

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE
OPERATIONS (SELCO)-CABLE
Financial Statements
December 31, 2017 and 2016

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
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DECEMBER 31, 2017 AND 2016

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**GOULET, SALVIDIO
& ASSOCIATES, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Town of Shrewsbury, Massachusetts
Shrewsbury Electric and Cable Operations (SELCO) – Cable
Shrewsbury, Massachusetts 01545

We have audited the accompanying financial statements of Shrewsbury Electric and Cable Operations (SELCO) – Cable as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise SELCO-Cable's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Shrewsbury Electric and Cable Operations (SELCO) – Cable as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1, the financial statements present only the Shrewsbury Electric and Cable Operations (SELCO) – Cable and do not purport to, and do not present fairly the financial position of the Town of Shrewsbury, Massachusetts, as of December 31, 2017 and 2016, and the changes in financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Other Postemployment Benefits and Net Pension Liability information on pages three through five and 31 through 35 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 sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Operations and Maintenance Expenses on pages 29 and 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
March 29, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Shrewsbury Electric and Cable Operations (SELCO) - Cable (an enterprise fund of the Town of Shrewsbury, Massachusetts) annual financial report, management provides narrative discussion and analysis of the financial activities of SELCO - Cable for the years ended December 31, 2017 and 2016. SELCO-Cable's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements:

The basic financial statements include (1) the statements of net position (2) the statements of revenues, expenses and changes in net position (3) the statements of cash flows and (4) notes to the financial statements.

The Statements of Net Position are designed to indicate our financial position as of a specific point in time. At December 31, 2017 it shows that our net position increased 13.8% compared to the year ended December 31, 2016.

The Statements of Revenues, Expenses and Changes in Net Position summarize operating results and reveal how much income was earned for the year. As discussed in more detail below, our net income for the year ended December 31, 2017 and 2016 was \$4,033,017 and \$3,795,099, respectively.

The Statements of Cash Flows provide information about the cash receipts and cash payments during the accounting period. They also provide information about the investing and financing activities over the same period. A review of the Statements of Cash Flows indicates that the cash receipts from operating activities, (that is, signal sales, internet sales, telephone service sales and related services) adequately covered our operating expenses and plant additions for the year ended December 31, 2017.

Summary of Net Position

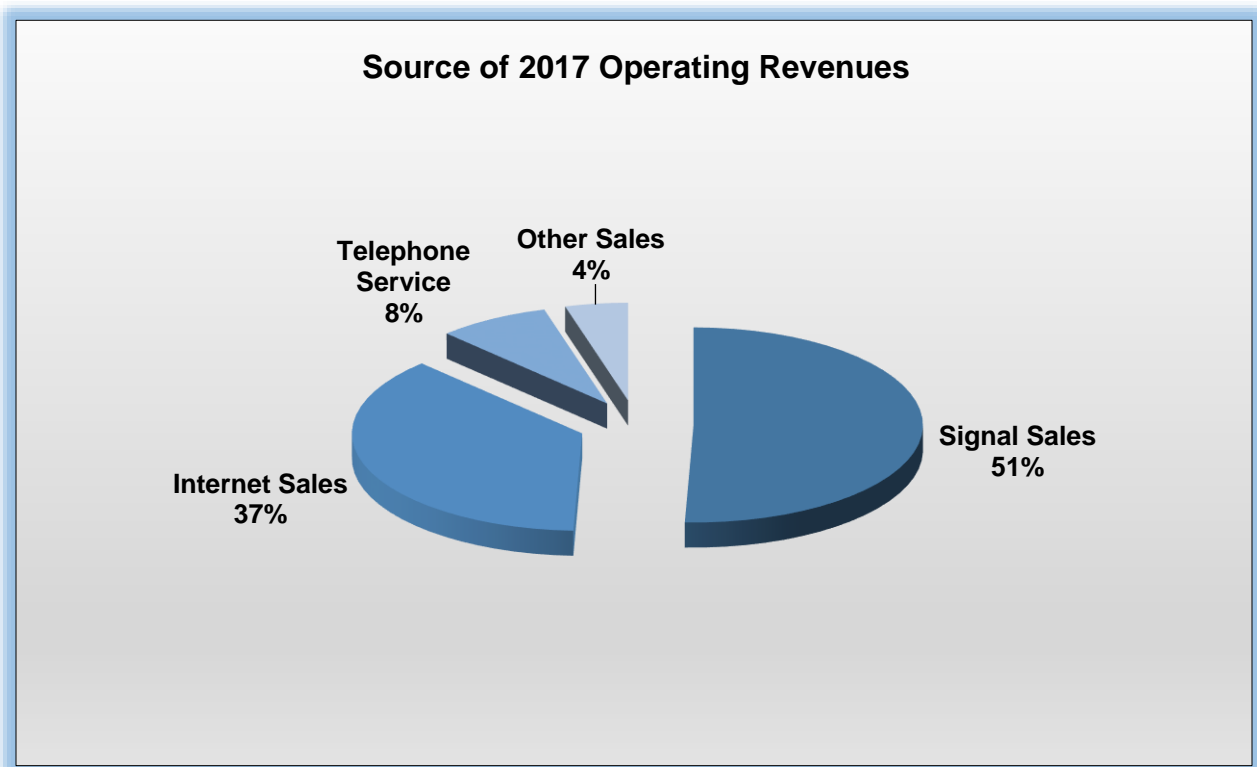
	2017	2016
Current Assets	\$ 19,212,623	\$ 15,280,341
Noncurrent Assets	15,737,837	15,933,490
Total Assets	34,950,460	31,213,831
Deferred Outflows of Resources	413,554	451,476
Total Assets and Deferred Outflows of Resources	\$ 35,364,014	\$ 31,665,307
Current Liabilities	\$ 1,184,344	\$ 1,193,251
Noncurrent Liabilities	752,310	1,090,954
Total Liabilities	1,936,654	2,284,205
Deferred Inflows of Resources	162,436	149,195
Net Position:		
Net Investment in Capital Assets	15,737,837	15,933,490
Unrestricted Net Position	17,527,087	13,298,417
Total Net Position	33,264,924	29,231,907
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 35,364,014	\$ 31,665,307

Summary of Changes in Net Position

	2017	2016
Operating Revenues	\$ 20,759,972	\$ 19,518,354
Operating Expenses	16,538,836	15,642,552
Operating Income	4,221,136	3,875,802
Non-Operating Revenues Less Non-Operating Expenses	(188,119)	(80,703)
Net Income	4,033,017	3,795,099
Net Position, January 1	29,231,907	25,436,808
Net Position, December 31	\$ 33,264,924	\$ 29,231,907

Financial Highlights:

Operating revenues increased by \$1,241,618 or 6.36% in 2017. An increase in signal sales of \$248,234 was the result of a rate increase that was implemented in March of 2017 tempered with the loss of about 590 basic subscribers. There were 325 new subscribers added to SELCO – Cable’s internet service, attributing to a \$571,649 increase in internet sales over 2016. SELCO - Cable’s telephone service lost approximately 120 customers over the course of the year resulting in a \$43,492 decline in revenue.



* Other sales include revenue generated from installations, equipment sales, advertising sales and revenue from tower rentals.

Signal and Connectivity:

SELCO - Cable provides cable television signal, internet connectivity and local and long-distance telephone service for its customers through direct contracts with cable signal and internet connectivity providers as well as the National Cable Television Cooperative (NCTC) and Alianza.

The association with NCTC aggregates SELCO - Cable with other smaller cable television providers to lend better leverage in negotiating more favorable rates from signal providers. Cable television signal and internet connectivity costs are the costs associated with buying cable television signal and internet connectivity and having it delivered to customers in the Town of Shrewsbury. Cable television signal costs will change as the contracts are renewed. The cost of internet connectivity is directly proportional to the demand for this service and SELCO - Cable's desire to maintain the capacity necessary to provide its customers with a superior level of service and maintain some system connection redundancy.

Cable Plant:

Cable Plant decreased by \$195,653 from 2016. This decrease is the difference between the net current year additions of \$2,138,504 and the net annual depreciation expense of \$2,146,038, coupled with a loss on disposal of converters in the amount of \$188,119. During 2017, the cost of digital converters and cable and telephone modems along with annual improvements to the distribution infrastructure amounted to approximately \$1,241,683, which accounted for 58% of current year additions. Approximately 325 cable modems were installed in 2017. The number of items deployed is an indicator of the continued growth SELCO - Cable has experienced in their internet.

The process of continually upgrading the head-end facilities to increase reliability, efficiency, and capacity added another \$467,189 in 2017 capital additions, representing 21% of total additions.

It should be noted that the above mentioned plant expenditures have been, and will continue to be funded with revenue received from the sale of cable television, internet and SELCO telephone services.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

OPERATING FUND

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Cash	\$ 17,157,505	\$ 13,405,609
Accounts Receivable Customers, Net	1,510,857	1,364,702
Other Accounts Receivable	40,273	46,360
Materials and Supplies	415,178	376,988
Prepayments	<u>88,810</u>	<u>86,682</u>
 TOTAL CURRENT ASSETS	 <u>19,212,623</u>	 <u>15,280,341</u>
 NONCURRENT ASSETS:		
Cable Plant Assets, Net	<u>15,737,837</u>	<u>15,933,490</u>
 TOTAL ASSETS	 <u>34,950,460</u>	 <u>31,213,831</u>
 DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflows of Resources Related to Pensions	<u>413,554</u>	<u>451,476</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 35,364,014</u>	 <u>\$ 31,665,307</u>

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

OPERATING FUND

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,007,660	\$ 993,747
Due to SELCO - Electric	124,736	147,556
Current Portion of Unearned Revenue	<u>51,948</u>	<u>51,948</u>
TOTAL CURRENT LIABILITIES	<u>1,184,344</u>	<u>1,193,251</u>
NONCURRENT LIABILITIES:		
Other Postemployment Benefits Obligation	145,754	204,200
Unearned Revenue, Net of Current Portion	43,290	95,238
Net Pension Liability	<u>563,266</u>	<u>791,516</u>
TOTAL NONCURRENT LIABILITIES	<u>752,310</u>	<u>1,090,954</u>
TOTAL LIABILITIES	<u>1,936,654</u>	<u>2,284,205</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred Inflows of Resources Related to Pensions	<u>162,436</u>	<u>149,195</u>
NET POSITION:		
Invested in Capital Assets, Net of Related Debt	15,737,837	15,933,490
Unrestricted Net Position	<u>17,527,087</u>	<u>13,298,417</u>
TOTAL NET POSITION	<u>33,264,924</u>	<u>29,231,907</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 35,364,014</u>	<u>\$ 31,665,307</u>

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	2017	2016
OPERATING REVENUES:		
Signal Sales	\$ 10,506,538	\$ 10,258,304
Internet Sales	7,701,171	7,129,522
Telephone Service	1,636,583	1,680,075
Additional Outlet Sales	40,798	42,617
Other Operating Revenue	874,882	407,836
 TOTAL OPERATING REVENUES	 20,759,972	 19,518,354
OPERATING EXPENSES:		
Operations	12,571,346	12,127,166
Maintenance	581,614	512,370
Cable Franchise Fees - Town	1,239,838	800,000
Depreciation	2,146,038	2,203,016
 TOTAL OPERATING EXPENSES	 16,538,836	 15,642,552
 OPERATING INCOME	 4,221,136	 3,875,802
NONOPERATING INCOME (EXPENSE):		
Loss on Disposal of Equipment	(188,119)	(80,703)
 NET INCOME	 4,033,017	 3,795,099
 NET POSITION, JANUARY 1	 29,231,907	 25,436,808
 NET POSITION, DECEMBER 31	 \$ 33,264,924	 \$ 29,231,907

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 20,567,956	\$ 19,435,054
Cash Paid to Suppliers	(10,458,139)	(10,108,677)
Cash Paid to Employees	(2,262,219)	(2,138,254)
Cash Paid for Benefits	(636,664)	(670,156)
Cable Franchise Fees - Town	(1,239,838)	(800,000)
	5,971,096	5,717,967
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Repayment (to) from SELCO - Electric	(22,820)	62,483
CASH FLOWS FROM INVESTING ACTIVITIES:		
Transfer to OPEB Trust Fund	(57,876)	(86,298)
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:		
Additions to Cable Plant	(2,138,504)	(1,913,430)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,751,896	3,780,722
CASH, Beginning of Year	13,405,609	9,624,887
CASH, End of Year	\$ 17,157,505	\$ 13,405,609

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 4,221,136	\$ 3,875,802
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	2,146,038	2,203,016
Amortization of Deferred Revenue	(51,948)	(51,948)
Allowance for Doubtful Accounts	(19,000)	3,000
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Accounts Receivable	(127,155)	(21,579)
Other Accounts Receivable	6,087	(12,773)
Materials and Supplies	(38,190)	(88,802)
Prepaid Expenses	(2,128)	29,364
Deferred Outflows of Resources Related to Pensions	37,922	(210,600)
Increase (Decrease) in Liabilities:		
Accounts Payable	13,913	(20,103)
Other Postemployment Benefits Obligation	(570)	(42,930)
Net Pension Liability	(228,250)	(63,463)
Deferred Inflows of Resources Related to Pensions	13,241	118,983
Net Cash Provided by Operating Activities	\$ 5,971,096	\$ 5,717,967

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

The following amounts are considered to be cash and cash equivalents for the purpose of the statements of cash flows.

	2017	2016
Funds for General Operation	\$ 17,157,505	\$ 13,405,609

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
 STATEMENTS OF FIDUCIARY NET POSITION
 DECEMBER 31, 2017 AND 2016

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

	<u>2017</u>	<u>2016</u>
ASSETS		
Funds on Deposit with Town Treasurer		
Investments	<u>\$ 989,622</u>	<u>\$ 832,269</u>
NET POSITION		
NET POSITION - Restricted	<u>\$ 989,622</u>	<u>\$ 832,269</u>

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 TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
 STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

	<u>2017</u>	<u>2016</u>
Contributions	\$ 57,876	\$ 86,298
Investment Income	<u>99,477</u>	<u>45,179</u>
CHANGES IN NET POSITION	<u>157,353</u>	<u>131,477</u>
NET POSITION - January 1,	<u>832,269</u>	<u>700,792</u>
NET POSITION - December 31,	<u>\$ 989,622</u>	<u>\$ 832,269</u>

See Accompanying Notes to Financial Statements

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – CABLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

SELCO - Cable is a component unit of the Town of Shrewsbury, Massachusetts. SELCO - Cable provides transmission of cable television signals, the installations necessary for the customer to receive them, high speed Internet access, and telephone service (local and long-distance) via the Internet to consumers in the Town of Shrewsbury. SELCO - Cable appoints a General Manager who, under the direction and control of the Municipal Light Commission, has full charge of the operations and management of SELCO - Cable.

Regulation and Basis of Presentation

SELCO - Cable's financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

SELCO - Cable is considered an enterprise fund of the Town of Shrewsbury, Massachusetts. The operations of SELCO - Cable are accounted for with a separate set of self-balancing accounts organized on an Enterprise Fund type basis. Enterprise funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case GASB prevails.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Union Labor

Approximately one quarter of SELCO - Cable's employees are covered by a three-year union contract which expires on June 30, 2019.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2017 financial statement presentation with no effect on previously stated net income.

Taxes

SELCO - Cable is exempt from federal income taxes.

Cable Plant and Depreciation

Depreciation is computed using percentages ranging from three to twenty percent of the cost of Cable Plant. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Materials and Supplies

Materials and supplies inventory consists of parts and accessories for installations required for service, and are stated at cost using first-in-first-out (FIFO) method for valuing inventory.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – CABLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Cash and Cash Equivalents

For purposes of the statements of cash flows, SELCO - Cable considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Prepayments

Prepayments consist of prepaid expenses attributable to insurance, maintenance contracts, and signal purchases.

Accounts Receivable Customers, Net

SELCO - Cable carries its accounts receivable net of an allowance for doubtful accounts to properly reflect the realizable value. On a periodic basis, SELCO - Cable evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on its history of past write-offs and collections and current credit conditions.

SELCO – Cable’s policy on collections is to consider any receivable past due if payments have not been received within sixty days of receipt of invoice. Termination letters are mailed approximately three weeks prior to the scheduled termination date. If payment is not received prior to the date of termination, the cable is disconnected.

Allowance for Doubtful Accounts

Accounts Receivable is net of allowances for doubtful accounts of \$150,000 for 2017 and \$169,000 for 2016.

Sales Tax

SELCO - Cable collects sales tax. The amount received is credited to a liability account and as payments are made the liability account is charged. At any point in time, this account represents the net amount owed to the taxing authority for amounts collected but not yet remitted.

Unearned Revenue

Deferred revenue represents money received in conjunction with an Indefensible Rights of Use (IRU) agreement which was executed on October 31, 2014. This agreement is between Teleport Communications America and Shrewsbury Electric and Cable Operations (SELCO) - Cable. Deferred revenue is being amortized over the 5 year term in Other Operating Revenue.

Advertising Costs

SELCO - Cable expenses advertising costs as incurred. Advertising expense was \$90,918 and \$84,679 for the years ended December 31, 2017 and 2016, respectively.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – CABLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Compensated Absences

SELCO - Cable's employment benefit plan provides that employees are entitled to a minimum of ten days' vacation per year up to twenty-five days per year depending on years of service and employment classification. Employees are allowed to accumulate up to 200 hours of unused vacation. Accrued amounts were \$90,393 and \$77,741 at December 31, 2017 and 2016, respectively.

Deferred Compensation Plan

The employees of SELCO - Cable are eligible to participate in the Town's deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. Participation in the plan is optional. All amounts of compensation deferred under the plan, all property or rights purchased with amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of participants and their beneficiaries. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Pensions

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 Shrewsbury Contributory Retirement System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report a separate section for deferred outflows and deferred inflows of resources. These separate financial statement elements, deferred outflows and inflows of resources, represent a consumption of net position that applies to a future period and so will not be recognized as an outflow/inflow of resources (expense/expenditure) until then.

NOTE 2 - CONCENTRATION OF CREDIT RISK:

SELCO - Cable Department's deposits with the Town Treasurer are commingled and invested with deposits from other Town funds. Accordingly, it is not practical to disclose the related bank balance and credit risk of such cash deposits for the Cable Department. Funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC). The amount of insurance coverage for the Cable Department's deposits is not determinable because the limits of insurance are computed on a Town-wide basis.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – CABLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 3 - OTHER ACCOUNTS RECEIVABLE:

Other Accounts Receivable consists of money due to SELCO - Cable for advertising sales. The balance also has monies owed to SELCO - Cable for pole rentals.

	2017	2016
Advertising Receivables	\$ 30,053	\$ 28,498
Other Receivables	10,220	17,862
	\$ 40,273	\$ 46,360

NOTE 4 - PAYMENT PER FRANCHISE AGREEMENT:

SELCO - Cable has a ten-year Cable Franchise Agreement with the Town that expires March 28, 2023. The agreement establishes a contractual obligation for annual payments to be paid to the Town in June of each year. The formula determining the amount that SELCO - Cable pays is stipulated within the Cable Franchise Agreement. During 2017, SELCO - Cable paid a one-time license fee that was calculated on a percentage of the television revenue. Total payments related to the franchise agreement and one-time license payment for the years ended December 31, 2017 and 2016 was \$1,238,838 and \$800,000, respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS:

Shrewsbury Electric and Cable Operations are enterprise funds of the Town of Shrewsbury and are both under the management of the same Board of Commissioners. Amounts Due to SELCO - Electric consist of various payments made by SELCO - Electric on behalf of SELCO - Cable. Payments were for shared operating expenses.

In 2017 and 2016 SELCO - Cable paid the Town amounts of \$1,419,388 and \$1,416,394, respectively. Each year \$800,000 was paid for the Cable Franchise Fee. The remainder in both years was related to health insurance premiums, employer retirement contributions, Medicare payments and payments for fuel used by SELCO - Cable's fleet of vehicles.

At December 31, 2017 and 2016, the outstanding balances payable to the Town were \$100,909 and \$97,498, respectively.

NOTE 6 - NET INVESTMENT IN CAPITAL ASSETS:

	2017	2016
Cost of Capital Assets Acquired	\$ 35,744,971	\$ 34,411,075
Less: Accumulated Depreciation	(20,007,134)	(18,477,585)
Net Investment in Capital Assets	\$ 15,737,837	\$ 15,933,490

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NOTE 7 - CABLE PLANT ASSETS:

	Balance January 1, 2017	Increases	Decreases	Balance December 31, 2017
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ -	\$ 243,678	\$ -	\$ 243,678
Total	-	243,678	-	243,678
Capital Assets Being Depreciated				
Intangible Plant	\$ 342,745	\$ -	\$ -	\$ 342,745
Transmitting Facilities	1,612,259	-	-	1,612,259
Head End Equipment	10,396,318	467,189	-	10,863,507
Distribution Facilities	20,362,557	1,241,683	(802,338)	20,801,902
General Plant	1,697,196	185,954	(2,270)	1,880,880
Total	34,411,075	1,894,826	(804,608)	35,501,293
Less Accumulated Depreciation For:				
Intangible Plant	(339,273)	(3,472)	-	(342,745)
Transmitting Facilities	(856,980)	(75,208)	-	(932,188)
Head End Equipment	(4,193,794)	(549,417)	-	(4,743,211)
Distribution Facilities	(12,207,218)	(1,347,078)	616,489	(12,937,807)
General Plant	(880,320)	(170,863)	-	(1,051,183)
Total Accumulated Depreciation	(18,477,585)	(2,146,038)	616,489	(20,007,134)
Cable Plant Assets Being Depreciated, Net	15,933,490	(251,212)	(188,119)	15,494,159
Plant Assets, Net	\$ 15,933,490	\$ (7,534)	\$ (188,119)	\$ 15,737,837

NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT LIABILITY TRUST FUND:

The Other Postemployment Benefits Liability Trust Fund was established by vote of the Board of Light Commissioners on May 11, 2009. The Board voted to accept the provisions of MGL Chapter 32B, Section 20 which establishes a separate Fund and a funding schedule for the Fund. The schedule and any future updates shall be designed, consistent with standards issued by the Governmental Accounting Standards Board, to reduce the unfunded actuarial liability of health care and other postemployment benefits to zero as of an actuarially acceptable period of years and to meet the normal cost of all future benefits for which the government unit is obligated. The SELCO - Cable Fund is held under the custodianship of the Treasurer of the Town of Shrewsbury. The balance in the Trust as of December 31, 2017 and 2016 was \$989,622 and \$832,269, respectively.

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NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT LIABILITY TRUST FUND (Continued):

The Trust implemented Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, which provides a definition of fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below.

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

- Mutual Funds:
Valued at closing price as reported on the active market on which the individual funds are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although SELCO - Cable management believes its valuations methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT LIABILITY TRUST FUND (Continued):

The following table sets forth, by level within the fair value hierarchy, SELCO - Cable's OPEB Trust Fund investments at fair value at December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, SELCO - Cable OPEB Trust Fund did not have any investments that were measured using Level 2 or Level 3 inputs.

	December 31, 2017 Quoted Prices in Active Markets for Identical Assets (All Level 1)	December 31, 2016 Quoted Prices in Active Markets for Identical Assets (All Level 1)
<u>FMV Investments:</u>		
Mutual Funds	\$ 989,622	\$ 828,494
<u>Other Securities:</u>		
Money Market	-	3,775
Total	<u>\$ 989,622</u>	<u>\$ 832,269</u>

As of December 31, 2017 and 2016, there were no investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represented 5% or more of total investments.

The Trust has adopted GASB 74 for the year ending December 31, 2017, which introduces a new actuarial cost method and discount rate as well as new disclosures and methodologies for reporting plan liabilities and OPEB expenses.

The following disclosures have been provided by the Actuary at the Plan Level.

Plan Administration:

The Town of Shrewsbury administers the retiree health care benefits program-a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees.

Plan Membership:

At June 30, 2017, OPEB plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits payments	648
Active plan members	<u>1,012</u>
	<u>1,660</u>

Benefits provided:

The Town provides health care benefits for retirees and their dependents. Benefits are provided through the Harvard Pilgrim, Fallon, Blue Cross Blue Shield and Tufts, and the full cost of benefits is shared between the Town and retirees.

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NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT LIABILITY TRUST FUND (Continued):

Contributions:

The Town annual contributes an actuarially determined contribution based on the results of the most recent actuarial valuation.

Investment Policy:

The Governmental Unit’s Treasurer is the custodian of the fund or in the case of the light plant, an officer designated by the board. Investment of funds monies by the custodian must be consistent with the prudent person standard set forth in the Massachusetts General Law Chapter 203C for private trust funds. Interest earned on the investment of fund monies belongs to the fund.

Rate of Return:

For the year ended June 30, 2017, the annual money-weighted rate of return (which expresses investment performance), net of investment expense was not provided.

Net OPEB Liability of the Plan:

The components of the net OPEB liability at June 30, 2017, were as follows:

Total OPEB Liability	\$ 48,107,891
Fiduciary Net Position	<u>(3,292,451)</u>
Net OPEB Liability	<u>\$ 44,815,440</u>

Fiduciary net position as a percentage of the total OPEB liability was 6.8%.

Actuarial Assumptions:

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following assumptions, applied to all periods included in the measurement:

Inflation	3%
Investment rate of return	7.50%, net of investment expenses
Healthcare cost trend rate	5% for 2016, decreasing .5% per year to an ultimate rate of 4.5%.
Pre-Retirement Mortality- All Groups	RP-2014 Blue Collar Mortality Table, with scale MP-2015, fully generational.

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NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT LIABILITY TRUST FUND (Continued):

Actuarial Assumptions (continued)

Post-Retirement Mortality-

Group 1 and 2

RP-2014 Blue Collar Mortality Table, set forward 5 years for males and 3 years for females fully generational, fully generational.

Group 4

RP-2014 Blue Collar Mortality Table, set forward 3 years for males and 6 years for females fully generational, fully generational.

The actuarial assumptions used in July 1, 2016 valuation were based on the results of an actuarial experience study for the period of December 2014.

The long-term expected rate of return by asset class on the OPEB plan investments was not provided.

Discount Rate:

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made in accordance with the Plan's funding policy. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate- The following presents the net OPEB liability calculated using the discount rate of 7.50%, as well as what the net OPEB liability would be if it were calculated using a discount rate 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1% Decrease <u>6.50%</u>	Current Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
Net OPEB Liability	\$ 51,209,273	\$ 44,815,440	\$ 39,542,471

Sensitivity of the Net Pension Liability to Changes in the Healthcare Cost Trend Rates- The following presents the net OPEB liability calculated using current healthcare cost trend rates as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (6% year 1 decreasing to 4%) or 1-percentage point higher (8% year 1 decreasing to 6%) than the current healthcare cost trend rates:

	1% Decrease 6% Year 1 <u>Decreasing to 4%</u>	Current Healthcare Cost Trend Rates 7% Year 1 <u>Decreasing to 5%</u>	1% Increase 8% Year 1 <u>Decreasing to 6%</u>
Net OPEB Liability	\$ 38,502,700	\$ 44,815,440	\$ 52,685,354

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NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

The Town of Shrewsbury provides medical benefits and life insurance to its retirees. SELCO - Cable recognizes its share of the actuarially calculated liability for that benefit using the accounting standard GASB Statement 45, *Accounting for Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. As allowed by GASB 45, SELCO - Cable has applied the measurement recognition requirements of GASB 45 on a prospective basis.

At June 30, 2016, SELCO - Cable's membership in the plan consisted of the following:

Current retirees, beneficiaries, and dependents	9	
Current active employees	30	
Total	39	

Funding Policy

SELCO - Cable funds the cost of providing benefits on a full prefunding basis by expensing the annual insurance premiums charged to SELCO - Cable by the Town of Shrewsbury, which aggregated approximately \$336,602 and \$301,171 for the years ending December 31, 2017 and 2016, respectively. Retired plan members and beneficiaries currently receiving benefits are required to contribute a variable portion for their post-retirement medical costs and any costs exceeding \$4.24 per month for life insurance. The Town established a Trust to accept funding for OPEB liabilities in 2011.

Annual OPEB Costs and Net Obligation

SELCO - Cable's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of generally accepted accounting standards. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The components of SELCO - Cable's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in SELCO - Cable's net OPEB obligation are summarized in the following table:

	2017	2016
Annual required contribution	\$ 77,123	\$ 74,002
Contributions Made	(77,693)	(116,932)
Increase in net OPEB Obligation	(570)	(42,930)
Transfer to OPEB Trust Fund	(57,876)	(86,298)
Change in net OPEB Obligation	(58,446)	(129,228)
Net OPEB Obligation- beginning of year	204,200	333,428
Net OPEB Obligation - end of year	\$ 145,754	\$ 204,200

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NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

SELCO - Cable's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for 2017 and the preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Percentage of Annual Cost Contributed	Net OPEB Asset
12/31/2015	\$ 101,181	\$ 136,631	135.04%	\$ 333,428
12/31/2016	\$ 53,289	\$ 182,517	342.50%	\$ 204,200
12/31/2017	\$ 60,292	\$ 118,739	196.94%	\$ 145,754

Funding Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence 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 revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as supplemental information presents trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The funded status is as follows:

	2017	2016
Actuarial accrued liability (AAL)	\$ 1,101,352	\$ 1,101,352
Actuarial value of plan assets	(989,622)	(832,269)
Unfunded actuarial accrued liability	<u>\$ 111,730</u>	<u>\$ 269,083</u>
Funded ratio (actuarial value of plan assets/AAL)	89.8%	75.57%
Covered payroll (active plan members)	\$ 2,431,932	\$ 2,286,821
UAAL as a percentage of covered payroll	4.6%	11.8%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by SELCO - Cable 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 employer and the 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.

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NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

Actuarial liabilities were determined using the projected unit credit cost method. The actuarial methods and assumptions included a 7.5% rate of return and an annual health care cost rate trend based on projected per capita health claims costs for specific age groups as a result of factors such as medical inflation, utilization of healthcare services, plan design and technological developments. Expected cost increases related to age ranged from 3.7% for ages 60 to 64 and below to 0% for age 80 and over. Both rates included a 5.0% general inflation assumption. The UAAL is being amortized over 30 years at transition and is assumed to increase annually by 4.0%. The remaining amortization period at December 31, 2017, was 20 years.

NOTE 10 - PENSION PLAN:

Plan Description - SELCO - Cable, through the Town of Shrewsbury, is a member of the Shrewsbury Contributory Retirement System which, in turn, is a member of the Massachusetts Contributory Retirement System which is governed by M.G.L. c.32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The plan is a cost-sharing multiple-employer contributory defined benefit plan for all Town employees except those employees who are covered by teachers' retirement board. The Plan's separately issued financial statements can be obtained by contacting Shrewsbury Contributory Retirement System at 100 Maple Avenue, Shrewsbury, Massachusetts 01545.

Benefits Provided - The System provides retirement, disability and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of member's highest three-year average annual rate of regular compensation. For members who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are three classes of membership in the retirement system: Group 1, Group 2, and Group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, Group 4 consists of police officers, firefighters, and other hazardous positions.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service if hired after 1978 and if classified in group 1 or 2. A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with 10 years of service if in group 1, 55 years of age with 10 years of service if in group 2, and 55 years of age if classified in group 4 or hired prior to 1978. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions normal retirement is at age 55).

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors: including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status, and group classification.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - PENSION PLAN (Continued):

Employees who resign from state 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 contributions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Contributions - Active members are required to contribute at rates from 5-9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired after 1978 contribute an additional 2% of annual pay above \$30,000. SELCO - Cable is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the member units based on the actuarial study. The actuarially determined SELCO - Cable contribution is an amount, when combined with employee contributions, is expected to finance the cost of benefits earned by the employees during the year, with an additional amount to finance the unfunded liability. SELCO - Cable's required contributions to the System for the years ended December 31, 2017 and 2016 were \$250,784 and \$240,876, respectively which were paid during calendar years 2016 and 2015, respectively.

Pension Liabilities - At December 31, 2017 and 2016, SELCO - Cable reported a liability of \$563,266 and \$791,516, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and 2015, respectively, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of January 1, 2017 and January 1, 2016, respectively. SELCO - Cable's portion of the net pension liability was based on the current employees, retirees, inactive participants and actual share of the net position to the entire System as of the measured date of December 31, 2016. SELCO - Cable's portion of the net pension liability was based on the percentage of SELCO - Cable's contributions to the total System contributions as of the measured date of December 31, 2016. At the measured date of December 31, 2016 and 2015, SELCO - Cable's portion was 2.98% and 3.97%, respectively.

Pension Expense - For the years ended December 31, 2017 and 2016 SELCO - Cable recognized a pension expense of \$52,623 and \$96,320, respectively. For the years ended December 31, 2017 and 2016, SELCO - Cable reported deferred outflows of resources related to pensions of \$413,554 and \$451,476, respectively, consisting of the differences between projected and actual investment earnings which amounted to \$183,844 and \$200,692, respectively, and the amount paid for contributions made subsequent to the measurement date which amounted to \$229,710 and \$250,784, respectively. For the years ended December 31, 2017 and 2016, SELCO - Cable reported deferred inflows of resources related to pensions of \$162,436 and \$149,195, respectively, consisting of the differences between projected and actual investment earnings which amounted to \$62,712 and \$102,747, respectively, changes in assumptions which amounted to \$17,191 and \$28,166, respectively, and changes in proportion and differences between employer contributions and proportionate share of contributions which amounted to \$82,533 and \$18,282, respectively.

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NOTE 10 - PENSION PLAN (Continued):

SELCO - Cable's net deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year Ended December 31:	2017	\$	9,607
	2018		9,607
	2019		13,477
	2020		(11,882)
	2021		<u>599</u>
	Total		<u>\$ 21,408</u>

As discussed in the previous paragraph, deferred outflows of resources related to pensions as of December 31, 2017 was \$413,554, which includes \$229,710 of contributions made subsequent to the measurement date that does not get amortized.

Actuarial Assumptions-The total pension liability as of December 31, 2017 was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	The Actuarial Value of Assets is the market value as reported by the Public Employees' Retirement Administration Commission (PERAC).
Projected Salary Increases	3.5%.
Cost of Living Allowance	3.0% of the lesser of the pension amount and \$12,000 per year.
Mortality Rates:	Both pre-retirement and beneficiary mortality rates are reflected by the RP-2014 Blue Collar Mortality Table with Scale MP-2014, fully generational.
	Mortality for retired members for Group 1 and 2 is represented by the RP-2014 Blue Collar Morality Table set forward five years for males and three years for females, fully generational.
	Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Morality Table set forward three years for males and six years for females, fully generational.

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NOTE 10 - PENSION PLAN (Continued):

Actuarial Assumptions

Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Morality Table set forward two years, generationally adjusting is based on Scale MP-2014.

Investment Rate of Return 7.5%, per year

Investment Policy - The Plan's asset allocation policies are established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the Plan.

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 category 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 pensions plan's target asset allocation as of the measured date of December 31, 2016 are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Rate of Return	Weighted Average
Domestic Equity	40%	6.60%	2.60%
Fixed Income	22.50%	2.40%	0.54%
Foreign Equity	17.50%	3.70%	0.65%
Real Estate	10%	7.00%	0.70%
Private Estate	6%	11.10%	0.67%
Hedge Funds	4%	2.00%	0.08%
	<u>100%</u>		

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from participating employers will be made at rates equal to the actuarially determined contribution rates. 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 Net Pension Liability to Changes in the Discount Rate- The following presents the net pension liability calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Proportionate share of the Net Pension Liability	\$ 981,265	\$ 563,266	\$ 210,359

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NOTE 10 - PENSION PLAN (Continued):

Pension Plan Fiduciary Net Position- Detailed information about the pension plan’s fiduciary net position is available in the separately issued Shrewsbury Contributory Retirement System financial report.

NOTE 11 - COMMITMENTS AND CONTINGENCIES:

SELCO - Cable is committed under long-term signal purchase contracts expiring on various dates through 2021. The following is a schedule by years of the aggregate amount of such required purchases as of December 31, 2017.

For the Year Ending December 31:	2018	\$	7,718,612
	2019		6,819,009
	2020		4,750,279
	2021		<u>2,046,394</u>
	Total	\$	<u>21,334,296</u>

Signal purchase expense under these contracts was \$7,804,976 and \$7,568,258 in 2017 and 2016, respectively.

NOTE 12 - LEASE REVENUE:

SELCO - Cable and Verizon Wireless entered into a Tower Lease Agreement in July of 1996. The annual rental income under the current lease which was automatically extended thru October 2021 is \$33,860. Under the present agreement, the lease expiration date will be automatically extended for one additional five year term and the annual rental shall increase 3% at the beginning of each five year term extension.

NOTE 13 - RISK MANAGEMENT:

Self-Insurance Trust

SELCO - Cable participates in the MA Municipal Self-Insurance Trust (the Trust) with 17 other municipal light departments for the purposes of sharing general and environmental liability risks. Through the Trust, SELCO - Cable is insured for \$500,000 per occurrence, with a \$50,000 deductible that would be paid by SELCO - Cable. Environmental insurance coverage provides for \$1,500,000 per occurrence, with a \$100,000 deductible that would be paid by both SELCO - Cable and the Trust. Each participating light department contributes to the Trust based on its share of the group’s total kilowatt-hour sales. Payments for claims over the deductible limit are funded by Trust assets, or, if required, additional contributions from the participants.

Generally accepted accounting principles requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred, but not reported. At December 31, 2017 and 2016, SELCO - Cable considers its’ pro rata share of these losses to be immaterial to its financial statements.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) – CABLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 14 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS:

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, is required to be implemented for periods beginning after June 15, 2017. SELCO - Cable is currently evaluating the effect this pronouncement will have on the basic financial statements.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	<u>2017</u>			<u>2016</u>			<u>Increase (Decrease)</u>
	<u>Total</u>	<u>Operations</u>	<u>Maintenance</u>	<u>Total</u>	<u>Operations</u>	<u>Maintenance</u>	
<u>Head End Expenses:</u>							
530 Supervision and Engineering	\$ 41,025	\$ 41,025	\$ -	\$ 38,926	\$ 38,926	\$ -	\$ 2,099
532 Labor	359,165	359,165	-	314,098	314,098	-	45,067
534 Station Power	862	862	-	953	953	-	(91)
542 Maintenance of Structures	7,049	-	7,049	251	-	251	6,798
546 Maintenance of Head End Apparatus	308,152	-	308,152	287,755	-	287,755	20,397
<u>Total Head End Expenses</u>	<u>716,253</u>	<u>401,052</u>	<u>315,201</u>	<u>641,983</u>	<u>353,977</u>	<u>288,006</u>	<u>74,270</u>
<u>Signal Expenses:</u>							
555 Signal Purchases	7,804,976	7,804,976	-	7,568,258	7,568,258	-	236,718
555 Internet Connectivity	345,106	345,106	-	329,587	329,587	-	15,519
555 Telephone Fees & Connectivity	441,703	441,703	-	377,228	377,228	-	64,475
<u>Total Signal Expenses</u>	<u>8,591,785</u>	<u>8,591,785</u>	<u>-</u>	<u>8,275,073</u>	<u>8,275,073</u>	<u>-</u>	<u>316,712</u>
<u>Transmitting Expenses:</u>							
562 Station Power	44,109	44,109	-	48,789	48,789	-	(4,680)
<u>Total Transmitting Expenses</u>	<u>44,109</u>	<u>44,109</u>	<u>-</u>	<u>48,789</u>	<u>48,789</u>	<u>-</u>	<u>(4,680)</u>
<u>Distribution Expenses:</u>							
583 Overhead Line Expenses	113,408	113,408	-	114,239	114,239	-	(831)
586 Converter Expense	15,116	15,116	-	18,601	18,601	-	(3,485)
587 Customer Installation Expense	710,686	710,686	-	694,817	694,817	-	15,869
588 Miscellaneous Distribution Expense	-	-	-	451	451	-	(451)
591 Maintenance of Structures	84,791	-	84,791	73,982	-	73,982	10,809
593 Maintenance of Overhead Lines	181,622	-	181,622	150,382	-	150,382	31,240
<u>Total Distribution Expenses</u>	<u>1,105,623</u>	<u>839,210</u>	<u>266,413</u>	<u>1,052,472</u>	<u>828,108</u>	<u>224,364</u>	<u>53,151</u>
<u>Total to be Forwarded</u>	<u>\$ 10,457,770</u>	<u>\$ 9,876,156</u>	<u>\$ 581,614</u>	<u>\$ 10,018,317</u>	<u>\$ 9,505,947</u>	<u>\$ 512,370</u>	<u>\$ 439,453</u>

See Independent Auditors' Report

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING FUND

	<u>2017</u>			<u>2016</u>			Increase (Decrease)
	<u>Total</u>	<u>Operations</u>	<u>Maintenance</u>	<u>Total</u>	<u>Operations</u>	<u>Maintenance</u>	
<u>Total Forwarded</u>	\$ 10,457,770	\$ 9,876,156	\$ 581,614	\$ 10,018,317	\$ 9,505,947	\$ 512,370	\$ 439,453
<u>Customer Accounts Expenses</u>							
903 Customer Records and Collection Expense	897,372	897,372	-	908,473	908,473	-	(11,101)
904 Uncollectible Accounts	103,267	103,267	-	111,410	111,410	-	(8,143)
<u>Total Customer Accounts Expenses</u>	1,000,639	1,000,639	-	1,019,883	1,019,883	-	(19,244)
<u>Sales Expense</u>							
913 Advertising Expense	90,918	90,918	-	84,679	84,679	-	6,239
<u>Total Sales Expenses</u>	90,918	90,918	-	84,679	84,679	-	6,239
<u>Administrative and General Expenses</u>							
920 Administrative and General Salaries	473,828	473,828	-	460,429	460,429	-	13,399
921 Office Supplies and Expenses	181,020	181,020	-	191,065	191,065	-	(10,045)
923 Outside Services Employed	76,735	76,735	-	69,423	69,423	-	7,312
924 Property Insurance	34,330	34,330	-	41,480	41,480	-	(7,150)
925 Injuries and Damages	18,444	18,444	-	13,902	13,902	-	4,542
926 Employee Pension and Benefits	462,324	462,324	-	423,867	423,867	-	38,457
930 Miscellaneous General Expenses	26,279	26,279	-	24,918	24,918	-	1,361
933 Transportation Expense	52,772	52,772	-	52,598	52,598	-	174
<u>Total Administrative and General Expenses</u>	1,325,732	1,325,732	-	1,277,682	1,277,682	-	48,050
<u>Community Access Programming Expenses</u>							
920 Administration and General Salaries	276,579	276,579	-	111,596	111,596	-	164,983
921 Office Supplies and Expense	456	456	-	23,564	23,564	-	(23,108)
923 Outside Services Employed	-	-	-	72,062	72,062	-	(72,062)
930 Miscellaneous General Expenses	866	866	-	31,753	31,753	-	(30,887)
<u>Total Community Access Programming Expense</u>	277,901	277,901	-	238,975	238,975	-	38,926
<u>Total Operation and Maintenance Expenses</u>	<u>\$ 13,152,960</u>	<u>\$ 12,571,346</u>	<u>\$ 581,614</u>	<u>\$ 12,639,536</u>	<u>\$ 12,127,166</u>	<u>\$ 512,370</u>	<u>\$ 513,424</u>

See Independent Auditors' Report

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
 REQUIRED SUPPLEMENTARY INFORMATION
 OTHER POSTEMPLOYMENT BENEFITS

OPERATING FUND

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>For the Year Ending</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Payroll</u>
6/30/2008	12/31/2008	\$ -	\$ 1,887,090	\$ 1,887,090	0.00%	\$ 1,772,597	106.5%
6/30/2008	12/31/2009	\$ -	\$ 2,073,939	\$ 2,073,939	0.00%	\$ 1,827,291	113.5%
6/30/2010	12/31/2010	\$ -	\$ 1,889,251	\$ 1,889,251	0.00%	\$ 1,883,798	100.3%
6/30/2010	12/31/2011	\$ 243,369	\$ 2,080,037	\$ 1,836,668	11.70%	\$ 2,056,755	89.3%
6/30/2012	12/31/2012	\$ 367,986	\$ 956,086	\$ 588,100	38.49%	\$ 2,140,743	27.5%
6/30/2012	12/31/2013	\$ 477,869	\$ 1,030,067	\$ 552,198	46.39%	\$ 2,242,142	24.6%
6/30/2014	12/31/2014	\$ 570,613	\$ 974,714	\$ 404,101	58.54%	\$ 2,041,524	19.8%
6/30/2014	12/31/2015	\$ 700,792	\$ 1,048,426	\$ 347,634	66.84%	\$ 2,299,139	15.1%
6/30/2016	12/31/2016	\$ 832,269	\$ 1,101,352	\$ 269,083	75.57%	\$ 2,286,821	11.8%
6/30/2016	12/31/2017	\$ 989,662	\$ 1,101,352	\$ 111,690	89.86%	\$ 2,431,932	4.6%

Schedule of Actuarial Methods and Assumptions

Actuarial methods:

Valuation date	6/30/2016
Actuarial cost method	Projected unit credit
Amortization method	Assumed to increase annually by 4%
Remaining amortization period	20 years as of December 31, 2017

Actuarial assumptions:

Investment rate of return	7.50%
Inflation rate	5.00%
Projected salary increases	4.50%
Medical/drug cost trend rate	Age-based per capita cost increases ranging from 3.7% to 0%

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
 REQUIRED SUPPLEMENTARY INFORMATION
 NET PENSION LIABILITY

OPERATING FUND

Schedule of SELCO - Cable's Proportionate Share of the Net Pension Liability (NPL)

Actuarial Valuation Date	Measurement Date	For the Year Ending	SELCO - Cable's Portion of the NPL	SELCO - Cable's Proportionate Share of the NPL	SELCO - Cable's Total Employee Payroll	NPL as a Percentage of Total Employee Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability
1/1/2014	12/31/2014	12/31/2015	3.969%	\$ 854,978	\$ 2,299,139	37.19%	81.86%
1/1/2016	12/31/2015	12/31/2016	3.790%	\$ 791,516	\$ 2,286,821	34.61%	82.46%
1/1/2017	12/31/2016	12/31/2017	2.980%	\$ 563,266	\$ 2,431,932	23.16%	77.10%

Schedule of Contributions

Actuarial Valuation Date	Measurement Date	For the Year Ending	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	SELCO - Cable's Total Employee Payroll	Contribution as a Percentage of SELCO - Cable's Total Employee Payroll
1/1/2014	12/31/2014	12/31/2015	\$ 217,969	\$ 217,969	\$ -	\$ 2,299,139	9.48%
1/1/2016	12/31/2015	12/31/2016	\$ 240,876	\$ 240,876	\$ -	\$ 2,286,821	10.53%
1/1/2017	12/31/2016	12/31/2017	\$ 250,784	\$ 250,784	\$ -	\$ 2,431,932	10.31%

Note: These schedules are intended to present information for 10 years. Until a 10 year trend is compiled, information is presented for those years for which information is available.

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TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
 REQUIRED SUPPLEMENTARY INFORMATION
 OTHER POSTEMPLOYMENT BENEFITS
 SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

	2017
Total OPEB Liability:	
Service Cost	\$ 1,543,475
Interest	3,438,194
Changes of Benefit Terms	-
Differences between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments	(2,304,138)
Net Change in Total OPEB Liability	2,677,531
Total OPEB Liability - Beginning	45,430,360
Total OPEB Liability - Ending	\$ 48,107,891
Plan Fiduciary Net Position:	
Contributions-Employer	\$ 2,391,572
Net Investment Income	132,319
Benefit Payments	(2,059,702)
Administrative Expenses	-
Other	-
Net Change in Plan Fiduciary Net Position	464,189
Plan Fiduciary Net Position - Beginning	2,828,262
Plan Fiduciary Net Position - Ending	\$ 3,292,451
Net OPEB Liability - Ending	\$ 44,815,440
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	6.84%
Covered Payroll	\$ 67,279,575
Net OPEB Liability as a Percentage of Covered Payroll	66.61%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, OPEB plans should present information for those years for which information is available.

TOWN OF SHREWSBURY, MASSACHUSETTS
 SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
 REQUIRED SUPPLEMENTARY INFORMATION
 OTHER POSTEMPLOYMENT BENEFITS
 SCHEDULE OF OPEB EMPLOYER CONTRIBUTIONS

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

For Fiscal Year Ended June 30	2017
Actuarially Determined Contributions	\$ 2,391,572
Contributions in relation to the actuarially determined contribution	(2,636,008)
Contribution Deficiency (Excess)	\$ (244,436)
Covered Payroll	\$ 67,279,575
Contributions as a percentage of covered payroll	3.92%

Notes to Schedule

Valuation Date:

Actuarially determined contributions are determined as of July 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used in calculations of actuarially determined contributions:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Increasing at 4% over 30 years on a closed amortization period
Amortization Period	30 years
Asset Valuation Method	Market Value
Inflation	3%
Healthcare Cost Trend Rates	5% for 2016, decreasing .5% per year to an ultimate rate of 4.5%.
Investment Rate of Return	7.5%, net of OPEB plan investment expense, including inflation

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, OPEB plans should present information for those years for which information is available.

TOWN OF SHREWSBURY, MASSACHUSETTS
SHREWSBURY ELECTRIC AND CABLE OPERATIONS (SELCO) - CABLE
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULES OF INVESTMENT RETURNS

OTHER POSTEMPLOYMENT BENEFITS (OPEB) TRUST FUND

Annual Money-Weighted Rate of Return net of investment expenses information was not provided.

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, OPEB plans should present information for those years for which information is available.