

TOWN OF READING, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Reading, Massachusetts

Additional Offices:

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Reading, Massachusetts, as of and for the year ended June 30, 2015, (except for the Reading Contributory Retirement System, which is as of and for the year ended December 31, 2014) 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.

Auditor's 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 auditor's 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, 2015, 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 Matter

As discussed in Note 17 to the combined financial statements, the Reading Contributory Retirement System adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Contributions, the Schedule of Changes in Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns 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 92 through 102 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Melanson Heath

March 15, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Reading, Massachusetts we offer readers this narrative overview and analysis of the financial activities of the Town for the June 30, 2015. **Unless otherwise noted, all amounts reported in this analysis are expressed in thousands.**

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 and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

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

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

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 a government'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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, sewer, landfill, electric, and storm water operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, landfill, electric, and storm water operations. Water and electric operations are considered to be major funds.

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

Notes to 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 infor-

mation 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 exceeded liabilities by \$224,143 (i.e., net position), a change of \$6,339 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$44,270, a change of \$10,277 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$11,853, a change of \$454 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$44,585, a change of \$8,626 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.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 56,912	\$ 44,805	\$ 66,307	\$ 59,192	\$ 123,219	\$ 103,997
Capital assets	122,785	122,418	91,121	90,648	213,906	213,066
Deferred outflows	115	-	1,553	-	1,668	-
Total assets and deferred outflows	179,812	167,223	158,981	149,840	338,793	317,063
Long-term liabilities	69,673	37,795	21,539	17,372	91,212	55,167
Other liabilities	12,559	10,174	10,728	7,876	23,287	18,050
Deferred inflows	151	-	-	-	151	-
Total liabilities and deferred inflows	82,383	47,969	32,267	25,248	114,650	73,217
Net position:						
Net investment in capital assets	100,596	99,820	80,900	81,328	181,496	181,148
Restricted	17,461	17,586	5,434	4,131	22,895	21,717
Unrestricted	(20,628)	1,848	40,380	39,132	19,752	40,980
Total net position	\$ 97,429	\$ 119,254	\$ 126,714	\$ 124,591	\$ 224,143	\$ 243,845

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 8,162	\$ 7,599	\$ 99,585	\$ 97,545	\$ 107,747	\$ 105,144
Operating grants and contributions	18,816	22,032	62	-	18,878	22,032
Capital grants and contributions	1,735	2,126	64	181	1,799	2,307
General revenues:						
Property taxes	58,416	55,753	-	-	58,416	55,753
Excises	3,801	3,226	-	-	3,801	3,226
Penalties, interest, and other taxes	647	972	-	-	647	972
Grants and contributions not restricted to specific programs	3,300	3,086	-	-	3,300	3,086
Investment income	848	1,112	139	138	987	1,250
Other	413	636	915	757	1,328	1,393
Total revenues	<u>96,138</u>	<u>96,542</u>	<u>100,765</u>	<u>98,621</u>	<u>196,903</u>	<u>195,163</u>
Expenses:						
General government	6,008	5,384	-	-	6,008	5,384
Public safety	12,664	12,381	-	-	12,664	12,381
Education	65,229	65,725	-	-	65,229	65,725
Public works	8,761	8,278	-	-	8,761	8,278
Human services	1,083	999	-	-	1,083	999
Culture and recreation	3,495	3,372	-	-	3,495	3,372
Interest on long-term debt	1,314	934	-	-	1,314	934
Intergovernmental	1,107	1,025	-	-	1,107	1,025
Electric	-	-	80,418	79,409	80,418	79,409
Water	-	-	4,582	4,395	4,582	4,395
Other	-	-	5,903	5,714	5,903	5,714
Total expenses	<u>99,661</u>	<u>98,098</u>	<u>90,903</u>	<u>89,518</u>	<u>190,564</u>	<u>187,616</u>
Change in net position before transfers	(3,523)	(1,556)	9,862	9,103	6,339	7,547
Transfers in (out)	<u>3,053</u>	<u>2,997</u>	<u>(3,053)</u>	<u>(2,997)</u>	<u>-</u>	<u>-</u>
Change in net position	(470)	1,441	6,809	6,106	6,339	7,547
Net position - beginning of year, as restated*	<u>97,899</u>	<u>117,813</u>	<u>119,905</u>	<u>118,485</u>	<u>217,804</u>	<u>236,298</u>
Net position - end of year	<u>\$ 97,429</u>	<u>\$ 119,254</u>	<u>\$ 126,714</u>	<u>\$ 124,591</u>	<u>\$ 224,143</u>	<u>\$ 243,845</u>

*July 1, 2014 net position was restated for GASB 68. Due to fiscal year 2015 being the first year of implementation of GASB 68, prior periods have not been restated in accordance with the standard. Refer to Note 21.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$224,143, a change of \$6,339 from the prior year.

The largest portion of net position \$181,496 reflects our investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$22,895 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$19,752 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(470). Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ (2,588)
PILOT from RMLD	2,333
Enterprise fund indirect costs	<u>720</u>
Subtotal General Fund	465
Current year revenue used for the acquisition of capital assets	3,750
Depreciation expense exceeding debt service principal	(3,986)
Increase in net OPEB obligation	(1,654)
Decrease in net pension liability	1,042
Other	<u>(87)</u>
Total	<u>\$ (470)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$6,809. Key elements of this change are as follows:

- The electric operations had revenues of \$85,992 and expenses and transfers of \$82,751, resulting in a change in net position of \$3,241.
- The water operations had revenues of \$6,927 and expenses and transfers of \$5,010, resulting in a change in net position of \$1,917.
- The sewer operations had revenues of \$7,405 and expenses and transfers of \$5,942, resulting in a change in net position of \$1,463.

- The landfill operations did not report any revenues or expenditures.
- The storm water management operations had revenues of \$442 and expenses of \$254, resulting in a change in net position of \$188.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$44,270, a change of \$10,277 in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ (2,588)
PILOT from RMLD	2,333
Enterprise fund indirect costs	<u>720</u>
Subtotal General Fund	465
Premium on general obligation bonds	1,157
Special revenue fund revenues exceeding expenditures	199
Capital project fund revenues and bond proceeds exceeding expenditures	8,291
Permanent fund revenues exceeding expenditures	148
Other	<u>17</u>
Total	<u>\$ 10,277</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$11,853, while total fund balance was \$16,983. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 11,853	\$ 11,399	\$ 454	14.5%
Total fund balance	\$ 16,983	\$ 15,848	\$ 1,135	20.7%

The total fund balance of the general fund changed by \$1,135 during the current fiscal year. Key factors in this change are as follows:

General fund:

Use of free cash and overlay surplus as a funding source	\$ (3,374)
Revenues in excess of budget	1,600
Expenditures less than budget	1,358
Expenditures of prior year encumbrances less than current year encumbrances	917
Unused overlay	478
Change in stabilization accounts	142
Other	<u>14</u>
Total	<u>\$ 1,135</u>

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

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
Stabilization - general	\$ 1,557	\$ 1,553	\$ 4
Stabilization - smart growth	503	353	150
Stabilization - sick buy-back	<u>-</u>	<u>12</u>	<u>(12)</u>
Total	<u>\$ 2,060</u>	<u>\$ 1,918</u>	<u>\$ 142</u>

The following table reflects the trend in all the components of the general fund's fund balance:

Last Six Fiscal Years						
As of 30-Jun	Restricted for Debt Service	Committed for Stabilization Fund	Assigned for Encumbrances	Assigned for Subsequent Year's Expenditures	Unassigned	Total Fund Balance
2010	\$ 12,530	\$ 375 ⁽²⁾	\$ 1,488	\$ 1,491	\$ 7,822 ⁽²⁾	\$ 23,706
2011	11,833	705 ⁽²⁾	1,006	928	8,649 ⁽²⁾	23,121
2012	1,033 ⁽¹⁾	400 ⁽²⁾	1,492	1,476	9,728 ⁽²⁾	14,129 ⁽¹⁾
2013	817	365	1,087	1,400	10,508	14,177
2014	-	365	2,034	2,050	11,399	15,848
2015	-	503	2,827	1,800	11,853	16,983

⁽¹⁾The Town used \$10,800 of debt reserves to pay down school related debt.

⁽²⁾Reclassified the Town's general stabilization account to unassigned fund balance.

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.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$40,380, a change of \$5,934 in comparison to the prior year. Factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$3,021. Major reasons for these amendments include:

- \$934 increase in library renovations
- \$850 increase in snow and ice funding
- \$775 increase in capital expenses
- \$150 increase in stabilization account funding

Of this increase, \$1,324 was funded by free cash, \$934 from bond premiums received on general obligation bond issuances, \$344 through the tax levy, \$77 from additional state aid, \$190 from local revenues, and \$152 from transfers in from other funds.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$213,906 (net of accumulated depreciation), a change of \$840 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Governmental additions:

- \$ 3,919 in library renovations
- \$ 1,169 in roadway improvements
- \$ 317 in various school improvements
- \$ 169 in Washington Park tennis court improvements
- \$ 154 for a highway pavement spreader
- \$ 147 for a sidewalk snow plow

Business-type additions:

- \$ 3,642 in electric infrastructure and equipment
- \$ 1,731 in water infrastructure and vehicles
- \$ 271 in sewer infrastructure
- \$ 51 in stormwater drainage system

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$44,585, all of which was backed by the full faith and credit of the government.

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

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

The adopted FY16 General Fund budget of \$86,017 is a 4.6% increase over the prior year. The FY16 budget is balanced.

FY2016 State aid will be \$13,539 which represents a 1.9% percent increase over prior year.

The tax levy for FY16 of \$62,491 represents a 6.9% increase over the prior year. The FY16 tax rate is \$14.50 per thousand compared to \$14.70 in the prior year. Overall, property values increased 7.8% to \$ 4,309,708.

For FY2016, the Board of Selectmen, acting as the Water and Sewer Commissioners, voted to decrease Water Rates by 6.56% and Sewer Rates by 7.58% for all customers effective for all billings after September 10, 2015. Despite the decreases, revenues are expected to cover all operations, planned infrastructure improvements, and debt.

The State 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 FY2015 totaling \$356. The FY16 revenue budgeted for this tax is \$ 350.

The Town is working on an \$18,400 capital improvement project to remodel the library. In April 2013, voters approved \$14,900 of debt exclusion. In April 2014, voters approved an additional \$3,500 of debt exclusion. Note that of these totals, the state has approved \$5,100 of grant funding for the project; the balance will be the local share. The Town borrowed \$10,000 of excluded debt for this project in February 2015.

At 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 (OPEB) liabilities. Currently, the funds set aside in this trust are invested in MMDT, which invests in U.S. Treasuries, commercial paper, and very short-term bonds according to the prudent investor rule set forth in Chapter 203C. The Town is exploring the possibility of investing the funds in the (SRBT) State Retiree Benefits Trust Fund 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.

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, 2015

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 26,331,778	\$ 27,056,330	\$ 53,388,108
Investments	27,951,507	-	27,951,507
Receivables, net of allowance for uncollectibles:			
Property taxes	293,737	-	293,737
Excises	191,253	-	191,253
User fees	-	12,781,537	12,781,537
Departmental and other	481,053	-	481,053
Intergovernmental	1,176,871	-	1,176,871
Prepaid assets	-	1,137,898	1,137,898
Inventory	-	1,674,913	1,674,913
Noncurrent:			
Restricted cash and short-term equivalents	-	22,344,776	22,344,776
Restricted investments	-	1,284,061	1,284,061
Investment in associated companies	-	26,994	26,994
Receivables, net of allowance for uncollectibles:			
Property taxes	485,977	-	485,977
Capital assets being depreciated, net	113,479,006	87,447,455	200,926,461
Capital assets not being depreciated	9,306,355	3,673,500	12,979,855
DEFERRED OUTFLOWS OF RESOURCES	<u>114,748</u>	<u>1,553,280</u>	<u>1,668,028</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	179,812,285	158,980,744	338,793,029
LIABILITIES			
Current:			
Warrants payable	2,893,109	5,754,853	8,647,962
Accrued liabilities	5,235,383	680,211	5,915,594
Unearned revenues	309,204	-	309,204
Tax refunds payable	650,000	-	650,000
Customer advances for construction	-	889,774	889,774
Customer deposits	-	846,361	846,361
Due to pension trust	-	1,500,000	1,500,000
Due to OPEB trust	-	345,382	345,382
Retainage payable	1,104,104	-	1,104,104
Notes payable	1,700,000	665,000	2,365,000
Other current liabilities	668,171	45,908	714,079
Current portion of long-term liabilities:			
Bonds and loans payable	3,505,352	1,320,305	4,825,657
Accrued employee benefits	47,500	66,445	113,945
Noncurrent:			
Bonds and loans payable, net of current portion	28,593,195	11,166,344	39,759,539
Accrued employee benefits	1,309,645	3,065,714	4,375,359
Net OPEB obligation	15,903,029	428,607	16,331,636
Net pension liability	20,313,992	5,491,709	25,805,701
DEFERRED INFLOWS OF RESOURCES	<u>151,000</u>	<u>-</u>	<u>151,000</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	82,383,684	32,266,613	114,650,297
NET POSITION			
Net investment in capital assets	100,595,528	80,900,346	181,495,874
Restricted for:			
Grants and other statutory restrictions	7,614,110	5,434,308	13,048,418
Permanent funds:			
Nonexpendable	3,139,415	-	3,139,415
Expendable	6,707,398	-	6,707,398
Unrestricted	<u>(20,627,850)</u>	<u>40,379,477</u>	<u>19,751,627</u>
TOTAL NET POSITION	\$ <u>97,428,601</u>	\$ <u>126,714,131</u>	\$ <u>224,142,732</u>

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

TOWN OF READING, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	<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	\$ 6,008,304	\$ 427,446	\$ 212,592	\$ -	\$ (5,368,266)
Public safety	12,664,059	2,214,864	161,928	-	(10,287,267)
Education	65,228,721	4,406,748	17,926,027	-	(42,895,946)
Public works	8,761,489	309,568	174,500	713,834	(7,563,587)
Health and human services	1,082,617	100,454	301,992	-	(680,171)
Culture and recreation	3,495,049	702,722	38,980	1,021,023	(1,732,324)
Interest on long-term debt	1,314,124	-	-	-	(1,314,124)
Intergovernmental	1,106,829	-	-	-	(1,106,829)
Total Governmental Activities	99,661,192	8,161,802	18,816,019	1,734,857	(70,948,514)
Business-Type Activities:					
Electric operations	80,418,115	85,005,786	62,500	64,474	4,714,645
Water operations	4,582,014	6,737,585	-	-	2,155,571
Other	5,903,348	7,841,367	-	-	1,938,019
Total Business-type Activities	90,903,477	99,584,738	62,500	64,474	8,808,235
Total	\$ <u>190,564,669</u>	\$ <u>107,746,540</u>	\$ <u>18,878,519</u>	\$ <u>1,799,331</u>	\$ <u>(62,140,279)</u>

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

(continued)

TOWN OF READING, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

(continued)

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
Change in Net Position:			
Net (Expenses) revenue from previous page	\$ (70,948,514)	\$ 8,808,235	\$ (62,140,279)
General Revenues and Transfers:			
Property taxes	58,416,442	-	58,416,442
Excises	3,801,250	-	3,801,250
Penalties, interest and other taxes	646,482	-	646,482
Grants and contributions not restricted to specific programs	3,299,404	-	3,299,404
Investment income	847,991	139,665	987,656
Other	413,351	914,952	1,328,303
Transfers, net	<u>3,053,298</u>	<u>(3,053,298)</u>	<u>-</u>
Total general revenues and transfers	<u>70,478,218</u>	<u>(1,998,681)</u>	<u>68,479,537</u>
Change in Net Position	(470,296)	6,809,554	6,339,258
Net Position:			
Beginning of year, as restated	<u>97,898,897</u>	<u>119,904,577</u>	<u>217,803,474</u>
End of year	<u>\$ 97,428,601</u>	<u>\$ 126,714,131</u>	<u>\$ 224,142,732</u>

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

TOWN OF READING, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 5,114,327	\$ 21,217,451	\$ 26,331,778
Investments	18,120,755	9,830,752	27,951,507
Receivables:			
Property taxes	869,460	-	869,460
Excises	282,602	-	282,602
Departmental and other	301,111	179,942	481,053
Intergovernmental	<u>-</u>	<u>1,176,871</u>	<u>1,176,871</u>
TOTAL ASSETS	\$ <u>24,688,255</u>	\$ <u>32,405,016</u>	\$ <u>57,093,271</u>
LIABILITIES			
Warrants payable	\$ 1,174,447	\$ 1,718,662	\$ 2,893,109
Accrued liabilities	4,498,765	285,691	4,784,456
Unearned revenue	-	309,204	309,204
Retainage payable	-	1,104,104	1,104,104
Notes payable	-	1,700,000	1,700,000
Other liabilities	<u>668,171</u>	<u>-</u>	<u>668,171</u>
TOTAL LIABILITIES	6,341,383	5,117,661	11,459,044
DEFERRED INFLOWS OF RESOURCES	1,363,888	-	1,363,888
FUND BALANCES			
Nonspendable	-	3,139,415	3,139,415
Restricted	-	23,645,741	23,645,741
Committed	543,024	933,541	1,476,565
Assigned	4,587,187	-	4,587,187
Unassigned	<u>11,852,773</u>	<u>(431,342)</u>	<u>11,421,431</u>
TOTAL FUND BALANCES	<u>16,982,984</u>	<u>27,287,355</u>	<u>44,270,339</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ <u>24,688,255</u>	\$ <u>32,405,016</u>	\$ <u>57,093,271</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, 2015

Total governmental fund balances	\$ 44,270,339
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	122,785,361
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	532,793
• Deferred outflows of resources related to the net difference between projected and actual investment earnings on pension plan investments.	114,748
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(450,927)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(32,098,547)
Accrued employee benefits	(1,357,145)
Net OPEB obligation	(15,903,029)
Net pension liability	(20,313,992)
• Deferred inflows of resources related to gains on refunding bonds.	<u>(151,000)</u>
Net position of governmental activities	<u><u>\$ 97,428,601</u></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, 2015

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 58,614,670	\$ -	\$ 58,614,670
Excises	3,734,502	-	3,734,502
Penalties, interest and other taxes	646,482	-	646,482
Departmental	1,881,082	6,205,780	8,086,862
Licenses and permits	171,606	-	171,606
Fines and forfeitures	109,958	-	109,958
Intergovernmental	13,612,031	5,214,420	18,826,451
Investment income	198,250	295,555	493,805
Contributions	-	419,834	419,834
Other	398,376	15,094	413,470
	<u>79,366,957</u>	<u>12,150,683</u>	<u>91,517,640</u>
Total Revenues			
Expenditures:			
Current:			
General government	4,646,522	104,860	4,751,382
Public safety	9,473,738	991,431	10,465,169
Education	40,186,508	7,796,926	47,983,434
Public works	6,524,678	1,066,586	7,591,264
Health and human services	609,366	308,001	917,367
Culture and recreation	2,398,422	4,545,196	6,943,618
Employee benefits	13,950,882	-	13,950,882
Debt service	3,057,740	-	3,057,740
Intergovernmental	1,106,829	-	1,106,829
	<u>81,954,685</u>	<u>14,813,000</u>	<u>96,767,685</u>
Total Expenditures			
Excess (deficiency) of revenues over expenditures	(2,587,728)	(2,662,317)	(5,250,045)
Other Financing Sources (Uses):			
Proceeds of bonds	-	11,300,000	11,300,000
Proceeds of refunding bonds	2,939,000	-	2,939,000
Premium on bond issuance	1,438,394	-	1,438,394
Payment to refunded escrow agent	(3,203,757)	-	(3,203,757)
Transfers in	3,532,530	1,012,714	4,545,244
Transfers out	(983,541)	(508,405)	(1,491,946)
	<u>3,722,626</u>	<u>11,804,309</u>	<u>15,526,935</u>
Total Other Financing Sources (Uses)			
Net change in fund balances	1,134,898	9,141,992	10,276,890
Fund Balances, at Beginning of Year	<u>15,848,086</u>	<u>18,145,363</u>	<u>33,993,449</u>
Fund Balances, at End of Year	<u>\$ 16,982,984</u>	<u>\$ 27,287,355</u>	<u>\$ 44,270,339</u>

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

TOWN OF READING, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2015

Net changes in fund balances - Total governmental funds	\$ 10,276,890																						
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of disposals</td> <td style="text-align: right;">6,487,960</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(6,120,657)</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, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. (429,609) • The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of general obligation bonds</td> <td style="text-align: right;">(11,300,000)</td> </tr> <tr> <td>Issuance of refunding bonds</td> <td style="text-align: right;">(2,939,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">2,135,000</td> </tr> <tr> <td>Refunded debt</td> <td style="text-align: right;">3,090,000</td> </tr> <tr> <td>Current year amortization of bond premiums, net</td> <td style="text-align: right;">(1,084,208)</td> </tr> <tr> <td>Gain on refunding bonds</td> <td style="text-align: right;">(151,000)</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. (126,627) • Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table border="0" style="margin-left: 40px;"> <tr> <td>Accrued employee benefits</td> <td style="text-align: right;">188,479</td> </tr> <tr> <td>Net OPEB obligation</td> <td style="text-align: right;">(1,653,874)</td> </tr> <tr> <td>Net pension liability, net of deferred outflows</td> <td style="text-align: right;"><u>1,156,350</u></td> </tr> </table> 		Capital outlay purchases, net of disposals	6,487,960	Depreciation	(6,120,657)	Issuance of general obligation bonds	(11,300,000)	Issuance of refunding bonds	(2,939,000)	Repayments of debt	2,135,000	Refunded debt	3,090,000	Current year amortization of bond premiums, net	(1,084,208)	Gain on refunding bonds	(151,000)	Accrued employee benefits	188,479	Net OPEB obligation	(1,653,874)	Net pension liability, net of deferred outflows	<u>1,156,350</u>
Capital outlay purchases, net of disposals	6,487,960																						
Depreciation	(6,120,657)																						
Issuance of general obligation bonds	(11,300,000)																						
Issuance of refunding bonds	(2,939,000)																						
Repayments of debt	2,135,000																						
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Current year amortization of bond premiums, net	(1,084,208)																						
Gain on refunding bonds	(151,000)																						
Accrued employee benefits	188,479																						
Net OPEB obligation	(1,653,874)																						
Net pension liability, net of deferred outflows	<u>1,156,350</u>																						
Change in net position of governmental activities	\$ <u>(470,296)</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, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers:				
Taxes	\$ 57,793,038	\$ 58,136,943	\$ 58,136,943	\$ -
Excise taxes	3,350,000	3,493,083	3,734,502	241,419
Penalties, interest and other taxes	510,000	510,000	646,502	136,502
Departmental	1,620,000	1,666,750	1,881,082	214,332
Licenses and permits	145,000	145,000	171,606	26,606
Fines and forfeitures	100,000	100,000	109,958	9,958
Intergovernmental	13,304,901	13,382,318	13,612,031	229,713
Investment income	100,000	100,000	198,250	98,250
Other	130,768	1,064,309	1,572,013	507,704
Transfers in	<u>3,228,298</u>	<u>3,379,926</u>	<u>3,515,051</u>	<u>135,125</u>
Total Revenues and Transfers	80,282,005	81,978,329	83,577,938	1,599,609
Expenditures and Transfers:				
General government	4,500,021	5,075,799	4,712,741	363,058
Public safety	9,388,541	9,473,641	9,360,003	113,638
Education	40,905,969	41,547,969	41,299,848	248,121
Public works	5,807,925	6,856,700	6,565,087	291,613
Health and human services	753,600	702,300	599,316	102,984
Culture and leisure	2,460,835	2,489,860	2,223,169	266,691
Intergovernmental	995,794	1,075,794	1,106,829	(31,035)
Employee benefits	14,141,590	14,044,252	13,936,497	107,755
Debt service	3,377,730	2,952,730	3,057,740	(105,010)
Transfers out	<u>-</u>	<u>1,133,541</u>	<u>1,133,541</u>	<u>-</u>
Total Expenditures and Transfers	<u>82,332,005</u>	<u>85,352,586</u>	<u>83,994,771</u>	<u>1,357,815</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(2,050,000)	(3,374,257)	(416,833)	2,957,424
Other Financing Sources:				
Use of free cash:				
For operating budget support	1,700,000	2,594,162	-	(2,594,162)
For stabilization account funding	-	150,000	150,000	-
For capital outlay	-	280,095	280,095	-
Use of overlay surplus	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>(350,000)</u>
Total Other Financing Sources	<u>2,050,000</u>	<u>3,374,257</u>	<u>430,095</u>	<u>(2,944,162)</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>13,262</u>	\$ <u>13,262</u>

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

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-Type Activities Enterprise Funds			Total
	Electric Division Fund	Water Fund	Non Major Funds	
ASSETS				
Current:				
Cash and short-term investments	\$ 13,151,862	\$ 8,255,375	\$ 5,649,093	\$ 27,056,330
User fees, net of allowance for uncollectibles	7,314,059	2,508,135	2,959,343	12,781,537
Prepaid expenses	1,137,898	-	-	1,137,898
Inventory	1,580,407	91,966	2,540	1,674,913
Total Current Assets	23,184,226	10,855,476	8,610,976	42,650,678
Noncurrent:				
Restricted cash and short-term investments	22,344,776	-	-	22,344,776
Restricted investments	1,284,061	-	-	1,284,061
Investment in associated companies	26,994	-	-	26,994
Capital assets being depreciated, net	68,650,507	12,748,884	6,048,064	87,447,455
Capital assets not being depreciated	1,265,842	1,732,624	675,034	3,673,500
Total Noncurrent Assets	93,572,180	14,481,508	6,723,098	114,776,786
DEFERRED OUTFLOWS OF RESOURCES	1,547,815	3,867	1,598	1,553,280
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	118,304,221	25,340,851	15,335,672	158,980,744
LIABILITIES				
Current:				
Warrants payable	5,097,838	632,234	24,781	5,754,853
Accrued liabilities	585,104	81,480	13,627	680,211
Customer deposits	846,361	-	-	846,361
Customer advances for construction	889,774	-	-	889,774
Due to pension trust	1,500,000	-	-	1,500,000
Due to OPEB trust	345,382	-	-	345,382
Other current liabilities	-	-	45,908	45,908
Notes payable	-	665,000	-	665,000
Current portion of long-term liabilities:				
Bonds and loans payable	-	1,236,200	84,105	1,320,305
Accrued employee benefits	66,445	-	-	66,445
Total Current Liabilities	9,330,904	2,614,914	168,421	12,114,239
Noncurrent:				
Bonds and loans payable	-	11,000,600	165,744	11,166,344
Accrued employee benefits	3,004,043	36,219	25,452	3,065,714
Net OPEB obligation	-	298,527	130,080	428,607
Net pension liability	4,524,191	684,664	282,854	5,491,709
Total Noncurrent Liabilities	7,528,234	12,020,010	604,130	20,152,374
TOTAL LIABILITIES	16,859,138	14,634,924	772,551	32,266,613
NET POSITION				
Net investment in capital assets	69,916,349	4,338,455	6,645,542	80,900,346
Restricted for depreciation fund	5,434,308	-	-	5,434,308
Unrestricted	26,094,426	6,367,472	7,917,579	40,379,477
TOTAL NET POSITION	\$ 101,445,083	\$ 10,705,927	\$ 14,563,121	\$ 126,714,131

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, 2015

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Electric Division Fund</u>	<u>Water Fund</u>	<u>Non Major Funds</u>	
Operating Revenues:				
Charges for services	\$ 83,985,195	\$ 6,737,585	\$ 7,841,367	\$ 98,564,147
Other	<u>1,020,591</u>	<u>-</u>	<u>-</u>	<u>1,020,591</u>
Total Operating Revenues	85,005,786	6,737,585	7,841,367	99,584,738
Operating Expenses:				
Personnel expenses	-	1,016,871	536,210	1,553,081
Non-personnel expenses	-	307,606	250,072	557,678
Intergovernmental	1,395,728	1,931,410	4,642,124	7,969,262
Depreciation	3,861,465	855,773	446,549	5,163,787
Energy purchases	61,073,227	29,617	28,393	61,131,237
Operating	11,606,195	-	-	11,606,195
Maintenance	<u>2,423,204</u>	<u>-</u>	<u>-</u>	<u>2,423,204</u>
Total Operating Expenses	<u>80,359,819</u>	<u>4,141,277</u>	<u>5,903,348</u>	<u>90,404,444</u>
Operating Income	4,645,967	2,596,308	1,938,019	9,180,294
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	62,500	-	-	62,500
Investment income	122,693	10,984	5,988	139,665
Interest expense	-	(440,737)	-	(440,737)
Loss on disposal of capital assets	(58,296)	-	-	(58,296)
Other	<u>736,801</u>	<u>178,151</u>	<u>-</u>	<u>914,952</u>
Total Nonoperating Revenues (Expenses)	<u>863,698</u>	<u>(251,602)</u>	<u>5,988</u>	<u>618,084</u>
Income Before Contributions and Transfers	5,509,665	2,344,706	1,944,007	9,798,378
Capital contributions	64,474	-	-	64,474
Transfers out	<u>(2,332,863)</u>	<u>(427,470)</u>	<u>(292,965)</u>	<u>(3,053,298)</u>
Change in Net Position	3,241,276	1,917,236	1,651,042	6,809,554
Net Position at Beginning of Year, as restated	<u>98,203,807</u>	<u>8,788,691</u>	<u>12,912,079</u>	<u>119,904,577</u>
Net Position at End of Year	<u>\$ 101,445,083</u>	<u>\$ 10,705,927</u>	<u>\$ 14,563,121</u>	<u>\$ 126,714,131</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, 2015

	Business-Type Activities Enterprise Funds			Total
	Electric Division Fund	Water Fund	Non Major Funds	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 84,638,647	\$ 5,889,460	\$ 7,090,229	\$ 97,618,336
Payments to vendors and employees	(76,424,486)	(857,895)	(959,803)	(78,242,184)
Customer purchase power charge adjustments	1,020,591	-	-	1,020,591
Payments to other governments	-	(1,931,410)	(4,642,124)	(6,573,534)
Net Cash Provided By Operating Activities	9,234,752	3,100,155	1,488,302	13,823,209
<u>Cash Flows From Noncapital Financing Activities:</u>				
MMWEC surplus	212,689	-	-	212,689
Other	524,112	178,151	-	702,263
Transfer out	(2,332,863)	(427,470)	(292,965)	(3,053,298)
Net Cash (Used For) Noncapital Financing Activities	(1,596,062)	(249,319)	(292,965)	(2,138,346)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Proceeds from issuance of bonds and notes	-	2,226,000	-	2,226,000
Acquisition of capital assets	(3,642,005)	(1,730,640)	(322,741)	(5,695,386)
Capital grants and contributions	616,092	-	-	616,092
Principal payments on bonds and notes	-	(2,916,000)	(117,038)	(3,033,038)
Interest expense	-	(440,737)	-	(440,737)
Net Cash (Used For) Capital and Related Financing Activities	(3,025,913)	(2,861,377)	(439,779)	(6,327,069)
<u>Cash Flows From Investing Activities:</u>				
(Increase) decrease in restricted cash and investments	(3,116,820)	-	-	(3,116,820)
Investment income	122,693	10,984	5,988	139,665
Net Cash Provided By (Used For) Investing Activities	(2,994,127)	10,984	5,988	(2,977,155)
Net Change in Cash and Short-Term Investments	1,618,650	443	761,546	2,380,639
Unrestricted Cash and Short Term Investments, Beginning of Year	11,533,212	8,255,132	4,887,547	24,675,891
Unrestricted Cash and Short Term Investments, End of Year	<u>\$ 13,151,862</u>	<u>\$ 8,255,575</u>	<u>\$ 5,649,093</u>	<u>\$ 27,056,530</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>				
Operating income	\$ 4,645,967	\$ 2,596,308	\$ 1,938,019	\$ 9,180,294
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	3,861,465	855,773	446,549	5,163,787
Changes in assets and liabilities:				
User fees receivables	556,991	(848,125)	(751,138)	(1,042,272)
Inventory	(172,907)	(35,763)	(1,124)	(209,794)
Other assets	(365,132)	-	-	(365,132)
Deferred outflows of resources	-	(3,867)	(1,598)	(5,465)
Warrants payable	834,214	610,116	(117,785)	1,326,545
Accrued liabilities	-	(34,818)	(6,062)	(40,880)
Other liabilities	(76,816)	-	(2,154)	(78,970)
Due to pension trust	125,462	-	-	125,462
Due to OPEB trust	345,382	-	-	345,382
Net OPEB obligation	-	(4,363)	(1,900)	(6,263)
Net pension liability	(519,874)	(35,106)	(14,505)	(569,485)
Net Cash Provided By Operating Activities	<u>\$ 9,234,752</u>	<u>\$ 3,100,155</u>	<u>\$ 1,488,302</u>	<u>\$ 13,823,209</u>

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

TOWN OF READING, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2015

	Pension Trust Fund (As of <u>December 31, 2014</u>)	Municipal Light Pension Trust Funds	OPEB Trust Fund	Municipal Light OPEB Trust Fund	Agency Funds
ASSETS					
Cash and short term investments	\$ 2,070,359	\$ 2,666,772	\$ 2,431,426	\$ 1,857,738	\$ 472,445
Investments	116,900,024	1,284,061	-	-	-
Accounts receivable	49,585	-	-	-	-
Due from proprietary fund	-	1,500,000	-	345,382	-
Other	-	-	-	-	1,766
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	119,019,968	5,450,833	2,431,426	2,203,120	474,211
LIABILITIES					
Warrants payable	-	-	-	-	12,328
Other liabilities	25	-	-	-	461,883
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	25	-	-	-	474,211
NET POSITION					
Total net position restricted for pensions and other purposes	<u>\$ 119,019,943</u>	<u>\$ 5,450,833</u>	<u>\$ 2,431,426</u>	<u>\$ 2,203,120</u>	<u>\$ -</u>

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

TOWN OF READING, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2015

	Pension Trust Fund (Year ended December 31, 2014)	Municipal Light Pension Trust Funds	OPEB Trust Fund	Municipal Light OPEB Trust Fund
Additions:				
Contributions:				
Employers	\$ 4,961,545	\$ 1,500,000	\$ 551,000	\$ 345,382
Intergovernmental	380,362	-	-	-
Plan members	<u>2,713,918</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total contributions	8,055,825	1,500,000	551,000	345,382
Investment Income:				
Increase in fair value of investments	9,026,985	52,660	3,916	11,696
Less: management fees	<u>(610,554)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net investment income	<u>8,416,431</u>	<u>52,660</u>	<u>3,916</u>	<u>11,696</u>
Total additions	16,472,256	1,552,660	554,916	357,078
Deductions:				
Benefit payments to plan members, beneficiaries, and other systems	9,081,555	-	-	-
Refunds and transfers to other systems	311,164	-	-	-
Administrative expenses	114,168	-	-	-
Contribution to employee's pension plan	<u>-</u>	<u>1,401,638</u>	<u>-</u>	<u>-</u>
Total deductions	<u>9,506,887</u>	<u>1,401,638</u>	<u>-</u>	<u>-</u>
Net increase	6,965,369	151,022	554,916	357,078
Net position:				
Beginning of year	<u>112,054,574</u>	<u>5,299,811</u>	<u>1,876,510</u>	<u>1,846,042</u>
End of year	<u>\$ 119,019,943</u>	<u>\$ 5,450,833</u>	<u>\$ 2,431,426</u>	<u>\$ 2,203,120</u>

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

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TOWN OF READING, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

In the Fiduciary Funds: The Reading Contributory Retirement 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. Additional financial information of the System can be obtained by contacting the System located at 16 Lowell Street, 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*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

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

The government reports the following major governmental funds:

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

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 Town reports the following fiduciary funds:

- The *Pension Trust Fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The *Municipal Light Pension Trust Fund* accounts for the activities of the Municipal Light Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The *OPEB Trust Fund* accounts for reserves set aside by the Town to fund future OPEB costs.
- The *Municipal Light OPEB Trust Fund* accounts for reserves set aside by the Municipal Light Department to fund future OPEB costs.
- The *Agency Fund* is custodial in nature and is used to account for funds held for others.

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.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2015 tax levy reflected an excess capacity of \$34,560.

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 assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if

purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

I. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

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

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 and current liabilities. 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.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent 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 and liabilities/deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 79,366,957	\$ 81,954,685
Other financing sources/uses (GAAP Basis)	<u>7,909,924</u>	<u>4,187,298</u>
Subtotal (GAAP Basis)	87,276,881	86,141,983
To adjust property tax revenue to the budgetary basis	(477,727)	-
To record the use of free cash	430,095	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,721,897)
Add end-of-year appropriation carryforwards to expenditures	-	2,639,183
To reverse the effects of non- budgeted debt refunding activity	(3,203,757)	(3,203,757)
To record stabilization activity	11,628	150,000
Other	<u>(29,087)</u>	<u>(10,741)</u>
Budgetary Basis	<u>\$ 84,008,033</u>	<u>\$ 83,994,771</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

<u>General Fund</u>	
Intergovernmental	\$ (31,035)
Debt service	\$ (105,010)

E. Deficit Fund Equity

The Town reported various special revenue and capital project funds reflecting individual deficit account balances as of June 30, 2015. The deficits in these funds will be eliminated through future intergovernmental 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 and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law

Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess. Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company. The Town and System do not have a deposit policy for custodial credit risk.

As of June 30, 2015, \$54,097,662 of the Town's and \$1,938,142 of the System's bank balances of \$83,111,760 and \$2,275,271, respectively, were exposed to custodial credit risk. However, \$52,496,801 of the Town's exposed balance and the entire System's exposed balance was on deposit with the Massachusetts Municipal Depository Trust (MMDT) and Pension Reserves Investment Trust (PRIT).

4. Investments

A. Credit Risk

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

The Town and System do not have a policy for credit risk.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Average Rating</u>
Domestic corporate bonds	\$ 4,572,032	\$ -	A3
Foreign corporate bonds	2,690,116	-	A2
Certificates of deposits	20,353,338	20,353,338	
Corporate equities	2,010,914	2,010,914	
Federal agency securities	<u>893,229</u>	<u>-</u>	AAA
Total investments	<u>\$ 30,519,629</u>	<u>\$ 22,364,252</u>	

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.

At June 30, 2015, the Contributory Retirement System maintained its investments in the State Investment Pool* with a fair value of \$116,900,024. This investment type is not rated.

**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.*

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 and System do not have policies for custodial credit risk.

The System’s investments of \$116,900,024 were exposed to custodial credit risk as uninsured and uncollateralized. However, the investments were held in the State Investment Pool (PRIT).

Of the Town’s investment of \$30,519,629, the government has a custodial credit risk exposure of \$30,519,629 because the related securities are uninsured, unregistered and held by the Town’s brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

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

<u>Investment Issuer</u>	<u>Amount</u>
NBTC - CDARS - General Fund	\$ 18,120,755
SPDR S&P 500 ETF	<u>1,477,261</u>
Total	<u>\$ 19,598,016</u>

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 an investment in one issuer greater than 5% of total investments, with the exception of the PRIT Fund.

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt-related Securities:				
Domestic corporate bonds	\$ 4,572,032	\$ -	\$ 385,433	\$ 4,186,599
Foreign corporate bonds	2,690,116	-	-	2,690,116
Federal agency securities	<u>893,229</u>	<u>-</u>	<u>-</u>	<u>893,229</u>
Total	<u>\$ 8,155,377</u>	<u>\$ -</u>	<u>\$ 385,433</u>	<u>\$ 7,769,944</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 and System do not have policies for foreign currency risk.

5. Taxes and Motor Vehicle Receivables

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.

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

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

Tax and motor vehicle receivables at June 30, 2015 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 210,834	\$ (21,083)	\$ 189,751
Personal property taxes	11,129	(3,913)	7,216
Tax Liens	539,975	(53,998)	485,977
Deferred taxes	<u>107,522</u>	<u>(10,752)</u>	<u>96,770</u>
Total property taxes	869,460	(89,746)	779,714
Motor vehicle excise	<u>282,602</u>	<u>(91,349)</u>	<u>191,253</u>
Grand total	<u>\$ 1,152,062</u>	<u>\$ (181,095)</u>	<u>\$ 970,967</u>

6. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015.

7. Transfers In/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 2015.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 3,532,530	\$ 983,541
Nonmajor Governmental Funds:		
Revolving funds	10,000	264,232
Receipts reserved for appropriation	-	175,000
Town capital project funds	1,002,714	21,979
School capital project funds	-	47,194
Major Enterprise Funds:		
Electric Division fund	-	2,332,863
Water fund	-	427,470
Nonmajor Enterprise Funds:		
Sewer fund	-	<u>292,965</u>
Total	<u>\$ 4,545,244</u>	<u>\$ 4,545,244</u>

The transfers from the water and sewer funds to the general fund are made to cover indirect costs of water and sewer funds incurred in the general fund. The transfer from the electric division fund to the general fund is a payment in lieu of taxes (PILOT). The transfer from the general fund to the Town capital project funds is to move the premium paid to the Town upon the sale of bonds for the purpose of constructing a new library. The premium will be used to pay costs of the library construction project and reduce the overall amount authorized to be borrowed for the project. The Town's other transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

8. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 3,693	\$ 273	\$ -	\$ 3,966
Buildings and improvements	134,041	168	(228)	133,981
Machinery, equipment, and furnishings	10,188	834	(598)	10,424
Infrastructure	<u>36,486</u>	<u>1,117</u>	<u>(4,249)</u>	<u>33,354</u>
Total capital assets, being depreciated	184,408	2,392	(5,075)	181,725
Less accumulated depreciation for:				
Land improvements	(1,263)	(164)	-	(1,427)
Buildings and improvements	(39,227)	(3,702)	228	(42,701)
Machinery, equipment, and furnishings	(5,364)	(958)	598	(5,724)
Infrastructure	<u>(21,346)</u>	<u>(1,297)</u>	<u>4,249</u>	<u>(18,394)</u>
Total accumulated depreciation	<u>(67,200)</u>	<u>(6,121)</u>	<u>5,075</u>	<u>(68,246)</u>
Total capital assets, being depreciated, net	117,208	(3,729)	-	113,479
Capital assets, not being depreciated:				
Land	3,981	-	-	3,981
Construction in progress	<u>1,229</u>	<u>4,096</u>	<u>-</u>	<u>5,325</u>
Total capital assets, not being depreciated	<u>5,210</u>	<u>4,096</u>	<u>-</u>	<u>9,306</u>
Governmental activities capital assets, net	<u>\$ 122,418</u>	<u>\$ 367</u>	<u>\$ -</u>	<u>\$ 122,785</u>

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 1,437	\$ -	\$ -	\$ 1,437
Buildings and improvements	16,614	363	(522)	16,455
Machinery, equipment, and furnishings	35,363	429	(448)	35,344
Infrastructure	<u>110,991</u>	<u>3,228</u>	<u>(500)</u>	<u>113,719</u>
Total capital assets, being depreciated	164,405	4,020	(1,470)	166,955
Less accumulated depreciation for:				
Land improvements	(328)	(70)	-	(398)
Buildings and improvements	(10,200)	(459)	522	(10,137)
Machinery, equipment, and furnishings	(21,063)	(1,267)	448	(21,882)
Infrastructure	<u>(44,165)</u>	<u>(3,368)</u>	<u>442</u>	<u>(47,091)</u>
Total accumulated depreciation	<u>(75,756)</u>	<u>(5,164)</u>	<u>1,412</u>	<u>(79,508)</u>
Total capital assets, being depreciated, net	88,649	(1,144)	(58)	87,447
Capital assets, not being depreciated:				
Land	1,450	-	-	1,450
Construction in progress	<u>549</u>	<u>1,864</u>	<u>(189)</u>	<u>2,224</u>
Total capital assets, not being depreciated	<u>1,999</u>	<u>1,864</u>	<u>(189)</u>	<u>3,674</u>
Business-type activities capital assets, net	<u>\$ 90,648</u>	<u>\$ 720</u>	<u>\$ (247)</u>	<u>\$ 91,121</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 252
Public safety	522
Education	3,442
Public works	1,655
Health and human services	33
Culture and recreation	<u>217</u>
Total depreciation expense - governmental activities	<u>\$ 6,121</u>
Business-Type Activities:	
Electric	\$ 3,861
Water	856
Other - Sewer	416
Other - Stormwater	<u>31</u>
Total depreciation expense - business-type activities	<u>\$ 5,164</u>

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2015:

	Entity-wide Basis		Fund Basis		
	Governmental Activities	Business-type Activities	Electric	Water	Nonmajor
Net difference between projected and actual investment earnings on pension plan investments	\$ 114,748	\$ 53,280	\$ 47,815	\$ 3,867	\$ 1,598
Pension plan contributions made subsequent to the measurement date	-	1,500,000	1,500,000	-	-
Total deferred outflows of resources	\$ <u>114,748</u>	\$ <u>1,553,280</u>	\$ <u>1,547,815</u>	\$ <u>3,867</u>	\$ <u>1,598</u>

10. Warrants Payable

Warrants payable represent 2015 expenditures paid by July 15, 2015.

11. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2015:

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/15
<u>Governmental Activities:</u>				
Elementary school modular classrooms	0.75%	06/29/15	06/29/16	\$ 1,200,000
RMHS retaining wall repairs	0.75%	06/29/15	06/29/16	<u>500,000</u>
Total Governmental Activities				<u>1,700,000</u>
<u>Business-Type Activities:</u>				
Water improvements	0.75%	06/29/15	06/29/16	<u>665,000</u>
Total Business-Type Activities				<u>665,000</u>
Total				\$ <u>2,365,000</u>

The following summarizes activity in notes payable during fiscal year 2015:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
West Street roadway improvements	\$ 1,000,000	\$ 1,000,000	\$ (2,000,000)	\$ -
Elementary school modular classrooms	-	1,200,000	-	1,200,000
RMHS retaining wall repairs	-	500,000	-	500,000
Water improvements	-	665,000	-	665,000
Total	\$ <u>1,000,000</u>	\$ <u>3,365,000</u>	\$ <u>(2,000,000)</u>	\$ <u>2,365,000</u>

12. 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 6/30/15</u>
Wood End Elementary School	04/15/17	3.94%	\$ 60,000
Wood End Elementary School	04/15/17	3.94%	90,000
Downtown Improvement projects	11/01/17	3.45%	195,000
Ladder truck	07/01/17	3.05%	240,000
Parker Middle School refunding	07/01/17	3.05%	520,000
Energy improvements	08/01/24	2.99%	3,325,000
RMHS refunding	02/01/24	2.25%	9,555,000
Killam Elementary School roof	02/01/22	1.83%	469,000
Birch Meadow Elementary School windows	02/01/22	1.83%	231,000
Library renovations	04/15/25	1.49%	10,000,000
Roadway/pedestrian improvements	04/15/25	1.49%	1,000,000
Roadway/pedestrian improvements	04/15/25	1.49%	300,000
Wood End Elementary School refunding	04/15/24	1.49%	208,790
Wood End Elementary School refunding	04/15/24	1.49%	308,000
Wood End Elementary School refunding	04/15/24	1.49%	1,275,710
Wood End Elementary School refunding	04/15/24	1.49%	83,800
Barrows Elementary School refunding	04/15/24	1.49%	1,062,700
Total Governmental Activities:			<u>\$ 28,924,000</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/15</u>
MWRA buy-in	04/15/17	4.00%	\$ 320,000
MWRA buy-in	11/01/27	3.05%	5,070,000
MWRA buy-in	07/01/17	3.05%	240,000
MWRA water system pipeline	08/15/21	0.00%	1,435,000
MWRA water system pipeline	08/12/23	0.00%	3,610,800
MWRA buy-in refunding	04/15/27	1.49%	1,561,000
MWPAT septic	02/01/17	0.00%	6,969
MWRA sewer	08/15/16	0.00%	88,880
MWRA sewer	05/19/19	0.00%	154,000
Total Business-Type Activities:			<u>\$ 12,486,649</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2015 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 3,150,000	\$ 1,191,641	\$ 4,341,641
2017	3,165,000	988,750	4,153,750
2018	3,175,000	870,315	4,045,315
2019	2,930,000	756,133	3,686,133
2020	2,980,000	645,514	3,625,514
2021 - 2025	<u>13,524,000</u>	<u>1,482,860</u>	<u>15,006,860</u>
Total	<u>\$ 28,924,000</u>	<u>\$ 5,935,213</u>	<u>\$ 34,859,213</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation debt outstanding as of June 30, 2015:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,320,305	\$ 280,395	\$ 1,600,700
2017	1,320,305	242,940	1,563,245
2018	1,280,865	214,950	1,495,815
2019	1,195,865	193,180	1,389,045
2020	1,157,365	172,780	1,330,145
2021 - 2025	4,751,944	556,740	5,308,684
2026 - 2028	<u>1,460,000</u>	<u>83,250</u>	<u>1,543,250</u>
Total	<u>\$ 12,486,649</u>	<u>\$ 1,744,235</u>	<u>\$ 14,230,884</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/14	Additions	Reductions	Total Balance 6/30/15	Less Current Portion	Equals Long-Term Portion 6/30/15
<u>Governmental Activities</u>						
Bonds payable	\$ 19,910	\$ 14,239	\$ (5,225)	\$ 28,924	\$ (3,151)	\$ 25,773
Unamortized bond premiums	<u>2,090</u>	<u>1,438</u>	<u>(354)</u>	<u>3,174</u>	<u>(354)</u>	<u>2,820</u>
Total bonds payable	22,000	15,677	(5,579)	32,098	(3,505)	28,593
Accrued employee benefits	1,546	53	(241)	1,358	(48)	1,310
Net OPEB obligation	14,249	4,775	(3,121)	15,903	-	15,903
Net pension liability	<u>21,356</u>	<u>-</u>	<u>(1,042)</u>	<u>20,314</u>	<u>-</u>	<u>20,314</u>
Totals	<u>\$ 59,151</u>	<u>\$ 20,505</u>	<u>\$ (9,983)</u>	<u>\$ 69,673</u>	<u>\$ (3,553)</u>	<u>\$ 66,120</u>

	Total Balance <u>7/1/14</u>	Additions	Reductions	Total Balance <u>6/30/15</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/15</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 13,959	\$ 1,561	\$ (3,033)	\$ 12,487	\$ (1,320)	\$ 11,167
Accrued employee benefits	2,978	350	(197)	3,131	(66)	3,065
Net OPEB obligation	435	165	(171)	429	-	429
Net pension liability	<u>4,616</u>	<u>876</u>	<u>-</u>	<u>5,492</u>	<u>-</u>	<u>5,492</u>
Totals	<u>\$ 21,988</u>	<u>\$ 2,952</u>	<u>\$ (3,401)</u>	<u>\$ 21,539</u>	<u>\$ (1,386)</u>	<u>\$ 20,153</u>

D. Current and Advance Refundings

Current Refunding of 1/1/05 and Advance Refunding of 9/15/06

On February 5, 2015, the Town issued general obligation bonds in the amount of \$15,800,000 with various interest rates ranging from 3.0% to 4.0%. Of the total amount of bonds issued, \$4,500,000 represents bonds to (a) current refund the Town's \$6,480,000 general obligation bonds dated January 1, 2005, maturing April 15 of the years 2016 through 2024, in the aggregate principal amount of \$2,565,000, with interest rates ranging from 4.0% to 4.50%, and callable on April 15, 2015 and (b) advance refund the Town's \$6,960,000 general obligation bonds dated September 15, 2006, maturing April 15 of the years 2018 through 2027, in the aggregate principal amount of \$2,105,000, with interest rates ranging from 4.0% to 4.125%, and callable on April 15, 2015. The general obligation bonds were issued at a true interest cost of 1.49868% and, after paying issuance costs of approximately \$33,568, the net proceeds were \$4,910,935. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the 2005 and 2006 bonds are called on their respective call dates. The refundings met the requirements of an in-substance debt defeasance and the term bonds were removed from the Town's financial statements.

As a result of the refundings, the Town reduced its total debt service cash flow requirements by \$513,885, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$478,338.

Defeased debt still outstanding at June 30, 2015 is \$470,000.

E. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2015 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
November 2010	Killam School remodeling	\$ 3,050
November 2010	MWRA water system pipeline	235,000
November 2012	MWRA I/I sewer loan	71,000
January 2013	Library renovations	4,900,000
April 2013	MWRA I/I sewer loan	460,000
April 2013	Water improvements - A-1 and A-2	1,448,000
February 2014	Library renovations	2,566,459
September 2014	Water main improvements - Phase 1	2,512,000
April 2015	Birch Meadow field lighting	1,000,000
April 2015	MWRA Sewer I/I	1,688,000
	Total	<u>\$ 14,883,509</u>

13. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

Governmental funds report gains on refunding bonds as deferred inflows, which represent the difference between the reacquisition price of new debt and the net carrying amount of the old debt.

14. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

15. 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 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, 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, 2015:

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 general fund reserves for prepaid expenditures and nonmajor 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 encumbrances funded by bond issuances, various special revenue 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 general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, and various special revenue funds.

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 upon vendor performance in the subsequent budgetary period. The Town follows an informal policy that permits management to assign fund balance amounts to a specific purpose, although fund balance to be applied against a subsequent year's budget is voted by Town Meeting.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2015:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Permanent funds			
Cemetery	\$ -	\$ 2,624,228	\$ 2,624,228
Other	-	515,187	515,187
Total Nonexpendable	-	3,139,415	3,139,415
Restricted			
Federal grants	-	9,680	9,680
State grants			
Circuit Breaker	-	965,729	965,729
State aid to libraries	-	208,199	208,199
Other	-	15,957	15,957
Revolving funds:			
Extended day program	-	867,336	867,336
RISE preschool program	-	438,056	438,056
Special Education tuition	-	682,207	682,207
All-day kindergarten program	-	692,127	692,127
Inspection permit	-	699,828	699,828
Recreation	-	322,996	322,996
Athletic activities	-	117,459	117,459
School lunch	-	390,148	390,148
Other	-	248,711	248,711
Receipts reserved for appropriation			
Sale of real estate	-	742,738	742,738
Affordable housing fund	-	260,912	260,912
Sale of cemetery lots	-	195,139	195,139
Other	-	10,507	10,507
Gifts and donations	-	746,385	746,385
Permanent funds			
Healthcare	-	4,607,984	4,607,984
Cemetery	-	1,658,199	1,658,199
Other	-	441,215	441,215
Town capital project funds			
Library renovations	-	8,383,749	8,383,749
West street road improvements	-	932,747	932,747
Other	-	7,728	7,728
School capital project funds	-	5	5
Total Restricted	-	23,645,741	23,645,741
Committed			
Smart growth stabilization account	503,000	-	503,000
Sick buy-back stabilization account	24	-	24
For Morton field	40,000	-	40,000
For Town capital project funds	-	933,541	933,541
Total Committed	543,024	933,541	1,476,565
Assigned			
For encumbrances			
General government	252,844	-	252,844
Public safety	72,438	-	72,438
Education	2,077,053	-	2,077,053
Public works	310,960	-	310,960
Culture and recreation	48,277	-	48,277
Employee benefits	25,615	-	25,615
For next year's expenditures	1,800,000	-	1,800,000
Total Assigned	4,587,187	-	4,587,187
Unassigned ⁽¹⁾	11,852,773	(431,342)	11,421,431
Total Unassigned	11,852,773	(431,342)	11,421,431
Total Fund Balance	\$ 16,982,984	\$ 27,287,355	\$ 44,270,339

⁽¹⁾ Includes \$1.6 million in general stabilization.

16. **Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims 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.

17. **Post-Employment Healthcare and Life Insurance Benefits**

Other Post-Employment Benefits

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

A. Plan Description

In addition to providing the pension benefits, the Town provides post-employment health and life insurance benefits for retired employees through the Town's Massachusetts Interlocal Insurance Association (MIIA) Health Benefits Trust. Benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2014, the actuarial valuation date, approximately 699 retirees and 540 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

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

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2015 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2015, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2014.

	Governmental Funds	Water Fund	Sewer Fund	Stormwater Fund	Electric Fund	Total
Annual Required Contribution (ARC)	\$ 4,683,436	\$ 120,394	\$ 43,531	\$ 6,854	\$ 758,525	\$ 5,612,740
Interest on net OPEB obligation	854,949	23,474	8,649	1,580	-	888,652
Adjustment to ARC	<u>(763,084)</u>	<u>(27,837)</u>	<u>(10,256)</u>	<u>(1,873)</u>	<u>-</u>	<u>(803,050)</u>
Annual OPEB cost	4,775,301	116,031	41,924	6,561	758,525	5,698,342
Contributions made	(2,646,427)	(73,624)	(25,626)	(56)	(430,907)	(3,176,640)
Additional funding to trust	<u>(475,000)</u>	<u>(46,770)</u>	<u>(17,905)</u>	<u>(6,798)</u>	<u>(327,618)</u>	<u>(874,091)</u>
Increase in net OPEB obligation	1,653,874	(4,363)	(1,607)	(293)	-	1,647,611
Net OPEB obligation - beginning of year	<u>14,249,155</u>	<u>302,890</u>	<u>111,595</u>	<u>20,385</u>	<u>-</u>	<u>14,684,025</u>
Net OPEB obligation - end of year	<u>\$ 15,903,029</u>	<u>\$ 298,527</u>	<u>\$ 109,988</u>	<u>\$ 20,092</u>	<u>\$ -</u>	<u>\$ 16,331,636</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 5,698,342	71.09%	\$ 16,331,636
2014	\$ 5,684,967	71.11%	\$ 14,684,025
2013	\$ 5,346,430	100.32%	\$ 13,041,552
2012	\$ 6,956,808	50.08%	\$ 13,058,486
2011	\$ 6,733,892	48.16%	\$ 9,248,292
2010	\$ 6,522,905	57.09%	\$ 5,757,459
2009	\$ 6,326,701	53.24%	\$ 2,958,316

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 66,759,344
Actuarial value of plan assets	<u>(3,722,552)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 63,036,792</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>5.58%</u>
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2014 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a blended 6.00% investment rate of return for governmental funds, a funded 7.75% investment rate of return for enterprise funds, and an initial annual healthcare cost trend rate of 8.00% which decreases to a 5.00% long-term rate for all healthcare benefits after seven years. The amortization costs for the initial UAAL is a level percentage of payroll amortization, with governmental fund amortization payments increasing at 2.5% per year for a period of 30 years (open), and enterprise fund amortization payments increasing at 2.5% per year for a period of 16 years (closed). In open amortization, the period is reset to the initial value every year and the UAAL is re-amortized,

while under a closed amortization the remaining period decreases and the UAAL is eventually paid off.

18. Retirement System – Reading Contributory Retirement System

The Town follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and 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

The System is a member of the Massachusetts Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the Town, the System is included as a pension trust fund in the Town’s basic financial systems.

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 System is governed by a five-member board. The five members include two appointed by the town, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at December 31, 2014:

Retirees and beneficiaries receiving benefits	330
Terminated plan members entitled to but not yet receiving benefits	39
Active plan members	<u>334</u>
Total	<u><u>703</u></u>
Number of participating employers	2

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular com-

pensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Town payroll on January 1, 1978, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. 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.

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.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. 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%

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, 2015 was \$4,925,586, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2015 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized as revenue in the period in which the members provide services to the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.66%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

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.

E. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at June 30, 2015 were as follows:

Net Pension Liability of Employers

Total pension liability	\$ 148,983,351
Plan fiduciary net position	<u>(119,019,943)</u>
Employers' net pension liability	<u>\$ 29,963,408</u>
 Plan fiduciary net position as a percentage of total pension liability	 79.89%

Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	July 1, 2013 Rolled Forward to December 31, 2014
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75% - 8.00%
Inflation rate	3.75%
Post-retirement cost-of-living adjustment	3% on first \$12,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the July 1, 2013 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2012 through June 30, 2013.

Mortality rates were based on the RP-2000 Mortality Table projected to 2012 with Scale AA. For disabled lives, the mortality rates were based on the RP-2000 Mortality Table set forward five years.

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	43.00%	8.23%
Fixed income	23.00%	5.05%
Private equity	10.00%	9.75%
Real estate	10.00%	6.50%
Timber/Natural resources	4.00%	6.88%
Hedge funds	10.00%	7.00%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 7.75%, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
December 31, 2014	\$ 37,631,963	\$ 25,805,701	\$ 9,270,030

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

At June 30, 2015, the Town reported a liability of \$25,805,701 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013. 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, 2014, the Town's proportion was 92.75%.

For the year ended June 30, 2015, the Town recognized pension expense of \$3,232,308. 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>
Net difference between projected and actual investment earnings on pension plan investments	\$ 168,028
Pension plan contributions made subsequent to the measurement date	<u>1,500,000</u>
Total	<u>\$ 1,668,028</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 1,542,007
2017	42,007
2018	42,007
2019	<u>42,007</u>
Total	<u>\$ 1,668,028</u>

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. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. *Benefits Provided*

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

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

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by

employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

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

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

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, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global equity	43.0%	7.2%	7.70%
Core fixed income	13.0%	2.5%	2.00%
Hedge funds	10.0%	5.5%	4.75%
Private equity	10.0%	8.8%	9.00%
Real estate	10.0%	6.3%	6.00%
Value added fixed income	10.0%	6.3%	6.30%
Timber/natural resources	4.0%	5.0%	5.00%
Total	<u>100.0%</u>		

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. 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):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2013	\$ 21,426,000	\$ 17,234,000	\$ 13,672,000
June 30, 2014	\$ 20,247,000	\$ 15,896,000	\$ 12,200,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) 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 2014 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the Town was \$67,583,938 and \$4,695,381 respectively, based on a proportionate share of 0.425154%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

20. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

21. Beginning Net Position Restatement

In fiscal year 2015, the Town's beginning net position as of July 1, 2014 was restated for the implementation of the new standard – Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Accordingly, the following reconciliation is provided:

	Business-Type Activities					
	Government- Wide Financial Statements	Fund Basis Financial Statements				
	Governmental Activities	Electric Division Fund	Water Fund	Sewer Fund	Stormwater Fund	Business-Type Total
As previously reported	\$ 119,254,491	\$ 101,873,334	\$ 9,508,461	\$ 11,340,775	\$ 1,868,663	\$ 124,591,233
GASB 68 implementation for net pension liability	<u>(21,355,594)</u>	<u>(3,669,527)</u>	<u>(719,770)</u>	<u>(214,515)</u>	<u>(82,844)</u>	<u>(4,686,656)</u>
As restated	<u>\$ 97,898,897</u>	<u>\$ 98,203,807</u>	<u>\$ 8,788,691</u>	<u>\$ 11,126,260</u>	<u>\$ 1,785,819</u>	<u>\$ 119,904,577</u>

Town of Reading, Massachusetts Municipal Light Department

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

- A. Business Activity - The Department purchases electricity for distribution to more than 25,000 customers within the towns of Reading, North Reading, Wilmington, and Lynnfield.
- B. Regulation and Basis of Accounting - Under Massachusetts General Laws, the Department’s electric rates are set by the Municipal Light Board. Electric rates, excluding the purchase power fuel charge and the purchase power capacity and transmission charge, cannot be changed more than once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Department, the Department’s rates are not subject to DPU approval. The Department’s policy is to prepare its financial statements in conformity with generally accepted accounting principles.

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.

- 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 in the proprietary fund and fiduciary fund financial statements.

- 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 less the contributions in aid of construction 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.

- O. Comparative Financial Information - The Department's financial statements include certain prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Department's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

2. Cash and Investments

Total cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Proprietary Fund:	
Unrestricted cash and short-term investments	\$ 13,151,862
Restricted cash and short-term investments	22,344,776
Restricted investments	1,284,061
Fiduciary Funds:	
Cash and short-term investments - Pension Trust	2,666,772
Cash and short-term investments - OPEB Trust	1,857,738
Investments - Pension Trust	<u>1,284,061</u>
Total cash and investments	<u>\$ 42,589,270</u>

Total cash and investments at June 30, 2015 consist of the following:

Cash on hand	\$ 3,000
Deposits with financial institutions	<u>42,586,270</u>
Total cash and investments	<u>\$ 42,589,270</u>

Disclosures Relating to Interest Rate Risk

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

As of June 30, 2015, the Department (including the Pension Trust and OPEB Trust) held cash and short-term investments in pooled investments with the Massachusetts Municipal Depository Trust (MMDT), FDIC-insured savings accounts, and 90-day FDIC-insured bank certificates of deposit. Because of their immediate liquidity and/or short-term maturity, these funds are classified as cash and short-term investments in the accompanying financial statements and are not considered to be exposed to significant interest rate risk.

As of June 30, 2015, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying maturity dates as follows:

	<u>Proprietary Fund</u>	<u>Fiduciary Funds</u>	<u>Maturity Date</u>
	<u>Restricted Investments</u>	<u>Pension Trust</u>	
<u>Corporate bonds</u>			
AT&T Inc	\$ 207,764	\$ 207,764	12/01/22
General Electric Cap Corp	206,035	206,035	01/09/23
Wells Fargo & Co	208,048	208,048	08/15/23
Rabobank Nederland Bank	249,043	249,043	11/09/22
Teva Pharmaceut Fin BV	207,707	207,707	12/18/22
BNP Paribas	<u>205,464</u>	<u>205,464</u>	03/03/23
Total	<u>\$ 1,284,061</u>	<u>\$ 1,284,061</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 assign-

ing of a rating by a nationally recognized statistical rating organization. As of June 30, 2015, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying ratings as follows:

<u>Investment Type</u>	<u>Proprietary</u>	<u>Fiduciary</u>	<u>Moody's</u>
	<u>Fund</u>	<u>Funds</u>	
	<u>Restricted</u>	<u>Pension</u>	<u>Rating</u>
	<u>Investments</u>	<u>Trust</u>	
Corporate bonds:			
AT&T Inc	\$ 207,764	\$ 207,764	BAA1
General Electric Cap Corp	206,035	206,035	A1
Wells Fargo & Co	208,048	208,048	A3
Rabobank Nederland Bank	249,043	249,043	A3
Teva Pharmaceut Fin BV	207,707	207,707	A3
BNP Paribas	205,464	205,464	A1
Total	<u>\$ 1,284,061</u>	<u>\$ 1,284,061</u>	

Concentration of Credit Risk

The Department follows the Town of Reading's investment policy, which does not limit the amount that can be invested in any one issuer beyond that stipulated by Massachusetts General Laws. At June 30, 2015, 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.

As of June 30, 2015, none of the Department's (including Pension Trust and OPEB Trust) cash and short-term investments was exposed to custodial credit risk.

As of June 30, 2015, 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.

3. **Restricted Cash and Investments**

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

	<u>6/30/15</u>		<u>6/30/14</u>	
	<u>Cash</u>	<u>Investments</u>	<u>Cash</u>	<u>Investments</u>
Depreciation fund	\$ 5,434,308	\$ -	\$ 4,130,585	\$ -
Construction fund	1,400,000	-	1,000,000	-
Deferred fuel reserve	5,180,285	-	4,132,695	-
Deferred energy conservation reserve	584,606	-	457,261	-
Rate stabilization	6,771,634	-	6,723,797	-
Reserve for uncollectible accounts	200,000	-	200,000	-
Sick leave benefits	1,777,582	1,284,061	1,674,873	1,292,906
Hazardous waste fund	150,000	-	150,000	-
Customer deposits	846,361	-	749,900	-
Total	<u>\$ 22,344,776</u>	<u>\$ 1,284,061</u>	<u>\$ 19,219,111</u>	<u>\$ 1,292,906</u>

The Department maintains the following reserves:

- Depreciation fund - The Department is normally required to reserve 3.0% of capital assets each year to fund capital improvements.
- Construction fund – This represents additional funds set aside to fund capital expenditures.
- Deferred fuel reserve - The Department transfers the difference between the customers' monthly fuel charge adjustment and actual fuel costs into this account to be used in the event of a sudden increase in fuel costs.
- Deferred energy conservation reserve - This account is used to reserve monies collected from a special energy charge added to customer bills. Customers who undertake measures to conserve and improve energy efficiency can apply for rebates that are paid from this account.
- Rate stabilization - This represents amounts set aside to help stabilize cost increases resulting from fluctuations in purchase power costs.

- Reserve for uncollectible accounts - This account was set up to offset a portion of the Department's bad debt reserve.
- Sick leave benefits - This account is used to offset the Department's actuarially determined compensated absence liability.
- Hazardous waste fund - This reserve was set up by the Board of Commissioners to cover the Department's insurance deductible in the event of a major hazardous materials incident.
- Customer deposits - Customer deposits that are held in escrow.

4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2015:

Customer Accounts:		
Billed	\$	1,947,170
Less allowances:		
Uncollectible accounts		(200,000)
Sales discounts		<u>(86,174)</u>
Total billed		1,660,996
Unbilled, net		<u>5,166,350</u>
Total customer accounts		6,827,346
Other Accounts:		
Merchandise sales		150,805
MMWEC surplus		212,689
Intergovernmental grants		103,886
Liens and other		<u>19,333</u>
Total other accounts		<u>486,713</u>
Total net receivables	\$	<u><u>7,314,059</u></u>

5. Prepaid Expenses

Prepaid expenses consist of the following:

Insurance and other	\$	292,268
Purchase power		294,455
NYPA prepayment fund		307,573
WC Fuel - Watson		<u>243,602</u>
Total	\$	<u><u>1,137,898</u></u>

6. Inventory

Inventory is comprised of supplies and materials at June 30, 2015, and is valued using the average cost method.

7. Investment in Associated Companies

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

Investment in associated companies consists of the following, at June 30, 2015:

New England Hydro-Transmission (NEH & NHH) \$ 26,994

8. Capital Assets

The following is a summary of fiscal year 2015 activity in capital assets (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Structures and improvements	\$ 14,183	\$ 363	\$ -	\$ 14,546
Equipment and furnishings	31,787	309	(371)	31,725
Infrastructure	82,739	2,970	(487)	85,222
Total capital assets, being depreciated	128,709	3,642	(858)	131,493
Less accumulated depreciation for:				
Structures and improvements	(8,136)	(389)	-	(8,525)
Equipment and furnishings	(19,490)	(971)	371	(20,090)
Infrastructure	(32,155)	(2,502)	429	(34,228)
Total accumulated depreciation	(59,781)	(3,862)	800	(62,843)
Total capital assets, being depreciated, net	68,928	(220)	(58)	68,650
Capital assets, not being depreciated:				
Land	1,266	-	-	1,266
Total capital assets, not being depreciated	1,266	-	-	1,266
Capital assets, net	\$ 70,194	\$ (220)	\$ (58)	\$ 69,916

9. Deferred Outflows of Resources

Deferred outflows of resources represent the Department's consumption of net position that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2015:

	Proprietary <u>Fund</u>
Net difference between projected and actual investment earnings on pension plan	\$ 47,815
Pension plan contributions subsequent to the measurement date	<u>1,500,000</u>
Total	<u>\$ 1,547,815</u>

10. Accounts Payable

Accounts payable represent fiscal 2015 expenses that were paid after June 30, 2015.

11. Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2015:

Accrued payroll	\$ 356,436
Accrued sales tax	192,345
Other	<u>36,323</u>
Total	<u>\$ 585,104</u>

12. Customer Deposits

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

13. Customer Advances for Construction

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

14. Accrued Employee Compensated Absences

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

15. Restricted Net Position

The proprietary fund financial statements report restricted net position when external constraints are placed on net position. Specifically, restricted net

position represents depreciation fund reserves, which are restricted for future capital costs.

16. Post-Employment Health Care and Life Insurance Benefits

Other Post-Employment Benefits

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

A. Plan Description

In addition to providing the pension benefits described in Note 17, the Department provides post-employment health and life insurance benefits to retired employees through the Town of Reading's participation in the Massachusetts Interlocal Insurance Association (MIIA) Health Benefits Trust. Benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2014, the actuarial valuation measurement date, approximately 87 retirees and 51 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

As of the June 30, 2014, the actuarial valuation measurement date, retirees are required to contribute 29% of the cost of the medical and prescription drug plan, as determined by the MIIA Health Benefits Trust. Retirees also contribute 50% of the premium for a \$5,000 life insurance benefit. The Department contributes the remainder of the medical, prescription drug, and life insurance plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Department's fiscal 2015 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a remaining period of sixteen years.

The following table shows the components of the Department's annual OPEB cost for the year ending June 30, 2015, the amount actually contributed to the plan, and the change in the Department's net OPEB obligation based on an actuarial valuation as of June 30, 2014.

Annual Required Contribution (ARC)	\$ 540,456
Interest on net OPEB obligation	<u>218,069</u>
Annual OPEB cost	758,525
Projected benefit payments	<u>(413,143)</u>
Increase in net OPEB obligation	345,382
Net OPEB obligation - beginning of year	-
Contributions to OPEB Trust	<u>(345,382)</u>
(1) Net OPEB obligation - end of year	<u><u>\$ -</u></u>

(1) See Part E for additional information

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015 and the two preceding fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$758,525	100.00%	\$ -
2014	\$768,378	100.00%	\$ -
2013	\$604,987	100.00%	\$ -

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014, the most recent actuarial valuation measurement date was as follows:

Actuarial accrued liability (AAL)	\$ 7,726,667
Actuarial value of plan assets	<u>1,846,042</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>5,880,625</u>
Funded ratio (actuarial value of plan assets/AAL)	23.89%
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

In 2010, the Department's Municipal Light Board voted to accept the provisions of Chapter 32B §20 of Massachusetts General Laws and create an *Other Post-Employment Benefits Liability Trust Fund* as a mechanism to set aside monies to fund its OPEB liability. In 2013, the Commissioners voted to create an OPEB trust instrument in alignment with the Town of Reading. In fiscal year 2015, the Department contributed \$345,382 to this trust, which was equal to all of its actuarially determined annual contributions through June 30, 2015. The assets and net position of this trust are reported in the Department's Fiduciary Funds Statements of Fiduciary Net Position.

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2014 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The Department's actuarial value of plan assets was \$1,846,042. The actuarial assumptions included a 7.75% investment rate of return and an initial annual health care cost trend rate of 8.0% which decreases by 0.5% for six years to an ultimate level of 5.0% per year. The amortization costs for the initial UAAL is a level percentage of

payroll amortization, with amortization payments increasing at 2.5% per year for a remaining period of 16 years.

17. Reading Contributory Retirement System

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

A. Plan Description

Substantially all employees of the Department are members of the Town of Reading Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, as well as contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports, which are publically available from the System's administrative offices located at Reading Town Hall, 16 Lowell Street, Reading, Massachusetts, 01867.

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Department payroll on January 1, 1978, (3) voluntarily left Department employment on or after that date, and (4) left accumulated annuity deductions in the fund. 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.

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.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. 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%

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

The Department's contribution to the System for the year ended June 30, 2015 was \$1,401,638, which was equal to its annual required contribution.

D. 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.

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

At June 30, 2015, the Department reported a liability of \$4,524,191 for its proportionate share of the System's net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension

liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013 rolled forward to December 31, 2014. 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, 2014, the Department's proportion was 28.25%.

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 reported as a fiduciary fund type 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 July 1, 2013 rolled forward to December 31, 2014. However, the actuarial valuation does not take into account the fiduciary net position of the Department's Pension Trust at December 31, 2014 (the measurement date). Accordingly, the following reconciliation is provided:

	<u>2015</u>
Net pension liability, per actuarial valuation	\$ 8,464,663
Pension Trust Net Position	(5,450,833)
Pension Trust contributions subsequent to the net pension liability measurement date (reported as deferred outflows of resources in the proprietary fund Statements of Net Position)	1,500,000
Pension Trust investment income and fair value changes subsequent to the net pension liability measurement date	<u>10,361</u>
Net pension liability, as reported on the proprietary fund Statements of Net Position	<u>\$ 4,524,191</u>

For the year ended June 30, 2015, the Department recognized pension expense of \$833,949. In addition, the Department reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 47,815
Contributions subsequent to the measurement date	<u>1,500,000</u>
Total	<u>\$ 1,547,815</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Department's net pension liability in the year ended June 30, 2016.

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

Year ended June 30:

2016	\$ 1,511,954
2017	11,954
2018	11,954
2019	<u>11,953</u>
Total	<u>\$ 1,547,815</u>

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of July 1, 2013, rolled forward to the measurement date of December 31, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.75% per year
Salary increases	Based on years of service, 7.00% - 4.75% for Group 1 members and 8.00% - 5.25% for Group 4 members
Investment rate of return	7.75%, net of pension plan investment expense,

Mortality rates were based on the RP-2000 Mortality Table projected to 2012 with Scale AA. For disabled lives, the mortality rates were based on the RP-2000 Mortality Table set forward five years.

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, 2014 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	43.00%	8.23%
Fixed income	23.00%	5.05%
Private equity	10.00%	9.75%
Real estate	10.00%	6.50%
Timber/Natural Resources	4.00%	6.88%
Hedge funds	<u>10.00%</u>	7.00%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from participating employers will be made in accordance with Sections 22D and 22F of Chapter 32 of the Massachusetts General Laws. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected 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.

Sensitivity of the Department's proportionate share of the net pension liability to changes in the discount rate: The following table presents the Department's proportionate share of the net pension liability (asset) calculated using the current discount rate of 7.75%, as well as what the Department's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
06/30/15	\$ 7,521,554	\$ 4,524,191	\$ (1,116,986)

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

18. 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 eight Projects. MMWEC originally financed all eight Projects through the issuance of a multiple series of revenue bonds under a General Bond Resolution adopted by MMWEC in 1976 (GBR). Security for these bonds included a pledge of the revenues derived by MMWEC from all its Project PSAs, without regard to Project or series of bonds. In 2001, through a refinancing of all its outstanding bonds, MMWEC amended and restated its GBR to eliminate this "joint-pledge" of revenues. In refinancing its debt, MMWEC issued a separate issue of bonds for each of the eight Projects,

which are payable solely from, and secured solely by, the revenues derived from the Project to which such issue relates plus available funds pledged under the Amended and Restated GBR with respect to the bonds of such issue. 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 22.7 MW interest in the W. F. Wyman Unit No. 4 plant, owned and operated by subsidiaries of Florida Power & Light and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. (DNCI), a subsidiary of Dominion Resources, Inc. DNCI has stated its intention to file an application with the Nuclear Regulatory Commission (NRC) for an extension of the Millstone Unit 3 operating license, which currently will expire in 2025. DNCI has not yet filed its application with the NRC.

MMWEC has an 11.6% ownership interest in the Seabrook Station nuclear generating unit, which represents a substantial portion of its plant investment and financing program. On November 1, 2002, an indirect subsidiary of FPL Group Inc., FPL Energy Seabrook, LLC purchased an approximate 88% share in the Seabrook nuclear plant from seven other owners. MMWEC is now one of three, minority non-operating owners of Seabrook Station.

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 is being funded through monthly Project billings. The Project Participants are also liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). By its terms, the Act expired in August 2002. Congress is currently considering extending the Act.

In November 1997, the Commonwealth of Massachusetts enacted legislation effective March 1, 1998 to restructure the electric utility industry. MMWEC and the municipal light departments, including the Massachusetts Project Participants, are not specifically subject to this legislation. However, it is management's belief that industry restructuring and customer choice promulgated by the legislation will have an effect on MMWEC and the Participants' operations.

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

the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

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

After the July 1, 2015 principal payment, total capital expenditures amounted to \$1,682,341,000, of which \$125,343,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects from Power Supply System Revenue Bonds totals \$167,110,000, of which \$6,373,000 is associated with the Department's share of Project Capability. After the July 1, 2015 principal payment, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$121,353,000, of which \$4,362,000 is anticipated to be billed to the Department in the future.

The aggregate amount of the Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at June 30, 2015 and estimated for future years is shown below.

	<u>Annual Costs</u>
For years ended June 30, 2016	\$ 2,700,000
2017	1,472,000
2018	<u>190,000</u>
Total	<u>\$ 4,362,000</u>

In addition, under the PSAs, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O& M) costs of the Projects in which it participates. The Department's total O& M costs including debt service under the PSAs were \$12,475,000 and \$14,021,000 for the years ended June 30, 2015 and 2014, respectively.

19. Renewable Energy Certificates

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

Energy suppliers meet their annual RPS obligations by acquiring a sufficient quantity of RPS-qualified renewable energy certificates (RECs) that are created and recorded at the New England Power Pool (NEPOOL) Generation

Information System (GIS). Suppliers can purchase RECs from electricity generators or from other utilities that have acquired RECs.

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

Information regarding the Department's fiscal year 2015 REC activity and balances is as follows:

REC Sales During Fiscal 2015

	<u>Certificates</u>	<u>Unit Price</u>	<u>Amount</u>
MA Class II	1,032	\$ 25.50	\$ 26,316
MA Class I	1,324	52.00	68,848
RI New	398	44.00	17,512
CT Class I	5,702	52.00	296,504
MA Class II	371	25.00	9,275
MA Class I	624	47.50	29,640
RI New	120	47.50	5,700
CT Class I	<u>4,452</u>	47.50	<u>211,470</u>
Total	<u>14,023</u>		<u>\$ 665,265</u> ⁽¹⁾

(1) Sale proceeds netted against fiscal year 2015 purchased power fuel charge

REC Holdings at June 30, 2015

	<u>Banked Certificates</u>	<u>Projected Certificates</u>	<u>Total Certificates</u>	<u>Estimated Value</u>
MA Class I & II	-	1,550	1,550	\$ 74,400
CT Class I	-	5,435	5,435	260,880
Total	<u>-</u>	<u>6,985</u>	<u>6,985</u>	<u>\$ 335,280</u>

Because there is no formal accounting guidance under GAAP or IFRS for RECs and the Department does not have a formal policy for the future disposition of RECs, the estimated fair value of the Department's REC holdings at June 30, 2015 are not recognized as an asset on the proprietary fund Statements of Net Position.

20. 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, 2015. Following is the future minimum rental income to be received by the Department under the terms of this lease for the year ending June 30:

2016	\$ <u>4,084</u>
Total	\$ <u><u>4,084</u></u>

Operating Lease - Warehouse

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

2016	\$ <u>147,902</u>
Total	\$ <u><u>147,902</u></u>

21. Beginning Net Position Restatement

In fiscal year 2015, the Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. As a result of this implementation, the beginning (July 1, 2014) net position of the Department’s proprietary fund has been restated as follows:

	<u>Business-Type Activities</u>
	Proprietary <u>Fund</u>
As previously reported	\$ 101,873,334
GASB 68 Implementation	<u>(3,669,527)</u>
As restated	\$ <u><u>98,203,807</u></u>

**TOWN OF READING, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2015

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/14	\$ 3,723	\$ 66,759	\$ 63,036	5.58%	N/A	N/A
06/30/13	\$ 2,860	\$ 67,170	\$ 64,310	4.26%	N/A	N/A
06/30/11	\$ 1,167	\$ 94,458	\$ 93,291	1.24%	N/A	N/A
06/30/08	\$ -	\$ 60,023	\$ 60,023	0.0%	N/A	N/A

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015
(Unaudited)

<u>Reading Contributory Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	92.75%
Proportionate share of the net pension liability for the most recent measurement date	\$ 25,805,701
Covered-employee payroll for the most recent measurement date	\$ 19,399,338
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	143.26%
Plan fiduciary net position as a percentage of the total pension liability	79.89%
 <u>Massachusetts Teachers' Retirement System:</u>	 <u>2015</u>
Proportion of the net pension liability for the most recent measurement date	0.425154%
The Town's proportionate share of the net pension liability for the most recent measurement date	\$ -
Commonwealth of Massachusetts' total proportionate share of the net pension liability that is associated with the Town	<u>67,583,938</u>
Total net pension liability associated with the Town	<u>\$ 67,583,938</u>
Covered-employee payroll for the most recent measurement date	\$ 26,068,000
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0%
Plan fiduciary net position as a percentage of the total pension liability	61.64%

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

See Independent Auditors' Report.

**TOWN OF READING, MASSACHUSETTS
SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015
(Unaudited)**

	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 4,925,586
Contributions in relation to the contractually required contribution	<u>(4,925,586)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll for the current fiscal year	20,764,089
Contributions as a percentage of covered-employee payroll	23.72%

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

See Independent Auditors' Report.

**TOWN OF READING, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedule of Changes in the Net Pension Liability

(Unaudited)

	<u>2014</u>
Total pension liability	
Service cost	\$ 3,661,364
Interest on unfunded liability - time value of \$	10,776,373
Benefit payments, including refunds of member contributions	<u>(9,008,745)</u>
Net change in total pension liability	5,428,992
Total pension liability - beginning	<u>143,554,359</u>
Total pension liability - ending (a)	\$ <u><u>148,983,351</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 4,961,545
Contributions - member	2,710,307
Net investment income	8,416,432
Benefit payments, including refunds of member contributions	(9,008,745)
Administrative expense	<u>(114,170)</u>
Net change in plan fiduciary net position	6,965,369
Plan fiduciary net position - beginning	<u>112,054,574</u>
Plan fiduciary net position - ending (b)	\$ <u><u>119,019,943</u></u>
 Net pension liability (asset) - ending (a-b)	\$ <u><u>29,963,408</u></u>

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

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

See Independent Auditors' Report.

**TOWN OF READING, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Unaudited)

Schedule of Net Pension Liability

	<u>2014</u>
Total pension liability	\$ 148,983,351
Plan fiduciary net position	<u>(119,019,943)</u>
Net pension liability (asset)	<u>\$ 29,963,408</u>
Plan fiduciary net position as a percentage of the total pension liability	79.89%
Covered employee payroll	\$ 20,915,728
Participating employer net pension liability (asset) as a percentage of covered employee payroll	143.26%

Schedule of Contributions

	<u>2014</u>
Actuarially determined contribution	\$ 4,961,545
Contributions in relation to the actuarially determined contribution	<u>(4,961,545)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 20,915,728
Contributions as a percentage of covered employee payroll	-23.72%

Schedule of Investment Returns

Year Ended December 31

	<u>2014</u>
Annual money weighted rate of return, net of investment expense	7.66%

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

See Independent Auditors' Report.

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TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2015

	<u>Special Revenue Funds</u>		
	<u>Federal Grants</u>	<u>State Grants</u>	<u>Revolving Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ (110,809)	\$ 882,833	\$ 4,839,879
Investments	-	-	-
Receivables:			
Departmental and other	-	-	179,942
Intergovernmental	<u>247,876</u>	<u>928,995</u>	<u>-</u>
Total Assets	<u>\$ 137,067</u>	<u>\$ 1,811,828</u>	<u>\$ 5,019,821</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Warrants payable	\$ 13,781	\$ 645,141	\$ 139,107
Accrued liabilities	161,435	865	123,041
Unearned revenue	-	-	309,204
Notes payable	-	-	-
Retainage payable	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	175,216	646,006	571,352
Fund Balances:			
Non-spendable	-	-	-
Restricted	9,680	1,189,885	4,458,868
Committed	-	-	-
Unassigned	<u>(47,829)</u>	<u>(24,063)</u>	<u>(10,399)</u>
Total Fund Balance	<u>(38,149)</u>	<u>1,165,822</u>	<u>4,448,469</u>
Total Liabilities and Fund Balance	<u>\$ 137,067</u>	<u>\$ 1,811,828</u>	<u>\$ 5,019,821</u>

See Independent Auditors' Report.

Special Revenue Funds

<u>Receipts Reserved</u>	<u>Gifts and Donations</u>	<u>Subtotals</u>
\$ 1,209,296	\$ 629,888	\$ 7,451,087
-	129,185	129,185
-	-	179,942
-	-	<u>1,176,871</u>
<u>\$ 1,209,296</u>	<u>\$ 759,073</u>	<u>\$ 8,937,085</u>
\$ -	\$ 12,338	\$ 810,367
-	350	285,691
-	-	309,204
-	-	-
-	-	-
<u>-</u>	<u>12,688</u>	<u>1,405,262</u>
-	-	-
1,209,296	746,385	7,614,114
-	-	-
-	-	<u>(82,291)</u>
<u>1,209,296</u>	<u>746,385</u>	<u>7,531,823</u>
<u>\$ 1,209,296</u>	<u>\$ 759,073</u>	<u>\$ 8,937,085</u>

(continued)

TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2015

(continued)

	<u>Capital Project Funds</u>		
	<u>Town Capital Project Funds</u>	<u>School Capital Project Funds</u>	<u>Subtotals</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 11,102,556	\$ 2,504,374	\$ 13,606,930
Investments	-	-	-
Receivables:			
Departmental and other	-	-	-
Intergovernmental	-	-	-
Total Assets	<u>\$ 11,102,556</u>	<u>\$ 2,504,374</u>	<u>\$ 13,606,930</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Warrants payable	\$ 844,791	\$ 49,316	\$ 894,107
Accrued liabilities	-	-	-
Unearned revenue	-	-	-
Notes payable	-	1,700,000	1,700,000
Retainage payable	-	1,104,104	1,104,104
Total Liabilities	844,791	2,853,420	3,698,211
Fund Balances:			
Non-spendable	-	-	-
Restricted	9,324,224	5	9,324,229
Committed	933,541	-	933,541
Unassigned	-	(349,051)	(349,051)
Total Fund Balance	<u>10,257,765</u>	<u>(349,046)</u>	<u>9,908,719</u>
Total Liabilities and Fund Balance	<u>\$ 11,102,556</u>	<u>\$ 2,504,374</u>	<u>\$ 13,606,930</u>

See Independent Auditors' Report.

<u>Permanent Funds</u>			Total Nonmajor Governmental Funds
Town Trust Funds	School Trust Funds	<u>Subtotals</u>	
\$ 159,434	\$ -	\$ 159,434	\$ 21,217,451
9,502,301	199,266	9,701,567	9,830,752
-	-	-	179,942
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,176,871</u>
<u>\$ 9,661,735</u>	<u>\$ 199,266</u>	<u>\$ 9,861,001</u>	<u>\$ 32,405,016</u>
\$ 14,188	\$ -	\$ 14,188	\$ 1,718,662
-	-	-	285,691
-	-	-	309,204
-	-	-	1,700,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,104,104</u>
14,188	-	14,188	5,117,661
3,014,265	125,150	3,139,415	3,139,415
6,633,282	74,116	6,707,398	23,645,741
-	-	-	933,541
<u>-</u>	<u>-</u>	<u>-</u>	<u>(431,342)</u>
<u>9,647,547</u>	<u>199,266</u>	<u>9,846,813</u>	<u>27,287,355</u>
<u>\$ 9,661,735</u>	<u>\$ 199,266</u>	<u>\$ 9,861,001</u>	<u>\$ 32,405,016</u>

TOWN OF READING, MASSACHUSETTS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	Special Revenue Funds		
	<u>Federal Grants</u>	<u>State Grants</u>	<u>Revolving Funds</u>
Revenues:			
Departmental	\$ -	\$ -	\$ 6,164,525
Intergovernmental	1,513,970	2,447,005	232,422
Investment income	-	-	86
Contributions	-	-	-
Other	-	-	15,094
Total Revenues	1,513,970	2,447,005	6,412,127
Expenditures:			
Current:			
General government	-	4,800	57,486
Public safety	45,097	80,212	865,286
Education	1,374,371	1,556,298	4,668,782
Public works	-	885,083	9,475
Health and human services	124,169	47,988	24,169
Culture and recreation	2,075	10,607	599,821
Total Expenditures	1,545,712	2,584,988	6,225,019
Excess (deficiency) of revenues over (under) expenditures	(31,742)	(137,983)	187,108
Other Financing Sources (Uses):			
Issuance of bonds	-	-	-
Transfers in	-	-	10,000
Transfers out	-	-	(264,232)
Total Other Financing Sources (Uses)	-	-	(254,232)
Change in fund balances	(31,742)	(137,983)	(67,124)
Fund Balances, beginning of year	(6,407)	1,303,805	4,515,593
Fund Balances, end of year	\$ (38,149)	\$ 1,165,822	\$ 4,448,469

See Independent Auditors' Report.

Special Revenue Funds

<u>Receipts Reserved</u>	<u>Gifts and Donations</u>	<u>Subtotals</u>
\$ 41,255	\$ -	\$ 6,205,780
-	-	4,193,397
2,203	-	2,289
-	289,953	289,953
-	-	15,094
<u>43,458</u>	<u>289,953</u>	<u>10,706,513</u>
4,345	2,221	68,852
-	836	991,431
-	129,928	7,729,379
-	-	894,558
-	1,032	197,358
-	13,269	625,772
<u>4,345</u>	<u>147,286</u>	<u>10,507,350</u>
39,113	142,667	199,163
-	-	-
-	-	10,000
<u>(175,000)</u>	<u>-</u>	<u>(439,232)</u>
<u>(175,000)</u>	<u>-</u>	<u>(429,232)</u>
(135,887)	142,667	(230,069)
<u>1,345,183</u>	<u>603,718</u>	<u>7,761,892</u>
<u>\$ 1,209,296</u>	<u>\$ 746,385</u>	<u>\$ 7,531,823</u>

(continued)

TOWN OF READING, MASSACHUSETTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2015

(continued)

	Capital Project Funds		
	Town Capital Project Funds	School Capital Project Funds	Subtotals
Revenues:			
Departmental	\$ -	\$ -	\$ -
Intergovernmental	1,021,023	-	1,021,023
Investment income	-	-	-
Contributions	-	-	-
Other	-	-	-
	1,021,023	-	1,021,023
Total Revenues			
Expenditures:			
Current:			
General government	-	-	-
Public safety	-	-	-
Education	-	58,791	58,791
Public works	52,029	-	52,029
Health and human services	-	-	-
Culture and recreation	3,919,424	-	3,919,424
	3,971,453	58,791	4,030,244
Total Expenditures			
Excess (deficiency) of revenues over (under) expenditures	(2,950,430)	(58,791)	(3,009,221)
Other Financing Sources (Uses):			
Issuance of bonds	11,300,000	-	11,300,000
Transfers in	1,002,714	-	1,002,714
Transfers out	(21,979)	(47,194)	(69,173)
	12,280,735	(47,194)	12,233,541
Total Other Financing Sources (Uses)			
Change in fund balances	9,330,305	(105,985)	9,224,320
Fund Balances, beginning of year	927,460	(243,061)	684,399
Fund Balances, end of year	\$ 10,257,765	\$ (349,046)	\$ 9,908,719

See Independent Auditors' Report.

Permanent Funds			Total
Town Trust Funds	School Trust Funds	Subtotals	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 6,205,780
-	-	-	5,214,420
284,602	8,664	293,266	295,555
129,281	600	129,881	419,834
-	-	-	15,094
<u>413,883</u>	<u>9,264</u>	<u>423,147</u>	<u>12,150,683</u>
36,008	-	36,008	104,860
-	-	-	991,431
-	8,756	8,756	7,796,926
119,999	-	119,999	1,066,586
110,643	-	110,643	308,001
-	-	-	4,545,196
<u>266,650</u>	<u>8,756</u>	<u>275,406</u>	<u>14,813,000</u>
147,233	508	147,741	(2,662,317)
-	-	-	11,300,000
-	-	-	1,012,714
-	-	-	(508,405)
<u>-</u>	<u>-</u>	<u>-</u>	<u>11,804,309</u>
147,233	508	147,741	9,141,992
<u>9,500,314</u>	<u>198,758</u>	<u>9,699,072</u>	<u>18,145,363</u>
<u>\$ 9,647,547</u>	<u>\$ 199,266</u>	<u>\$ 9,846,813</u>	<u>\$ 27,287,355</u>

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

JUNE 30, 2015

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	Total
ASSETS				
Current:				
Cash and short-term investments	\$ 4,409,674	\$ 50,008	\$ 1,189,411	\$ 5,649,093
User fees, net of allowance for uncollectibles	2,795,912	-	163,431	2,959,343
Inventory	2,540	-	-	2,540
Total current assets	7,208,126	50,008	1,352,842	8,610,976
Noncurrent:				
Capital assets being depreciated, net	5,721,870	-	326,194	6,048,064
Capital assets not being depreciated	263,649	-	411,385	675,034
Total noncurrent assets	5,985,519	-	737,579	6,723,098
DEFERRED OUTFLOWS OF RESOURCES	1,153	-	445	1,598
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	13,194,798	50,008	2,090,866	15,335,672
LIABILITIES				
Current:				
Warrants payable	17,822	4,100	2,859	24,781
Accrued liabilities	9,629	-	3,998	13,627
Other current liabilities	-	45,908	-	45,908
Current portion of long-term liabilities:				
Bonds payable	84,105	-	-	84,105
Total current liabilities	111,556	50,008	6,857	168,421
Noncurrent:				
Bonds payable, net of current portion	165,744	-	-	165,744
Accrued employee benefits	14,472	-	10,980	25,452
Net OPEB obligation	109,988	-	20,092	130,080
Net pension liability	204,050	-	78,804	282,854
Total noncurrent liabilities	494,254	-	109,876	604,130
TOTAL LIABILITIES	605,810	50,008	116,733	772,551
NET POSITION				
Net investment in capital assets	5,907,963	-	737,579	6,645,542
Unrestricted	6,681,025	-	1,236,554	7,917,579
TOTAL NET POSITION	\$ 12,588,988	\$ -	\$ 1,974,133	\$ 14,563,121

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, 2015

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	
Operating Revenues:				
Charges for services	\$ 7,400,670	\$ -	\$ 440,697	\$ 7,841,367
Total Operating Revenues	7,400,670	-	440,697	7,841,367
Operating Expenses:				
Personnel expenses	360,219	-	175,991	536,210
Non personnel expenses	203,325	-	46,747	250,072
Intergovernmental	4,642,124	-	-	4,642,124
Depreciation	415,586	-	30,963	446,549
Energy purchases	28,393	-	-	28,393
Total Operating Expenses	5,649,647	-	253,701	5,903,348
Operating Income	1,751,023	-	186,996	1,938,019
Nonoperating Revenues (Expenses):				
Investment income	4,670	-	1,318	5,988
Total Nonoperating Revenues (Expenses)	4,670	-	1,318	5,988
Income Before Transfers	1,755,693	-	188,314	1,944,007
Transfers out	(292,965)	-	-	(292,965)
Change in Net Position	1,462,728	-	188,314	1,651,042
Net Position at Beginning of Year, as restated	11,126,260	-	1,785,819	12,912,079
Net Position at End of Year	\$ 12,588,988	\$ -	\$ 1,974,133	\$ 14,563,121

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

NONMAJOR PROPRIETARY FUNDS

COMBINING SCHEDULE OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 6,696,957	\$ -	\$ 393,272	\$ 7,090,229
Payments to vendors and employees	(725,162)	(9,790)	(224,851)	(959,803)
Payments to other governments	<u>(4,642,124)</u>	<u>-</u>	<u>-</u>	<u>(4,642,124)</u>
Net Cash Provided By (Used For) Operating Activities	1,329,671	(9,790)	168,421	1,488,302
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfer out	<u>(292,965)</u>	<u>-</u>	<u>-</u>	<u>(292,965)</u>
Net Cash (Used For) Noncapital Financing Activities	(292,965)	-	-	(292,965)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition of capital assets	(271,461)	-	(51,280)	(322,741)
Principal payments on bonds and notes	<u>(117,038)</u>	<u>-</u>	<u>-</u>	<u>(117,038)</u>
Net Cash (Used For) Capital and Related Financing Activities	(388,499)	-	(51,280)	(439,779)
<u>Cash Flows From Investing Activities:</u>				
Investment income	<u>4,670</u>	<u>-</u>	<u>1,318</u>	<u>5,988</u>
Net Cash Provided By Investing Activities	4,670	-	1,318	5,988
Net Change in Cash and Short-Term Investments	652,877	(9,790)	118,459	761,546
Cash and Short Term Investments, Beginning of Year	<u>3,756,797</u>	<u>59,798</u>	<u>1,070,952</u>	<u>4,887,547</u>
Cash and Short Term Investments, End of Year	<u>\$ 4,409,674</u>	<u>\$ 50,008</u>	<u>\$ 1,189,411</u>	<u>\$ 5,649,093</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>				
Operating income	\$ 1,751,023	\$ -	\$ 186,996	\$ 1,938,019
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	415,586	-	30,963	446,549
Changes in assets and liabilities:				
User fees receivables	(703,713)	-	(47,425)	(751,138)
Inventory and prepayments	(1,124)	-	-	(1,124)
Deferred outflows of resources	(1,153)	-	(445)	(1,598)
Warrants payable	(112,217)	(7,636)	2,068	(117,785)
Accrued liabilities	(6,659)	-	597	(6,062)
Other liabilities	-	(2,154)	-	(2,154)
Net OPEB obligation	(1,607)	-	(293)	(1,900)
Net pension liability	<u>(10,465)</u>	<u>-</u>	<u>(4,040)</u>	<u>(14,505)</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 1,329,671</u>	<u>\$ (9,790)</u>	<u>\$ 168,421</u>	<u>\$ 1,488,302</u>

See Independent Auditors' Report.