10, 2018
- The per capita costs and trends were updated to reflect current experience
- The excise tax on high cost health plans beginning in 2022 was recalculated with this valuation

H. 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>
\$ 78,011,901	\$ 68,565,154	\$ 60,743,782

I. 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>
\$ 59,577,231	\$ 68,565,154	\$ 79,608,556

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

For the year ended June 30, 2019, the Town recognized an OPEB expense of \$7,008,954. At June 30, 2019, the Town reported deferred outflows and deferred (inflows) of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ -	\$ (1,964,708)
Changes of assumptions	3,377,580	-
Net difference between projected and actual earnings on OPEB plan investments	<u>344,388</u>	<u>-</u>
Total	<u>\$ 3,721,968</u>	<u>\$ (1,964,708)</u>

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

<u>Year Ended June 30:</u>	
2020	\$ 450,335
2021	450,335
2022	450,337
2023	<u>406,253</u>
Total	\$ <u>1,757,260</u>

21. Consolidation of 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 <u>December 31, 2018</u>)	Electric Division OPEB Trust Fund (As of <u>December 31, 2018</u>)	Other Post Employment Benefits Trust Fund	Pension and OPEB Trust Funds
Assets				
Cash and short-term investments	\$ 13,042,964	\$ 3,561,719	\$ 5,211,775	\$ 21,816,458
Investments:				
External investment pool	123,159,975	-	-	123,159,975
Accounts receivable	<u>58,692</u>	<u>-</u>	<u>-</u>	<u>58,692</u>
Total Assets	136,261,631	3,561,719	5,211,775	145,035,125
Liabilities				
Accounts payable	585	-	-	585
Net Position				
Restricted for:				
Pensions	136,261,046	-	-	136,261,046
OPEB	<u>-</u>	<u>3,561,719</u>	<u>5,211,775</u>	<u>8,773,494</u>
Total Net Position	\$ <u>136,261,046</u>	\$ <u>3,561,719</u>	\$ <u>5,211,775</u>	\$ <u>145,034,540</u>

	Pension Trust Fund (for the year ended December 31, 2018)	Electric Division OPEB Trust Fund (for the six months ended December 31, 2018)	Other Post Employment Benefits Trust Fund	Pension and OPEB Trust Funds
Additions				
Contributions:				
Employers	\$ 5,964,366	\$ 276,176	\$ 4,466,003	\$ 10,706,545
Plan members	2,801,575	-	-	2,801,575
Total contributions	8,765,941	276,176	4,466,003	13,508,120
Investment Income:				
Increase (Decrease) in fair value of investments	(1,962,084)	41,927	86,316	(1,833,841)
Less: management fees	(694,633)	-	-	(694,633)
Net investment income	(2,656,717)	41,927	86,316	(2,528,474)
Total Additions	6,109,224	318,103	4,552,319	10,979,646
Deductions				
Benefit payments to plan members and beneficiaries	11,542,016	276,176	3,586,003	15,404,195
Administrative expenses	212,080	-	-	212,080
Total Deductions	11,754,096	276,176	3,586,003	15,616,275
Net change	(5,644,872)	41,927	966,316	(4,636,629)
Net position restricted for pensions and OPEB				
Beginning of year	141,905,918	3,519,792	4,245,459	149,671,169
End of year	\$ 136,261,046	\$ 3,561,719	\$ 5,211,775	\$ 145,034,540

22. Commitments and Contingencies

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

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

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

Encumbrances - At year-end the Town's general fund has \$3,973,326 in encumbrances that will be honored in the next fiscal year.

23. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the Town beginning with its fiscal year

ending June 30, 2020. This statement establishes guidance on how to address the categorization of fiduciary activities for financial reporting and how fiduciary activities are to be reported, and may require reclassification of certain funds.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the Town beginning with its fiscal year ending June 30, 2021. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

Town of Reading, Massachusetts Electric Division

Notes to the Financial Statements

24. 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 – Electric Division) 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.

25. Cash and Investments

Total cash and investments as of December 31, 2018 are classified in the accompanying financial statements as follows:

Proprietary Fund:	
Unrestricted cash and short-term investments	\$ 20,832,516
Restricted cash and short-term investments	28,827,501
Restricted investments	2,490,210
Fiduciary Funds:	
Cash and short-term investments - OPEB Trust	<u>3,561,719</u>
Total cash and investments	<u>\$ 55,711,946</u>

Total cash and investments at December 31, 2018 consist of the following:

Deposits with financial institutions	\$ <u>55,711,946</u>
Total cash and investments	<u>\$ 55,711,946</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 December 31, 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 December 31, 2018, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying maturity dates as follows:

<u>Corporate Bonds</u>		<u>Maturity Date</u>
AT&T Inc	\$ 424,580	12/01/22
General Electric Cap Corp	386,282	01/09/23
Wells Fargo & Co	402,336	08/15/23
Simon Property	372,926	06/15/27
Rabobank Nederland Bank	498,340	11/09/22
BNP Paribas	405,746	03/03/23
Total	<u>\$ 2,490,210</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 December 31,

2018, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying ratings as follows:

<u>Investment Type</u>	Proprietary Fund	Moody's <u>Rating</u>
	<u>Restricted Investments</u>	
Corporate bonds:		
AT&T Inc	\$ 424,580	BAA2
General Electric Cap Corp	386,282	BAA1
Wells Fargo & Co	402,336	A3
Simon Property	372,926	A2
Rabobank Nederland Bank	498,340	BAA1
BNP Paribas	405,746	AA3
Total	<u>\$ 2,490,210</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 December 31, 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 December 31, 2018, cannot be reasonable determined.

As of December 31, 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 GASB 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>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				
Corporate bonds	\$ <u>2,490,210</u>	\$ 2,490,210	\$ -	\$ -
Total	\$ <u>2,490,210</u>			

26. 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	\$ 6,326,373	\$ -
Construction fund	1,288,181	-
Deferred fuel reserve	5,185,048	-
Deferred energy conservation reserve	417,735	-
Rate stabilization	7,074,804	-
Reserve for uncollectible accounts	200,000	-
Sick leave benefits	1,754,534	1,245,105
Hazardous waste fund	750,000	-
Customer deposits	1,197,752	-
Pension trust	<u>4,633,074</u>	<u>1,245,105</u>
Total	\$ <u>28,827,501</u>	\$ <u>2,490,210</u>

The Department maintains the following reserves:

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

27. Accounts Receivable

Accounts receivable consists of the following at December 31, 2018:

Customer Accounts:		
Billed	\$ 4,070,383	
Less allowances:		
Uncollectible accounts	(200,000)	
Sales discounts	<u>(253,694)</u>	
Total billed		3,616,689
Unbilled, net		<u>4,930,225</u>
Total customer accounts		8,546,914
Other Accounts:		
Liens and other	<u>158,500</u>	
Total other accounts		<u>158,500</u>
Total net receivables		<u>\$ 8,705,414</u>

28. Prepaid Assets

Prepaid assets consist of the following:

Insurance and other	\$ 1,483,500
Purchase power	(20,943)
NYPA prepayment fund	307,573
WC Fuel - Watson	<u>327,226</u>
Total	<u>\$ 2,097,356</u>

29. Inventory

Inventory comprises supplies and materials at December 31, 2018, and is valued using the average cost method.

30. 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 December 31, 2018:

New England Hydro-Transmission (NEH & NHH) \$ 289,474

31. Capital Assets

The following is a summary of the six month period ended December 31, 2018 activity in capital assets (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, depreciable:				
Structures and improvements	\$ 20,270	\$ 32	\$ -	\$ 20,302
Equipment and furnishings	34,734	173	-	34,907
Infrastructure	93,794	2,303	(440)	95,657
Total capital assets, depreciable	148,798	2,508	(440)	150,866
Less accumulated depreciation for:				
Structures and improvements	(9,954)	(279)	-	(10,233)
Equipment and furnishings	(22,307)	(493)	-	(22,800)
Infrastructure	(39,549)	(1,460)	393	(40,616)
Total accumulated depreciation	(71,810)	(2,232)	393	(73,649)
Total capital assets, depreciable, net	76,988	276	(47)	77,217
Capital assets, non-depreciable:				
Land	1,287	-	(21)	1,266
Total capital assets, non-depreciable	1,287	-	(21)	1,266
Capital assets, net	\$ 78,275	\$ 276	\$ (68)	\$ 78,483

32. 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.

33. Warrants Payable

Warrants payable represent fiscal year 2018 expenses that were paid after December 31, 2018.

34. Accrued Liabilities

Accrued liabilities consist of the following at December 31, 2018:

Accrued payroll	\$ 189,672
Accrued sales tax	77,351
Other	<u>13,284</u>
Total	<u>\$ 280,307</u>

35. Customer Deposits

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

36. 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.

37. 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.

38. Long-Term Debt

Changes in General Long-Term Obligations

During the six month period ended December 31, 2018, the following changes occurred in long-term obligations (in thousands):

	Total Balance <u>6/30/18</u>	Additions	Reductions	Total Balance <u>12/31/18</u>	Less Current Portion	Equals Long-Term Portion <u>12/31/18</u>
Net pension liability	\$ 10,782	\$ -	\$ -	\$ 10,782	\$ -	\$ 10,782
Net OPEB liability	7,158	216	-	7,374	-	7,374
Other:						
Compensated absences	<u>3,194</u>	<u>-</u>	<u>(195)</u>	<u>2,999</u>	<u>(530)</u>	<u>2,469</u>
Subtotal - other	<u>3,194</u>	<u>-</u>	<u>(195)</u>	<u>2,999</u>	<u>(530)</u>	<u>2,469</u>
Totals	<u>\$ 21,134</u>	<u>\$ 216</u>	<u>\$ (195)</u>	<u>\$ 21,155</u>	<u>\$ (530)</u>	<u>\$ 20,625</u>

39. 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.

40. 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 3.00%.

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. 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 period ended December 31, 2018 was \$1,691,058 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 December 31, 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 period ended December 31, 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>
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 investments	-	1,587,075
Changes in proportion and differences between employer contributions and proportionate share of contributions	161,284	-
Contributions subsequent to the measurement date	<u>1,691,058</u>	<u>-</u>
Total	<u>\$ 5,039,390</u>	<u>\$ 2,105,560</u>

The \$1,691,058 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net pension liability in the year ended December 31, 2019.

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 December 31:	
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 rolled forward to December 31, 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
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 calculated using the current discount rate of 7.65%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.65%) or one percentage-point higher (8.65%) than the current rate:

1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
\$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.

41. 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 December 31, 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 December 31, 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
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%
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.

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 December 31, 2017, were as follows:

Total OPEB liability	\$ 10,253,318
Plan fiduciary net position	<u>2,879,072</u>
Net OPEB liability	<u>\$ 7,374,246</u>

E. Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 12/31/16	\$ 9,794,075	\$ 2,535,281	\$ 7,258,794
Changes for the year:			
Service cost	230,880	-	230,880
Interest	733,280	-	733,280
Contributions - employer	-	813,663	(813,663)
Net investment income	-	35,045	(35,045)
Benefit payments	<u>(504,917)</u>	<u>(504,917)</u>	<u>-</u>
Net Changes	<u>459,243</u>	<u>343,791</u>	<u>115,452</u>
Balances at 12/31/17	<u>\$ 10,253,318</u>	<u>\$ 2,879,072</u>	<u>\$ 7,374,246</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:

1% Decrease	Current Discount Rate	1% Increase
<u>\$ 8,556,383</u>	<u>\$ 7,374,246</u>	<u>\$ 6,382,969</u>

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:

1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
<u>\$ 6,267,849</u>	<u>\$ 7,374,246</u>	<u>\$ 8,556,810</u>

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

For the period ended December 31, 2018, the Department recognized an OPEB expense of \$795,772. At December 31, 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>133,343</u>
Total	<u>\$ 740,468</u>

The \$607,125 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 December 31, 2019.

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

<u>Year Ended December 31:</u>	
2019	\$ 33,336
2020	33,336
2021	33,336
2022	<u>33,335</u>
Total	<u>\$ 133,343</u>

42. 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 December 31, 2018.

A. Investments

The OPEB trust fund assets consist of cash and short-term investments.

Rate of return. For the year ended December 31, 2018, the annual money-weighted rate of return on investments, net of investment expense, was not available.

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% decreasing to 4.25% based on service for Group 1 and Group 2
Investment rate of return	7.50%, net of OPEB plan investment expense
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 December 31, 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 December 31, 2018, were as follows:

Total OPEB liability	\$ 10,705,889
Plan fiduciary net position	<u>3,561,719</u>
Net OPEB liability	<u>\$ 7,144,170</u>
Plan fiduciary net position as a percentage of the total OPEB liability	33.27%

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:

1% Decrease	Current Discount Rate	1% Increase
\$ 8,360,411	\$ 7,144,170	\$ 6,123,898

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:

1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
\$ 5,920,483	\$ 7,144,170	\$ 8,454,644

43. 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.

As of December 31, 2018, total capital expenditures amount to \$1,652,338,000, of which \$118,564,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects from Power Supply System Revenue Bonds totals \$7,110,000, of which none is associated with the Department's share of Project Capability. As of December 31, 2018, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$7,419,000, 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 \$7,897,000 and \$7,760,000 for the years ended December 31, 2018 and 2017, respectively.

44. 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 six month period ending December 31, 2018 REC activity and balances is as follows:

REC Holdings at December 31, 2018

	<u>Banked Certificates</u>	<u>Projected Certificates</u>	<u>Total Certificates</u>	<u>Estimated Value</u>
CT Class I	\$ 7,596	\$ 12,010	\$ 19,606	\$ 45,576
MA Class I & II	4,363	8,626	12,989	82,840
MA/RI/NH 1	5,448	9,804	15,252	32,688
MA/CT/RI/NH 1	<u>7,983</u>	<u>17,714</u>	<u>25,697</u>	<u>47,898</u>
Total	<u>\$ 25,390</u>	<u>\$ 48,154</u>	<u>\$ 73,544</u>	<u>\$ 209,002</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 December 31, 2018 are not recognized as an asset on the proprietary fund Statements of Net Position.

45. 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, 2019. Following is the future minimum rental income to be received by the Department under the terms of this lease for the year ending December 31:

2019	\$ <u>8,984</u>
Total	\$ <u><u>8,984</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, 2018. 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 December 31:

2019	\$ 161,348
2020	<u>40,337</u>
Total	<u>\$ 201,685</u>

46. 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.

47. Change of Year-end

The financial year-end of the Department was changed from June 30 to December 31 in the interest of improved overall cost and reporting efficiency as it relates to the Town, the ratepayers, and the Department of Public Utilities and improved financial controls of the utility structure, specifically relating to the ISO New England billing structure. Accordingly, the current financial statements are prepared for 6 months from July 1, 2018 to December 31, 2018.

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

JUNE 30, 2019
(Unaudited)

Reading Contributory Retirement System (Town)

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2019	December 31, 2018	70.90%	\$ 36,531,299	\$ 17,836,375	204.81%	72.56%
June 30, 2018	December 31, 2017	69.98%	25,883,540	17,480,607	148.07%	79.32%
June 30, 2017	December 31, 2016	69.98%	31,391,929	16,588,964	189.23%	73.43%
June 30, 2016	December 31, 2015	71.03%	32,338,958	16,189,120	199.76%	72.17%
June 30, 2015	December 31, 2014	71.03%	21,281,510	14,855,396	143.26%	79.89%

Reading Contributory Retirement System (Electric Division)

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
December 31, 2018	December 31, 2017	28.35%	\$ 14,610,001	\$ 7,132,034	204.85%	79.32%
June 30, 2018	December 31, 2017	29.15%	10,781,819	7,281,401	148.07%	79.32%
June 30, 2017	December 31, 2016	29.15%	13,076,538	6,910,093	189.24%	73.43%
June 30, 2016	December 31, 2015	28.25%	12,862,732	6,439,178	199.76%	72.17%
June 30, 2015	December 31, 2014	28.25%	8,464,663	5,908,693	143.26%	79.89%

Massachusetts Teachers' Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town	Total Net Pension Liability Associated with the Town	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2019	June 30, 2018	0.423306%	\$ -	\$ 100,371,336	\$ 100,371,336	\$ 29,728,213	-	54.84%
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
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2019
(Unaudited)

Reading Contributory Retirement System (Town)

Fiscal Year	Measurement Date	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2019	December 31, 2018	\$ 4,228,374	\$ 4,228,374	\$ -	\$ 17,836,375	23.71%
June 30, 2018	December 31, 2017	3,962,037	3,962,037	-	17,480,607	22.67%
June 30, 2017	December 31, 2016	3,791,423	3,791,423	-	16,588,964	22.86%
June 30, 2016	December 31, 2015	3,682,525	3,682,525	-	16,189,120	22.75%
June 30, 2015	December 31, 2014	3,523,949	3,523,949	-	14,855,396	23.72%

Reading Contributory Retirement System (Electric Division)

Fiscal Year	Measurement Date	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2018	December 31, 2017	\$ 1,691,058	\$ 1,691,058	\$ -	\$ 7,132,034	23.71%
June 30, 2018	December 31, 2017	1,650,416	1,650,416	-	7,281,401	22.67%
June 30, 2017	December 31, 2016	1,579,345	1,579,345	-	6,910,093	22.86%
June 30, 2016	December 31, 2015	1,464,711	1,464,711	-	6,439,178	22.75%
June 30, 2015	December 31, 2014	1,401,638	1,401,638	-	5,908,693	23.72%

Massachusetts Teachers' Retirement System

Fiscal Year	Measurement Date	Contractually Required Contribution Provided by Commonwealth	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2019	June 30, 2018	\$ 5,565,557	\$ 5,565,557	\$ -	\$ 29,728,213	18.72%
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
 REQUIRED SUPPLEMENTARY INFORMATION
 OTHER POST-EMPLOYMENT BENEFITS (OPEB)
 SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY (GASB 74 and 75)

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service cost	\$ 1,760,928	\$ 1,717,979	\$ 1,645,248
Interest on unfunded liability - time value of money	5,149,105	4,906,280	4,677,514
Changes of benefit terms			
Differences between expected and actual experience	(2,455,887)	-	-
Changes of assumptions	4,221,976	-	-
Benefit payments to plan members and beneficiaries	<u>(3,586,003)</u>	<u>(3,214,978)</u>	<u>(2,990,677)</u>
Net change in total OPEB liability	5,090,119	3,409,281	3,332,085
Total OPEB liability - beginning	<u>68,686,810</u>	<u>65,277,529</u>	<u>61,945,444</u>
Total OPEB liability - ending (a)	73,776,929	68,686,810	65,277,529
Plan Fiduciary Net Position			
Contributions - employer	4,466,003	3,790,978	3,566,677
Contributions - member			
Net investment income	86,238	48,311	27,516
Benefit payments to plan members and beneficiaries	<u>(3,586,003)</u>	<u>(3,214,978)</u>	<u>(2,990,677)</u>
Net change in plan fiduciary net position	966,238	624,311	603,516
Plan fiduciary net position - beginning	<u>4,245,537</u>	<u>3,621,226</u>	<u>3,017,710</u>
Plan fiduciary net position - ending (b)	<u>5,211,775</u>	<u>4,245,537</u>	<u>3,621,226</u>
Net OPEB liability - ending (a-b)	<u>\$ 68,565,154</u>	<u>\$ 64,441,273</u>	<u>\$ 61,656,303</u>

Schedules are 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
ELECTRIC DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS (OPEB)

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (GASB 74 and 75)

(Unaudited)

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 238,384	\$ 230,880
Interest on unfunded liability - time value of money	766,539	733,280
Benefit payments to plan members and beneficiaries	<u>(552,351)</u>	<u>(504,917)</u>
Net change in total OPEB liability	452,572	459,243
Total OPEB liability - beginning	<u>10,253,318</u>	<u>9,794,075</u>
Total OPEB liability - ending (a)	10,705,890	10,253,318
Plan fiduciary net position*		
Contributions - employer	1,159,476	813,663
Net investment income	75,523	35,045
Benefit payments to plan members and beneficiaries	<u>(552,351)</u>	<u>(504,917)</u>
Net change in plan fiduciary net position	682,648	343,791
Plan fiduciary net position - beginning	<u>2,879,072</u>	<u>2,535,281</u>
Plan fiduciary net position - ending (b)*	<u>3,561,720</u>	<u>2,879,072</u>
Net OPEB liability (asset) - ending (a-b)	<u>\$ 7,144,170</u>	<u>\$ 7,374,246</u>

* Activity will not agree to the Statement of Changes in Fiduciary Net Position due to Department switching to a 12/31 year end.

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

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

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULES OF THE NET OPEB LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS (GASB 74 and 75)

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Net OPEB Liability			
Total OPEB liability	\$ 73,776,929	\$ 68,686,810	\$ 65,277,529
Plan fiduciary net position	<u>(5,211,775)</u>	<u>(4,245,537)</u>	<u>(3,621,226)</u>
Net OPEB liability	<u>\$ 68,565,154</u>	<u>\$ 64,441,273</u>	<u>\$ 61,656,303</u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.06%	6.18%	5.55%
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Contributions			
Actuarially determined contribution	\$ 5,930,470	\$ 5,848,374	\$ 5,547,136
Contributions in relation to the actuarially determined contribution	<u>(4,466,003)</u>	<u>(3,790,978)</u>	<u>(3,566,677)</u>
Contribution deficiency	<u>\$ 1,464,467</u>	<u>\$ 2,057,396</u>	<u>\$ 1,980,459</u>
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Investment Returns			
Annual money weighted rate of return, net of investment expense	unavailable	unavailable	unavailable

Schedules are 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
ELECTRIC DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULES OF THE 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	\$ 10,705,890	\$ 10,253,318
Plan fiduciary net position	<u>3,561,719</u>	<u>2,879,072</u>
Net OPEB liability (asset)	<u>\$ 7,144,171</u>	<u>\$ 7,374,246</u>
Plan fiduciary net position as a percentage of the total OPEB liability	33.27%	28.08%

Schedule of Contributions

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 991,048	\$ 932,387
Contributions in relation to the actuarially determined contribution	<u>1,159,476</u>	<u>813,663</u>
Contribution deficiency (excess)	<u>\$ (168,428)</u>	<u>\$ 118,724</u>

	<u>2018</u>	<u>2017</u>
Schedule of Investment Returns		
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 the Department's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

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TOWN OF READING, MASSACHUSETTS

COMPARISON BALANCE SHEET

GENERAL FUND

JUNE 30, 2019 AND JUNE 30, 2018

	Current Year General Fund	Prior Year General Fund	<u>Change</u>
Assets			
Cash and short-term investments	\$ 11,827,339	\$ 7,072,315	\$ 4,755,024
Investments	17,579,145	17,246,043	333,102
Receivables:			
Property taxes	954,740	815,882	138,858
Excises	244,594	332,654	(88,060)
Departmental and other	<u>1,831,485</u>	<u>329,406</u>	<u>1,502,079</u>
Total Assets	<u>\$ 32,437,303</u>	<u>\$ 25,796,300</u>	<u>\$ 6,641,003</u>
Liabilities			
Warrants payable	\$ 2,011,441	\$ 1,597,913	\$ 413,528
Accrued liabilities	3,805,131	3,485,300	319,831
Other liabilities	<u>604,136</u>	<u>621,078</u>	<u>(16,942)</u>
Total Liabilities	6,420,708	5,704,291	716,417
Deferred Inflows of Resources			
Unavailable revenues	1,347,959	1,285,590	62,369
Fund Balances			
Restricted	36,078	62,468	(26,390)
Committed	503,000	503,000	-
Assigned	5,348,326	4,388,933	959,393
Unassigned	<u>18,781,232</u>	<u>13,852,018</u>	<u>4,929,214</u>
Total Fund Balances	<u>24,668,636</u>	<u>18,806,419</u>	<u>5,862,217</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 32,437,303</u>	<u>\$ 25,796,300</u>	<u>\$ 6,641,003</u>

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

COMPARISON STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GENERAL FUND

FOR THE YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

	Current Year General Fund	Prior Year General Fund	Change
Revenues			
Property taxes	\$ 73,440,816	\$ 66,950,236	\$ 6,490,580
Excises	4,518,208	4,388,124	130,084
Penalties, interest, and other taxes	599,869	578,670	21,199
Departmental	2,312,514	2,070,060	242,454
Licenses and permits	161,819	161,084	735
Fines and forfeitures	101,396	113,136	(11,740)
Intergovernmental	20,417,819	19,983,990	433,829
Investment income	1,513,149	785,756	727,393
Other	212,556	276,241	(63,685)
	103,278,146	95,307,297	7,970,849
Expenditures			
General government	5,281,210	4,021,394	1,259,816
Public safety	11,498,415	10,870,911	627,504
Education	50,076,779	47,042,692	3,034,087
Public works	4,738,102	5,508,766	(770,664)
Facilities	3,771,257	3,418,322	352,935
Health and human services	606,863	631,028	(24,165)
Culture and recreation	2,514,322	2,334,173	180,149
Employee benefits	16,967,755	16,005,253	962,502
Debt service	4,478,865	4,864,270	(385,405)
Intergovernmental	1,143,082	1,077,974	65,108
	101,076,650	95,774,783	5,301,867
Excess (deficiency) of revenues over (under) expenditures	2,201,496	(467,486)	2,668,982
Other Financing Sources (Uses)			
Transfers in	3,811,642	2,688,108	1,123,534
Transfers out	(150,921)	-	(150,921)
	3,660,721	2,688,108	972,613
Net change in fund balances	5,862,217	2,220,622	\$ 3,641,595
Fund Balance at Beginning of Year	18,806,419	16,585,797	
Fund Balance at End of Year	\$ 24,668,636	\$ 18,806,419	

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2019

	Special Revenue Funds		
	Federal Grants	State Grants	Revolving Funds
Assets			
Cash and short-term investments	\$ (64,273)	\$ 776,953	\$ 4,514,672
Investments	-	-	-
Receivables:			
Departmental and other	-	-	510,032
Intergovernmental	117,865	441,641	-
Total Assets	\$ 53,592	\$ 1,218,594	\$ 5,024,704
Liabilities			
Warrants payable	\$ 16,972	\$ 18,660	\$ 85,047
Accrued liabilities	94,267	1,706	70,409
Unearned revenue	-	-	389,086
Total Liabilities	111,239	20,366	544,542
Fund Balances			
Nonspendable	-	-	-
Restricted	17,284	1,216,910	4,480,162
Unassigned	(74,931)	(18,682)	-
Total Fund Balance	(57,647)	1,198,228	4,480,162
Total Liabilities and Fund Balance	\$ 53,592	\$ 1,218,594	\$ 5,024,704

See Independent Auditors' Report.

Special Revenue Funds

<u>Receipts Reserved</u>	<u>Gifts and Donations</u>	<u>Subtotals</u>
\$ 664,183	\$ 1,086,293	\$ 6,977,828
-	-	-
-	-	510,032
-	-	559,506
<u>\$ 664,183</u>	<u>\$ 1,086,293</u>	<u>\$ 8,047,366</u>
\$ -	\$ 29,141	\$ 149,820
-	-	166,382
-	-	389,086
-	29,141	705,288
-	-	-
664,183	1,057,152	7,435,691
-	-	(93,613)
<u>664,183</u>	<u>1,057,152</u>	<u>7,342,078</u>
<u>\$ 664,183</u>	<u>\$ 1,086,293</u>	<u>\$ 8,047,366</u>

(continued)

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2019

(continued)

	Capital Project Funds		
	Town Capital Project Funds	School Capital Project Funds	Subtotals
Assets			
Cash and short-term investments	\$ 561,019	\$ -	\$ 561,019
Investments	-	-	-
Receivables:			
Departmental and other	-	-	-
Intergovernmental	-	-	-
Total Assets	\$ 561,019	\$ -	\$ 561,019
Liabilities			
Warrants payable	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-
Unearned revenue	-	-	-
Total Liabilities	-	-	-
Fund Balances			
Nonspendable	-	-	-
Restricted	561,019	-	561,019
Unassigned	-	-	-
Total Fund Balance	561,019	-	561,019
Total Liabilities and Fund Balance	\$ 561,019	\$ -	\$ 561,019

See Independent Auditors' Report.

Permanent Funds			Total Nonmajor Governmental Funds
Cemetary Trust Funds	Other Trust Funds	Subtotals	
\$ 44,453	\$ 6,288	\$ 50,741	\$ 7,589,588
5,226,909	739,351	5,966,260	5,966,260
-	-	-	510,032
-	-	-	559,506
<u>\$ 5,271,362</u>	<u>\$ 745,639</u>	<u>\$ 6,017,001</u>	<u>\$ 14,625,386</u>
\$ -	\$ -	\$ -	\$ 149,820
-	-	-	166,382
-	-	-	389,086
-	-	-	705,288
3,042,388	272,165	3,314,553	3,314,553
2,228,974	473,474	2,702,448	10,699,158
-	-	-	(93,613)
<u>5,271,362</u>	<u>745,639</u>	<u>6,017,001</u>	<u>13,920,098</u>
<u>\$ 5,271,362</u>	<u>\$ 745,639</u>	<u>\$ 6,017,001</u>	<u>\$ 14,625,386</u>

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2019

	Special Revenue Funds		
	Federal Grants	State Grants	Revolving Funds
Revenues			
Departmental	\$ -	\$ -	\$ 7,969,650
Intergovernmental	1,411,236	2,549,780	335,258
Investment income	-	-	1,472
Contributions	-	-	-
Other	-	-	149,362
	1,411,236	2,549,780	8,455,742
Total Revenues	1,411,236	2,549,780	8,455,742
Expenditures			
Current:			
General government	-	68,622	154,373
Public safety	44,605	91,384	1,477,449
Education	1,340,841	1,376,313	5,306,780
Public works	-	718,933	9,731
Health and human services	116,134	69,447	35,060
Culture and recreation	-	43,409	656,193
	1,501,580	2,368,108	7,639,586
Total Expenditures	1,501,580	2,368,108	7,639,586
Excess (deficiency) of revenues over (under) expenditures	(90,344)	181,672	816,156
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	(276,136)
	-	-	(276,136)
Total other financing sources (uses)	-	-	(276,136)
Change in fund balances	(90,344)	181,672	540,020
Fund Balances at Beginning of Year	32,697	1,016,556	3,940,142
Fund Balances at End of Year	\$ (57,647)	\$ 1,198,228	\$ 4,480,162

See Independent Auditors' Report.

Special Revenue Funds

<u>Receipts Reserved</u>	<u>Gifts and Donations</u>	<u>Subtotals</u>
\$ 44,025	\$ -	\$ 8,013,675
-	-	4,296,274
21,497	10,538	33,507
-	272,405	272,405
<u>65,774</u>	<u>-</u>	<u>215,136</u>
131,296	282,943	12,830,997
2,767	8,757	234,519
-	5,313	1,618,751
-	162,318	8,186,252
-	-	728,664
-	1,638	222,279
<u>-</u>	<u>69,389</u>	<u>768,991</u>
<u>2,767</u>	<u>247,415</u>	<u>11,759,456</u>
128,529	35,528	1,071,541
-	-	-
<u>(625,000)</u>	<u>(200,000)</u>	<u>(1,101,136)</u>
<u>(625,000)</u>	<u>(200,000)</u>	<u>(1,101,136)</u>
(496,471)	(164,472)	(29,595)
<u>1,160,654</u>	<u>1,221,624</u>	<u>7,371,673</u>
<u>\$ 664,183</u>	<u>\$ 1,057,152</u>	<u>\$ 7,342,078</u>

(continued)

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2019

(continued)

	Capital Project Funds		
	Town Capital Project Funds	School Capital Project Funds	Subtotals
Revenues			
Departmental	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Investment income	-	-	-
Contributions	-	-	-
Other	-	-	-
	-	-	-
Total Revenues	-	-	-
Expenditures			
Current:			
General government	-	-	-
Public safety	-	-	-
Education	-	-	-
Public works	-	-	-
Health and human services	-	-	-
Culture and recreation	-	-	-
	-	-	-
Total Expenditures	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	-
Other Financing Sources (Uses)			
Transfers in	-	150,921	150,921
Transfers out	(230,000)	-	(230,000)
	(230,000)	150,921	(79,079)
Total other financing sources (uses)	(230,000)	150,921	(79,079)
Change in fund balances	(230,000)	150,921	(79,079)
Fund Balances at Beginning of Year	791,019	(150,921)	640,098
Fund Balances at end of year	\$ 561,019	\$ -	\$ 561,019

See Independent Auditors' Report.

Permanent Funds			Total Nonmajor Governmental Funds
Cemetery Trust Funds	Other Trust Funds	Subtotals	
\$ -	\$ -	\$ -	\$ 8,013,675
-	-	-	4,296,274
381,623	53,072	434,695	468,202
150,060	580	150,640	423,045
-	-	-	215,136
<u>531,683</u>	<u>53,652</u>	<u>585,335</u>	<u>13,416,332</u>
-	-	-	234,519
-	-	-	1,618,751
-	-	-	8,186,252
120,000	-	120,000	848,664
-	21,279	21,279	243,558
-	-	-	768,991
<u>120,000</u>	<u>21,279</u>	<u>141,279</u>	<u>11,900,735</u>
411,683	32,373	444,056	1,515,597
-	-	-	150,921
-	-	-	(1,331,136)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,180,215)</u>
411,683	32,373	444,056	335,382
<u>4,859,679</u>	<u>713,266</u>	<u>5,572,945</u>	<u>13,584,716</u>
<u>\$ 5,271,362</u>	<u>\$ 745,639</u>	<u>\$ 6,017,001</u>	<u>\$ 13,920,098</u>

See Independent Auditors' Report.

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

JUNE 30, 2019

	Business-Type Activities		
	Landfill Closure and Postclosure	Stormwater Management	Total Nonmajor Enterprise Funds
Assets			
Current:			
Cash and short-term investments	\$ 17,633	\$ 1,439,870	\$ 1,457,503
User fees, net of allowance for uncollectibles	-	199,314	199,314
Total Current Assets	17,633	1,639,184	1,656,817
Noncurrent:			
Capital assets being depreciated, net	-	1,333,799	1,333,799
Total Noncurrent Assets	-	1,333,799	1,333,799
Deferred Outflows of Resources			
Related to pensions	-	9,900	9,900
Related to OPEB	-	4,921	4,921
Total Assets and Deferred Outflows of Resources	17,633	2,987,804	3,005,437
Liabilities			
Current:			
Warrants payable	17,633	139,607	157,240
Noncurrent:			
Net pension liability	-	25,063	25,063
Net OPEB obligation	-	90,647	90,647
Total Noncurrent Liabilities	-	115,710	115,710
Deferred Inflows of Resources			
Related to pensions	-	48,375	48,375
Related to OPEB	-	2,597	2,597
Total Liabilities and Deferred Inflows of Resources	17,633	306,289	323,922
Net Position			
Net investment in capital assets	-	1,333,799	1,333,799
Unrestricted	-	1,347,716	1,347,716
Total Net Position	\$ -	\$ 2,681,515	\$ 2,681,515

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, 2019

(continued)

	Business-Type Activities		
	Landfill Closure and Postclosure	Stormwater Management	Total Nonmajor Enterprise Funds
Operating Revenues			
Charges for services	\$ -	\$ 616,911	\$ 616,911
Total Operating Revenues	-	616,911	616,911
Operating Expenses			
Personnel expenses	-	157,608	157,608
Non personnel expenses	-	128,586	128,586
Depreciation	-	71,678	71,678
Total Operating Expenses	-	357,872	357,872
Operating income	-	259,039	259,039
Nonoperating Revenues (Expenses)			
Investment income	-	18,104	18,104
Change in net position	-	277,143	277,143
Net Position at Beginning of Year	-	2,404,372	2,404,372
Net Position at End of Year	\$ -	\$ 2,681,515	\$ 2,681,515

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

NONMAJOR PROPRIETARY FUNDS

COMBINING SCHEDULE OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities		
	Landfill Closure and Postclosure	Stormwater Management	Total Nonmajor Enterprise Funds
Cash Flows From Operating Activities			
Receipts from customers and users	\$ -	\$ 559,411	\$ 559,411
Payments to vendors and employees	<u>(15,298)</u>	<u>(176,812)</u>	<u>(192,110)</u>
Net cash provided by (used for) operating activities	(15,298)	382,599	367,301
Cash Flows From Capital and Related Financing Activities			
Acquisition of capital assets	<u>-</u>	<u>(179,621)</u>	<u>(179,621)</u>
Net cash (used for) capital and related financing activities	-	(179,621)	(179,621)
Cash Flows From Investing Activities			
Investment income	<u>-</u>	<u>18,104</u>	<u>18,104</u>
Net cash provided by investing activities	<u>-</u>	<u>18,104</u>	<u>18,104</u>
Net change in cash and short-term investments	(15,298)	221,082	205,784
Cash and Short Term Investments, Beginning of Year	<u>32,931</u>	<u>1,218,788</u>	<u>1,251,719</u>
Cash and Short Term Investments, End of Year	<u>\$ 17,633</u>	<u>\$ 1,439,870</u>	<u>\$ 1,457,503</u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities			
Operating income	\$ -	\$ 259,039	\$ 259,039
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation	-	71,678	71,678
Changes in assets and liabilities:			
User fees receivables	-	(57,500)	(57,500)
Deferred outflows of resources:			
Related to pensions	-	10,327	10,327
Related to OPEB	-	(4,688)	(4,688)
Warrants payable	17,633	114,416	132,049
Accrued liabilities	-	(56)	(56)
Other liabilities	(32,931)	-	(32,931)
Net OPEB obligation	-	9,134	9,134
Net pension liability	-	(43,366)	(43,366)
Deferred inflows of resources	<u>-</u>	<u>23,615</u>	<u>23,615</u>
Net cash provided by (used for) operating activities	<u>\$ (15,298)</u>	<u>\$ 382,599</u>	<u>\$ 367,301</u>

See Independent Auditors' Report.