

TOWN OF READING, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2016

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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, 2016, (except for the Reading Contributory Retirement System, which is as of and for the year ended December 31, 2015) and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of

the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Reading, Massachusetts, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Pension 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 102 through 112 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2017 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 27, 2017

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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, 2016. Unless otherwise noted, all amounts reported in this analysis are expressed in whole numbers.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Proprietary funds. Proprietary 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 stormwater 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 stormwater 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 information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$223,524,901 (i.e., net position), a change of \$(617,831) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$38,379,499, a change of \$(5,890,840) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$10,246,346, a change of \$(1,606,427) in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$45,708,356, a change of \$1,123,160 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary (in thousands) 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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 49,254	\$ 56,912	\$ 66,985	\$ 66,307	\$ 116,239	\$ 123,219
Capital assets	131,525	122,785	95,144	91,121	226,669	213,906
Deferred outflows	11,611	115	6,891	1,553	18,502	1,668
Total assets and deferred outflows	192,390	179,812	169,020	158,981	361,410	338,793
Long-term liabilities	88,466	69,673	26,822	21,539	115,288	91,212
Other liabilities	10,405	12,559	8,953	10,728	19,358	23,287
Deferred inflows	2,255	151	984	-	3,239	151
Total liabilities and deferred inflows	101,126	82,383	36,759	32,267	137,885	114,650
Net position:						
Net investment in capital assets	101,435	100,596	84,071	80,900	185,506	181,496
Restricted	17,527	17,461	4,495	5,434	22,022	22,895
Unrestricted	(27,698)	(20,628)	43,695	40,380	15,997	19,752
Total net position	\$ 91,264	\$ 97,429	\$ 132,261	\$ 126,714	\$ 223,525	\$ 224,143

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 \$223,524,901, a change of \$(617,831) from the prior year.

The largest portion of net position, \$185,506,096, 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, \$22,021,676, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$15,997,129 may be used to meet the Town's ongoing obligations to citizens and creditors.

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
	Revenues:					
Program revenues:						
Charges for services	\$ 9,508	\$ 8,162	\$ 102,330	\$ 99,585	\$ 111,838	\$ 107,747
Operating grants and contributions	21,509	18,816	125	62	21,634	18,878
Capital grants and contributions	1,398	1,735	318	64	1,716	1,799
General revenues:						
Property taxes	62,588	58,416	-	-	62,588	58,416
Excises	4,054	3,801	-	-	4,054	3,801
Penalties, interest, and other taxes	694	647	-	-	694	647
Grants and contributions not restricted to specific programs	3,212	3,300	-	-	3,212	3,300
Investment income	1,160	848	232	139	1,392	987
Other	343	413	530	915	873	1,328
Total revenues	104,466	96,138	103,535	100,765	208,001	196,903

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Expenses:						
General government	5,173	6,008	-	-	5,173	6,008
Public safety	14,395	12,664	-	-	14,395	12,664
Education	76,936	65,229	-	-	76,936	65,229
Public works	7,583	8,761	-	-	7,583	8,761
Facilities*	1,763	-	-	-	1,763	-
Human services	1,212	1,083	-	-	1,212	1,083
Culture and recreation	3,780	3,495	-	-	3,780	3,495
Interest on long-term debt	1,145	1,314	-	-	1,145	1,314
Intergovernmental	1,014	1,107	-	-	1,014	1,107
Electric	-	-	84,147	80,418	84,147	80,418
Water	-	-	5,336	4,582	5,336	4,582
Other	-	-	6,135	5,903	6,135	5,903
Total expenses	<u>113,001</u>	<u>99,661</u>	<u>95,618</u>	<u>90,903</u>	<u>208,619</u>	<u>190,564</u>
Change in net position before transfers	(8,535)	(3,523)	7,917	9,862	(618)	6,339
Transfers in (out)	<u>2,370</u>	<u>3,053</u>	<u>(2,370)</u>	<u>(3,053)</u>	<u>-</u>	<u>-</u>
Change in net position	(6,165)	(470)	5,547	6,809	(618)	6,339
Net position - beginning of year	<u>97,429</u>	<u>97,899</u>	<u>126,714</u>	<u>119,905</u>	<u>224,143</u>	<u>217,804</u>
Net position - end of year	<u>\$ 91,264</u>	<u>\$ 97,429</u>	<u>\$ 132,261</u>	<u>\$ 126,714</u>	<u>\$ 223,525</u>	<u>\$ 224,143</u>

* The Town chose to break out expenses for the maintenance of Town facilities as a separate function in FY2016. These expenses were previously reported in general government.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(6,165,283). Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ (1,555,726)
PILOT from RMLD	<u>2,370,445</u>
Subtotal General Fund	814,719
Current year revenue used for the acquisition of capital assets	3,995,671
Accrual of High School construction litigation settlement liability	(6,000,000)
Depreciation expense exceeding debt service principal	(2,988,560)
Increase in net OPEB obligation	(1,650,635)
Increase in net pension liability	(10,554,744)
Increase in pension-related deferred outflows, net of pension-related deferred inflows	9,376,802
Other	<u>841,464</u>
Total	<u>\$ (6,165,283)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$5,547,452. Key elements of this change and the impact on cash flows are as follows:

	<u>Revenues and Transfers In</u>	<u>Expenses and Transfers Out</u>	<u>Change in Net Position</u>
Electric division fund	\$ 89,886,593	\$ (86,517,189)	\$ 3,369,404
Water fund	6,341,771	(5,319,704)	1,022,067
Nonmajor funds	<u>7,289,790</u>	<u>(6,133,809)</u>	<u>1,155,981</u>
Net	<u>\$ 103,518,154</u>	<u>\$ (97,970,702)</u>	<u>\$ 5,547,452</u>

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 \$38,379,499, a change of \$(5,890,840) in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ (1,555,726)
PILOT from RMLD	<u>2,370,445</u>
Subtotal General Fund	814,719
Premium on general obligation bonds	425,224
Special revenue fund expenditures exceeding revenues	(75,005)
Library capital project fund expenditures exceeding revenues and bond proceeds	(7,105,529)
Other capital project fund expenditures exceeding bond proceeds	(263,869)
Permanent fund revenues exceeding expenditures	<u>313,620</u>
Total	<u>\$ (5,890,840)</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 \$10,246,346, while total fund balance was \$18,332,978. 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>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 10,246,346	\$ 11,852,773	\$ (1,606,427)	12.0%
Total fund balance	\$ 18,332,978	\$ 16,982,984	\$ 1,349,994	21.5%

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

The total fund balance of the general fund changed by \$1,349,994 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	\$ (2,672,564)
Revenues in excess of budget	1,972,024
Expenditures less than budget	1,612,788
Expenditures of prior year encumbrances less than current year encumbrances	468,370
Other	<u>(30,624)</u>
Total	\$ <u><u>1,349,994</u></u>

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

	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>
Stabilization - general	\$ 1,565,475	\$ 1,557,000	\$ 8,475
Stabilization - smart growth	503,000	503,000	-
Stabilization - sick buy-back	<u>31</u>	<u>24</u>	<u>7</u>
Total	\$ <u><u>2,068,506</u></u>	\$ <u><u>2,060,024</u></u>	\$ <u><u>8,482</u></u>

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

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	\$ 1,488	\$ 1,491	\$ 7,822	\$ 23,706
2011	11,833	705	1,006	928	8,649	23,121
2012	1,033 ⁽¹⁾	400	1,492	1,476	9,728	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	11,852	16,982
2016	-	503	2,937	4,647 ⁽²⁾	10,246	18,333

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

⁽²⁾ Includes \$2,197 for subsequent year free cash appropriation to fund litigation settlement – see Note 18.

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 \$43,695,386, a change of \$3,315,909 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 \$1,420,049. Major reasons for these amendments include:

- \$838,250 increase in capital expenses
- \$250,000 increase in facilities operating costs
- \$240,516 increase in legal costs
- \$ 91,283 other

Of this increase, \$872,564 was funded by free cash, \$232,485 through the tax levy, \$50,000 from additional state aid, \$130,000 from local revenues, and \$135,000 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 \$226,669,298 (net of accumulated depreciation), a change of \$12,762,982 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Governmental additions:

- \$ 10,338,436 in library renovations
- \$ 2,392,073 in various school improvements
- \$ 1,662,746 in roadway improvements
- \$ 263,821 for Town Hall technology
- \$ 181,271 for police vehicles and equipment
- \$ 40,000 for a facilities vehicle

Business-type additions:

- \$ 6,316,416 in electric infrastructure and equipment
- \$ 2,591,088 in water infrastructure and vehicles
- \$ 252,602 in stormwater drainage system
- \$ 197,320 in sewer infrastructure and vehicles

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 \$45,708,356, 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 FY2017 general fund budget of \$90,333,266 is a 2.8% increase over the prior year. The FY2017 budget is balanced.

FY2017 state aid will be \$13,865,000, which represents a 1.8% percent increase over prior year.

The tax levy for FY2017 of \$64,866,796 represents a 3.8% increase over the prior year. The FY2017 tax rate is \$14.03 per thousand compared to \$14.50 in the prior year. Overall, property values increased 7.3% to \$4,623,435,224.

For FY2017, the Board of Selectmen, acting as the Water and Sewer Commissioners, voted to increase water rates by 9.17% and sewer rates by 1.23% for all customers, effective for all billings after September 10, 2016. The 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 FY2016 totaling \$370,290. The FY2017 revenue budgeted for this tax is \$350,000.

The Town is working on an \$18,541,225 capital improvement project to remodel the library. In April 2013, voters approved \$14,900,000 of debt exclusion. In April 2014, voters approved an additional \$3,000,000 of debt exclusion. In November 2016, \$141,225 was transferred from other capital project with remaining balances to cover any potential cost overruns. Note that of these totals, the State has approved \$5,105,114 of grant funding for the project; the balance will be the local share. The Town borrowed \$10,000,000 of excluded debt for this project in February 2015. The Town received a bond premium of \$933,541 which was used towards the project and reduced the debt authorization. The Town borrowed an additional \$2,115,000 of excluded debt in June 2016 and received an additional \$230,000 premium that again was used toward project costs, and the debt authorization was reduced by this amount. The renovated library re-opened on October 2, 2016. The library renovation is substantially complete, with some work still in process.

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

The Town has been involved in litigation for several years with TLT, the contractor of the Reading High School Project. At Town Meeting on December 8, 2016, a settlement was approved in the amount of \$6,000,000 to be paid to TLT. The settlement was paid on December 28, 2016 using the following funding methods:

Debt Issuance	\$3,000,000
Free Cash	2,196,605
Remaining Project Funds	<u>803,395</u>
Settlement Total	<u>\$6,000,000</u>

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, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Assets			
Current:			
Cash and short-term investments	\$ 27,893,273	\$ 27,599,512	\$ 55,492,785
Investments	19,422,000	-	19,422,000
Receivables, net of allowance for uncollectibles:			
Property taxes	310,622	-	310,622
Excises	223,762	-	223,762
User fees	-	13,525,636	13,525,636
Departmental and other	702,153	-	702,153
Intergovernmental	369,720	-	369,720
Prepaid assets	-	985,756	985,756
Inventory	-	1,686,846	1,686,846
Noncurrent:			
Restricted cash and short-term equivalents	-	21,815,636	21,815,636
Restricted investments	-	1,345,663	1,345,663
Investment in associated companies	-	26,994	26,994
Receivables, net of allowance for uncollectibles:			
Property taxes	332,145	-	332,145
Capital assets being depreciated, net	111,531,587	88,585,597	200,117,184
Capital assets not being depreciated	19,993,562	6,558,552	26,552,114
Deferred outflows of resources			
Related to pensions	<u>11,611,038</u>	<u>6,891,231</u>	<u>18,502,269</u>
Total Assets and Deferred Outflows of Resources	192,389,862	169,021,423	361,411,285
Liabilities			
Current:			
Warrants payable	2,444,636	6,472,288	8,916,924
Accrued liabilities	5,613,070	550,853	6,163,923
Unearned revenues	268,264	-	268,264
Tax refunds payable	281,157	-	281,157
Customer advances for construction	-	1,007,142	1,007,142
Customer deposits	-	901,905	901,905
Retainage payable	1,104,104	-	1,104,104
Other current liabilities	693,958	21,271	715,229
Current portion of long-term liabilities:			
Bonds and loans payable	4,151,434	1,506,730	5,658,164
Compensated absences	38,814	401,347	440,161
Noncurrent:			
Bonds and loans payable, net of current portion	28,783,150	11,267,042	40,050,192
Compensated absences	1,070,169	2,922,658	3,992,827
Net OPEB obligation	17,553,664	420,713	17,974,377
Net pension liability	30,868,736	10,303,772	41,172,508
Litigation settlement liability	6,000,000	-	6,000,000
Deferred Inflows of Resources			
Related to pensions	2,119,488	984,119	3,103,607
Other	<u>135,900</u>	<u>-</u>	<u>135,900</u>
Total Liabilities and Deferred Inflows of Resources	101,126,544	36,759,840	137,886,384
Net Position			
Net investment in capital assets	101,434,852	84,071,244	185,506,096
Restricted for:			
Grants and other statutory restrictions	7,366,290	4,494,953	11,861,243
Permanent funds:			
Nonexpendable	3,194,035	-	3,194,035
Expendable	6,966,398	-	6,966,398
Unrestricted	<u>(27,698,257)</u>	<u>43,695,386</u>	<u>15,997,129</u>
Total Net Position	\$ <u>91,263,318</u>	\$ <u>132,261,583</u>	\$ <u>223,524,901</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, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental Activities:					
General government	\$ 5,173,857	\$ 480,872	\$ 66,997	\$ -	\$ (4,625,988)
Public safety	14,394,749	3,346,281	98,439	-	(10,950,029)
Education	76,936,229	4,613,424	20,866,677	-	(51,456,128)
Public works	7,582,807	185,573	59,772	376,487	(6,960,975)
Facilities	1,762,944	-	-	-	(1,762,944)
Health and human services	1,212,347	71,613	309,693	-	(831,041)
Culture and recreation	3,780,076	810,562	107,118	1,021,023	(1,841,373)
Interest on long-term debt	1,144,836	-	-	-	(1,144,836)
Intergovernmental	1,013,830	-	-	-	(1,013,830)
Total Governmental Activities	113,001,675	9,508,325	21,508,696	1,397,510	(80,587,144)
Business-Type Activities:					
Electric operations	84,146,744	88,735,983	125,000	285,921	5,000,160
Water operations	5,336,134	6,341,771	-	-	1,005,637
Other	6,134,609	7,252,068	-	31,950	1,149,409
Total Business-type Activities	95,617,487	102,329,822	125,000	317,871	7,155,206
Total	\$ 208,619,162	\$ 111,838,147	\$ 21,633,696	\$ 1,715,381	\$ (73,431,938)

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, 2016

(continued)

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
Change in Net Position:			
Net (Expenses) revenue from previous page	\$ (80,587,144)	\$ 7,155,206	\$ (73,431,938)
General Revenues and Transfers:			
Property taxes	62,587,732	-	62,587,732
Excises	4,054,424	-	4,054,424
Penalties, interest and other taxes	693,840	-	693,840
Grants and contributions not restricted to specific programs	3,211,690	-	3,211,690
Investment income	1,160,403	232,516	1,392,919
Other	343,327	530,175	873,502
Transfers, net	<u>2,370,445</u>	<u>(2,370,445)</u>	<u>-</u>
Total general revenues and transfers	<u>74,421,861</u>	<u>(1,607,754)</u>	<u>72,814,107</u>
Change in Net Position	(6,165,283)	5,547,452	(617,831)
Net Position:			
Beginning of year	<u>97,428,601</u>	<u>126,714,131</u>	<u>224,142,732</u>
End of year	<u>\$ 91,263,318</u>	<u>\$ 132,261,583</u>	<u>\$ 223,524,901</u>

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

TOWN OF READING, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Assets			
Cash and short-term investments	\$ 15,297,368	\$ 12,595,905	\$ 27,893,273
Investments	10,021,729	9,400,271	19,422,000
Receivables:			
Property taxes	711,637	-	711,637
Excises	327,448	-	327,448
Departmental and other	441,933	260,220	702,153
Intergovernmental	-	369,720	369,720
Total Assets	\$ 26,800,115	\$ 22,626,116	\$ 49,426,231
Liabilities			
Warrants payable	\$ 1,526,245	\$ 918,391	\$ 2,444,636
Accrued liabilities	4,963,637	288,836	5,252,473
Unearned revenue	-	268,264	268,264
Retainage payable	-	1,104,104	1,104,104
Other liabilities	693,958	-	693,958
Total Liabilities	7,183,840	2,579,595	9,763,435
Deferred Inflows of Resources			
Unavailable revenues	1,283,297	-	1,283,297
Fund Balances			
Nonspendable	-	3,194,035	3,194,035
Restricted	-	17,477,717	17,477,717
Committed	503,031	13,131	516,162
Assigned	7,583,601	-	7,583,601
Unassigned	10,246,346	(638,362)	9,607,984
Total Fund Balances	18,332,978	20,046,521	38,379,499
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 26,800,115	\$ 22,626,116	\$ 49,426,231

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, 2016

Total governmental fund balances	\$	38,379,499
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		131,525,149
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.		829,584
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.		(360,597)
• Long-term liabilities, including bonds payable, capital leases, landfill closure, accrued compensated absences and net OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable		(32,934,584)
Compensated absences		(1,108,983)
Net OPEB obligation		(17,553,664)
Net pension liability		(30,868,736)
Litigation settlement liability		(6,000,000)
• Deferred outflows of resources related to pensions resulting from:		
Net difference between projected and actual earnings on pension plan investments		4,571,942
Changes of assumptions		7,039,096
• Deferred inflows of resources related to pensions resulting from differences between expected and actual experience		(2,119,488)
• Deferred inflows of resources related to gains on refunding bonds.		<u>(135,900)</u>
Net position of governmental activities	\$	<u>91,263,318</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, 2016

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 62,352,226	\$ -	\$ 62,352,226
Excises	4,021,915	-	4,021,915
Penalties, interest and other taxes	693,840	-	693,840
Departmental	1,985,599	7,221,032	9,206,631
Licenses and permits	174,205	-	174,205
Fines and forfeitures	112,983	-	112,983
Intergovernmental	13,651,549	4,791,520	18,443,069
Investment income	301,782	504,044	805,826
Contributions	-	362,784	362,784
Other	319,227	24,286	343,513
Total Revenues	<u>83,613,326</u>	<u>12,903,666</u>	<u>96,516,992</u>
Expenditures:			
Current:			
General government	3,860,246	151,780	4,012,026
Public safety	9,673,364	1,600,847	11,274,211
Education	42,637,012	9,894,348	52,531,360
Public works	5,098,135	913,205	6,011,340
Facilities	875,100	-	875,100
Health and human services	637,444	358,948	996,392
Culture and recreation	2,242,492	11,030,321	13,272,813
Employee benefits	14,731,163	-	14,731,163
Debt service	4,400,266	-	4,400,266
Intergovernmental	1,013,830	-	1,013,830
Total Expenditures	<u>85,169,052</u>	<u>23,949,449</u>	<u>109,118,501</u>
Excess (deficiency) of revenues over expenditures	(1,555,726)	(11,045,783)	(12,601,509)
Other Financing Sources (Uses):			
Proceeds of bonds	-	3,915,000	3,915,000
Premium on bond issuance	195,224	230,000	425,224
Transfers in	2,785,996	75,500	2,861,496
Transfers out	(75,500)	(415,551)	(491,051)
Total Other Financing Sources (Uses)	<u>2,905,720</u>	<u>3,804,949</u>	<u>6,710,669</u>
Net change in fund balances	1,349,994	(7,240,834)	(5,890,840)
Fund Balances, at Beginning of Year	<u>16,982,984</u>	<u>27,287,355</u>	<u>44,270,339</u>
Fund Balances, at End of Year	<u>\$ 18,332,978</u>	<u>\$ 20,046,521</u>	<u>\$ 38,379,499</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, 2016

Net changes in fund balances - Total governmental funds	\$ (5,890,840)																								
<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;">14,878,348</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(6,138,560)</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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">296,791</td> </tr> </table> • 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;">(3,915,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">3,150,000</td> </tr> <tr> <td>Current year bond premiums, net of current year amortization</td> <td style="text-align: right;">(71,037)</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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">90,330</td> </tr> </table> • 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>Compensated absences</td> <td style="text-align: right;">248,162</td> </tr> <tr> <td>Net OPEB obligation</td> <td style="text-align: right;">(1,650,635)</td> </tr> <tr> <td>Net pension liability, net of related deferred outflows and inflows</td> <td style="text-align: right;">(1,177,942)</td> </tr> <tr> <td>Litigation settlement liability</td> <td style="text-align: right;">(6,000,000)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">15,100</td> </tr> </table> 		Capital outlay purchases, net of disposals	14,878,348	Depreciation	(6,138,560)		296,791	Issuance of general obligation bonds	(3,915,000)	Repayments of debt	3,150,000	Current year bond premiums, net of current year amortization	(71,037)		90,330	Compensated absences	248,162	Net OPEB obligation	(1,650,635)	Net pension liability, net of related deferred outflows and inflows	(1,177,942)	Litigation settlement liability	(6,000,000)	Other	15,100
Capital outlay purchases, net of disposals	14,878,348																								
Depreciation	(6,138,560)																								
	296,791																								
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Net pension liability, net of related deferred outflows and inflows	(1,177,942)																								
Litigation settlement liability	(6,000,000)																								
Other	15,100																								
Change in net position of governmental activities	\$ <u>(6,165,283)</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Transfers:				
Taxes	\$ 61,489,901	\$ 61,722,386	\$ 62,352,225	\$ 629,839
Excise taxes	3,600,000	3,600,000	4,021,915	421,915
Penalties, interest and other taxes	535,000	590,000	693,843	103,843
Departmental	1,700,000	1,750,000	1,985,599	235,599
Licenses and permits	150,000	170,000	174,205	4,205
Fines and forfeitures	102,500	102,500	112,983	10,483
Intergovernmental	13,714,376	13,764,376	13,651,549	(112,827)
Investment income	175,000	180,000	301,782	121,782
Other	134,364	134,364	514,451	380,087
Transfers in	<u>2,504,520</u>	<u>2,639,520</u>	<u>2,816,618</u>	<u>177,098</u>
Total Revenues and Transfers	84,105,661	84,653,146	86,625,170	1,972,024
Expenditures and Transfers:				
General government	3,630,941	4,225,435	3,941,750	283,685
Public safety	10,334,175	10,478,329	10,305,550	172,779
Education	41,711,060	42,142,701	42,072,803	69,898
Public works	5,560,909	5,576,471	5,314,324	262,147
Facilities	977,978	1,327,186	1,009,872	317,314
Health and human services	737,500	742,550	637,444	105,106
Culture and leisure	2,258,719	2,278,159	2,223,390	54,769
Intergovernmental	1,118,635	1,048,635	1,013,830	34,805
Employee benefits	15,050,744	14,905,744	14,717,663	188,081
Debt service	4,525,000	4,525,000	4,400,796	124,204
Transfers out	<u>-</u>	<u>75,500</u>	<u>75,500</u>	<u>-</u>
Total Expenditures and Transfers	85,905,661	87,325,710	85,712,922	1,612,788
Excess (deficiency) of revenues and other sources over expenditures and other uses	(1,800,000)	(2,672,564)	912,248	3,584,812
Other Financing Sources:				
Use of free cash:				
For operating budget support	1,500,000	2,372,564	-	(2,372,564)
Use of overlay surplus	<u>300,000</u>	<u>300,000</u>	<u>-</u>	<u>(300,000)</u>
Total Other Financing Sources	1,800,000	2,672,564	-	(2,672,564)
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>912,248</u>	\$ <u>912,248</u>

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

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Electric Division Fund</u>	<u>Water Fund</u>	<u>Non Major Funds</u>	
Assets				
Current:				
Cash and short-term investments	\$ 13,123,605	\$ 7,495,486	\$ 6,980,421	\$ 27,599,512
User fees, net of allowance for uncollectibles	8,203,587	2,468,071	2,853,978	13,525,636
Prepaid expenses	985,756	-	-	985,756
Inventory	1,590,329	91,823	4,694	1,686,846
Total Current Assets	23,903,277	10,055,380	9,839,093	43,797,750
Noncurrent:				
Restricted cash and short-term investments	21,815,636	-	-	21,815,636
Restricted investments	1,345,663	-	-	1,345,663
Investment in associated companies	26,994	-	-	26,994
Capital assets being depreciated, net	70,936,570	12,015,577	5,633,450	88,585,597
Capital assets not being depreciated	1,265,842	4,205,222	1,087,488	6,558,552
Total Noncurrent Assets	95,390,705	16,220,799	6,720,938	118,332,442
Deferred Outflows of Resources				
Related to pensions	6,338,218	391,339	161,674	6,891,231
Total Assets and Deferred Outflows of Resources	125,632,200	26,667,518	16,721,705	169,021,423
Liabilities				
Current:				
Warrants payable	5,484,732	838,278	149,278	6,472,288
Accrued liabilities	449,404	87,781	13,668	550,853
Customer deposits	901,905	-	-	901,905
Customer advances for construction	1,007,142	-	-	1,007,142
Other current liabilities	-	-	21,271	21,271
Current portion of long-term liabilities:				
Bonds and loans payable	-	1,414,815	91,915	1,506,730
Compensated absences	401,347	-	-	401,347
Total Current Liabilities	8,244,530	2,340,874	276,132	10,861,536
Noncurrent:				
Bonds and loans payable	-	11,154,163	112,879	11,267,042
Compensated absences	2,856,462	39,621	26,575	2,922,658
Net OPEB obligation	-	293,029	127,684	420,713
Net pension liability	8,833,549	1,040,402	429,821	10,303,772
Total Noncurrent Liabilities	11,690,011	12,527,215	696,959	24,914,185
Deferred Inflows of Resources				
Related to pensions	883,172	71,435	29,512	984,119
Total Liabilities and Deferred Inflows of Resources	20,817,713	14,939,524	1,002,603	36,759,840
Net Position				
Net investment in capital assets	72,202,413	5,110,301	6,758,530	84,071,244
Restricted for depreciation fund	4,494,953	-	-	4,494,953
Unrestricted	28,117,121	6,617,693	8,960,572	43,695,386
Total Net Position	\$ 104,814,487	\$ 11,727,994	\$ 15,719,102	\$ 132,261,583

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, 2016

	Business-Type Activities Enterprise Funds			Total
	Electric Division Fund	Water Fund	Non Major Funds	
Operating Revenues:				
Charges for services	\$ 88,353,905	\$ 6,341,771	\$ 7,252,068	\$ 101,947,744
Other	382,078	-	-	382,078
Total Operating Revenues	88,735,983	6,341,771	7,252,068	102,329,822
Operating Expenses:				
Personnel expenses	-	1,464,016	826,097	2,290,113
Non-personnel expenses	-	418,745	207,753	626,498
Intergovernmental	1,400,347	2,032,766	4,624,378	8,057,491
Depreciation	3,944,792	851,798	452,080	5,248,670
Energy purchases	63,700,338	31,353	23,501	63,755,192
Operating	12,848,727	-	-	12,848,727
Maintenance	2,252,540	-	-	2,252,540
Total Operating Expenses	84,146,744	4,798,678	6,133,809	95,079,231
Operating Income	4,589,239	1,543,093	1,118,259	7,250,591
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	125,000	-	31,950	156,950
Investment income	209,514	16,430	6,572	232,516
Interest expense	-	(537,456)	(800)	(538,256)
Other	530,175	-	-	530,175
Total Nonoperating Revenues (Expenses)	864,689	(521,026)	37,722	381,385
Income Before Contributions and Transfers	5,453,928	1,022,067	1,155,981	7,631,976
Capital contributions	285,921	-	-	285,921
Transfers out	(2,370,445)	-	-	(2,370,445)
Change in Net Position	3,369,404	1,022,067	1,155,981	5,547,452
Net Position at Beginning of Year	101,445,083	10,705,927	14,563,121	126,714,131
Net Position at End of Year	\$ 104,814,487	\$ 11,727,994	\$ 15,719,102	\$ 132,261,583

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, 2016

	Business-Type Activities Enterprise Funds			Total
	Electric Division Fund	Water Fund	Non Major Funds	
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 87,519,922	\$ 6,381,835	\$ 7,357,433	\$ 101,259,190
Payments to vendors and employees	(81,064,473)	(1,654,128)	(944,474)	(83,663,075)
Customer purchase power charge adjustments	382,077	-	-	382,077
Payments to other governments	-	(2,032,766)	(4,624,378)	(6,657,144)
Net Cash Provided By Operating Activities	6,837,526	2,694,941	1,788,581	11,321,048
Cash Flows From Noncapital Financing Activities:				
MMWEC surplus	250,690	-	-	250,690
Intergovernmental revenue	-	-	31,950	31,950
Other	365,047	-	-	365,047
Transfer out	(2,370,445)	-	-	(2,370,445)
Net Cash (Used For) Noncapital Financing Activities	(1,754,708)	-	31,950	(1,722,758)
Cash Flows From Capital and Related Financing Activities:				
Principal payments on notes	-	(665,000)	-	(665,000)
Proceeds from issuance of bonds	-	5,468,378	39,050	5,507,428
Principal payments on bonds	-	(5,136,200)	(84,105)	(5,220,305)
Acquisition and construction of capital assets	(6,316,416)	(2,591,089)	(449,920)	(9,357,425)
Capital grants and contributions	528,289	-	-	528,289
Interest expense	-	(547,349)	(800)	(548,149)
Net Cash (Used For) Capital and Related Financing Activities	(5,788,127)	(3,471,260)	(495,775)	(9,755,162)
Cash Flows From Investing Activities:				
(Increase) decrease in restricted cash and investments	467,538	16,430	-	483,968
Investment income	209,514	-	6,572	216,086
Net Cash Provided By (Used For) Investing Activities	677,052	16,430	6,572	700,054
Net Change in Cash and Short-Term Investments	(28,257)	(759,889)	1,331,328	543,182
Unrestricted Cash and Short Term Investments, Beginning of Year	13,151,862	8,255,375	5,649,093	27,056,330
Unrestricted Cash and Short Term Investments, End of Year	\$ 13,123,605	\$ 7,495,486	\$ 6,980,421	\$ 27,599,512
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:				
Operating income	\$ 4,589,239	\$ 1,543,093	\$ 1,118,259	\$ 7,250,591
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	3,944,792	851,798	452,080	5,248,670
Changes in assets and liabilities:				
User fees receivables	(889,528)	40,064	105,365	(744,099)
Inventory	(9,922)	143	(2,154)	(11,933)
Other assets	152,142	-	-	152,142
Deferred outflows of resources	(4,790,403)	(387,472)	(160,076)	(5,337,951)
Warrants payable	438,515	206,044	124,497	769,056
Accrued liabilities	-	19,596	1,164	20,760
Other liabilities	55,543	-	(24,637)	30,906
Due to pension trust	(1,500,000)	-	-	(1,500,000)
Due to OPEB trust	(345,382)	-	-	(345,382)
Net OPEB obligation	-	(5,498)	(2,396)	(7,894)
Net pension liability	4,309,358	355,738	146,967	4,812,063
Deferred inflows of resources	883,172	71,435	29,512	984,119
Net Cash Provided By Operating Activities	\$ 6,837,526	\$ 2,694,941	\$ 1,788,581	\$ 11,321,048

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

TOWN OF READING, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2016

	Pension Trust Fund (As of <u>December 31, 2015</u>)	Municipal Light Pension Trust Funds	OPEB Trust Fund	Municipal Light OPEB Trust Fund	Agency Funds
Assets					
Cash and short term investments	\$ 1,930,861	\$ 4,264,442	\$ 3,017,710	\$ 2,525,843	\$ 486,984
Investments	116,101,358	1,345,663	-	-	-
Accounts receivable	<u>45,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>118,077,797</u>	<u>5,610,105</u>	<u>3,017,710</u>	<u>2,525,843</u>	<u>486,984</u>
Liabilities					
Warrants payable	-	-	-	-	24,093
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>462,891</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>486,984</u>
Net Position					
Total net position restricted for pensions and other purposes	<u>\$ 118,077,797</u>	<u>\$ 5,610,105</u>	<u>\$ 3,017,710</u>	<u>\$ 2,525,843</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, 2016

	Pension Trust Fund (Year ended December 31, 2015)	Municipal Light Pension Trust Funds	OPEB Trust Fund	Municipal Light OPEB Trust Fund
Additions:				
Contributions:				
Employers	\$ 5,184,813	\$ 1,500,000	\$ 576,000	\$ 308,795
Intergovernmental	304,631	-	-	-
Plan members	<u>2,669,084</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total contributions	8,158,528	1,500,000	576,000	308,795
Investment Income:				
Increase in fair value of investments	1,491,693	123,983	10,284	13,928
Less: management fees	<u>(609,279)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net investment income	<u>882,414</u>	<u>123,983</u>	<u>10,284</u>	<u>13,928</u>
Total additions	9,040,942	1,623,983	586,284	322,723
Deductions:				
Benefit payments to plan members, beneficiaries, and other systems	9,553,781	-	-	-
Refunds and transfers to other systems	322,461	-	-	-
Administrative expenses	106,846	-	-	-
Contribution to employee's pension plan	<u>-</u>	<u>1,464,711</u>	<u>-</u>	<u>-</u>
Total deductions	<u>9,983,088</u>	<u>1,464,711</u>	<u>-</u>	<u>-</u>
Net change	(942,146)	159,272	586,284	322,723
Net position:				
Beginning of year	<u>119,019,943</u>	<u>5,450,833</u>	<u>2,431,426</u>	<u>2,203,120</u>
End of year	<u>\$ 118,077,797</u>	<u>\$ 5,610,105</u>	<u>\$ 3,017,710</u>	<u>\$ 2,525,843</u>

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

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 Town and applicable component units for which the Town is considered to be financially accountable.

Blended Component Unit

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

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

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, 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 Town 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.

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

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

The Town reports the following fiduciary funds:

- The *Pension Trust Fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The *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 post-employment benefit costs, other than pensions.
- The *Municipal Light OPEB Trust Fund* accounts for reserves set aside by the Municipal Light Department to fund future post-employment benefit costs, other than pensions.

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

D. Cash and Short-Term Investments

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

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

The Town considers investments with original maturities of three months or less to be short-term investments. 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. During the fiscal year, the Town did not enter into any repurchase agreements.

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. The Town's investments consist of U.S. Government and agency securities, equities, mutual funds, and long-term certificates of deposit. Investments are carried at market value except for nonnegotiable certificates of deposit, which are reported at cost.

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.

E. Property Tax Limitations

Legislation known as "Proposition 2½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2016 tax levy reflected an excess capacity of \$18,897.

F. Inventories

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

G. Capital Assets

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

H. Compensated Absences

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

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obliga-

tions are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

J. Fund Equity

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

Fund Balance - Generally, fund balance represents the difference between the current assets 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 subject to various trust agreements (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. In the case of capital project funds, these funds represent remaining balances that are restricted by state law and borrowing terms. Other permanent funds represent assets that are restricted by donors for specific governmental programs and uses
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town Meeting). Those committed amounts cannot be used for any other purpose unless Town Meeting removes or changes the specified use by taking some type of action (through Town Meeting articles) it employed to previously commit those amounts.
- 4) Assigned funds represent amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Town Accountant is authorized to assign fund balance. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for (i.e., purchase orders). This account also includes fund balance authorized by Town Meeting to be used in the subsequent fiscal year’s appropriated budget.

- 5) Unassigned funds represent amounts that have not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance. Temporary fund balance deficits are reported as negative amounts in the unassigned classification in other governmental funds. Unassigned amounts in the general fund are available for any purpose.

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.

K. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 83,613,326	\$ 85,169,052
Other financing sources/uses (GAAP Basis)	<u>2,981,220</u>	<u>75,500</u>
Subtotal (GAAP Basis)	86,594,546	85,244,552
Reverse beginning of year appropriation carryforwards from expenditures	-	(2,352,765)
Add end-of-year appropriation carryforwards to expenditures	-	2,821,135
Other	<u>30,624</u>	<u>-</u>
Budgetary Basis	<u>\$ 86,625,170</u>	<u>\$ 85,712,922</u>

D. Excess of Expenditures Over Appropriations

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

E. Deficit Fund Equity

The Town reported various special revenue and capital project funds reflecting individual deficit account balances as of June 30, 2016. 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, 2016, \$48,599,575 of the Town's and \$1,939,161 of the System's bank balances of \$88,775,402 and \$1,939,161, respectively, were exposed to custodial credit risk. However, \$46,206,004 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	\$ 5,194,316	\$ -	A3
Foreign corporate bonds	2,996,283	-	A2
Certificates of deposits	11,821,970	11,821,970	N/A
Corporate equities	<u>2,100,757</u>	<u>2,100,757</u>	N/A
Total investments	\$ <u>22,113,326</u>	\$ <u>13,922,727</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, 2016, the Contributory Retirement System maintained its investments in the State Investment Pool* with a fair value of \$116,101,358. 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.

Of the Town's investment of \$22,113,326, the government has a custodial credit risk exposure of \$22,113,326 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.

The System's investments of \$116,101,358 were exposed to custodial credit risk as uninsured and uncollateralized. However, the investments were held in the State Investment Pool (PRIT).

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	\$ 10,021,729
SPDR S&P 500 ETF	<u>1,584,888</u>
Total	<u>\$ 11,606,617</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	\$ 5,194,316	\$ -	\$ 231,816	\$ 4,962,500
Foreign corporate bonds	<u>2,996,283</u>	<u>-</u>	<u>399,086</u>	<u>2,597,197</u>
Total	<u>\$ 8,190,599</u>	<u>\$ -</u>	<u>\$ 630,902</u>	<u>\$ 7,559,697</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.

F. Fair Value

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

The Town has the following fair value measurements as of June 30, 2016:

<u>Description</u>	<u>Fair Value Measurements Using:</u>			
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	
Investments by fair value level:				
Debt securities:				
Domestic corporate bonds	\$ 5,194,316	\$ -	\$ 5,194,316	\$ -
Foreign corporate bonds	2,996,283	-	2,996,283	-
Corporate equities	2,100,757	2,100,757	-	-
Investments measured at the net asset value (NAV):				
External investment pool	<u>116,101,358</u>			
Total	<u>\$ 126,392,714</u>			
<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ 116,101,358	\$ -	Monthly	30 days

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

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

5. Taxes and 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, 2016 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 250,392	\$ (25,039)	\$ 225,353
Personal property taxes	21,953	(6,926)	15,027
Tax Liens	369,050	(36,905)	332,145
Deferred taxes	<u>70,242</u>	<u>-</u>	<u>70,242</u>
Total property taxes	711,637	(68,870)	642,767
Motor vehicle excise	<u>327,448</u>	<u>(103,686)</u>	<u>223,762</u>
Grand total	<u>\$ 1,039,085</u>	<u>\$ (172,556)</u>	<u>\$ 866,529</u>

6. User Fees Receivable

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

Receivables for water, sewer, and stormwater user charges, liens, and other fees at June 30, 2016 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Water user charges	\$ 2,682,748	\$ (268,274)	\$ 2,414,474
Water liens	71,169	(21,351)	49,818
Water - other	<u>7,559</u>	<u>(3,780)</u>	<u>3,779</u>
Total Water	2,761,476	(293,405)	2,468,071
Sewer user charges	2,943,435	(294,344)	2,649,091
Sewer liens	57,464	(17,239)	40,225
Sewer - other	<u>24,217</u>	<u>(12,109)</u>	<u>12,108</u>
Total Sewer	3,025,116	(323,692)	2,701,424
Stormwater user charges	156,735	(7,174)	149,561
Stormwater liens	<u>2,993</u>	<u>-</u>	<u>2,993</u>
Total Stormwater	<u>159,728</u>	<u>(7,174)</u>	<u>152,554</u>
Grand Total	<u>\$ 5,946,320</u>	<u>\$ (624,271)</u>	<u>\$ 5,322,049</u>

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016.

8. 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 2016.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,785,996	\$ 75,500
Nonmajor Governmental Funds:		
State grants	-	12,481
Revolving funds	500	278,070
Receipts reserved for appropriation	-	125,000
School capital project funds	75,000	-
Major Enterprise Funds:		
Electric Division fund	<u>-</u>	<u>2,370,445</u>
Total	<u>\$ 2,861,496</u>	<u>\$ 2,861,496</u>

The transfer from the electric division fund to the general fund is a payment in lieu of taxes (PILOT). 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.

9. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 3,966	\$ -	\$ (165)	\$ 3,801
Buildings and improvements	133,981	2,481	(484)	135,978
Machinery, equipment, and furnishings	10,424	972	(829)	10,567
Infrastructure	<u>33,354</u>	<u>738</u>	<u>(2,215)</u>	<u>31,877</u>
Total capital assets, being depreciated	181,725	4,191	(3,693)	182,223
Less accumulated depreciation for:				
Land improvements	(1,427)	(171)	165	(1,433)
Buildings and improvements	(42,701)	(3,801)	484	(46,018)
Machinery, equipment, and furnishings	(5,724)	(909)	829	(5,804)
Infrastructure	<u>(18,394)</u>	<u>(1,257)</u>	<u>2,215</u>	<u>(17,436)</u>
Total accumulated depreciation	<u>(68,246)</u>	<u>(6,138)</u>	<u>3,693</u>	<u>(70,691)</u>
Total capital assets, being depreciated, net	113,479	(1,947)	-	111,532
Capital assets, not being depreciated:				
Land	3,981	-	-	3,981
Construction in progress	<u>5,325</u>	<u>10,812</u>	<u>(125)</u>	<u>16,012</u>
Total capital assets, not being depreciated	<u>9,306</u>	<u>10,812</u>	<u>(125)</u>	<u>19,993</u>
Governmental activities capital assets, net	<u>\$ 122,785</u>	<u>\$ 8,865</u>	<u>\$ (125)</u>	<u>\$ 131,525</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	16,455	1,600	(47)	18,008
Machinery, equipment, and furnishings	35,344	1,071	(217)	36,198
Infrastructure	<u>113,719</u>	<u>3,801</u>	<u>(999)</u>	<u>116,521</u>
Total capital assets, being depreciated	166,955	6,472	(1,263)	172,164
Less accumulated depreciation for:				
Land improvements	(399)	(70)	-	(469)
Buildings and improvements	(10,135)	(493)	47	(10,581)
Machinery, equipment, and furnishings	(21,883)	(1,194)	217	(22,860)
Infrastructure	<u>(47,091)</u>	<u>(3,492)</u>	<u>914</u>	<u>(49,669)</u>
Total accumulated depreciation	<u>(79,508)</u>	<u>(5,249)</u>	<u>1,178</u>	<u>(83,579)</u>
Total capital assets, being depreciated, net	87,447	1,223	(85)	88,585
Capital assets, not being depreciated:				
Land	1,450	-	-	1,450
Construction in progress	<u>2,224</u>	<u>2,885</u>	<u>-</u>	<u>5,109</u>
Total capital assets, not being depreciated	<u>3,674</u>	<u>2,885</u>	<u>-</u>	<u>6,559</u>
Business-type activities capital assets, net	<u>\$ 91,121</u>	<u>\$ 4,108</u>	<u>\$ (85)</u>	<u>\$ 95,144</u>

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

Governmental Activities:	
General government	\$ 226,065
Public safety	477,412
Education	3,533,034
Public works	1,655,310
Facilities	4,667
Health and human services	32,854
Culture and recreation	<u>209,218</u>
Total depreciation expense - governmental activities	<u>\$ 6,138,560</u>
Business-Type Activities:	
Electric	\$ 3,944,792
Water	851,798
Other - Sewer	421,117
Other - Stormwater	<u>30,964</u>
Total depreciation expense - business-type activities	<u>\$ 5,248,671</u>

10. Deferred Outflows of Resources

In addition to assets, the basic financial statements may include a separate element for 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, 2016:

	Entity-wide Basis		Fund Basis		
	Governmental Activities	Business-type Activities	Electric	Water	Nonmajor
Related to pensions	\$ 11,611,038	\$ 6,891,231	\$ 6,338,218	\$ 391,339	\$ 161,674

Deferred outflows of resources related to pensions will be recognized in pension expense in future years and is more fully described in Note 21.

11. Warrants Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016.

12. Tax Refunds Payable

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

13. Notes Payable

The following summarizes activity in notes payable during fiscal year 2016:

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

14. 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 6/30/16</u>
Wood End Elementary School	04/15/24	3.94%	\$ 30,000
Wood End Elementary School	04/15/24	3.94%	45,000
Downtown Improvements	11/01/17	3.45%	130,000
Ladder Truck	07/01/17	3.05%	160,000
Parker Middle Sch Refunding	07/01/17	3.05%	330,000
Energy conservation	08/01/25	2.99%	2,990,000
RMHS Refunding	02/01/24	2.25%	8,655,000
Killam Roof	02/01/22	1.83%	402,000
Birch Meadow Windows	02/01/22	1.83%	198,000
Library Renovation	04/15/25	1.49%	9,000,000
Roadway/Pedestrian Improvements (I)	04/15/25	1.49%	900,000
Roadway/Pedestrian Improvements (II)	04/15/25	1.49%	270,000
Wood End Refunding - Sunset Rock (I)	04/15/24	1.49%	208,790
Wood End Refunding - Sunset Rock (II)	04/15/24	1.49%	308,000
Wood End School Refunding	04/15/24	1.49%	1,130,710
Wood End School Refunding	04/15/24	1.49%	73,800
Barrows School Refunding	04/15/24	1.49%	942,700
Public Library	11/01/24	1.26%	2,115,000
Outdoor Recreational Facility	11/01/16	1.26%	100,000
RMHS Retaining Walls	11/01/20	1.26%	500,000
Elementary School Modular Classrooms	11/01/23	1.26%	1,200,000
Total Governmental Activities:			\$ <u>29,689,000</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/16</u>
MWRA Buy-in	04/15/27	4.00%	\$ 160,000
MWRA Buy-in	11/01/27	3.88%	780,000
MWRA Buy-in	07/01/17	3.05%	160,000
MWRA Water System Pipeline	08/15/21	0.00%	1,230,000
MWRA Water System Pipeline	08/12/23	0.00%	3,209,600
MWRA Buy-in refunding	04/15/27	1.49%	1,561,000
Water GOB	11/01/25	1.26%	1,165,000
MWRA Buy-in refunding	11/01/27	1.26%	3,600,000
MWRA Inflo/Infiltration	08/15/16	0.00%	44,440
MWRA Inflo/Infiltration	05/19/19	0.00%	115,500
MWPAT septic loans	02/01/17	0.00%	5,804
MWRA Sewer bond	11/15/20	0.00%	39,050
Total Business-Type Activities:			\$ <u>12,070,394</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,750,000	\$ 1,106,855	\$ 4,856,855
2018	3,660,000	993,814	4,653,814
2019	3,415,000	860,233	4,275,233
2020	3,465,000	730,214	4,195,214
2021	3,495,000	597,358	4,092,358
2022 - 2026	<u>11,904,000</u>	<u>1,053,005</u>	<u>12,957,005</u>
Total	<u>\$ 29,689,000</u>	<u>\$ 5,341,479</u>	<u>\$ 35,030,479</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,448,115	\$ 238,618	\$ 1,686,733
2018	1,408,675	235,300	1,643,975
2019	1,298,675	209,230	1,507,905
2020	1,255,175	185,130	1,440,305
2021	1,255,154	161,130	1,416,284
2022 - 2026	4,554,600	444,310	4,998,910
2027 - 2029	<u>850,000</u>	<u>25,425</u>	<u>875,425</u>
Total	<u>\$ 12,070,394</u>	<u>\$ 1,499,143</u>	<u>\$ 13,569,537</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/15</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/16</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/16</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 28,924	\$ 3,915	\$ (3,150)	\$ 29,689	\$ (3,750)	\$ 25,939
Unamortized bond premiums	<u>3,174</u>	<u>425</u>	<u>(354)</u>	<u>3,245</u>	<u>(401)</u>	<u>2,844</u>
Total bonds payable	32,098	4,340	(3,504)	32,934	(4,151)	28,783
Accrued employee benefits	1,357	48	(296)	1,109	(39)	1,070
Net OPEB obligation	15,903	4,970	(3,319)	17,554	-	17,554
Net pension liability	20,314	10,555	-	30,869	-	30,869
Litigation settlement liability	<u>-</u>	<u>6,000</u>	<u>-</u>	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Total Governmental Activities	<u>\$ 69,672</u>	<u>\$ 25,913</u>	<u>\$ (7,119)</u>	<u>\$ 88,466</u>	<u>\$ (4,190)</u>	<u>\$ 84,276</u>

	Total Balance <u>7/1/15</u>	Additions	Reductions	Total Balance <u>6/30/16</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/16</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 12,487	\$ 4,804	\$ (5,221)	\$ 12,070	\$ (1,448)	\$ 10,622
Unamortized bond premiums	-	703	-	703	(59)	644
Total bonds payable	12,487	5,507	(5,221)	12,773	(1,507)	11,266
Accrued employee benefits	3,132	257	(65)	3,324	(401)	2,923
Net OPEB obligation	429	951	(959)	421	-	421
Net pension liability	5,492	4,812	-	10,304	-	10,304
Total Business-Type	\$ <u>21,540</u>	\$ <u>11,527</u>	\$ <u>(6,245)</u>	\$ <u>26,822</u>	\$ <u>(1,908)</u>	\$ <u>24,914</u>

D. Current and Advance Refundings

Advance Refunding of 11/01/2007

On June 28, 2016, the Town issued general obligation municipal purpose loan of 2016 bonds in the amount of \$8,680,000, of which \$3,600,000 represented refunding bonds, with interest rates ranging from 3.00% to 4.00% throughout the life of the bonds. The bonds were issued at a true interest cost of 1.2613%.

The \$3,600,000 in refunding bonds were issued to advance refund \$3,900,000 of its November 1, 2007 Bonds (the "2007 Bonds"), comprised of serial bonds with a 4.0% interest rate. The 2007 Bonds mature on November 1, 2018 through November 1, 2027 and are callable on November 1, 2017.

The refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the Town's financial statements.

After paying the pro-rata share of issuance costs and underwriter's discount of approximately \$47,861, the net bond proceeds were \$4,101,177. The net proceeds from the issuance of the general obligation refunding 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 bonds are called on November 1, 2017. The advance refunding met the requirements of an insubstance debt defeasance and the bonds were removed from the Government's financial statements.

As a result of the advance refunding, the Town reduced its total debt service cash flow requirements by \$487,809, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$449,967.

Defeased debt still outstanding at June 30, 2016 is \$910,000.

E. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2016 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	460,000
April 2013	Water improvements - A-1 and A-2	948,000
February 2014	Library renovations	1,267,367
September 2014	Water main improvements - Phase 1	2,512,000
April 2015	Birch Meadow field lighting	900,000
April 2015	MWRA Sewer I/I	1,688,000
	Total	\$ <u>8,013,417</u>

15. Deferred Inflows of Resources

In addition to liabilities, the basic financial statements may include a separate element for deferred inflows of resources. Deferred inflows of resources represent the acquisition of net position by the Town that is applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2016:

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Governmental Funds</u>		<u>Proprietary Funds</u>	
			<u>General Fund</u>	<u>Electric</u>	<u>Water</u>	<u>Nonmajor</u>
Related to pensions	\$ 2,119,488	\$ 984,119	\$ -	\$ 883,172	\$ 71,435	\$ 29,512
Gain on refunding bond	135,900	-	-	-	-	-
Unavailable revenues	-	-	1,283,297	-	-	-
Total Deferred Inflows	\$ <u>2,255,388</u>	\$ <u>984,119</u>	\$ <u>1,283,297</u>	\$ <u>883,172</u>	\$ <u>71,435</u>	\$ <u>29,512</u>

Deferred inflows of resources related to pensions will be recognized in pension expense in future years and is more fully described in Note 21.

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

Unavailable revenues are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

16. 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 is 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.

Assets that have restrictions placed on them from federal and state granting agencies, as well as assets that are restricted by state law to specific capital purposes and borrowing terms, are reported as a component of "Grants and other statutory restrictions".

17. Governmental Funds - Balances

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

The Town implemented GASB Statement No. 54 (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, 2016:

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

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

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

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

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

Following is a breakdown of the Town's fund balances at June 30, 2016:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Permanent funds			
Cemetery	\$ -	\$ 2,682,748	\$ 2,682,748
Other	-	511,287	511,287
	<hr/>	<hr/>	<hr/>
Total Nonexpendable	-	3,194,035	3,194,035
Restricted			
Federal grants	-	38,174	38,174
State grants			
Circuit Breaker	-	183,234	183,234
State aid to libraries	-	230,661	230,661
Other	-	907,579	907,579
Revolving funds:			
Extended day program	-	1,036,604	1,036,604
RISE preschool program	-	386,690	386,690
Special Education tuition	-	284,968	284,968
All-day kindergarten program	-	618,985	618,985
Inspection permit	-	767,398	767,398
Recreation	-	294,717	294,717
Athletic activities	-	47,115	47,115
School lunch	-	446,518	446,518
Other	-	246,121	246,121
Receipts reserved for appropriation			
Sale of real estate	-	645,696	645,696
Affordable housing fund	-	262,013	262,013
Sale of cemetery lots	-	194,509	194,509
Other	-	8,356	8,356
Gifts and donations	-	766,951	766,951
Permanent funds			
Healthcare	-	4,799,770	4,799,770
Cemetery	-	1,733,400	1,733,400
Other	-	433,228	433,228
Town capital project funds			
Library renovations	-	2,441,761	2,441,761
West street road improvements	-	533,695	533,695
Other	-	36,077	36,077
School capital project funds	-	133,497	133,497
	<hr/>	<hr/>	<hr/>
Total Restricted	-	17,477,717	17,477,717

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(continued)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed			
Smart growth stabilization account	503,000	-	503,000
Sick buy-back stabilization account	31	-	31
For School capital project funds	<u>-</u>	<u>13,131</u>	<u>13,131</u>
Total Committed	503,031	13,131	516,162
Assigned			
For encumbrances			
General government	232,560	-	232,560
Public safety	704,406	-	704,406
Education	1,386,100	-	1,386,100
Public works	368,618	-	368,618
Facilities	224,595	-	224,595
Culture and recreation	20,187	-	20,187
Employee benefits	530	-	530
For next year's expenditures	2,450,000	-	2,450,000
Appropriation of free cash subsequent to June 30, 2016 for High School project litigation settlement	<u>2,196,605</u>	<u>-</u>	<u>2,196,605</u>
Total Assigned	7,583,601	-	7,583,601
Unassigned - operating fund	8,680,871	-	8,680,871
Unassigned - general stabilization	1,565,475	-	1,565,475
Unassigned - deficit balances	<u>-</u>	<u>(638,362)</u>	<u>(638,362)</u>
Total Unassigned	<u>10,246,346</u>	<u>(638,362)</u>	<u>9,607,984</u>
Total Fund Balance	<u>\$ 18,332,978</u>	<u>\$ 20,046,521</u>	<u>\$ 38,379,499</u>

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

18. Subsequent Events

Subsequent to June 30, 2016, the Town agreed to a settlement in the amount of \$6,000,000 regarding a civil action lawsuit that arose out of Reading Memorial High School's additions and renovations construction project. At the December 8, 2016 Special Town Meeting, the Town voted to fund the settlement using the following sources:

	<u>Amount</u>
Long-term borrowing	\$ 3,000,000
Free cash appropriation	2,196,605
Other available funds	<u>803,395</u>
Total	<u>\$ 6,000,000</u>

The Town reported a liability of \$6,000,000 in the government-wide financial statements, and reported an assigned fund balance of \$2,196,605 in the general fund, which represents the free cash appropriated to fund the settlement.

19. **Commitments and Contingencies**

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

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

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

20. **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 2016 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, 2016, 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)	\$ 4,867,416	\$ 123,870	\$ 44,779	\$ 7,151	\$ 782,939	\$ 5,826,155
Interest on net OPEB obligation	954,182	23,136	8,524	1,557	-	987,399
Adjustment to ARC	(851,654)	(28,634)	(10,550)	(1,927)	-	(892,765)
Annual OPEB cost	4,969,944	118,372	42,753	6,781	782,939	5,920,789
Contributions made	(2,819,309)	(65,145)	(28,588)	(122)	(474,144)	(3,387,308)
Additional funding to trust	(500,000)	(58,725)	(16,191)	(7,029)	(308,795)	(890,740)
Increase in net OPEB obligation	1,650,635	(5,498)	(2,026)	(370)	-	1,642,741
Net OPEB obligation - beginning of year	15,903,029	298,527	109,988	20,092	-	16,331,636
Net OPEB obligation - end of year	\$ 17,553,664	\$ 293,029	\$ 107,962	\$ 19,722	\$ -	\$ 17,974,377

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 5,920,789	57.21%	\$ 17,974,377
2015	\$ 5,698,341	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

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

F. Actuarial Methods and Assumptions

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

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.

21. 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	333
Terminated plan members entitled to but not yet receiving benefits	12
Terminated plan members not entitled to receive benefits	32
Active plan members	<u>340</u>
Total	<u><u>717</u></u>
Number of participating employers	2

Participant Retirement Benefits

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

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

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

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

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of

service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee’s individual contribution percentage is determined by their date of entry into the system. The percentages are as follows:

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

Employer Contributions

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

The Town’s contribution to the System for the year ended June 30, 2016 was \$5,147,236, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2016 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, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 0.75%. 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.

C. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2015.

Net Pension Liability of Employers

The components of the net pension liability of the participating employers at June 30, 2016 were as follows:

Total pension liability	\$ 163,609,593
Plan fiduciary net position	<u>(118,077,797)</u>
Employers' net pension liability	<u>\$ 45,531,796</u>
Plan fiduciary net position as a percentage of total pension liability	72.17%

Actuarial Assumptions

Actuarial valuation of the ongoing System 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 January 1, 2015 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2013 through December 31, 2014.

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

Valuation Date	January 1, 2015, rolled forward to December 31, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.65%
Projected salary increases	Based on years of service: 6.00% - 4.25% for general employees and 7.00% - 4.75% for public safety employees
Inflation rate	3.75% per year
Post-retirement cost-of-living adjustment	3% on first \$12,000

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

Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	40.00%	8.02%
Fixed income	13.00%	3.72%
Value-added fixed income	10.00%	6.86%
Private equity	10.00%	9.50%
Real estate	10.00%	6.50%
Timber/Natural resources	4.00%	7.07%
Hedge funds	9.00%	6.50%
Other	4.00%	6.18%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

<u>Year Ended</u>	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
December 31, 2015	\$ 63,625,456	\$ 41,172,508	\$ 29,537,779

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

At June 30, 2016, the Town reported a liability of \$41,172,508 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial

valuation as of January 1, 2015. 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, 2015, the Town's proportion was 99.275%.

For the year ended June 30, 2016, the Town recognized pension expense of \$6,872,107. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings on pension plan investments	\$ 6,694,784	\$ -
Changes of assumptions	10,307,485	-
Differences between expected and actual experience	-	(3,103,607)
Pension plan contributions made subsequent to the measurement date	<u>1,500,000</u>	<u>-</u>
Total	<u>\$ 18,502,269</u>	<u>\$ (3,103,607)</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:

	<u>Deferred Outflows of Resources</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Year ended June 30:			
2017	\$ 2,902,759	\$ 2,847,808	\$ 5,750,567
2018	2,902,759	1,347,808	4,250,567
2019	2,902,759	1,347,808	4,250,567
2020	<u>2,902,761</u>	<u>1,347,807</u>	<u>4,250,568</u>
Total	<u>\$ 11,611,038</u>	<u>\$ 6,891,231</u>	<u>\$ 18,502,269</u>

	Deferred Inflows of Resources		
	Governmental Activities	Business-type Activities	Total
Year ended June 30:			
2017	\$ (529,872)	\$ (246,030)	\$ (775,902)
2018	(529,872)	(246,030)	(775,902)
2019	(529,872)	(246,030)	(775,902)
2020	<u>(529,872)</u>	<u>(246,029)</u>	<u>(775,901)</u>
Total	\$ <u>(2,119,488)</u>	\$ <u>(984,119)</u>	\$ <u>(3,103,607)</u>

22. **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:

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

D. Actuarial Assumptions

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

Valuation Date	January 1, 2015, rolled forward to June 30, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Projected salary increases	Based on years of service, 4.00% - 7.50%
Interest rate	3.50% credited to annuity savings fund
Cost-of-living increase	3.00% per year

Mortality rates were based on the following:

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

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.00%	6.90%
Core fixed income	13.00%	2.40%
Private equity	10.00%	8.50%
Real estate	10.00%	6.50%
Value added fixed income	10.00%	5.80%
Hedge Funds	9.00%	5.80%
Portfolio completion strategies	4.00%	5.50%
Timber/natural resources	4.00%	6.60%
Total	<u>100.00%</u>	

E. Discount Rate

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

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is 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 (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase to (8.50%)</u>
June 30, 2015	\$ 25,449,000	\$ 20,489,643	\$ 16,221,000

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 2015 (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 \$89,977,515 and \$7,297,977, respectively, based on a proportionate share of 0.439137%. 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.

23. 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.

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.

2. Cash and Investments

Total cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Proprietary Fund:	
Unrestricted cash and short-term investments	\$ 13,123,605
Restricted cash and short-term investments	21,815,636
Restricted investments	1,345,663
Fiduciary Funds:	
Cash and short-term investments - Pension Trust	4,264,442
Cash and short-term investments - OPEB Trust	2,525,843
Investments - Pension Trust	<u>1,345,663</u>
Total cash and investments	<u>\$ 44,420,852</u>

Total cash and investments at June 30, 2016 consist of the following:

Cash on hand	\$ 3,000
Deposits with financial institutions	<u>44,417,852</u>
Total cash and investments	<u>\$ 44,420,852</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, 2016, 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, 2016, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying maturity dates as follows:

	Proprietary Fund	Fiduciary Funds	Maturity Date
	<u>Restricted Investments</u>	<u>Pension Trust</u>	
<u>Corporate bonds</u>			
AT&T Inc	\$ 221,559	\$ 221,559	12/01/22
General Electric Cap Corp	220,472	220,472	01/09/23
Wells Fargo & Co	214,864	214,864	08/15/23
Rabobank Nederland Bank	257,210	257,210	11/09/22
Teva Pharmaceut Fin BV	218,036	218,036	12/18/22
BNP Paribas	<u>213,522</u>	<u>213,522</u>	03/03/23
Total	<u>\$ 1,345,663</u>	<u>\$ 1,345,663</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assigning of a rating by a nationally recognized statistical rating organization. As of June 30, 2016, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying ratings as follows:

<u>Investment Type</u>	Proprietary	Fiduciary	Moody's
	Fund	Funds	
	<u>Restricted</u>	<u>Pension</u>	<u>Rating</u>
	<u>Investments</u>	<u>Trust</u>	
Corporate bonds:			
AT&T Inc	\$ 221,559	\$ 221,559	BAA1
General Electric Cap Corp	220,472	220,472	A1
Wells Fargo & Co	214,864	214,864	A3
Rabobank Nederland Bank	257,210	257,210	A3
Teva Pharmaceut Fin BV	218,036	218,036	BAA1
BNP Paribas	213,522	213,522	A1
Total	<u>\$ 1,345,663</u>	<u>\$ 1,345,663</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, 2016, the Department and Pension Trust investments were held in domestic and foreign fixed income bonds, as detailed in the sections above. Five of the bonds each individually represent approximately 16% of the Department's and System's total investments, while the investment in Rabobank Nederland Bank represents approximately 20%.

Custodial Credit Risk

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

Because the Department pools its cash and short-term investments with the Town of Reading, and bank accounts are maintained in the name of the Town, the amount of the Department's balance exposed to custodial credit risk at June 30, 2016, cannot be reasonably determined.

As of June 30, 2016, none of the Department or Pension Trust investments were exposed to custodial credit risk because the related securities are registered in the Department's name.

Fair Value

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

Proprietary Fund

<u>Description</u>	<u>Fair Value Measurements Using:</u>		
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:			
Debt securities			
Corporate bonds	\$ 1,345,663	\$ 1,345,663	\$ -
Total	\$ <u>1,345,663</u>		

Fiduciary Fund

<u>Description</u>	<u>Fair Value Measurements Using:</u>		
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:			
Debt securities			
Corporate bonds	\$ 1,345,663	\$ 1,345,663	\$ -
Total	\$ <u>1,345,663</u>		

3. Restricted Cash and Investments

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

	6/30/16		6/30/15	
	Cash	Investments	Cash	Investments
Depreciation fund	\$ 4,494,953	\$ -	\$ 5,434,308	\$ -
Construction fund	1,500,000	-	1,400,000	-
Deferred fuel reserve	5,116,875	-	5,180,285	-
Deferred energy conservation reserve	717,418	-	584,606	-
Rate stabilization	6,822,339	-	6,771,634	-
Reserve for uncollectible accounts	200,000	-	200,000	-
Sick leave benefits	1,912,146	1,345,663	1,777,582	1,284,061
Hazardous waste fund	150,000	-	150,000	-
Customer deposits	901,905	-	846,361	-
Total	\$ 21,815,636	\$ 1,345,663	\$ 22,344,776	\$ 1,284,061

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, 2016:

Customer Accounts:	
Billed	\$ 2,085,964
Less allowances:	
Uncollectible accounts	(200,000)
Sales discounts	<u>(83,691)</u>
Total billed	1,802,273
Unbilled, net	<u>5,686,110</u>
Total customer accounts	7,488,383
Other Accounts:	
Merchandise sales	116,253
MMWEC surplus	253,318
Intergovernmental grants	307,217
Liens and other	<u>38,416</u>
Total other accounts	<u>715,204</u>
Total net receivables	<u>\$ 8,203,587</u>

5. Prepaid Expenses

Prepaid expenses consist of the following:

Insurance and other	\$ 345,837
Purchase power	72,930
NYPA prepayment fund	307,573
WC Fuel - Watson	<u>259,416</u>
Total	<u>\$ 985,756</u>

6. Inventory

Inventory comprises supplies and materials at June 30, 2016, 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 require-

ments 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, 2016:

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

8. Capital Assets

The following is a summary of fiscal year 2016 activity in capital assets (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Structures and improvements	\$ 14,546	\$ 1,600	\$ -	\$ 16,146
Equipment and furnishings	31,725	915	(129)	32,511
Infrastructure	<u>85,222</u>	<u>3,801</u>	<u>(970)</u>	<u>88,053</u>
Total capital assets, being depreciated	131,493	6,316	(1,099)	136,710
Less accumulated depreciation for:				
Structures and improvements	(8,525)	(424)	-	(8,949)
Equipment and furnishings	(20,090)	(895)	129	(20,856)
Infrastructure	<u>(34,228)</u>	<u>(2,625)</u>	<u>884</u>	<u>(35,969)</u>
Total accumulated depreciation	<u>(62,843)</u>	<u>(3,944)</u>	<u>1,013</u>	<u>(65,774)</u>
Total capital assets, being depreciated, net	68,650	2,372	(86)	70,936
Capital assets, not being depreciated:				
Land	<u>1,266</u>	<u>-</u>	<u>-</u>	<u>1,266</u>
Total capital assets, not being depreciated	<u>1,266</u>	<u>-</u>	<u>-</u>	<u>1,266</u>
Capital assets, net	<u>\$ 69,916</u>	<u>\$ 2,372</u>	<u>\$ (86)</u>	<u>\$ 72,202</u>

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, 2016:

	<u>Proprietary Fund</u>
Pension related:	
Net difference between projected and actual investment earnings on pension plan	\$ 1,905,088
Pension plan changes in assumptions	2,933,130
Pension plan contributions subsequent to the measurement date	<u>1,500,000</u>
Total	<u>\$ 6,338,218</u>

10. Accounts Payable

Accounts payable represent fiscal 2016 expenses that were paid after June 30, 2016.

11. Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2016:

Accrued payroll	\$ 202,793
Accrued sales tax	212,176
Other	<u>34,435</u>
Total	<u>\$ 449,404</u>

12. Customer Deposits

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

13. Customer Advances for Construction

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

14. Accrued Employee Compensated Absences

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

15. Deferred Inflows of Resources

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

The following is a summary of deferred inflow of resources balances as of June 30, 2016:

	<u>Proprietary Fund</u>
Pension related:	
Differences between expected and actual experience	\$ <u>883,172</u>
Total	\$ <u><u>883,172</u></u>

16. 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.

17. 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 18, the Department provides post-employment health and life insurance benefits to retired employees through the Town of Reading's participation in the Massachusetts Interlocal Insurance Association (MIIA) Health Benefits Trust. Benefits, benefit levels, employee contributions and employer contri-

butions 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 2016 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, 2016, 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)	\$ 553,967
Interest on net OPEB obligation	<u>228,972</u>
Annual OPEB cost	782,939
Projected benefit payments	<u>(474,144)</u>
Increase in net OPEB obligation	308,795
Net OPEB obligation - beginning of year	-
Contributions to OPEB Trust	<u>(308,795)</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 2016 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>
2016	\$782,939	100.00%	\$ -
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 2016, the Department contributed \$308,795 to this trust, which was equal to all of its actuarially determined annual contributions through June 30, 2016. 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.

18. Reading Contributory Retirement System

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

A. Plan Description

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

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, 2016 was \$1,464,711, 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, 2016, the Department reported a liability of \$8,833,549 for its proportionate share of the System's net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to December 31, 2015. 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, 2015, 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 January 1, 2015 rolled forward to December 31, 2015. However, the actuarial valuation does not take into account the fiduciary net position of the Department's Pension Trust at December 31,

2015 (the measurement date). Accordingly, the following reconciliation is provided:

	<u>2016</u>
Net pension liability, per actuarial valuation	\$ 12,862,732
Pension Trust Net Position	(5,610,105)
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>80,922</u>
Net pension liability, as reported on the proprietary fund Statements of Net Position	<u>\$ 8,833,549</u>

For the year ended June 30, 2016, the Department recognized pension expense of \$1,955,548. In addition, the Department reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between expected and actual experience	\$ -	\$ 883,172
Changes of assumptions	2,933,130	-
Net difference between projected and actual investment earnings on pension plan	1,905,088	-
Contributions subsequent to the measurement date	<u>1,500,000</u>	<u>-</u>
Total	<u>\$ 6,338,218</u>	<u>\$ 883,172</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 ending June 30, 2017.

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:	
2017	\$ 2,421,062
2018	921,062
2019	921,061
2020	909,108
2021	<u>282,753</u>
Total	\$ <u>5,455,046</u>

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

Inflation	3.75% per year
Salary increases	6% - 4.25% for General Employees and 7% - 4.75% for Public Safety, depending on years of service
Investment rate of return	7.65%, net of pension plan investment expense,

Mortality rates were based on pre-retirement rates that reflect the RP-2014 Mortality Table, projected with fully generational mortality improvement using Scale MP-2014. Post retirement rates reflect the RP-2014 Table, projected with fully generational mortality improvement using Scale MP-2014. For disabled lives, the RP-2014 Disabled Mortality Table was used.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Rates of Return</u>
Global equity	40.00%	8.02%
Fixed income	13.00%	3.72%
Value-Added Fixed Income	10.00%	6.86%
Private equity	10.00%	9.50%
Real estate	10.00%	6.50%
Timber/Natural Resources	4.00%	7.07%
Hedge funds	9.00%	6.50%
Other	4.00%	6.18%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that 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 7.65%, as well as what the Department's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
June 30, 2016	\$ 14,076,273	\$ 8,833,549	\$ 4,367,178

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

19. Participation in Massachusetts Municipal Wholesale Electric Company

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

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own, or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

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

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

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

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

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

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

After the July 1, 2016 principal payment, total capital expenditures amounted to \$1,694,153,000, of which \$126,048,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects from Power Supply System Revenue Bonds totals \$112,510,000, of which \$4,099,000 is associated with the Department's share of Project Capability. After the July 1, 2016 principal payment, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$59,282,000, of which \$1,664,000 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, 2016 and estimated for future years is shown below.

	<u>Annual Costs</u>
For years ending June 30, 2017	\$ 1,473,000
2018	<u>191,000</u>
Total	<u>\$ 1,664,000</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 \$11,894,000 and \$12,475,000 for the years ended June 30, 2016 and 2015, respectively.

20. Renewable Energy Certificates

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

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

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

Information regarding the Department's fiscal year 2016 REC activity and balances is as follows:

REC Sales During Fiscal 2016

	<u>Certificates</u>	<u>Unit Price</u>	<u>Amount</u>
CT Class I	6,008	\$ 24.00	\$ 144,192
MA Class I	394	\$ 24.00	9,456
MA Class II	426	\$ 24.00	10,224
MA Class II	787	\$ 24.75	19,478
RI Class I	189	\$ 44.00	8,316
MA Class I	4,029	\$ 46.50	187,349
CT Class I	<u>6,807</u>	\$ 46.50	<u>316,526</u>
Total	<u>18,640</u>		<u>\$ 695,541</u> ⁽¹⁾

⁽¹⁾ Sale proceeds netted against fiscal year 2016 purchased power fuel charge

REC Holdings at June 30, 2016

	<u>Banked Certificates</u>	<u>Projected Certificates</u>	<u>Total Certificates</u>	<u>Estimated Value</u>
MA Class I & II	-	7,214	7,214	\$ 180,350
CT Class I	-	3,957	3,957	98,925
RI Class I	-	384	384	9,600
Total	-	11,555	11,555	\$ 288,875

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

Because there is no formal accounting guidance under GAAP or IFRS for RECs and the Department does not have a formal policy for the future disposition of RECs, the estimated fair value of the Department's REC holdings at June 30, 2016 are not recognized as an asset on the proprietary fund Statements of Net Position.

21. Leases

Related Party Transaction - Property Sub-Lease

The Department is the lessor of facilities that are currently sub-leased to the Reading Town Employees Federal Credit Union. The original sub-lease agreement commenced in December 2000 and was extended by various amendments through November 30, 2016. 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:

2017	\$ <u>4,084</u>
Total	\$ <u>4,084</u>

Operating Lease - Warehouse

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

2017	\$ 161,348
2018	<u>147,902</u>
Total	\$ <u>309,250</u>

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

June 30, 2016

(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, 2016
(Unaudited)

Reading Contributory Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	99.275%	\$ 41,172,508	\$ 22,534,225	182.71%	72.17%
June 30, 2015	99.275%	\$ 25,805,701	\$ 19,399,338	143.26%	79.89%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	0.439137%	\$ -	\$ 89,977,515	\$ 89,977,515	\$ 27,836,403	0.00%	55.38%
June 30, 2015	0.425154%	\$ -	\$ 67,583,938	\$ 67,583,938	\$ 26,068,000	0.00%	61.64%

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

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

**SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016
(Unaudited)**

Reading Contributory Retirement System

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

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

See Independent Auditors' Report.

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

Schedule of Changes in the Net Pension Liability

(Unaudited)

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 3,661,364	\$ 3,661,364
Interest on unfunded liability - time value of money	11,468,655	10,776,373
Differences between expected and actual experience	(3,800,039)	-
Changes of assumptions	12,620,424	-
Benefit payments, including refunds of member contributions	<u>(9,324,162)</u>	<u>(9,008,745)</u>
Net change in total pension liability	14,626,242	5,428,992
Total pension liability - beginning	<u>148,983,351</u>	<u>143,554,359</u>
Total pension liability - ending (a)	<u>\$ 163,609,593</u>	<u>\$ 148,983,351</u>
Plan fiduciary net position		
Contributions - employer	\$ 5,184,813	\$ 4,961,545
Contributions - member	2,421,626	2,710,307
Net investment income	882,425	8,416,432
Benefit payments, including refunds of member contributions	(9,324,162)	(9,008,745)
Administrative expense	<u>(106,848)</u>	<u>(114,170)</u>
Net change in plan fiduciary net position	(942,146)	6,965,369
Plan fiduciary net position - beginning	<u>119,019,943</u>	<u>112,054,574</u>
Plan fiduciary net position - ending (b)	<u>\$ 118,077,797</u>	<u>\$ 119,019,943</u>
Net pension liability (asset) - ending (a-b)	<u>\$ 45,531,796</u>	<u>\$ 29,963,408</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.

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

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Unaudited)

Schedule of Net Pension Liability

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 163,609,593	\$ 148,983,351
Plan fiduciary net position	<u>(118,077,797)</u>	<u>(119,019,943)</u>
Net pension liability (asset)	<u>\$ 45,531,796</u>	<u>\$ 29,963,408</u>
Plan fiduciary net position as a percentage of the total pension liability	72.17%	79.89%
Covered payroll	\$ 22,793,551	\$ 20,915,728
Participating employer net pension liability (asset) as a percentage of covered payroll	199.76%	143.26%

Schedule of Contributions

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 5,184,813	\$ 4,961,545
Contributions in relation to the actuarially determined contribution	<u>(5,184,813)</u>	<u>(4,961,545)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 22,793,551	\$ 20,915,728
Contributions as a percentage of covered payroll	22.75%	23.72%

Schedule of Investment Returns

Year Ended December 31

	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	0.75%	7.66%

*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

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2016

	<u>Special Revenue Funds</u>		
	<u>Federal Grants</u>	<u>State Grants</u>	<u>Revolving Funds</u>
Assets			
Cash and short-term investments	\$ (247,251)	\$ 1,218,179	\$ 4,407,104
Investments	-	-	-
Receivables:			
Departmental and other	-	-	260,220
Intergovernmental	<u>220,578</u>	<u>149,142</u>	<u>-</u>
Total Assets	<u>\$ (26,673)</u>	<u>\$ 1,367,321</u>	<u>\$ 4,667,324</u>
Liabilities			
Warrants payable	\$ 27,743	\$ 101,451	\$ 158,066
Accrued liabilities	155,525	11,418	121,263
Unearned revenue	-	-	268,264
Retainage payable	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	183,268	112,869	547,593
Fund Balances			
Nonspendable	-	-	-
Restricted	38,174	1,321,474	4,129,116
Committed	-	-	-
Unassigned	<u>(248,115)</u>	<u>(67,022)</u>	<u>(9,385)</u>
Total Fund Balance	<u>(209,941)</u>	<u>1,254,452</u>	<u>4,119,731</u>
Total Liabilities and Fund Balance	<u>\$ (26,673)</u>	<u>\$ 1,367,321</u>	<u>\$ 4,667,324</u>

See Independent Auditors' Report.

Special Revenue Funds

<u>Receipts Reserved</u>	<u>Gifts and Donations</u>	<u>Subtotals</u>
\$ 1,110,574	\$ 690,334	\$ 7,178,940
-	121,943	121,943
-	-	260,220
-	-	369,720
<u>\$ 1,110,574</u>	<u>\$ 812,277</u>	<u>\$ 7,930,823</u>
\$ -	\$ 44,696	\$ 331,956
-	630	288,836
-	-	268,264
-	-	-
-	45,326	889,056
-	-	-
1,110,574	766,951	7,366,289
-	-	-
-	-	(324,522)
<u>1,110,574</u>	<u>766,951</u>	<u>7,041,767</u>
<u>\$ 1,110,574</u>	<u>\$ 812,277</u>	<u>\$ 7,930,823</u>

(continued)

TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2016

(continued)

	Capital Project Funds		
	Town Capital Project Funds	School Capital Project Funds	Subtotals
Assets			
Cash and short-term investments	\$ 3,588,125	\$ 936,892	\$ 4,525,017
Investments	-	-	-
Receivables:			
Departmental and other	-	-	-
Intergovernmental	-	-	-
Total Assets	\$ 3,588,125	\$ 936,892	\$ 4,525,017
Liabilities			
Warrants payable	\$ 576,592	\$ -	\$ 576,592
Accrued liabilities	-	-	-
Unearned revenue	-	-	-
Retainage payable	-	1,104,104	1,104,104
Total Liabilities	576,592	1,104,104	1,680,696
Fund Balances			
Nonspendable	-	-	-
Restricted	3,011,533	133,497	3,145,030
Committed	-	13,131	13,131
Unassigned	-	(313,840)	(313,840)
Total Fund Balance	3,011,533	(167,212)	2,844,321
Total Liabilities and Fund Balance	\$ 3,588,125	\$ 936,892	\$ 4,525,017

See Independent Auditors' Report.

<u>Permanent Funds</u>			Total Nonmajor Governmental Funds
<u>Town Trust Funds</u>	<u>School Trust Funds</u>	<u>Subtotals</u>	
\$ 891,948	\$ -	\$ 891,948	\$ 12,595,905
9,081,645	196,683	9,278,328	9,400,271
-	-	-	260,220
-	-	-	369,720
<u>\$ 9,973,593</u>	<u>\$ 196,683</u>	<u>\$ 10,170,276</u>	<u>\$ 22,626,116</u>
\$ 9,829	\$ 14	\$ 9,843	\$ 918,391
-	-	-	288,836
-	-	-	268,264
-	-	-	1,104,104
9,829	14	9,843	2,579,595
3,068,785	125,250	3,194,035	3,194,035
6,894,979	71,419	6,966,398	17,477,717
-	-	-	13,131
-	-	-	(638,362)
<u>9,963,764</u>	<u>196,669</u>	<u>10,160,433</u>	<u>20,046,521</u>
<u>\$ 9,973,593</u>	<u>\$ 196,683</u>	<u>\$ 10,170,276</u>	<u>\$ 22,626,116</u>

TOWN OF READING, MASSACHUSETTS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Special Revenue Funds</u>		
	<u>Federal Grants</u>	<u>State Grants</u>	<u>Revolving Funds</u>
Revenues:			
Departmental	\$ -	\$ -	\$ 7,194,109
Intergovernmental	1,528,081	1,986,940	255,476
Investment income	-	-	157
Contributions	-	-	-
Other	-	-	24,286
Total Revenues	<u>1,528,081</u>	<u>1,986,940</u>	<u>7,474,028</u>
Expenditures:			
Current:			
General government	-	2,700	102,261
Public safety	32,412	81,027	1,485,282
Education	1,517,839	1,349,155	5,259,439
Public works	-	380,988	12,729
Health and human services	149,622	62,955	27,641
Culture and recreation	-	9,004	637,844
Total Expenditures	<u>1,699,873</u>	<u>1,885,829</u>	<u>7,525,196</u>
Excess (deficiency) of revenues over (under) expenditures	(171,792)	101,111	(51,168)
Other Financing Sources (Uses):			
Issuance of bonds	-	-	-
Bond premiums	-	-	-
Transfers in	-	-	500
Transfers out	-	(12,481)	(278,070)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(12,481)</u>	<u>(277,570)</u>
Change in fund balances	(171,792)	88,630	(328,738)
Fund Balances, beginning of year	<u>(38,149)</u>	<u>1,165,822</u>	<u>4,448,469</u>
Fund Balances, end of year	<u>\$ (209,941)</u>	<u>\$ 1,254,452</u>	<u>\$ 4,119,731</u>

See Independent Auditors' Report.

Special Revenue Funds

<u>Receipts Reserved</u>	<u>Gifts and Donations</u>	<u>Subtotals</u>
\$ 26,923	\$ -	\$ 7,221,032
-	-	3,770,497
4,059	-	4,216
-	265,503	265,503
-	-	24,286
<hr/>	<hr/>	<hr/>
30,982	265,503	11,285,534
4,704	6,727	116,392
-	2,126	1,600,847
-	164,811	8,291,244
-	438	394,155
-	566	240,784
-	70,269	717,117
<hr/>	<hr/>	<hr/>
4,704	244,937	11,360,539
26,278	20,566	(75,005)
-	-	-
-	-	-
-	-	500
<hr/>	<hr/>	<hr/>
(125,000)	-	(415,551)
<hr/>	<hr/>	<hr/>
(125,000)	-	(415,051)
(98,722)	20,566	(490,056)
<hr/>	<hr/>	<hr/>
1,209,296	746,385	7,531,823
<hr/>	<hr/>	<hr/>
\$ 1,110,574	\$ 766,951	\$ 7,041,767

(continued)

TOWN OF READING, MASSACHUSETTS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

(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	-	1,593,166	1,593,166
Public works	399,051	-	399,051
Health and human services	-	-	-
Culture and recreation	10,313,204	-	10,313,204
	10,712,255	1,593,166	12,305,421
Total Expenditures		1,593,166	
Excess (deficiency) of revenues over (under) expenditures	(9,691,232)	(1,593,166)	(11,284,398)
Other Financing Sources (Uses):			
Issuance of bonds	2,215,000	1,700,000	3,915,000
Bond premiums	230,000	-	230,000
Transfers in	-	75,000	75,000
Transfers out	-	-	-
	2,445,000	1,775,000	4,220,000
Total Other Financing Sources (Uses)		1,775,000	
Change in fund balances	(7,246,232)	181,834	(7,064,398)
Fund Balances, beginning of year	10,257,765	(349,046)	9,908,719
Fund Balances, end of year	\$ 3,011,533	\$ (167,212)	\$ 2,844,321

See Independent Auditors' Report.

Permanent Funds			Total Nonmajor Governmental Funds
Town Trust Funds	School Trust Funds	Subtotals	
\$ -	\$ -	\$ -	\$ 7,221,032
-	-	-	4,791,520
493,087	6,741	499,828	504,044
96,681	600	97,281	362,784
-	-	-	24,286
<u>589,768</u>	<u>7,341</u>	<u>597,109</u>	<u>12,903,666</u>
35,388	-	35,388	151,780
-	-	-	1,600,847
-	9,938	9,938	9,894,348
119,999	-	119,999	913,205
118,164	-	118,164	358,948
-	-	-	11,030,321
<u>273,551</u>	<u>9,938</u>	<u>283,489</u>	<u>23,949,449</u>
316,217	(2,597)	313,620	(11,045,783)
-	-	-	3,915,000
-	-	-	230,000
-	-	-	75,500
-	-	-	(415,551)
<u>-</u>	<u>-</u>	<u>-</u>	<u>3,804,949</u>
316,217	(2,597)	313,620	(7,240,834)
<u>9,647,547</u>	<u>199,266</u>	<u>9,846,813</u>	<u>27,287,355</u>
<u>\$ 9,963,764</u>	<u>\$ 196,669</u>	<u>\$ 10,160,433</u>	<u>\$ 20,046,521</u>

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

JUNE 30, 2016

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Sewer Fund</u>	<u>Landfill Closure and Postclosure</u>	<u>Stormwater Management</u>	
Assets				
Current:				
Cash and short-term investments	\$ 5,722,956	\$ 46,706	\$ 1,210,759	\$ 6,980,421
User fees, net of allowance for uncollectibles	2,701,424	-	152,554	2,853,978
Inventory	<u>4,694</u>	<u>-</u>	<u>-</u>	<u>4,694</u>
Total current assets	8,429,074	46,706	1,363,313	9,839,093
Noncurrent:				
Capital assets being depreciated, net	5,338,220	-	295,230	5,633,450
Capital assets not being depreciated	<u>423,501</u>	<u>-</u>	<u>663,987</u>	<u>1,087,488</u>
Total noncurrent assets	<u>5,761,721</u>	<u>-</u>	<u>959,217</u>	<u>6,720,938</u>
Deferred Outflows of Resources	<u>116,631</u>	<u>-</u>	<u>45,043</u>	<u>161,674</u>
Total Assets and Deferred Outflows of Resources	14,307,426	46,706	2,367,573	16,721,705
Liabilities				
Current:				
Warrants payable	98,603	25,435	25,240	149,278
Accrued liabilities	10,468	-	3,200	13,668
Other current liabilities	-	21,271	-	21,271
Current portion of long-term liabilities:				
Bonds payable	<u>91,915</u>	<u>-</u>	<u>-</u>	<u>91,915</u>
Total current liabilities	200,986	46,706	28,440	276,132
Noncurrent:				
Bonds payable, net of current portion	112,879	-	-	112,879
Compensated absences	15,375	-	11,200	26,575
Net OPEB obligation	107,962	-	19,722	127,684
Net pension liability	<u>310,072</u>	<u>-</u>	<u>119,749</u>	<u>429,821</u>
Total noncurrent liabilities	<u>546,288</u>	<u>-</u>	<u>150,671</u>	<u>696,959</u>
Deferred Inflows of Resources	<u>21,290</u>	<u>-</u>	<u>8,222</u>	<u>29,512</u>
Total Liabilities and Deferred Inflows of Resources	768,564	46,706	187,333	1,002,603
Net Position				
Net investment in capital assets	5,799,313	-	959,217	6,758,530
Unrestricted	<u>7,739,549</u>	<u>-</u>	<u>1,221,023</u>	<u>8,960,572</u>
Total Net Position	<u>\$ 13,538,862</u>	<u>\$ -</u>	<u>\$ 2,180,240</u>	<u>\$ 15,719,102</u>

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

NONMAJOR PROPRIETARY FUNDS

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

FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	
Operating Revenues:				
Charges for services	\$ 6,833,296	\$ -	\$ 418,772	\$ 7,252,068
Total Operating Revenues	6,833,296	-	418,772	7,252,068
Operating Expenses:				
Personnel expenses	654,473	-	171,624	826,097
Non personnel expenses	194,896	-	12,857	207,753
Intergovernmental	4,624,378	-	-	4,624,378
Depreciation	421,117	-	30,963	452,080
Energy purchases	23,501	-	-	23,501
Total Operating Expenses	5,918,365	-	215,444	6,133,809
Operating Income	914,931	-	203,328	1,118,259
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	31,950	-	-	31,950
Investment income	3,793	-	2,779	6,572
Interest expense	(800)	-	-	(800)
Total Nonoperating Revenues (Expenses)	34,943	-	2,779	37,722
Change in Net Position	949,874	-	206,107	1,155,981
Net Position at Beginning of Year	<u>12,588,988</u>	<u>-</u>	<u>1,974,133</u>	<u>14,563,121</u>
Net Position at End of Year	<u>\$ 13,538,862</u>	<u>\$ -</u>	<u>\$ 2,180,240</u>	<u>\$ 15,719,102</u>

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS
NONMAJOR PROPRIETARY FUNDS
COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	Total
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 6,927,784	\$ -	\$ 429,649	\$ 7,357,433
Payments to vendors and employees	(782,693)	(3,302)	(158,479)	(944,474)
Payments to other governments	<u>(4,624,378)</u>	<u>-</u>	<u>-</u>	<u>(4,624,378)</u>
Net Cash Provided By (Used For) Operating Activities	1,520,713	(3,302)	271,170	1,788,581
Cash Flows From Noncapital Financing Activities:				
Intergovernmental revenue	<u>31,950</u>	<u>-</u>	<u>-</u>	<u>31,950</u>
Net Cash Provided By Noncapital Financing Activities	31,950	-	-	31,950
Cash Flows From Capital and Related Financing Activities:				
Proceeds from issuance of bonds	39,050	-	-	39,050
Principal payments on bonds and notes	(84,105)	-	-	(84,105)
Acquisition of capital assets	(197,319)	-	(252,601)	(449,920)
Interest expense	<u>(800)</u>	<u>-</u>	<u>-</u>	<u>(800)</u>
Net Cash (Used For) Capital and Related Financing Activities	(243,174)	-	(252,601)	(495,775)
Cash Flows From Investing Activities:				
Investment income	<u>3,793</u>	<u>-</u>	<u>2,779</u>	<u>6,572</u>
Net Cash Provided By Investing Activities	3,793	-	2,779	6,572
Net Change in Cash and Short-Term Investments	1,313,282	(3,302)	21,348	1,331,328
Cash and Short Term Investments, Beginning of Year	<u>4,409,674</u>	<u>50,008</u>	<u>1,189,411</u>	<u>5,649,093</u>
Cash and Short Term Investments, End of Year	<u>\$ 5,722,956</u>	<u>\$ 46,706</u>	<u>\$ 1,210,759</u>	<u>\$ 6,980,421</u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:				
Operating income	\$ 914,931	\$ -	\$ 203,328	\$ 1,118,259
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	421,117	-	30,963	452,080
Changes in assets and liabilities:				
User fees receivables	94,488	-	10,877	105,365
Inventory and prepayments	(2,154)	-	-	(2,154)
Deferred outflows of resources	(115,478)	-	(44,598)	(160,076)
Warrants payable	80,781	21,335	22,381	124,497
Accrued liabilities	1,742	-	(578)	1,164
Other liabilities	-	(24,637)	-	(24,637)
Net OPEB obligation	(2,026)	-	(370)	(2,396)
Net pension liability	106,022	-	40,945	146,967
Deferred inflows of resources	<u>21,290</u>	<u>-</u>	<u>8,222</u>	<u>29,512</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 1,520,713</u>	<u>\$ (3,302)</u>	<u>\$ 271,170</u>	<u>\$ 1,788,581</u>

See Independent Auditors' Report.