

Reading Municipal Light Department (RMLD) Board of Commissioners

Audit Committee Agenda

Thursday, October 2, 2014

6:30 p.m.

Cafeteria

1. To review June 30, 2014 Audit Findings with Melanson, Heath & Company, PC and the Town of Reading's Audit Committee.
2. Motion to Adjourn

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

Annual Financial Statements

For the Year Ended June 30, 2014

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 Funds:	
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 Funding Progress	29

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, 2014 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 25, 2013. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2013 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 Management's Discussion and Analysis and Schedule of Funding Progress 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.

_____, 2014

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, 2014. 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, 2014, it shows our net worth of \$101,873,334 which comprises \$70,194,105 invested in capital assets, \$4,130,585 restricted for depreciation fund, and \$27,548,644 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, 2014 was \$3,556,155.

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 Statements of Cash Flows indicates that cash receipts from operating activities adequately covered our operating expenses in fiscal year 2014.

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

Summary of Net Position

	<u>2014</u>	<u>2013</u>
Current assets	\$ 21,584,528	\$ 19,793,703
Noncurrent assets	<u>90,733,116</u>	<u>88,266,629</u>
Total assets	<u>\$ 112,317,644</u>	<u>\$ 108,060,332</u>
Current liabilities	\$ 7,721,376	\$ 6,996,149
Noncurrent liabilities	<u>2,722,934</u>	<u>2,747,004</u>
Total liabilities	10,444,310	9,743,153

(continued)

(continued)

Net position:		
Net investment in capital assets	70,194,105	70,194,418
Restricted for depreciation fund	4,130,585	2,733,147
Unrestricted	<u>27,548,644</u>	<u>25,389,614</u>
Total net position	<u>101,873,334</u>	<u>98,317,179</u>
Total liabilities and net position	<u>\$ 112,317,644</u>	<u>\$ 108,060,332</u>

Summary of Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 84,364,480	\$ 82,294,531
Operating expenses	<u>(79,294,372)</u>	<u>(79,045,634)</u>
Operating income	5,070,108	3,248,897
Non-operating revenues (expenses)	<u>(1,513,953)</u>	<u>(1,465,778)</u>
Change in net position	3,556,155	1,783,119
Beginning net position	<u>98,317,179</u>	<u>96,534,060</u>
Ending net position	<u>\$ 101,873,334</u>	<u>\$ 98,317,179</u>

B. FINANCIAL HIGHLIGHTS

Electric sales (net of discounts) were \$79,689,061 in fiscal year 2014, a decrease of 1.4% from the prior year. In fiscal year 2014, kilowatt hours sold decreased by 2.0% to 688,104,698, compared to 701,896,340 in fiscal year 2013. In fiscal year 2014, customers were charged \$1,523,208 in fuel charge adjustments, compared to charges of \$339,810 in fiscal year 2013. In fiscal year 2014, customers were charged purchase power adjustments of \$3,152,211, compared to charges of \$1,138,194 in fiscal year 2013.

Operating expenses were \$79,294,372 in fiscal year 2014, an overall increase of 0.3% from fiscal year 2013. The largest portion of this total, \$60,823,626, was for purchase power expenses. Other operating expenses included \$13,293,841 for general operating and maintenance costs, \$1,397,270 for voluntary payments to Towns, and depreciation expense of \$3,779,635. In fiscal year 2014, the depreciation rate was 3.0%.

In fiscal year 2014, the Department contributed \$1,374,538 to the Reading Municipal Light Department Employees' Pension Trust (the "Pension Trust") and the Pension Trust contributed \$1,346,039 to the Town of Reading Contributory Retirement System on behalf of the Department's employees.

In fiscal year 2014, the Department contributed \$343,095 to the Other Post-Employment Benefits Trust (the "OPEB Trust"), which was equal to its actuarially determined liability at June 30, 2014. As a result, the Department had no unfunded OPEB liability at June 30, 2014. Additional information on the Department's OPEB contributions can be found in Note 15 on pages 20-23 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 \$68,928,263 (net of accumulated depreciation), a decrease of \$312 from the prior year. This investment in depreciable capital assets includes structures and improvements, equipment and furnishings, and infrastructure assets.

Long-term debt. At the end of the current fiscal year, the Department had no outstanding bonded debt.

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

DRAFT

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current:		
Unrestricted cash and short-term investments	\$ 11,533,212	\$ 9,151,851
Receivables, net of allowance for uncollectable	7,871,050	8,381,377
Prepaid expenses	772,766	691,445
Inventory	<u>1,407,500</u>	<u>1,569,030</u>
Total current assets	21,584,528	19,793,703
Noncurrent:		
Restricted cash and short-term investments	19,219,111	18,035,438
Restricted investments	1,292,906	-
Investment in associated companies	26,994	36,774
Land	1,265,842	1,265,842
Capital assets, net of accumulated depreciation	<u>68,928,263</u>	<u>68,928,575</u>
Total noncurrent assets	<u>90,733,116</u>	<u>88,266,629</u>
TOTAL ASSETS	112,317,644	108,060,332
LIABILITIES		
Current:		
Accounts payable	4,407,535	4,978,818
Accrued liabilities	592,810	527,638
Customer deposits	749,900	700,021
Customer advances for construction	400,656	405,154
Due to pension trust	1,374,538	-
Current portion of long-term liabilities:		
Accrued employee compensated absences	<u>195,937</u>	<u>384,518</u>
Total current liabilities	7,721,376	6,996,149
Noncurrent:		
Accrued employee compensated absences	<u>2,722,934</u>	<u>2,747,004</u>
Total noncurrent liabilities	<u>2,722,934</u>	<u>2,747,004</u>
TOTAL LIABILITIES	10,444,310	9,743,153
NET POSITION		
Net investment in capital assets	70,194,105	70,194,418
Restricted for depreciation fund	4,130,585	2,733,147
Unrestricted	<u>27,548,644</u>	<u>25,389,614</u>
TOTAL NET POSITION	\$ <u>101,873,334</u>	\$ <u>98,317,179</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Electric sales, net of discounts of \$4,475,920 and \$4,380,927, respectively	\$ 79,689,061	\$ 80,816,527
Purchase power and fuel charge adjustments:		
Fuel charge adjustment	1,523,208	339,810
Purchase power adjustment	3,152,211	1,138,194
Total Operating Revenues	<u>84,364,480</u>	<u>82,294,531</u>
Operating Expenses:		
Purchase power	60,823,626	61,423,332
Operating Maintenance	11,002,998	10,325,066
Depreciation	2,290,843	2,255,706
Voluntary payments to towns	3,779,635	3,665,630
Total Operating Expenses	<u>79,294,372</u>	<u>79,045,634</u>
Operating Income	5,070,108	3,248,897
Nonoperating Revenues (Expenses):		
Interest income	120,832	24,435
Contributions in aid of construction	24,117	30,965
MMWEC surplus	391,726	445,278
Purchased power refunds	-	327,297
Intergovernmental grants	-	53,074
Return on investment to Town of Reading	(2,301,221)	(2,265,427)
Loss on disposal of capital assets	(114,960)	(385,199)
Other	365,553	303,799
Total Nonoperating Revenues (Expenses), Net	<u>(1,513,953)</u>	<u>(1,465,778)</u>
Change in Net Position	3,556,155	1,783,119
Net Position at Beginning of Year	<u>98,317,179</u>	<u>96,534,060</u>
Net Position at End of Year	<u>\$ 101,873,334</u>	<u>\$ 98,317,179</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 CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 80,249,266	\$ 80,619,625
Payments to vendors and employees	(74,778,752)	(77,467,006)
Customer purchase power and fuel charge adjustments	<u>4,675,419</u>	<u>1,478,004</u>
Net Cash Provided By (Used For) Operating Activities	10,145,933	4,630,623
<u>Cash Flows From Noncapital Financing Activities:</u>		
Return on investment to Town of Reading	(2,301,221)	(2,265,427)
MMWEC surplus	391,726	445,278
Intergovernmental revenues	-	53,074
Other	<u>865,553</u>	<u>631,096</u>
Net Cash Provided By (Used For) Noncapital Financing Activities	(1,545,942)	(1,135,979)
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	(3,894,282)	(5,574,329)
Contributions in aid of construction	<u>19,619</u>	<u>72,660</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(3,874,663)	(5,501,669)
<u>Cash Flows From Investing Activities:</u>		
Investment income	120,832	24,435
(Increase) decrease in restricted cash and investments	<u>(2,466,799)</u>	<u>1,176,481</u>
Net Cash Provided By (Used For) Investing Activities	(2,345,967)	1,200,916
Net Change in Cash and Short-Term Investments	2,381,361	(806,109)
Unrestricted Cash and Short Term Investments, Beginning of Year	<u>9,151,851</u>	<u>9,957,960</u>
Unrestricted Cash and Short Term Investments, End of Year	<u>\$ 11,533,212</u>	<u>\$ 9,151,851</u>
<u>Reconciliation of Operating Income to Net Cash:</u>		
Operating income	\$ 5,070,108	\$ 3,248,897
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation expense	3,779,635	3,665,630
(Increase) decrease in:		
Accounts receivable	510,327	(265,655)
Prepaid and other assets	(81,321)	71,485
Inventory	161,530	(73,693)
Accounts payable and accrued liabilities	(718,762)	250,295
Due to pension trust	1,374,538	(1,000,000)
Other post-employment benefits	-	(1,335,089)
Other liabilities	<u>49,878</u>	<u>68,753</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 10,145,933</u>	<u>\$ 4,630,623</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, 2014 AND 2013

	Pension Trust		OPEB Trust	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>				
Cash and short-term investments	\$ 2,632,367	\$ 5,197,092	\$ 1,846,042	\$ 1,495,511
Investments	1,292,906	-	-	-
Due from proprietary fund	<u>1,374,538</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>5,299,811</u>	<u>5,197,092</u>	<u>1,846,042</u>	<u>1,495,511</u>
<u>NET POSITION</u>				
Total net position held in trust	<u>\$ 5,299,811</u>	<u>\$ 5,197,092</u>	<u>\$ 1,846,042</u>	<u>\$ 1,495,511</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, 2014 AND 2013

	Pension Trust		OPEB Trust	
	2014	2013	2014	2013
Additions:				
Contributions from Reading Municipal Light Department	\$ 1,374,538	\$ 1,000,000	\$ 343,095	\$ 1,483,007
Interest and dividend income	74,220	8,391	7,436	12,504
Total additions	<u>1,448,758</u>	<u>1,008,391</u>	<u>350,531</u>	<u>1,495,511</u>
Deductions:				
Paid to Reading Contributory Retirement System	1,346,039	1,288,076	-	-
Total deductions	<u>1,346,039</u>	<u>1,288,076</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in net position	102,719	(279,685)	350,531	1,495,511
Net position:				
Net Position, Beginning of Year	<u>5,197,092</u>	<u>5,476,777</u>	<u>1,495,511</u>	<u>-</u>
Net Position, End of Year	<u>\$ 5,299,811</u>	<u>\$ 5,197,092</u>	<u>\$ 1,846,042</u>	<u>\$ 1,495,511</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 fuel 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 enterprise fund are charges to customers for electric sales and services. Operating expenses for the Department's enterprise 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 electric utilities are not currently subject to this legislation.

D. Retirement Trust - The Reading Municipal Light Department Employees' Pension Trust (the "Pension Trust") was established on December 30, 1966,

by the Reading Municipal Light Board 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 Statement of Cash Flows, the Department considers both restricted and unrestricted cash on deposit with the Town Treasurer to be cash or short-term investments. For purpose of the Statement of Net Position, the proprietary funds consider 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 pur-

poses 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 assets account.

Massachusetts General Laws require utility plant in service to be depreciated at an 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 at 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 Proprietary Fund Statement 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 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, the Department performs the following calculation. Using the net income per the audited financials, 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 year end.

O. Comparative Financial Information - The financial statements include certain prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Department's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

2. Cash and Investments

Total cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Proprietary Fund:	
Unrestricted cash and short-term investments	\$ 11,533,212
Restricted cash and short-term investments	19,219,111
Restricted investments	1,292,906
Fiduciary Funds:	
Cash and short-term investments - Pension Trust	2,632,367
Cash and short-term investments - OPEB Trust	1,846,042
Investments - Pension Trust	<u>1,292,906</u>
Total cash and investments	<u>\$ 37,816,544</u>

Total cash and investments at June 30, 2014 consist of the following:

Cash on hand	\$ 3,000
Deposits with financial institutions	<u>37,813,544</u>
Total cash and investments	<u>\$ 37,816,544</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, 2014, 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, 2014, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying maturity dates as follows:

	<u>Restricted Investments</u>	<u>Pension Trust</u>	<u>Maturity Date</u>
<u>Corporate bonds</u>			
AT&T Inc	\$ 212,158	\$ 212,158	12/01/22
General Electric Cap Corp	206,472	206,472	01/09/23
Wells Fargo & Co	208,098	208,098	08/15/23
Rabobank Nederland Bank	254,085	254,085	11/09/22
Teva Pharmaceut Fin BV	207,109	207,109	12/18/22
BNP Paribas	<u>204,984</u>	<u>204,984</u>	03/03/23
Total	<u>\$ 1,292,906</u>	<u>\$ 1,292,906</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, 2014, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying ratings as follows:

<u>Investment Type</u>	<u>Restricted Investments</u>	<u>Pension Trust</u>	<u>Moody's Rating</u>
Corporate bonds:			
AT&T Inc	\$ 212,158	\$ 212,158	A3
General Electric Cap Corp	206,472	206,472	A1
Wells Fargo & Co	208,098	208,098	A3
Rabobank Nederland Bank	254,085	254,085	A2
Teva Pharmaceut Fin BV	207,109	207,109	A3
BNP Paribas	204,984	204,984	A1
Total	<u>\$ 1,292,906</u>	<u>\$ 1,292,906</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, 2014, the Department and Pension Trust investments were held in domestic and foreign fixed income bonds, as detailed in the sections above. Five of the bonds each individually represent approximately 16% of the Department's and System's total investments, while the investment in Rabobank Nederland Bank represents approximately 20%.

Custodial Credit Risk

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

Because the Department pools its cash with the Town of Reading, the specific custodial credit risk of the Department's deposits could not be readily determined at June 30, 2014.

As of June 30, 2014, none of the Department's (including Pension Trust and OPEB Trust) short-term investments were exposed to custodial credit risk.

As of June 30, 2014, 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 at June 30, 2014:

	<u>Cash</u>	<u>Investments</u>
Depreciation fund	\$ 4,130,585	\$ -
Construction fund	1,000,000	-
Deferred fuel reserve	4,132,695	-
Deferred energy conservation reserve	457,261	-
Rate stabilization	6,723,797	-
Reserve for uncollectible accounts	200,000	-
Sick leave benefits	1,674,873	1,292,906
Hazardous waste fund	150,000	-
Customer deposits	749,900	-
Total	<u>\$ 19,219,111</u>	<u>\$ 1,292,906</u>

The Department maintains the following reserves:

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

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

4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2014:

Customer Accounts:		
Billed	\$ 2,227,603	
Less allowances:		
Uncollectible accounts	(200,000)	
Sales discounts	(231,632)	
Total billed		1,795,971
Unbilled, net		5,622,269
Total customer accounts		7,418,240
Other Accounts:		
Merchandise sales	34,746	
MMWEC surplus	390,088	
Liens and other	27,976	
Total other accounts		452,810
Total net receivables		\$ 7,871,050

5. Prepaid Expenses

Prepaid expenses consist of the following:

Insurance and other	\$ 269,616
Purchase power	24,964
NYPA prepayment fund	259,957
WC Fuel - Watson	218,229
Total	\$ 772,766

6. Inventory

Inventory is comprised of supplies and materials at June 30, 2014, 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, 2014:

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

8. Capital Assets

The following is a summary of fiscal year 2014 activity in capital assets (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Structures and improvements	\$ 14,179	\$ 4	\$ -	\$ 14,183
Equipment and furnishings	31,359	867	(439)	31,787
Infrastructure	80,449	3,023	(733)	82,739
Total capital assets, being depreciated	125,987	3,894	(1,172)	128,709
Less accumulated depreciation for:				
Structures and improvements	(7,748)	(388)	-	(8,136)
Equipment and furnishings	(18,959)	(970)	439	(19,490)
Infrastructure	(30,352)	(2,422)	619	(32,155)
Total accumulated depreciation	(57,059)	(3,780)	1,058	(59,781)
Total capital assets, being depreciated, net	68,928	114	(114)	68,928
Capital assets, not being depreciated:				
Land	1,266	-	-	1,266
Total capital assets, not being depreciated	1,266	-	-	1,266
Capital assets, net	\$ 70,194	\$ 114	\$ (114)	\$ 70,194

9. Accounts Payable

Accounts payable represent fiscal 2014 expenses that were paid after June 30, 2014.

10. Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2014:

Accrued payroll	\$ 304,089
Accrued sales tax	235,908
Other	<u>52,813</u>
Total	<u>\$ 592,810</u>

11. Customer Deposits

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

12. 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.

13. Accrued Employee Compensated Absences

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

14. Restricted Net Assets

The proprietary fund financial statements report restricted net assets when external constraints are placed on net assets. Specifically, restricted net assets represent depreciation fund reserves, which are restricted for future capital costs.

15. Post-Employment Health Care and Life Insurance Benefits

Other Post-Employment Benefits

The Department follows GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement 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 Statements of Revenues, Expenses, and

Changes in Net Position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statements of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described in Note 16, the Department provides post-employment health and life insurance benefits for retired employees through the Town of Reading's Massachusetts Inter-local Insurance Association (MIIA) Health Benefits Trust. Benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2013, the actuarial valuation date, approximately 84 retirees and 52 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 eligibility criteria will be eligible to receive these benefits.

C. Funding Policy

As of the June 30, 2013, the actuarial valuation date, retirees were 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 2014 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of twenty years. The following table shows the components of the Department's annual OPEB cost for the year ending June 30, 2014, 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, 2013.

Annual Required Contribution (ARC)	\$ 538,576
Interest on net OPEB obligation	<u>229,802</u>
Annual OPEB cost	768,378
Projected benefit payments	<u>(425,283)</u>
Increase in net OPEB obligation	343,095
Net OPEB obligation - beginning of year	-
Contributions to OPEB Trust	<u>(343,095)</u>
(1) Net OPEB obligation - end of year	<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 2014 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>
2014	\$ 768,378	100.00%	\$ -
2013	\$ 604,987	100.00%	\$ -
2012	\$ 587,945	75.55%	\$ 1,335,089

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 7,588,993
Actuarial value of plan assets	<u>1,495,511</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 6,093,482</u>
Funded ratio (actuarial value of plan assets/AAL)	19.7%
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

In 2010, the Department's Board of Commissioners voted to accept the provisions of Massachusetts General Law Chapter 32B §20, to 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 2014, the Department contributed \$343,095 to this trust, which was equal to all of its actuarially determined annual contribu-

tions through June 30, 2014. The assets and net position of this trust are reported in the Department's Statement 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 for benefits.

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 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, 2013 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The Department's actuarial value of assets was \$1,495,511. The actuarial assumptions included a 7.75% investment rate of return and an initial annual health care cost trend rate of 8.5% which decreases to a 5.0% long-term rate for all health care benefits after eight years. 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 period of 18 years.

16. Pension Plan

The Department follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the Town of Reading Contributory Retirement system at Town Hall, Reading, MA.

A. Plan Description

The Department contributes to the Town of Reading Contributory Retirement System (the System), a cost-sharing, multiple-employer, defined benefit pension plan administered by a Town Retirement Board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Department is required to pay into the System its share of the remaining system wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Department are governed by Chapter 32 of the Massachusetts General Laws. The Department's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$1,346,039, \$1,288,076, and \$1,336,326, respectively, which were equal to its annual required contributions for each of these years.

17. Participation in Massachusetts Municipal Wholesale Electric Company

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

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

share of that Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

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

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

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

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

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 all 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 MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

Total capital expenditures for MMWEC's Projects amounted to \$1,609,213,000, of which \$115,506,000 represents the amount associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$225,280,000, of which \$9,478,000 is associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. After the July 1, 2014 principal payment MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$184,003,000, of which \$6,937,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of Reading Municipal Light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at June 30, 2014 and estimated for future years is shown below.

DRAFT

For years ended June 30,	Annual Costs
2015	\$ 2,574,000
2016	2,700,000
2017	1,472,000
2018	190,000
2019	-
2020	1,000
Total	\$ 6,937,000

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 \$14,021,000 and \$12,353,000 for the years ended June 30, 2014 and 2013, respectively.

18. 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 2014 REC activity and balances is as follows:

REC Sales During Fiscal 2014

	<u>Certificates</u>	<u>Amount</u>
Various	1,107	\$ 70,848
Various	1,809	96,782
Various	752	18,988
Various	938	59,094
Various	1,680	107,100
Various	3,533	189,899
Various	1,142	29,121
Various	2,432	155,040
Various	245	15,300
Various	618	33,187
Various	166	4,316
Various	291	15,336
Various	98	2,421
	<u>14,811</u>	<u>\$ 797,430</u> ⁽¹⁾

(1) Sale proceeds netted against fiscal year 2014 purchased power

REC Holdings at June 30, 2014

	<u>Banked Certificates</u>	<u>Projected Certificates</u>	<u>Total Certificates</u>	<u>Estimated Value</u>
CT Class I	-	4,890	4,890	\$ 283,620
MA Class VII	-	3,631	3,631	149,940
Total	<u>-</u>	<u>8,521</u>	<u>8,521</u>	<u>\$ 433,560</u>

Because there are currently no clear accounting guidelines 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, 2014 are not recognized as an asset on the Proprietary Fund Statements of Net Position.

19. Leases

Related Party Transaction - Property Sub-Lease

The Department is sub-leasing facilities 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, 2011. An additional amendment, effective December 1, 2011, extends the lease through November 30, 2014. The following is the future minimum rental income for the years ending June 30:

2015	\$ 3,630
Total	\$ 3,630

20. Implementation of New GASB Standards

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which the Department is required to implement in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Department's basic financial statements by requiring the Department to recognize, as a liability and expense, its applicable portion of the Town of Reading Contributory Retirement System's (System) actuarially accrued unfunded pension liability. As of January 1, 2014, the date of the most recent actuarial valuation, the Department's portion of the System's unfunded actuarially accrued liability was \$9,176,022. As of June 30, 2014, the Department had accumulated total assets of \$5,299,811 in the Pension Trust to partially offset this liability.

TOWN OF READING, MASSACHUSETTS, MUNICIPAL LIGHT DEPARTMENT
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014
(Unaudited)

Employees' Retirement System

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 Percentage of Covered Payroll [(b-a)/c]
01/01/14	\$ 40,511,889	\$ 49,687,911	\$ 9,176,022	81.5%	\$ 5,682,623	161.5%
01/01/12	\$ 33,693,088	\$ 46,081,344	\$ 12,388,256	73.4%	\$ 5,688,356	217.8%
01/01/10	\$ 32,274,593	\$ 41,832,574	\$ 9,557,981	77.2%	\$ 5,891,366	162.2%
01/01/08	\$ 40,022,466	\$ 37,123,945	\$ (2,898,521)	107.8%	\$ 5,742,993	-50.5%

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 Percentage of Covered Payroll [(b-a)/c]
06/30/13	\$ 1,495,511	\$ 7,588,993	\$ 6,093,482	19.7%	N/A	N/A
06/30/11	\$ 1,167,161	\$ 8,643,438	\$ 7,476,277	13.5%	N/A	N/A
06/30/08	\$ -	\$ 8,085,388	\$ 8,085,388	0.0%	N/A	N/A

See Independent Auditors' Report.