



Town of Reading Meeting Minutes

Board - Committee - Commission - Council:

RMLD Board of Commissioners

Audit Committee

Date: 2016-10-20

Time: 6:30 PM

Building: Reading Municipal Light Building

Location: Conference Room

Address: 230 Ash Street

Session: Open Session

Purpose: General business.

Version: Final

Attendees: **Members - Present:**

Messrs. Pacino and Stempeck

Members - Not Present:

Others Present:

Mr. O'Rourke, Mses. O'Brien, Foti, Parenteau and Schultz, Town of Reading
Audit Committee Members: Messrs. McNeice, Berman and Herrick
Melanson Heath: Messrs. Biron and Fentross

Minutes Respectfully Submitted By: Philip B. Pacino, RMLD Board Chairman

Topics of Discussion:

Call Meeting to Order.

Chairman Pacino called the meeting to order at 6:40 pm.

Mr. McNeice, Town of Reading Audit Committee called the meeting to order at 7:05 pm.

Melanson Heath Audit Findings

Frank Biron, President, Melanson Heath, introduced himself and Zachary Fentross, the supervisor who performed the RMLD audit. Mr. Biron explained that he would be going over highlights from the June 30, 2016 audited financial statements. Mr. Biron pointed out that they completed the RMLD audit by June 30, which is the first June 30 audit they have completed this year. This makes a statement as to how well the books are maintained by RMLD.

Mr. Biron then addressed the Independent Auditors' Report. Mr. Biron stated that his firm was hired to provide an opinion on RMLD's financial statements and whether they are in accordance with Generally Accepted Accounting Principles. RMLD was given an unmodified opinion, which is the best opinion that can be received from an outside independent auditor.

The following were addressed:

Management Discussion and Analysis, which is a brief narrative overview of the results of operations. It provides highlights, trend information, financial information and capital assets.

Statements of Net Position, which summarizes the assets, liabilities, and the equity of the Department as of June 30, 2016. RMLD's numbers, as compared between 2015 and 2016, were consistent and strong. The Department is in a very strong financial position. The only thing that is slightly negative, which is beyond RMLD's control, is the Net Pension Liability. The Unrestricted Cash balance of about \$13 million in 2016 was the same as the previous year which reflects a strong cash balance. Receivables were \$8.2 million, and the prior year was \$7.3 million. The RMLD does a very good job in collecting its receivables because there are very few delinquent accounts.

Melanson Heath Audit Findings

Noncurrent Restricted Cash and Short Term Investments, \$21 million and \$1 million consistent with the prior year. These are broken down in the Financial Statements captured under the footnote Restricted Cash and Investments. The RMLD is in a strong position with Sick Leave Benefits and Buybacks because they have money set aside. Mr. McNeice asked on the Hazardous Waste Fund has there been any activity? Mr. Biron replied that there has not been any activity.

Mr. Biron then addressed the Capital assets, net of accumulated depreciation in which there was a \$2 million increase from 2015. There were fixed asset additions of \$6 million (poles, transformers, circuit breakers, street lights) and depreciation of \$4 million.

Deferred Outflows of Resources, \$6.3 million which is directly related to the Pension. A year ago, was the first year when the Net Pension Liability had to be reported due to Governmental Accounting Standards Board (GASB) Statement 68 which requires the employer's share of their liability be reported on the balance sheet. Prior to this it was a footnote disclosure.

Deferred Inflows and Outflows of Resources is defined as if there any changes in assumptions in the net Pension Liability per GASB 68 which are calculated by actuaries who follow various assumptions to estimate and determine what the net Pension Liability will be. Changes reported in the Deferred Inflows and Outflows are amortized over a five-year period. Mr. Stempeck asked this is based on the fluctuation with the interest rates. Mr. Biron concurred. The earnings goal was 7 $\frac{3}{4}$ percent earnings; however, the actual earnings were only $\frac{3}{4}$ of a percent. It was brought down to 7.65 percent and salary increases the combination of those two. This represents an impact of \$2.9 million after taking one year of the amortization. Mr. McNeice asked if it is due to the change in the number of employees. Mr. Biron responded that was not part of the issue. The \$1.5 million will be there annually to reflect what the RMLD paid into the system and will be consistent. The Net Pension Liability is \$8,833,549, compared to 2015 when it was about \$4.5 million; it almost doubled; which could occur in this year.

Mr. Stempeck clarified when does GASB consider the projected return rate of 6.7 percent. Mr. Biron explained that is on a community by community basis, GASB does not speak to what projected rate of return is going to be, it would be the Retirement Board. Mr. Stempeck added that no one has made 7 percent in the marketplace even for businesses in the last five years. Mr. Biron added that most communities are in the same projected range for the rate of return. Mr. Biron said that the Pension Liability has the biggest fluctuation in the financial statements which is out of your control.

Mr. Biron continued, pointing out that the RMLD has had a profitable year as it has in the past few years. For the liabilities, they are consistent with happened in prior year. The OPEB and Pension Trust were timing issues.

Non-Current Liabilities are accrued employee compensated absences of \$2.8 million which is comparable to the prior year.

No liability is being reported for OPEB (Other Post-Employment Benefits) because the Department has been setting aside money into a trust fund equal to what the actuaries suggested. According to GASB 45, which applies to OPEB, it states that you have an actuarial valuation performed with a thirty-year funding schedule. The RMLD has set aside the \$2.5 million that the actuary found in its valuation that is required.

However, there is going to be a change in accounting standards in two years. In 2018, Government Accounting Standard Board (GASB) Statement 75 will replace GASB Statement 45, and will require that the entire actuarially calculated liability of OPEB (health employment benefits for retired employees) be reported, just as the net pension liability is currently reported. If there is no additional funding, the unfunded amount, that does not currently appear on RMLD's financial statements, will be there in two years, and will appear as a \$6 million liability. Mr. McNeice asked if it stays funded, will it appear as an asset or liability; or would it net down. Mr. Biron responded it will net down. In theory if you fund the \$6 million you would not have anything on this page.

Mr. Biron reported that the RMLD does not have any bonds payable. RMLD is in a very strong financial position, it does not have any debt other than the net pension liability and compensated absences sick leave for employees. The additions to the fixed assets have been accomplished through revenues.

Melanson Heath Audit Findings

Deferred Inflows of Resources of \$883,172 is all pension related. This represents the difference between expected and actual experience.

Net Investment in capital assets of \$72.2 million which is a direct offset of the fixed assets. Restricted for depreciation fund of \$4.4 million is the amount in cash in the restricted cash set aside in the depreciation fund. Unrestricted Net Position is \$28.1 million. The bottom line is the Department is in a very strong financial position.

Mr. Berman entered the meeting.

Mr. Biron then referred to the Statement of Revenues, Expenses, and Changes in New Position. Purchase of power in fiscal year 2016 is \$63 million versus \$61 million in fiscal year 2015. The numbers were consistent with the previous year, revenues up despite the number of kilowatt hours sold going down about two percent. It is not easy to estimate the purchase power costs, but the RMLD has done a very good job of being consistent year to year. The operating expense increased by \$1.2 million which is attributable to GASB 68 due to the pension plan. There is not a lot of fluctuation in RMLD's expenses on an annual basis. Depreciation expense is \$3.9 million, similar to last year. The RMLD took three percent of its fixed assets which gets put aside into the depreciation cash account which is used for future capital outlays. Operating income is \$4.6 million is consistent year to year. The return on investment to the Town of Reading, \$2.3 million calculated number which goes back to an original 1998 agreement, it goes up each year based on the Consumer Price Index. Mr. Berman asked if this calculation has been looked at recently, and is it an ongoing agreement. Mr. Biron replied that it is an ongoing agreement. Mr. Pacino explained that this is an ongoing agreement and there is a subcommittee that exists consisting of the following members: two Board of Commissioners, two Town of Reading, Board of Selectmen and one Citizens' Advisory Board. Mr. Pacino said that as far as the calculation is concerned no one has come up with a better idea, and it has been looked at four times. Mr. Berman added that when this calculation was performed, the CPI may have been increasing three to five percent. Chairman O'Rourke asked Mr. Biron to clarify the voluntary payments to the towns. Mr. Biron responded that it is based on kilowatt hours sold. Mr. Pacino added it is called the above-the-line-payment. It is based on the kilowatt sales for each of the towns RMLD serves which was put in place because of the Twenty Year Agreement. Chairman O'Rourke clarified that the Town of Reading receives two payments. Mr. Pacino concurred they do receive two payments because they funded the assets. Chairman O'Rourke said that the \$1.4 million is distributed amongst the four towns. The Town of Reading receives \$2.3 million plus a percentage of its kilowatt hour sales.

Mr. Herrick entered the meeting.

Change in Net Position or Net Income, prior year was \$3.2 million, \$3.4 million this year, showing very strong operating results. Mr. Biron noted that the RMLD can only make eight percent maximum on its fixed assets. One of the biggest components of that calculated number is the return on investment to the Town of Reading for \$2.3 million. The RMLD at \$3.3 million is almost at the maximum with the room of \$300,000 to go higher. Mr. Berman asked if the number were higher would it go back to the ratepayers. Mr. Biron said that it would. Mr. Pacino explained that if the RMLD exceeds the eight percent there are options such as refunding it to the ratepayers, or to help fund such items as the OPEB.

The Pension Trust \$1.5 million is from the Income Statement and Investment Income \$123,983 in which \$1.464 million was paid from the trust to the town's retirement system. This leaves \$5.6 million on hand which is invested in fixed income securities. Chairman O'Rourke asked who has fiduciary authority to change those funds, and is it dictated. Mr. Pacino said that this is on the town's advice. Mr. Biron said the funds are in MMDT's and CD's which earn one half to three quarters percent. Chairman O'Rourke asked if it is a good strategy. Mr. Stempeck added that Mr. O'Rourke is thinking in terms of higher investments. Mr. Pacino cautioned against speculation. Mr. Biron added that PERAC (state) determines what employers pay that is the RMLD's share. The actuaries determine the amount, \$8.8 million is RMLD's share of the unfunded net pension liability. Mr. Biron pointed out that the poor investment results cause the liability to go up during a year. It was projected to earn seven and three quarters percent, whereas the investment results were three quarters of a percent, which is why the liability doubled. On a town, wide basis, a year ago the overall system was funded at eighty percent per the actuary's calculation, and a year later was at seventy two percent. Mr. Herrick asked if it is the lack of funding. Mr. Biron responded it has to do with investment results. The OPEB trust contribution \$308,975 came in from operations, which is the amount the actuary determined had to be funded, and the RMLD funded the exact amount. The contribution plus \$13,928 in investment income leaves a balance of \$2,525,843.

Melanson Heath Audit Findings

When GASB 75 comes out in two years, there will be an additional liability of \$6 million for OPEB which is unfunded at this point. Mr. Stempeck added this will ripple through municipalities everywhere. Mr. Biron agreed. Mr. Biron concluded that RMLD's numbers are strong, RMLD is in a strong financial position. Cash balances are good. Money is set aside for future purposes. Receivables are in very good shape, no debt, no bonds payable. The OPEB is funded in accordance with the older standards, GASB 45.

The pension liability doubled, but the Town of Reading's retirement system is in much better shape than most municipalities in Massachusetts where it is at high seventies, most are in the sixty to seventy percent rate. Chairman O'Rourke congratulated Ms. O'Brien said that there was a smooth transition from Bob Fournier to Wendy Markiewicz. Also, extending her thanks to Messrs. Biron and Fentross. The transition in accounting is working well, and Ms. Parenteau is known nationwide for her power supply abilities and Mr. Jaffari has been addressing the system and maintenance in cyclic order. Chairman O'Rourke added there has been a lot of work on infrastructure which will pay off over the years.

Mr. Pacino asked the RMLD should handle finance leases. Mr. Biron responded that he could not provide a definitive answer on that as there are capital leases that are recorded. Mr. Fentross asked Mr. Pacino for further clarification. Mr. Pacino said that a new standard on capital leases is to come into effect at the end of 2017, and the RMLD has a lease with the Barbas building that will have to be capitalized. If you lease a property and it is large enough you may have to capitalize it.

Mr. Biron explained that they have not at this point. Mr. Pacino commented if there is anything they recommend the Department do going forward. Mr. Biron said that he will connect with the Department on that issue.

Mr. McNeice commented that it is nice to hear that this is the first audit that Melanson Heath has completed at this early a date. Were there any observations or questions that have not been asked? Mr. Biron responded, no, if there were any serious issues they would be reported in a Management Letter. There are always areas of housekeeping recommendations made to management and are taken very seriously. The transition this year in the Business Management position can be a concern, but in this case because Ms. Markiewicz knows her stuff. The accounting records will be continued to be maintained well as they have been in the past.

Mr. Pacino made a motion that the Town of Reading Audit Committee accept the Audit as presented by Melanson and Heath seconded by Mr. Berman.

Motion carried 4:0:0.

Mr. Pacino made a motion that the RMLD Board of Commissioners Audit Committee accept the Audit as presented by Melanson and Heath seconded by Mr. Stempeck.

Motion carried 2:0:0.

At 7:30 p.m. Mr. Pacino made a motion to adjourn the meeting.

Motion carried 2:0:0.

At 7:30 p.m. Mr. McNeice made a motion to adjourn the meeting.

Motion carried 4:0:0.

**TOWN OF READING, MASSACHUSETTS
READING MUNICIPAL LIGHT DEPARTMENT**

Annual Financial Statements

For the Year Ended June 30, 2016

DRAFT

Reading Municipal Light Department

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3 |
| BASIC FINANCIAL STATEMENTS: | |
| Proprietary Fund: | |
| Statements of Net Position | 6 |
| Statements of Revenues, Expenses, and Changes in Net Position | 7 |
| Statements of Cash Flows | 8 |
| Fiduciary Funds: | |
| Statements of Fiduciary Net Position | 9 |
| Statements of Changes in Fiduciary Net Position | 10 |
| Notes to Financial Statements | 11 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedule of OPEB Funding Progress | 34 |
| Schedule of Proportionate Share of the Net Pension Liability | 35 |
| Schedule of Pension Contributions | 36 |

INDEPENDENT AUDITORS' REPORT

To the Municipal Light Board
Town of Reading Municipal Light Department

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Town of Reading Municipal Light Department ("the Department") (an enterprise fund of the Town of Reading, Massachusetts), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Department'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made

by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Report on Summarized Comparative Information

We have previously audited the Department's fiscal year 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of OPEB Funding Progress, Schedule of Proportionate Share of the Net Pension Liability, and Schedule of Pension Contributions 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.

_____, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Town of Reading Municipal Light Department's ("the Department") annual financial report, management provides a narrative discussion and analysis of the Department's financial activities for the year ended June 30, 2016. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include (1) the Proprietary Fund Statements of Net Position, (2) the Proprietary Fund Statements of Revenues, Expenses and Changes in Net Position, (3) the Proprietary Fund Statements of Cash Flows, (4) the Fiduciary Funds Statements of Fiduciary Net Position, (5) the Fiduciary Funds Statements of Changes in Fiduciary Net Position, and (6) Notes to Financial Statements.

The Proprietary Fund Statements of Net Position is designed to indicate our financial position at a specific point in time. At June 30, 2016, it shows our net worth of \$104,814,487 which comprises \$72,202,413 invested in capital assets, \$4,494,953 restricted for depreciation fund, and \$28,117,121 unrestricted.

The Proprietary Fund Statements of Revenues, Expenses and Changes in Net Position summarize our operating results and reveal how much, if any, of a profit was earned for the year. As discussed in more detail below, our net profit for the year ended June 30, 2016 was \$3,369,404.

The Proprietary Fund Statements of Cash Flows provide information about cash receipts, cash payments, investing, and financing activities during the accounting period. A review of our Proprietary Fund Statements of Cash Flows indicates that cash receipts from operating activities adequately covered our operating expenses in fiscal year .

The following is a summary of the Department's financial data for the current and prior fiscal years.

Summary of Net Position

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|
| Current assets | \$ 23,903,277 | \$ 23,184,226 |
| Noncurrent assets | 95,390,705 | 93,572,180 |
| Deferred outflows of resources | <u>6,338,218</u> | <u>1,547,815</u> |
| Total assets and deferred outflows of resources | <u>\$ 125,632,200</u> | <u>\$ 118,304,221</u> |
| Current liabilities | \$ 8,244,530 | \$ 9,330,904 |
| Noncurrent liabilities | 11,690,011 | 7,528,234 |
| Deferred inflows of resources | <u>883,172</u> | <u>-</u> |
| Total liabilities and deferred inflows of resources | 20,817,713 | 16,859,138 |

(continued)

(continued)

| | | |
|------------------------------------|-----------------------|-----------------------|
| Net position: | | |
| Net investment in capital assets | 72,202,413 | 69,916,349 |
| Restricted for depreciation fund | 4,494,953 | 5,434,308 |
| Unrestricted | <u>28,117,121</u> | <u>26,094,426</u> |
| Total net position | <u>104,814,487</u> | <u>101,445,083</u> |
| Total liabilities and net position | <u>\$ 125,632,200</u> | <u>\$ 118,304,221</u> |

Summary of Changes in Net Position

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|-----------------------|-----------------------|
| Operating revenues | \$ 88,735,983 | \$ 85,005,786 |
| Operating expenses | <u>(84,146,744)</u> | <u>(80,359,819)</u> |
| Operating income | 4,589,239 | 4,645,967 |
| Non-operating revenues (expenses) | <u>(1,219,835)</u> | <u>(1,404,691)</u> |
| Change in net position | 3,369,404 | 3,241,276 |
| Beginning net position | <u>101,445,083</u> | <u>98,203,807</u> |
| Ending net position | <u>\$ 104,814,487</u> | <u>\$ 101,445,083</u> |

B. FINANCIAL HIGHLIGHTS

Electric sales (net of discounts) were \$88,353,905 in fiscal year 2016, an increase of 5.20% from the prior year. In fiscal year 2016, kilowatt hours sold decreased by 1.97% to 676,128,060, compared to 689,722,742 in fiscal year 2015. In fiscal year 2016, customers received credits of \$63,410 in purchase power fuel charge adjustments, compared to charges of \$1,047,590 in fiscal year 2015.

In fiscal year 2015, the Department restructured its rates and began billing customers purchase power capacity and transmission costs separately from the base rate. In fiscal year 2016, customers were charged purchase power capacity and transmission adjustments of \$445,488.

Operating expenses totaled \$84,146,744 in fiscal year 2016, an overall increase of 4.71% from fiscal year 2015. The largest portion of this total, \$63,700,338, was for purchase power costs. Other operating expenses included \$15,101,267 for general operating and maintenance costs, \$1,400,347 for voluntary payments to Towns, and depreciation expense of \$3,944,792. In fiscal year 2016, the depreciation rate was 3.0%.

In fiscal year 2016, the Department contributed \$1,500,000 to the Reading Municipal Light Department Employees' Retirement Trust ("Pension Trust") and the Pension Trust contributed \$1,464,711 to the Town of Reading Contributory Retirement System on behalf of the Department's employees.

In fiscal year 2016, the Department contributed \$308,795 to the Other Post-Employment Benefits Trust ("OPEB Trust"), which was equal to its actuarially determined liability at June 30, 2016. As a result, the Department had no unfunded OPEB liability at June 30, 2016. Additional information on the Department's OPEB contributions can be found in Note 17 on pages 21-24 of this report.

C. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in land at year end amounted to \$1,265,842; there was no change from the prior year. Total investment in depreciable capital assets at year-end amounted to \$70,936,570 (net of accumulated depreciation), an increase of \$2,286,063 from the prior year. This investment in depreciable capital assets includes structures and improvements, equipment and furnishings, and infrastructure assets.

Debt and other long-term liabilities. At the end of the current fiscal year, the Department had no outstanding bonded debt.

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

REQUESTS FOR INFORMATION

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

Accounting/Business Manager
Town of Reading Municipal Light Department
230 Ash Street
Reading, Massachusetts 01867

TOWN OF READING, MASSACHUSETTS
MUNICIPAL LIGHT DEPARTMENT

BUSINESS-TYPE PROPRIETARY FUND
STATEMENTS OF NET POSITION

JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Current: | | |
| Unrestricted cash and short-term investments | \$ 13,123,605 | \$ 13,151,862 |
| Receivables, net of allowance for uncollectable | 8,203,587 | 7,314,059 |
| Prepaid expenses | 985,756 | 1,137,898 |
| Inventory | 1,590,329 | 1,580,407 |
| Total current assets | 23,903,277 | 23,184,226 |
| Noncurrent: | | |
| Restricted cash and short-term investments | 21,815,636 | 22,344,776 |
| Restricted investments | 1,345,663 | 1,284,061 |
| Investment in associated companies | 26,994 | 26,994 |
| Land | 1,265,842 | 1,265,842 |
| Capital assets, net of accumulated depreciation | 70,936,570 | 68,650,507 |
| Total noncurrent assets | 95,390,705 | 93,572,180 |
| DEFERRED OUTFLOWS OF RESOURCES | 6,338,218 | 1,547,815 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 125,632,200 | 118,304,221 |
| LIABILITIES | | |
| Current: | | |
| Accounts payable | 5,484,732 | 5,097,838 |
| Accrued liabilities | 449,404 | 585,104 |
| Customer deposits | 901,905 | 846,361 |
| Customer advances for construction | 1,007,142 | 889,774 |
| Due to Pension Trust | - | 1,500,000 |
| Due to OPEB Trust | - | 345,382 |
| Current portion of long-term liabilities: | | |
| Accrued employee compensated absences | 401,347 | 66,445 |
| Total current liabilities | 8,244,530 | 9,330,904 |
| Noncurrent: | | |
| Accrued employee compensated absences | 2,856,462 | 3,004,043 |
| Net pension liability | 8,833,549 | 4,524,191 |
| Total noncurrent liabilities | 11,690,011 | 7,528,234 |
| DEFERRED INFLOWS OF RESOURCES | 883,172 | - |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | 20,817,713 | 16,859,138 |
| NET POSITION | | |
| Net investment in capital assets | 72,202,413 | 69,916,349 |
| Restricted for depreciation fund | 4,494,953 | 5,434,308 |
| Unrestricted | 28,117,121 | 26,094,426 |
| TOTAL NET POSITION | <u>\$ 104,814,487</u> | <u>\$ 101,445,083</u> |

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

TOWN OF READING, MASSACHUSETTS
MUNICIPAL LIGHT DEPARTMENT

BUSINESS-TYPE PROPRIETARY FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------|----------------|
| Operating Revenues: | | |
| Electric sales, net of discounts of \$3,294,567 and \$2,953,502 respectively | \$ 88,353,905 | \$ 83,985,195 |
| Purchase power adjustments: | | |
| Fuel charge adjustment | (63,410) | 1,047,590 |
| Capacity and transmission adjustment | 445,488 | (26,999) |
| Total Operating Revenues | 88,735,983 | 85,005,786 |
| Operating Expenses: | | |
| Purchase power | 63,700,338 | 61,073,227 |
| Operating | 12,848,727 | 11,606,195 |
| Maintenance | 2,252,540 | 2,423,204 |
| Voluntary payments to towns | 1,400,347 | 1,395,728 |
| Depreciation | 3,944,792 | 3,861,465 |
| Total Operating Expenses | 84,146,744 | 80,359,819 |
| Operating Income | 4,589,239 | 4,645,967 |
| Nonoperating Revenues (Expenses): | | |
| Interest income | 209,514 | 122,693 |
| MMWEC surplus | 250,690 | 212,689 |
| Intergovernmental grants | 125,000 | 62,500 |
| Contributions in aid of construction | 285,921 | 64,474 |
| Return on investment to Town of Reading | (2,370,445) | (2,332,863) |
| Loss on disposal of capital assets | (85,561) | (58,296) |
| Other | 365,046 | 524,112 |
| Total Nonoperating Revenues (Expenses), Net | (1,219,835) | (1,404,691) |
| Change in Net Position | 3,369,404 | 3,241,276 |
| Net Position at Beginning of Year | 101,445,083 | 98,203,807 |
| Net Position at End of Year | \$ 104,814,487 | \$ 101,445,083 |

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

TOWN OF READING, MASSACHUSETTS
MUNICIPAL LIGHT DEPARTMENT

BUSINESS-TYPE PROPRIETARY FUND
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| <u>Cash Flows From Operating Activities:</u> | | |
| Receipts from customers and users | \$ 87,519,922 | \$ 84,638,647 |
| Payments to vendors and employees | (81,064,473) | (76,424,486) |
| Customer purchase power adjustments | 382,077 | 1,020,591 |
| Net Cash Provided By (Used For) Operating Activities | 6,837,526 | 9,234,752 |
| <u>Cash Flows From Noncapital Financing Activities:</u> | | |
| Return on investment to Town of Reading | (2,370,445) | (2,332,863) |
| MMWEC surplus | 250,690 | 212,689 |
| Other | 365,047 | 524,112 |
| Net Cash Provided By (Used For) Noncapital Financing Activities | (1,754,708) | (1,596,062) |
| <u>Cash Flows From Capital and Related Financing Activities:</u> | | |
| Acquisition and construction of capital assets | (6,316,416) | (3,642,005) |
| Contributions in aid of construction | 403,289 | 553,592 |
| Intergovernmental revenues | 125,000 | 62,500 |
| Net Cash Provided By (Used For) Capital and Related Financing Activities | (5,788,127) | (3,025,913) |
| <u>Cash Flows From Investing Activities:</u> | | |
| Investment income | 209,514 | 122,693 |
| (Increase) decrease in restricted cash and investments | 467,538 | (3,116,820) |
| Net Cash Provided By (Used For) Investing Activities | 677,052 | (2,994,127) |
| Net Change in Unrestricted Cash and Short-Term Investments | (28,257) | 1,618,650 |
| Unrestricted Cash and Short-Term Investments, Beginning of Year | 13,151,862 | 11,533,212 |
| Unrestricted Cash and Short-Term Investments, End of Year | <u>\$ 13,123,605</u> | <u>\$ 13,151,862</u> |
| <u>Reconciliation of Operating Income to Net Cash:</u> | | |
| Operating income | \$ 4,589,239 | \$ 4,645,967 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: | | |
| Depreciation expense | 3,944,792 | 3,861,465 |
| (Increase) decrease in: | | |
| Accounts receivable | (889,528) | 556,991 |
| Prepaid and other assets | 152,142 | (365,132) |
| Inventory | (9,922) | (172,907) |
| Deferred outflows of resources | (4,790,403) | - |
| Accounts payable and accrued liabilities | 438,515 | 834,214 |
| Due to pension trust | (1,500,000) | 125,462 |
| Due to other postemployment benefits trust | (345,382) | 345,382 |
| Net pension liability | 4,309,358 | (519,874) |
| Deferred inflows of resources | 883,172 | - |
| Other | 55,543 | (76,816) |
| Net Cash Provided By (Used For) Operating Activities | <u>\$ 6,837,526</u> | <u>\$ 9,234,752</u> |

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

TOWN OF READING, MASSACHUSETTS
MUNICIPAL LIGHT DEPARTMENT

FIDUCIARY FUNDS
STATEMENTS OF FIDUCIARY NET POSITION

JUNE 30, 2016 AND 2015

| | <u>Pension Trust</u> | | <u>OPEB Trust</u> | |
|----------------------------------|----------------------|---------------------|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| <u>ASSETS</u> | | | | |
| Cash and short-term investments | \$ 4,264,442 | \$ 2,666,772 | \$ 2,525,843 | \$ 1,857,738 |
| Investments | 1,345,663 | 1,284,061 | - | - |
| Due from proprietary fund | - | 1,500,000 | - | 345,382.00 |
| TOTAL ASSETS | <u>5,610,105</u> | <u>5,450,833</u> | <u>2,525,843</u> | <u>2,203,120</u> |
| <u>NET POSITION</u> | | | | |
| Total net position held in trust | <u>\$ 5,610,105</u> | <u>\$ 5,450,833</u> | <u>\$ 2,525,843</u> | <u>\$ 2,203,120</u> |

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

TOWN OF READING, MASSACHUSETTS
MUNICIPAL LIGHT DEPARTMENT

FIDUCIARY FUNDS
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

| | Pension Trust | | OPEB Trust | |
|--|---------------------|---------------------|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Additions: | | | | |
| Contributions from Reading Municipal Light Department | \$ 1,500,000 | \$ 1,500,000 | \$ 308,795 | \$ 345,382 |
| Investment income and change in fair value | <u>123,983</u> | <u>52,660</u> | <u>13,928</u> | <u>11,696</u> |
| Total additions | 1,623,983 | 1,552,660 | 322,723 | 357,078 |
| Deductions: | | | | |
| Paid to Reading Contributory Retirement System | <u>1,464,711</u> | <u>1,401,638</u> | <u>-</u> | <u>-</u> |
| Total deductions | <u>1,464,711</u> | <u>1,401,638</u> | <u>-</u> | <u>-</u> |
| Increase in net position | 159,272 | 151,022 | 322,723 | 357,078 |
| Net position: | | | | |
| Net Position, Beginning of Year | <u>5,450,833</u> | <u>5,299,811</u> | <u>2,203,120</u> | <u>1,846,042</u> |
| Net Position, End of Year | <u>\$ 5,610,105</u> | <u>\$ 5,450,833</u> | <u>\$ 2,525,843</u> | <u>\$ 2,203,120</u> |

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

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 | 1,345,663 |

| | |
|----------------------------|----------------------|
| 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 | 213,522 | 213,522 | 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 Fund | Fiduciary Funds | Moody's Rating |
|---------------------------|-----------------------------------|--------------------------|-------------------|
| | <u>Restricted Investments</u> | <u>Pension 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.

As of June 30, 2016, none of the Department's (including Pension Trust and OPEB Trust) cash and short-term investments was exposed to custodial credit risk.

As of June 30, 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.

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 | |
|--------------------------------------|----------------------|---------------------|----------------------|---------------------|
| | <u>Cash</u> | <u>Investments</u> | <u>Cash</u> | <u>Investments</u> |
| 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 | (83,691) | |
| Total billed | | 1,802,273 |
| Unbilled, net | | 5,686,110 |
| Total customer accounts | | 7,488,383 |
| Other Accounts: | | |
| Merchandise sales | 116,253 | |
| MMWEC surplus | 253,318 | |
| Intergovernmental grants | 307,217 | |
| Liens and other | 38,416 | |
| Total other accounts | | 715,204 |
| 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 | | 259,416 |
| 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 requirements for the Hydro-Quebec Phase II interconnection. The Department is carrying its investment at cost, reduced by shares repurchased. The Department's equity position in the Project is less than one-half of one percent.

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|-------------------|
| 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 | 85,222 | 3,801 | (970) | 88,053 |
| 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 | (34,228) | (2,625) | 884 | (35,969) |
| Total accumulated depreciation | (62,843) | (3,944) | 1,013 | (65,774) |
| Total capital assets, being depreciated, net | 68,650 | 2,372 | (86) | 70,936 |
| Capital assets, not being depreciated: | | | | |
| Land | 1,266 | - | - | 1,266 |
| Total capital assets, not being depreciated | 1,266 | - | - | 1,266 |
| Capital assets, net | \$ 69,916 | \$ 2,372 | \$ (86) | \$ 72,202 |

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:

| | Proprietary Fund |
|---|---------------------|
| 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:

| | Proprietary Fund |
|---|---------------------|
| Pension related: | |
| Differences between expected and actual experience | \$ 883,172 |
| Total | \$ 883,172 |

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 | 1,846,042 |
| Unfunded actuarial accrued liability (UAAL) | \$ 5,880,625 |
| 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 publically available from the System's administrative offices located at Reading Town Hall, 16 Lowell Street, Reading, Massachusetts, 01867.

B. Benefits Provided

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

compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Department payroll on January 1, 1978, (3) voluntarily left Department employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

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

C. Contributions

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

| | |
|-------------------------------------|----|
| Before January 1, 1975 | 5% |
| January 1, 1975 - December 31, 1983 | 7% |
| January 1, 1984 - June 30, 1996 | 8% |
| Beginning July 1, 1996 | 9% |

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

The Department's contribution to the System for the year ended June 30, 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 | 6,807 | \$ 46.50 | 316,526 |
| Total | <u>18,640</u> | | <u>\$ 695,541 ⁽¹⁾</u> |

⁽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, MUNICIPAL LIGHT DEPARTMENT

SCHEDULE OF OPEB FUNDING PROGRESS

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

(Unaudited)

Other Post-Employment Benefits

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percent- age of Covered Payroll [(b-a)/c] |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| 06/30/14 | \$ 1,846,042 | \$ 7,726,667 | \$ 5,880,625 | 23.89% | N/A | N/A |
| 06/30/13 | \$ 1,495,511 | \$ 7,588,998 | \$ 6,093,482 | 19.71% | N/A | N/A |
| 06/30/11 | \$ 1,167,161 | \$ 8,643,438 | \$ 7,476,277 | 13.50% | N/A | N/A |
| 06/30/08 | \$ | \$ 8,085,388 | \$ 8,085,388 | 0.00% | N/A | N/A |

DRAFT

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS, MUNICIPAL LIGHT DEPARTMENT

SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016
(Unaudited)

Reading Contributory Retirement System

| Fiscal Year | Proportion of the Net Pension Liability | Proportionate Share of the Net Pension Liability | Covered Payroll | Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position Percentage of the Total Pension Liability |
|----------------|--|---|-----------------|---|---|
| June 30, 2016 | 28.25% | \$8,833,549 | \$ 6,439,178 | 137.18% | 72.17% |
| June 30, 2015 | 28.25% | \$4,524,191 | \$ 5,908,693 | 76.57% | 79.89% |

Information above is presented as of the most recent measurement date.

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

See Independent Auditors' Report.

DRAFT

TOWN OF READING, MASSACHUSETTS, MUNICIPAL LIGHT DEPARTMENT

SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016
(Unaudited)

Reading Contributory Retirement System

| Fiscal Year | Contractually Required Contribution | Contributions in Relation to the Contractually Required Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---------------|-------------------------------------|--|----------------------------------|-----------------|--|
| June 30, 2016 | \$ 1,464,711 | \$ 1,464,711 | \$ - | \$ 6,439,178 | 22.75% |
| June 30, 2015 | \$ 1,401,638 | \$ 1,401,638 | \$ - | \$ 5,908,693 | 23.72% |

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

See Independent Auditors' Report.