

**TOWN OF NORTH READING, MASSACHUSETTS**

**Financial Statements**

**June 30, 2012**

**(With Accountants' Report Thereon)**

Town of North Reading, Massachusetts  
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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS – TOWN  
OF NORTH READING, MASSACHUSETTS

Board of Selectmen  
Town of North Reading  
Town Hall  
235 North Street  
North Reading, MA 01864

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of North Reading, Massachusetts as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of North Reading, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of North Reading, Massachusetts as of June 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 31, 2013 on our consideration of the Town of North Reading, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, retirement system schedules and post employment benefit schedules 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 inquires 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town of North Reading taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Giusti, Hingston and Company*  
Giusti, Hingston and Company  
Certified Public Accountants  
January 31, 2013

**Town of North Reading, Massachusetts  
Management's Discussion and Analysis  
Required Supplementary Information  
June 30, 2012**

As management of the Town of North Reading, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town of North Reading, Massachusetts for the fiscal year ended June 30, 2012.

**Financial Highlights**

- The assets of the Town of North Reading, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$53,496,434 (*net assets*).
- The governmental activities total net assets increased by \$4,159,110. The increase is due primarily to the bond premium (\$4,986,695). The Golf had an increase in net assets of \$448,154 and the Water enterprise fund had an increase in net assets of \$367,351.
- The deficit in the unrestricted net assets of the Golf enterprise fund is a result of the enterprise fund paying for the turf field asset which was transferred to and reported in the governmental activities. The turf field has a bonds payable balance of \$1,845,000.
- The Town implemented Governmental Accounting Standards Board Statement #45 in fiscal year 2009. The current year's affect of reporting the other post employment benefits liability was a \$1,779,685 reduction of the governmental activities net assets.
- At the end of the current fiscal year, unassigned fund balance in the general fund was \$4,206,839, or 7.75 percent of total general fund expenditures.
- The total long term debt of the Town of North Reading, Massachusetts increased by \$47,660,174. The majority of the increase relates to a \$50,000,000 school project loan. The bond was issued as proposition 2 ½ debt exclusion.

**Overview of the Financial Statements**

The discussion and analysis are intended to serve as an introduction of the Town of North Reading, Massachusetts' basic financial statements. The Town of North Reading, Massachusetts' basic financial statements consist of the following: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of North Reading, Massachusetts' finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the Town of North Reading, Massachusetts' assets and liabilities, with the differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of North Reading, Massachusetts is improving or deteriorating.

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

The government-wide financial statements have separate columns for governmental activities and business-type activities. The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-type Activities** - Activities reported here are for water supply distribution and golf course and other recreational operations. User fees charged to the customers receiving services finance these activities.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of North Reading, Massachusetts, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of North Reading, Massachusetts can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

**Proprietary funds.** The Town of North Reading, Massachusetts maintains three enterprise funds as proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of North Reading, Massachusetts uses enterprise funds to account for its recreation, water and golf/recreational operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and golf operations and both are considered to be major funds of the Town of North Reading, Massachusetts.

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

### **Reconciliation of Government-wide Financial Statements to Fund Financial Statements**

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the statement of net assets. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We

have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.
- Reconciliation of the statement of revenues and expenditures and changes in fund balances of governmental funds to the statement of activities.

The reconciliation of government-wide financial statements to enterprise funds of the fund financial statements is not necessary. The business-type activities of the government-wide financial statements and the enterprise funds use the same accounting basis and measurement focus.

## Financial Analysis of the Government-Wide Financial Statements

### Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. However, the net assets of governmental activities should be viewed independently from business-type activities. Resources of the governmental activities are typically not used to finance costs related to business-type activities. Revenues of the business-type activities are generally used to finance the operations of the Recreation, Enterprise Fund, the Water Enterprise Fund and the Golf Enterprise Fund. The following table reflects the condensed net assets.

The prior year balances were adjusted to reflect prior period adjustments.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Current and Other Assets	\$ 21,074,244	\$ 74,320,570	\$ 2,030,306	\$ 2,642,628	\$ 23,104,550	\$ 76,963,198
Capital Assets	63,618,299	64,818,292	13,522,057	13,185,807	77,140,356	78,004,099
Total Assets	<u>84,692,543</u>	<u>139,138,862</u>	<u>15,552,363</u>	<u>15,828,435</u>	<u>100,244,906</u>	<u>154,967,297</u>
Other Liabilities	9,117,506	10,559,491	1,178,146	1,091,742	10,295,652	11,651,233
Long Term Liabilities	36,249,794	85,094,718	5,297,427	4,724,912	41,547,221	89,819,630
Total Liabilities	<u>45,367,300</u>	<u>95,654,209</u>	<u>6,475,573</u>	<u>5,816,654</u>	<u>51,842,873</u>	<u>101,470,863</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	38,601,979	39,652,346	9,907,242	10,065,330	48,509,221	49,717,676
Restricted	4,729,993	9,922,971	-	-	4,729,993	9,922,971
Unrestricted	(4,006,729)	(6,090,664)	(830,452)	(53,549)	(4,837,181)	(6,144,213)
Total Net Assets	<u>\$ 39,325,243</u>	<u>\$ 43,484,653</u>	<u>\$ 9,076,790</u>	<u>\$ 10,011,781</u>	<u>\$ 48,402,033</u>	<u>\$ 53,496,434</u>

### Changes in Net Assets

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net assets have changed during the fiscal year.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 4,346,132	\$ 4,090,391	\$ 4,565,841	\$ 5,771,232	\$ 8,911,973	\$ 9,861,623
Operating Grants and Contributions	14,403,394	14,192,233	45,955	17,927	14,449,349	14,210,160
Capital Grants and Contributions	3,199,227	422,672	-	-	3,199,227	422,672

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
General Revenues:						
Property Taxes	34,540,599	35,964,682	-	-	34,540,599	35,964,682
Motor Vehicle and Other Excises	2,342,578	2,389,506	-	-	2,342,578	2,389,506
Intergovernmental Not Restricted to a Specific Program	1,571,165	1,570,956	-	-	1,571,165	1,570,956
Other	556,904	567,894	-	-	556,904	567,894
<b>Total Revenues</b>	<b>60,959,999</b>	<b>59,198,334</b>	<b>4,611,796</b>	<b>5,789,159</b>	<b>65,571,795</b>	<b>64,987,493</b>
Expenses						
General Government	2,648,061	2,580,223	-	-	2,648,061	2,580,223
Public Safety	6,151,554	6,387,279	-	-	6,151,554	6,387,279
Education	33,016,375	34,211,361	-	-	33,016,375	34,211,361
Highways and Public Works	5,256,972	4,351,141	-	-	5,256,972	4,351,141
Human Services	550,645	601,451	-	-	550,645	601,451
Culture and Recreation	1,273,974	774,356	-	-	1,273,974	774,356
Fringe Benefits and Insurance	9,778,694	10,159,179	-	-	9,778,694	10,159,179
Interest on Debt Service	1,069,355	1,129,524	-	-	1,069,355	1,129,524
Water	-	-	2,968,887	2,940,605	2,968,887	2,940,605
Hillview	-	-	1,318,189	1,170,855	1,318,189	1,170,855
Recreation	-	-	-	516,967	-	516,967
<b>Total Expenses</b>	<b>59,745,630</b>	<b>60,194,514</b>	<b>4,287,076</b>	<b>4,628,427</b>	<b>64,032,706</b>	<b>64,822,941</b>
Increase (Decrease) in Net Assets						
Before Special Items and Transfers:	1,214,369	(996,180)	324,720	1,160,732	1,539,089	164,552
Special Items	(30,459)	4,953,849	-	-	(30,459)	4,953,849
Transfer of Capital Assets	95,776	-	(95,776)	-	-	-
Transfers	250,849	201,741	(250,849)	(225,741)	-	(24,000)
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 1,530,535</b>	<b>\$ 4,159,410</b>	<b>\$ (21,905)</b>	<b>\$ 934,991</b>	<b>\$ 1,508,630</b>	<b>\$ 5,094,401</b>

### Governmental Activities

In fiscal year 2012, property taxes accounted for approximately 57% of the revenues. During fiscal year 2011, property taxes accounted for 57% of the revenues. During fiscal year 2010 property taxes accounted for 61% of the revenues.

### Business-type Activities

Water rates are structured to cover all costs related to the activity. The Water fund had a gain of \$367,351 in 2012. It had a loss of \$107,354 in 2011. The Golf enterprise fund had a gain of \$448,154 in 2012. It had a loss of \$85,449 in fiscal year 2011.

## Financial Analysis of the Town's Funds

### Governmental Funds

**General Fund** – The year-end fund balances of the general fund were \$697,760 more than the prior year's fund balances.

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts' Department of Revenue (DOR) determines the amount of general fund - fund balance available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both.

The following table reflects the trend in all the components of fund balance of the general fund and details the certified free cash for the previous ten fiscal years.

<u>Fiscal Year</u>	<u>Reserved for Encumbrances</u>	<u>Reserved for Special Purposes</u>	<u>Designated Subsequent Year's Expenditure</u>	<u>Designated for Legal Deficits</u>	<u>Unreserved</u>	<u>Total Fund Balance</u>
2003	\$499,671	\$113,981	\$426,711	(\$304,303)	\$2,110,791	\$2,846,851
2004	365,982	-	529,131	(144,950)	915,994	1,666,157
2005	476,730	-	-	(453,709)	1,603,041	1,626,062
2006	417,098	-	105,398	(207,155)	2,271,633	2,586,974
2007	1,017,871	-	376,907	(158,133)	1,436,096	2,672,741
2008	960,394	-	-	(466,777)	2,811,440	3,305,057
2009	417,087	-	-	(449,698)	1,264,531	1,231,920
2010	511,036	-	-	(155,987)	1,393,132	1,748,181

GASB 54 was implemented in fiscal year 2011. As a result the account titles of the components of fund balance changed as follows:

<u>Fiscal Year</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total Fund Balance</u>
2011	\$1,699,521	\$207,208	\$3,050,182	\$4,956,911
2012	1,198,558	249,274	4,206,839	5,654,671

The large increase in fund balance from fiscal year 2010 to fiscal year 2011 is the result of reporting the stabilization funds with the general fund in fiscal year 2011, in accordance with GASB 54.

<u>Fiscal Year</u>	<u>Free Cash</u>
2003	\$1,381,502
2004	(15,553)
2005	1,153,625
2006	1,717,033
2007	1,008,723
2008	1,946,045
2009	859,836
2010	1,171,370
2011	927,300
2012	1,853,727

## Proprietary Funds

**Water and Golf Enterprise Funds.** The Town of North Reading, Massachusetts' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Enterprise Fund at year end was \$1,022,591 (an increase of \$301,155). Unrestricted net assets of the Hillview Enterprise Fund at the end of the year was a deficit of \$1,129,018 (an increase of \$8,422,870). The balance in the Unrestricted Net Assets, of the Recreation Fund was \$52,878. The deficit is a result of the enterprise fund paying for the turf field asset reported in the governmental activities.

## General Fund Budgetary Highlights

The differences between the original budget and the final amended budget relate to special town meetings and reserve fund transfers made after June 30, 2012.

### Capital Asset and Debt Administration

**Capital assets.** The Town of North Reading, Massachusetts' investments in capital assets for its governmental and business type activities as of June 30, 2012, amounts to \$78,004,099 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

Major capital asset events during the current fiscal year included the following:

- Little School Boiler (\$250,000)
- Dump Truck (\$210,516)
- Ambulance (\$212,905)
- Middle and High School (\$2,229,429)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Assets not Being Depreciated	\$ 19,691,829	\$ 21,975,869	\$ 3,493,523	\$ 3,493,523	\$ 23,185,352	\$ 25,469,392
Assets Being Depreciated:						
Buildings	34,582,799	33,147,622	1,059,944	989,807	35,642,743	34,137,429
Improvements Other Than Buildings	2,817,880	2,865,554	800,762	783,493	3,618,642	3,649,047
Infrastructure	3,913,765	3,818,942	7,841,968	7,532,404	11,755,733	11,351,346
Equipment	1,352,224	1,600,986	223,186	301,360	1,575,410	1,902,346
Vehicles	1,259,802	1,409,319	102,674	85,220	1,362,476	1,494,539
<b>Total</b>	<b>\$ 63,618,299</b>	<b>\$ 64,818,292</b>	<b>\$ 13,522,057</b>	<b>\$ 13,185,807</b>	<b>\$ 77,140,356</b>	<b>\$ 78,004,099</b>

### Debt

The Town had \$82,293,840 in bonds, outstanding on June 30, 2012.

The Town's bond rating by Moody's Investor Services is Aa2.

#### Outstanding Debt at June 30, 2012

	<u>2011</u>	<u>2012</u>
<b>Governmental Activities</b>		
General Obligation Bonds Payable	\$ 28,748,741	\$ 77,097,992
<b>Business-type Activities</b>		
General Obligation Bonds Payable	<u>5,884,925</u>	<u>5,195,848</u>
<b>Total Debt</b>	<u>\$ 34,633,666</u>	<u>\$ 82,293,840</u>

## **Fiscal Year 2013 Budget**

An initiative state statute, commonly known as “Proposition 2 ½”, limits the amount of property taxes that Town can assess in any one year. In general, the Town’s property tax levy may increase by 2 ½ percent over the prior year’s tax levy, plus any additional amount derived by new developments or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by “Proposition 2 ½”, it is necessary to obtain the approval of a majority of the voters at an election.

Potential decreases in state aid and increased fixed costs (i.e. health insurance premiums) put pressure to hold other costs down.

Any 2013 budget problems will be addressed by interdepartmental or free cash transfers at a Special Town Meeting. Additionally, funds are available in the Town’s Reserve Fund for fiscal year 2013 departmental budgets.

Town of North Reading, Massachusetts  
Statement of Net Assets  
June 30, 2012  
(Continued on Page 11)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	<u>Total</u>
<b>Assets</b>			
Current:			
Cash/Investments	\$ 69,451,418	\$ 2,221,422	\$ 71,672,840
Petty Cash	585	-	585
Accounts Receivable:			
Property Taxes	481,847	-	481,847
Tax Liens	780,545	36,738	817,283
Excises	175,519	-	175,519
User Charges	252,094	358,961	611,055
Liens	8,655	25,507	34,162
Intergovernmental	462,280	-	462,280
Noncurrent:			
Accounts Receivable:			
Intergovernmental	2,677,323	-	2,677,323
Deferred Special Assessments	30,304	-	30,304
Capital Assets:			
Assets Not Being Depreciated	21,975,869	3,493,523	25,469,392
Assets Being Depreciated, Net	<u>42,842,423</u>	<u>9,692,284</u>	<u>52,534,707</u>
 Total Assets	 <u>139,138,862</u>	 <u>15,828,435</u>	 <u>154,967,297</u>
 <b>Liabilities</b>			
Current:			
Warrants Payable	429,751	181,083	610,834
Accrued Salaries Payable	2,510,606	17,357	2,527,963
Employees' Withholding Payable	360,442	-	360,442
Due to Other Governments	4,446	-	4,446
Unclaimed Checks	42,373	-	42,373
Guarantee Deposits	-	29,748	29,748
Accrued Interest Payable	275,561	43,706	319,267
Other Liabilities	246,125	-	246,125
Bonds Payable	4,379,187	719,848	5,099,035
Bond Anticipation Notes Payable	2,311,000	100,000	2,411,000
Noncurrent:			
Bonds Payable	72,718,805	4,476,000	77,194,805
Other Post Employment Benefit Obligations	8,477,123	116,910	8,594,033
Due to Other Governments	64,862	-	64,862
Compensated Absences	<u>3,833,928</u>	<u>132,002</u>	<u>3,965,930</u>
 Total Liabilities	 <u>95,654,209</u>	 <u>5,816,654</u>	 <u>101,470,863</u>

Town of North Reading, Massachusetts  
Statement of Net Assets  
June 30, 2012  
(Continued from Page 10)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	<u>Total</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	39,652,346	10,065,330	49,717,676
Restricted for:			
Special Revenue	9,008,460	-	9,008,460
Perpetual Funds:			
Expendable	228,769	-	228,769
Nonexpendable	685,742	-	685,742
Unrestricted	<u>(6,090,664)</u>	<u>(53,549)</u>	<u>(6,144,213)</u>
 Total Net Assets	 <u>\$ 43,484,653</u>	 <u>\$10,011,781</u>	 <u>\$ 53,496,434</u>

Town of North Reading, Massachusetts  
Statement of Activities  
Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating	Capital	Governmental Activities	Business - Type Activities	Total
			Grants and Contributions	Grants and Contributions			
<b>Primary Government:</b>							
<i>Governmental Activities:</i>							
General Government	\$ 2,580,223	\$ 501,221	\$ 153,814	\$ -	\$ (1,925,188)	\$ -	\$ (1,925,188)
Public Safety	6,387,279	744,093	47,653	-	(5,595,533)	-	(5,595,533)
Education	34,211,361	1,724,097	12,980,033	422,672	(19,084,559)	-	(19,084,559)
Highways and Public Works	4,351,141	1,075,670	821,004	-	(2,454,467)	-	(2,454,467)
Human Services	601,451	42,719	115,551	-	(443,181)	-	(443,181)
Culture and Recreation	774,356	2,591	74,178	-	(697,587)	-	(697,587)
Fringe Benefits and Insurance	10,159,179	-	-	-	(10,159,179)	-	(10,159,179)
Interest on Debt Service	1,129,524	-	-	-	(1,129,524)	-	(1,129,524)
<b>Total Governmental Activities</b>	<b>60,194,514</b>	<b>4,090,391</b>	<b>14,192,233</b>	<b>422,672</b>	<b>(41,489,218)</b>	<b>-</b>	<b>(41,489,218)</b>
<i>Business-Type Activities:</i>							
Hillview	1,170,855	1,726,603	230	-	-	555,978	555,978
Recreation	516,967	381,370	-	-	-	(135,597)	(135,597)
Water Services	2,940,605	3,663,259	17,697	-	-	740,351	740,351
<b>Total Business-Type Activities</b>	<b>4,628,427</b>	<b>5,771,232</b>	<b>17,927</b>	<b>-</b>	<b>-</b>	<b>1,160,732</b>	<b>1,160,732</b>
<b>Total Primary Government</b>	<b>\$ 64,822,941</b>	<b>\$ 9,861,623</b>	<b>\$ 14,210,160</b>	<b>\$ 422,672</b>	<b>(41,489,218)</b>	<b>1,160,732</b>	<b>(40,328,486)</b>
Property Taxes					35,964,682	-	35,964,682
Motor Vehicle and Other Excise Taxes					2,389,506	-	2,389,506
Penalties and Interest on Taxes					220,692	-	220,692
Other Taxes, Assessments and in Lieu of Payments					267,458	-	267,458
Intergovernmental					1,570,956	-	1,570,956
Interest and Investment Income					30,787	-	30,787
Other Revenue					48,957	-	48,957
<i>Special Items:</i>							
Premium on Sale of Debt					4,986,695	-	4,986,695
Net Gain (Loss) on Sale of Assets					(32,846)	-	(32,846)
Transfers, Net					201,741	(225,741)	(24,000)
<b>Total General Revenues, Special Items and</b>							
Transfers					45,648,628	(225,741)	45,422,887
Change in Net Assets					4,159,410	934,991	5,094,401
<i>Net Assets:</i>							
Beginning of the Year					39,342,718	9,076,790	48,419,508
Prior Period Adjustment					(17,475)	-	(17,475)
Adjusted Beginning of the Year					39,325,243	9,076,790	48,402,033
End of the Year					\$ 43,484,653	\$ 10,011,781	\$ 53,496,434

Town of North Reading, Massachusetts

Balance Sheet

Governmental Funds

June 30, 2012

	<u>General</u>	<u>School Building Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash/Investments	\$ 8,620,379	\$ 48,942,021	\$ 11,889,018	\$ 69,451,418
Petty Cash	585	-	-	585
Receivables:				
Property Taxes	481,847	-	-	481,847
Tax Liens	780,545	-	-	780,545
Excises	175,519	-	-	175,519
User Charges	85,126	-	166,968	252,094
Other Liens	8,655	-	-	8,655
Intergovernmental	2,920,716	-	218,887	3,139,603
Special Assessments	-	-	30,304	30,304
Tax Foreclosures	351,066	-	-	351,066
Total Assets	<u>\$ 13,424,438</u>	<u>\$ 48,942,021</u>	<u>\$ 12,305,177</u>	<u>\$ 74,671,636</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Warrants Payable	\$ 164,297	\$ -	\$ 265,454	\$ 429,751
Accrued Salaries Payable	2,510,425	-	181	2,510,606
Employees' Withholding Payable	360,442	-	-	360,442
Due to Other Governments	4,446	-	-	4,446
Unclaimed Checks	9,873	-	32,500	42,373
Other Liabilities	-	-	246,125	246,125
Bonds Anticipation Notes Payable	-	1,000,000	1,311,000	2,311,000
Deferred Revenue:				
Property Taxes	408,324	-	-	408,324
Taxes and User Charges Paid in Advance	132,201	-	-	132,201
Liens	789,200	-	-	789,200
Excises	33,651	-	-	33,651
Special Assessments	-	-	30,304	30,304
Tax Foreclosures	351,066	-	-	351,066
User Charges	85,126	-	166,968	252,094
Intergovernmental	2,920,716	-	167,312	3,088,028
Total Liabilities	<u>7,769,767</u>	<u>1,000,000</u>	<u>2,219,844</u>	<u>10,989,611</u>
Fund Equity:				
Fund Balances:				
Nonspendable	-	-	685,742	685,742
Restricted	-	47,942,021	8,533,768	56,475,789
Committed	1,198,558	-	192,974	1,391,532
Assigned	249,274	-	672,849	922,123
Unassigned	4,206,839	-	-	4,206,839
Total Fund Balances	<u>5,654,671</u>	<u>47,942,021</u>	<u>10,085,333</u>	<u>63,682,025</u>
Total Liabilities and Fund Balances	<u>\$ 13,424,438</u>	<u>\$ 48,942,021</u>	<u>\$ 12,305,177</u>	<u>\$ 74,671,636</u>

Town of North Reading, Massachusetts  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Fiscal Year Ended June 30, 2012

	<u>General</u>	<u>School Building Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 35,671,264	\$ -	\$ -	\$ 35,671,264
Tax Liens	289,023	-	-	289,023
Excises	2,430,020	-	-	2,430,020
Penalties and Interest	220,692	-	-	220,692
Licenses and Permits	377,509	-	-	377,509
Fees and Other Departmental	206,919	-	-	206,919
Intergovernmental	13,334,401	422,672	2,409,929	16,167,002
Charges for Services	984,592	-	2,442,619	3,427,211
Fines and Forfeits	12,365	-	-	12,365
Earnings on Investments	30,787	-	36,554	67,341
In Lieu of Taxes	267,458	-	-	267,458
Contributions	-	-	219,335	219,335
Miscellaneous	94,040	-	5,002,109	5,096,149
Total Revenues	<u>53,919,070</u>	<u>422,672</u>	<u>10,110,546</u>	<u>64,452,288</u>
<u>Expenditures:</u>				
General Government	2,221,494	-	215,668	2,437,162
Public Safety	6,012,341	-	329,862	6,342,203
Education	29,348,056	2,229,429	3,821,361	35,398,846
Intergovernmental	207,039	-	-	207,039
Highways and Public Works	3,058,909	-	1,439,059	4,497,968
Human Services	545,140	-	47,477	592,617
Culture and Recreation	493,587	-	66,823	560,410
Employee Benefits and Insurance	8,379,494	-	-	8,379,494
Debt Service	4,030,063	-	-	4,030,063
Total Expenditures	<u>54,296,123</u>	<u>2,229,429</u>	<u>5,920,250</u>	<u>62,445,802</u>
Excess of Revenues Over (Under) Expenditures	<u>(377,053)</u>	<u>(1,806,757)</u>	<u>4,190,296</u>	<u>2,006,486</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	1,299,082	-	37,569	1,336,651
Operating Transfers (Out)	(224,269)	-	(910,641)	(1,134,910)
Proceeds from Bonds	-	50,000,000	1,311,000	51,311,000
Total Other Financing Sources (Uses)	<u>1,074,813</u>	<u>50,000,000</u>	<u>437,928</u>	<u>51,512,741</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>697,760</u>	<u>48,193,243</u>	<u>4,628,224</u>	<u>53,519,227</u>
Fund Balance, Beginning	<u>4,956,911</u>	<u>(251,222)</u>	<u>5,474,584</u>	<u>10,180,273</u>
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>(17,475)</u>	<u>(17,475)</u>
Fund Balance, Beginning as Restated	<u>4,956,911</u>	<u>(251,222)</u>	<u>5,457,109</u>	<u>10,162,798</u>
Fund Balance, Ending	<u>\$ 5,654,671</u>	<u>\$ 47,942,021</u>	<u>\$ 10,085,333</u>	<u>\$ 63,682,025</u>

Town of North Reading, Massachusetts  
 Reconciliation of the Governmental Funds Balance Sheet  
 Total Fund Balances to the Statement of Net Assets  
 Fiscal Year Ended June 30, 2012

Total Governmental Fund Balances	\$ 63,682,025
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	64,818,292
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	4,733,802
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(77,097,992)
Other Post Employment Benefit Obligations	(8,477,123)
Due to Other Governments	(64,862)
Accrued Interest on Bonds	(275,561)
Compensated Absences	(3,833,928)
Net Assets of Governmental Activities	\$ 43,484,653

Town of North Reading, Massachusetts  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 Fiscal Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$ 53,519,227
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays and the contribution of assets exceeded depreciation and gains or losses on disposition of assets in the current period.	1,232,839
In the statement of activities, the gain (loss) on the trade in of capital assets is reported, whereas in the governmental funds, the gain (loss) is not reported.	(32,846)
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(267,259)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(48,349,251)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, interest is not reported until due. This amount represents the change from the prior year's accrual.	(61,210)
Some expenses reported in the Statement of Activities, such as compensated absences and other postemployment benefits payable do not require the use of current financial resources and , therefore, are not reported as expenditures in the governmental funds. This amount represents the change from the prior year's accrual.	<u>(1,882,090)</u>
Change in net assets of governmental activities	<u><u>\$ 4,159,410</u></u>

Town of North Reading, Massachusetts  
Statement of Net Assets  
Proprietary Funds  
June 30, 2012

	<u>Business-Type Activities</u> <u>Enterprise Funds</u>			
	<u>Water</u>	<u>Hillview</u>	<u>Recreation</u>	<u>Total</u>
<b>Assets</b>				
Current:				
Cash and Cash Investments	\$ 1,290,209	\$ 836,610	\$ 94,603	\$ 2,221,422
Receivables, Net of Allowance for Uncollectibles:				
User Charges	358,961	-	-	358,961
Tax Liens	36,738	-	-	36,738
Liens	25,507	-	-	25,507
Noncurrent:				
Accounts Receivable:				
Assets Not Being Depreciated	522,950	2,970,574	-	3,493,524
Assets Being Depreciated, Net	7,726,025	1,710,145	256,113	9,692,283
<b>Total Assets</b>	<u>9,960,390</u>	<u>5,517,329</u>	<u>350,716</u>	<u>15,828,435</u>
<b>Liabilities</b>				
Current:				
Warrants Payable	131,097	47,967	2,019	181,083
Accrued Wages Payable	7,657	232	9,468	17,357
Guarantee Deposits	-	29,748	-	29,748
Accrued Interest Payable	19,348	24,358	-	43,706
Bond Anticipation Notes Payable	-	100,000	-	100,000
Bonds Payable	389,848	330,000	-	719,848
Noncurrent:				
Bonds Payable	1,811,000	2,665,000	-	4,476,000
Other Post Employment Benefits Payable	94,733	12,482	9,695	116,910
Compensated Absences	105,618	5,841	20,543	132,002
<b>Total Liabilities</b>	<u>2,559,301</u>	<u>3,215,628</u>	<u>41,725</u>	<u>5,816,654</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	6,378,498	3,430,719	256,113	10,065,330
Unrestricted	1,022,591	(1,129,018)	52,878	(53,549)
<b>Total Net Assets</b>	<u>\$ 7,401,089</u>	<u>\$ 2,301,701</u>	<u>\$ 308,991</u>	<u>\$ 10,011,781</u>

Town of North Reading, Massachusetts  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
Fiscal Year Ended June 30, 2012

	Business-Type Activities			Total
	<u>Water</u>	<u>Hillview</u>	<u>Recreation</u>	
Operating Revenues:				
Charges for Services	\$ 3,642,738	\$ 1,575,370	\$ 381,370	\$ 5,599,478
Departmental	-	137,000	-	137,000
Miscellaneous	20,521	14,233	-	34,754
Total Operating Revenues	<u>3,663,259</u>	<u>1,726,603</u>	<u>381,370</u>	<u>5,771,232</u>
Operating Expenditures:				
Personal Services	690,341	25,314	377,665	1,093,320
Nonpersonal Services	1,839,643	889,557	128,370	2,857,570
Depreciation	326,419	164,037	10,932	501,388
Total Operating Expenditures	<u>2,856,403</u>	<u>1,078,908</u>	<u>516,967</u>	<u>4,452,278</u>
Operating Income	<u>806,856</u>	<u>647,695</u>	<u>(135,597)</u>	<u>1,318,954</u>
Nonoperating Revenues (Expenses):				
Intergovernmental	12,544	-	-	12,544
Earnings on Investments	5,153	230	-	5,383
Interest on Debt	(84,202)	(91,947)	-	(176,149)
Total Nonoperating Revenues (Expenses)	<u>(66,505)</u>	<u>(91,717)</u>	<u>-</u>	<u>(158,222)</u>
Income Before Operating Transfers	<u>740,351</u>	<u>555,978</u>	<u>(135,597)</u>	<u>1,160,732</u>
Operating Transfers In	-	6,823	263,243	270,066
Operating Transfers Out	(373,000)	(114,647)	(8,160)	(495,807)
Total Transfers	<u>(373,000)</u>	<u>(107,824)</u>	<u>255,083</u>	<u>(225,741)</u>
Change in Net Assets	<u>367,351</u>	<u>448,154</u>	<u>119,486</u>	<u>934,991</u>
Net Assets, July 1, 2011	7,033,738	2,043,052	-	9,076,790
Prior Period Adjustment	-	(189,505)	189,505	-
Adjusted Net Assets, July 1, 2011	<u>7,033,738</u>	<u>1,853,547</u>	<u>189,505</u>	<u>9,076,790</u>
Net Assets June 30, 2012	<u>\$ 7,401,089</u>	<u>\$ 2,301,701</u>	<u>\$ 308,991</u>	<u>\$ 10,011,781</u>

Town of North Reading, Massachusetts  
Statement of Cash Flows  
Proprietary Fund  
Fiscal Year Ended June 30, 2012

	Business-Type Activities			
	Enterprise Funds			
	<u>Water</u>	<u>Hillview</u>	<u>Recreation</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 3,615,112	\$ 1,726,603	\$ 381,370	\$ 5,723,085
Payments to Employees	(693,554)	(25,239)	(347,655)	(1,066,448)
Payments to Vendors	(1,870,246)	(950,400)	(194,195)	(3,014,841)
Net Cash Flows Provided (Used) by Operating Activities	<u>1,051,312</u>	<u>750,964</u>	<u>(160,480)</u>	<u>1,641,796</u>
Cash Flows from Non Capital Related Financing Activities:				
Transfers from (to) Other Funds (Net)	(373,000)	(107,824)	255,083	(225,741)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(373,000)</u>	<u>(107,824)</u>	<u>255,083</u>	<u>(225,741)</u>
Cash Flows from Capital and Related Financing Activities:				
Payments on Bond Anticipation Notes	-	(100,000)	-	(100,000)
Proceeds from Bonds	-	100,000	-	100,000
Proceeds from Bond Anticipation Notes	-	100,000	-	100,000
Principal Payments on Bonds	(388,579)	(395,000)	-	(783,579)
Interest Payments	(80,037)	(93,647)	-	(173,684)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(468,616)</u>	<u>(388,647)</u>	<u>-</u>	<u>(857,263)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	5,153	230	-	5,383
Net Cash Flows Provided (Used) by Investing Activities	<u>5,153</u>	<u>230</u>	<u>-</u>	<u>5,383</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>214,849</u>	<u>254,723</u>	<u>94,603</u>	<u>564,175</u>
Cash and Cash Equivalents, July 1, 2011	1,075,360	581,887	-	1,657,247
Cash and Cash Equivalents, June 30, 2012	<u>\$ 1,290,209</u>	<u>\$ 836,610</u>	<u>\$ 94,603</u>	<u>\$ 2,221,422</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 806,856	\$ 647,695	\$ (135,597)	\$ 1,318,954
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	326,419	164,037	10,932	501,388
Assets Acquired	(24,744)	(62,855)	(77,539)	(165,138)
(Increase) Decrease in Accounts Receivable	(48,147)	-	-	(48,147)
Increase (Decrease) in Wages Payables	(10,161)	(406)	9,468	(1,099)
Increase (Decrease) in Compensated Absences	6,948	481	20,542	27,971
Increase (Decrease) in Other Payables	(5,859)	2,012	11,714	7,867
Net Cash Provided by Operating Activities	<u>\$ 1,051,312</u>	<u>\$ 750,964</u>	<u>\$ (160,480)</u>	<u>\$ 1,641,796</u>

Town of North Reading, Massachusetts  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2012

	Private-Purpose <u>Trust</u>
<b>Assets</b>	
Cash and Cash Investments	\$ 309,418
	<hr/>
Total Assets	309,418
	<hr/>
<b>Liabilities</b>	-
Total Liabilities	-
	<hr/>
<b>Net Assets</b>	
Held in Trust	309,418
	<hr/>
Total Net Assets	\$ 309,418
	<hr/> <hr/>

Town of North Reading, Massachusetts  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Fiscal Year Ended June 30, 2012

<b>Additions:</b>	
Interest, Dividends, and Other	\$2,884
Total Additions	2,884
 <b>Deductions:</b>	
Scholarships Awarded	8,950
Operating Transfers In	24,000
Total Transfers	24,000
Change in Net Assets	17,934
 <b>Net Assets:</b>	
Beginning of the Year	274,009
Prior Period Adjustment	17,475
Fund Balance, Beginning as Restated	291,484
End of the Year	\$309,418

Town of North Reading, Massachusetts  
Notes to the Financial Statements  
June 30, 2012

I. **Summary of Significant Accounting Policies**

The accounting policies of the Town of North Reading, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2012, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter.

The more significant accounting policies of the Town are summarized below.

(A) **Reporting Entity**

The Town's basic financial statements include the operations of all organizations for which the Board of Selectmen exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Based on the aforementioned oversight criteria, the Town was the only entity included in the accompanying basic financial statements.

(B) **Government-wide and fund financial statements**

The **government-wide financial statements** (i.e., the **statement of net assets** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax and amounts due under grants. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

The Town reports the following major governmental funds:

**General Fund** – This is the Town’s general operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

**School Building Fund** – The Town, in conjunction with the Massachusetts School Building Authority, is building a new Middle School and a new High School. The School Building Fund is used to account for the transactions of this capital project.

The Town reports the following major proprietary funds:

**Water Fund** – This fund is used to account for the activities related to the water distribution system.

**Hillview Golf Fund** – This fund is used to account for the Town’s golf course and certain other recreational facilities.

**The Town began accounting for its Recreation Revolving Fund as an Enterprise Fund in Fiscal Year 2012.**

(D) Assets, Liabilities and Net Assets or Equity

i Deposits and Investments

The Town’s cash and cash equivalents are considered to be demand deposits and certificates of deposits.

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government (or its agencies) that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust (“MMDT”).

Certain governmental funds (primarily trust funds) have broader investment powers which allow investments in common stocks, corporate bonds and other types of investments.

ii Property Taxes

The Town’s fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. The Town bills property taxes on a quarterly basis. Quarterly payments are due on August 1, November 1, February 1 and May 1. Property taxes attach as enforceable liens on property as of July 1 of the next fiscal year.

The Town is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the Town’s property. In addition, the law limits the amount by which the total property tax levy can be increased to 2.5% of the preceding year’s levy plus any new growth.

iii Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The statement of net assets for the enterprise funds also reports capital assets. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend assets lives is not capitalized.

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

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Equipment	5-15
Improvements	20-40
Infrastructure	40-50
Vehicles	5-15

iv Fund Balance Classification Policies and Procedures

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement established

accounting and financial reporting standards for all governmental funds. It established criteria for classifying fund balances into specifically defined classifications.

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories list below.

1. **Nonspendable**, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund),

2. **Restricted**, constraints are placed on the use of resources that can be spent only for the specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitution provisions or through enabling legislation,

3. **Committed**, includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Selectmen and/or Town meeting (the Town's highest level of decision-making authority). Committed fund balance cannot be used for any other purpose unless the same formal action that was taken to commit the fund balance is taken to uncommit it or commit it for another purpose.

4. **Assigned**, intended (by the Board of Selectmen, Town Administrator or Finance Director) to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed, and

5. **Unassigned**, the residual classification for the government's general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

The Town has not formally adopted a policy for its use of unrestricted fund balance. Therefore, in accordance with GASB 54, it considered that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Details of Fund Balance Classifications

The following schedule shows the detail of the fund balance classifications displayed in the aggregate on the Town's balance sheet.

	<u>General Fund</u>	<u>School Building Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Education	\$ -	\$ -	\$ 10,000	\$ 10,000
Highways and Public Works	-	-	650,373	650,373
Culture and Recreation	-	-	25,369	25,369
<b>Total Nonspendable:</b>	-	-	685,742	685,742

	<u>General Fund</u>	<u>School Building Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
<b>Restricted:</b>				
General Government	-	-	5,419,368	5,419,368
Public Safety	-	-	487,840	487,840
Education	-	47,942,021	1,440,850	49,382,871
Highways and Public Works	-	-	865,511	865,511
Human Services	-	-	114,406	114,406
Culture and Recreation	-	-	205,793	205,793
<b>Total Restricted:</b>	<u>-</u>	<u>47,942,021</u>	<u>8,533,768</u>	<u>56,475,789</u>
<b>Committed to:</b>				
General Government	59,025	-	33,322	92,347
Public Safety	129,857	-	14,960	144,817
Education	232,926	-	57,263	290,189
Highways and Public Works	171,671	-	63,127	234,798
Culture and Recreation	3,385	-	24,302	27,687
Employee Benefits	114,000	-	-	114,000
Debt Services	487,694	-	-	487,694
<b>Total Committed:</b>	<u>1,198,558</u>	<u>-</u>	<u>192,974</u>	<u>1,391,532</u>
<b>Assigned to:</b>				
General Government	52,231	-	672,849	725,080
Public Safety	22,277	-	-	22,277
Education	53,442	-	-	53,442
Highways and Public Works	99,072	-	-	99,072
Human Services	2,451	-	-	2,451
Culture and Recreation	4,301	-	-	4,301
Employee Benefits	15,500	-	-	15,500
<b>Total Assigned:</b>	<u>249,274</u>	<u>-</u>	<u>672,849</u>	<u>922,123</u>
<b>Unassigned</b>	<u>4,206,839</u>	<u>-</u>	<u>-</u>	<u>4,206,839</u>
<b>Total Fund Balances</b>	<u>\$ 5,654,671</u>	<u>\$ 47,942,021</u>	<u>\$ 10,085,333</u>	<u>\$ 63,682,025</u>

#### Stabilization Fund

The Town has established a stabilization fund in accordance with Massachusetts General Laws Chapter 40 Section 5B. That section of the law stipulates that “cities, towns and districts may appropriate in any year an amount not exceeding, in the aggregate, 10 per cent of the amount raised in the preceding fiscal year by taxation of real estate and tangible personal property or such larger amount as may be approved by the director of accounts. The aggregate amount in such funds at any time shall not exceed 10 per cent of the equalized valuation of the city or town as defined in section 1 of chapter 44. Any interest shall be added to and become part of the fund”.

“The treasurer shall be the custodian of all such funds and may deposit the proceeds in national banks or invest the proceeds by deposit in savings banks, co-operative banks or trust companies organized under the laws of the commonwealth, or invest the same in such securities as are legal

for the investment of funds of savings banks under the laws of the commonwealth or in federal savings and loans associations situated in the commonwealth”.

“At the time of creating any such fund the city, town or district shall specify, and at any later time may alter, the purpose of the fund, which may be for any lawful purpose, including without limitation an approved school project under chapter 70B or any other purpose for which the city, town or district may lawfully borrow money. Such specification and any such alteration of purpose, and any appropriation of funds into or out of any such fund, shall be approved by two-thirds vote, except as provided in paragraph (g) of section 21C of chapter 59 for a majority referendum vote. Subject to said section 21C, in a town or district any such vote shall be taken at an annual or special town meeting, and in a city any such vote shall be taken by city council”.

The Town’s stabilization fund has a current balance of \$1,811,780. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet.

In addition, the Town has authorized two “specific purpose” stabilization funds. The solid waste stabilization fund (\$118,670) and the capital improvement stabilization fund (\$487,694) are reported in the general fund as a component of committed fund balance.

v Compensated Absences

The liabilities for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated annual vacation and sick leave benefits. The liabilities have been calculated using the vesting method, in which leave amounts for employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

vi Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

vii 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 disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

viii Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1, 2012 and July 15, 2012. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2012 and the corresponding credit is to the account entitled warrants payable.

## II Stewardship, Compliance and Accountability

### (A) Budgetary Information

#### i General Budget Policies

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January, February and March of each year. The Selectmen and Finance Committee have until June, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances do not constitute expenditures or liabilities.

#### ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the Town's annual recap sheet and includes those amounts which pertain to fiscal 2012 adjusted for any special Town meeting votes applicable to fiscal 2012 and reserve fund transfers authorized by the Finance Committee.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles (GAAP) basis (in the fund financial statements) for the year ended June 30, 2012.

	<u>Revenues</u>
As Reported Budget Basis	\$ 49,216,126
Adjustments:	
Sixty Day Revenue Accrual - Net	35,208
Stabilization Fund Interest Not Reported Budget Basis	16,952
In Lieu of Tax from Golf Reclassified as a Transfer	(114,647)
On Behalf Payments Included in Intergovernmental	4,765,431
As Reported GAAP Statement	<u>\$ 53,919,070</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 49,542,461
Adjustments:	
July 1, 2011 Encumbrances	515,700
June 30, 2012 Encumbrances	(527,469)
On Behalf Payments Included in Employee Benefits	4,765,431
As Reported GAAP Statement	<u>\$ 54,296,123</u>

III Detailed Notes on All Funds

A. Deposits

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2012, \$3,146,521 of the Town's bank balance of \$71,405,176 was exposed to credit risk as follows:

Uninsured and Uncollateralized    \$ 3,146,521

Investments

As of June 30, 2012, the Town had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>5-10</u>
<b><u>Debt Related Securities</u></b>				
U. S. Government Obligations	<u>\$ 877,862</u>	<u>\$ -</u>	<u>\$ 877,862</u>	<u>\$ -</u>

**Other Investments:**

Money Market Funds	121,877
Equities	97,925
Mass. Municipal Depository Trust	<u>532,357</u>
Total Other Investments	<u>752,159</u>
 Total Investments	 <u>\$ 1,630,021</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth of Massachusetts has an investment "legal list" that the Town follows.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town does not have a formal policy that limits the amount it may invest in a single issuer.

B. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Government Activities:				
Assets not Being Depreciated				
Land	\$ 19,095,908	\$ -	\$ -	\$ 19,095,908
Work In Process	615,731	2,264,230	-	2,879,961
Total Capital Assets Not Being Depreciated	<u>19,711,639</u>	<u>2,264,230</u>	<u>-</u>	<u>21,975,869</u>
Assets Being Depreciated:				
Buildings	55,889,001	5,050	-	55,894,051
Improvements Other Than Buildings	3,578,685	241,630	-	3,820,315
Infrastructure	14,643,960	274,500	-	14,918,460
Equipment	2,713,562	493,531	(82,600)	3,124,493
Vehicles	3,991,778	504,020	(232,779)	4,263,019
Total Capital Assets Being Depreciated	<u>80,816,986</u>	<u>1,518,731</u>	<u>(315,379)</u>	<u>82,020,338</u>
Less Accumulated Depreciation for:				
Buildings	-	-	-	-
Buildings	(21,325,870)	(1,420,559)	-	(22,746,429)
Improvements Other Than Buildings	(760,330)	(194,431)	-	(954,761)
Infrastructure	(10,730,329)	(369,189)	-	(11,099,518)
Equipment	(1,361,136)	(227,521)	65,150	(1,523,507)
Vehicles	(2,732,661)	(327,964)	206,925	(2,853,700)
Total Accumulated Depreciation	<u>(36,910,326)</u>	<u>(2,539,664)</u>	<u>272,075</u>	<u>(39,177,915)</u>
Capital Assets Being Depreciated, Net	<u>43,906,660</u>	<u>(1,020,933)</u>	<u>(43,304)</u>	<u>42,842,423</u>
Governmental Activities Capital Assets, Net	<u>\$ 63,618,299</u>	<u>\$ 1,243,297</u>	<u>\$ (43,304)</u>	<u>\$ 64,818,292</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General government	\$ 52,042
Public safety	553,742
Education	1,151,765
Highways and Public works	551,284
Human Services	8,799
Culture and Recreation	222,032
Total Governmental Activities Depreciation Expense	<u>\$ 2,539,664</u>

B. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
<b>Assets Not Being Depreciated</b>				
Land	\$ 3,447,950	\$ -	\$ -	\$ 3,447,950
Work in Process	45,573	-	-	45,573
Total Capital Assets Being Depreciated	<u>3,493,523</u>	<u>-</u>	<u>-</u>	<u>3,493,523</u>
<b>Assets Being Depreciated:</b>				
Buildings	2,233,676	-	-	2,233,676
Improvements Other Than Buildings	1,792,531	45,057	-	1,837,588
Infrastructure	15,054,731	-	-	15,054,731
Equipment	699,441	120,081	-	819,522
Vehicles	308,855	-	-	308,855
Total Capital Assets Being Depreciated	<u>20,089,234</u>	<u>165,138</u>	<u>-</u>	<u>20,254,372</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	(1,173,732)	(70,137)	-	(1,243,869)
Improvements Other Than Buildings	(982,710)	(71,385)	-	(1,054,095)
Infrastructure	(7,221,823)	(300,504)	-	(7,522,327)
Equipment	(476,254)	(41,908)	-	(518,162)
Vehicles	(206,181)	(17,454)	-	(223,635)
Total Accumulated Depreciation	<u>(10,060,700)</u>	<u>(501,388)</u>	<u>-</u>	<u>(10,562,088)</u>
Capital Assets Being Depreciated, Net	<u>10,028,534</u>	<u>(336,250)</u>	<u>-</u>	<u>9,692,284</u>
Business Type Activities Capital Assets, Net	<u>\$ 13,522,057</u>	<u>\$ (336,250)</u>	<u>\$ -</u>	<u>\$ 13,185,807</u>

Depreciation expense was charged to functions as follows:

<b>Business-Type Activities:</b>	
Water	\$ 326,419
Hillview Golf	164,037
Recreation	10,932
Total Business-Type Activities Depreciation Expense	<u>\$ 501,388</u>

C. Accounts Receivable

The accounts receivable on the Statement of Net Assets are listed below by levy.

**Governmental Activities**

Property Taxes Receivable:

Real Estate Taxes

2012	\$ 447,691
2011	368
2010	(319)
2009	304
2008	118
2002	147
2001	3,300
2000	<u>348</u>

Total Real Estate Taxes 451,957

Personal Property Taxes

2012	(4,233)
2011	6,494
2010	7,607
2009	6,222
2008	6,541
2007	4,079
2006	<u>3,180</u>

Total Personal Property Taxes 29,890

Total Property Taxes Receivable \$ 481,847

Tax Liens \$ 780,545

C. Accounts Receivable (Continued)

Excise Taxes Receivable:

Motor Vehicle Excise Tax

2012	\$	108,435
2011		22,790
2010		11,132
2009		8,230
2008		7,632
2007		9,146
2006		7,737
2004		417

Total Motor Vehicle Excise Tax \$ 175,519

Tax Excise Receivable

User Charges:

Trash Fees	\$	85,126
Ambulance		166,968

Total User Charges \$ 252,094

Light Liens

2012	\$	3,429
2009		(552)
2002		751
2001		1,343
2000		906

Total Light Liens 5,877

Trash Liens

2012	3,018
2011	(295)
2010	(253)
2009	308

Total Trash Liens: 2,778

Total Liens \$ 8,655

C. Accounts Receivable (Continued)

Intergovernmental:

Current:

Due from Commonwealth of Massachusetts:	
Highways and Other Public Works Grants	\$ 167,438
Various Federal Grants	51,449
School Building Assistance Bureau Grant	<u>243,393</u>

Total Current 462,280

Noncurrent:

School Building Assistance Bureau Grant 2,677,323

Total Intergovernmental \$ 3,139,603

Special Assessments:

Septic Betterments \$ 30,304

**Business Type Activities**

Current:

User Charges:

Water \$ 358,961

Water Liens:

2012	\$ 24,979
2011	(138)
2010	588
2009	(60)
2002	<u>138</u>

Total Water Liens \$ 25,507

Water Tax Liens \$ 36,738

D. Debt

i Short Term Debt

Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2012 as follows:

<u>Governmental Activities:</u>	Balance Beginning of Year	Issued	Redeemed	Balance End of Year	Maturity Date
<u>Purpose</u>					
Departmental Equipment	\$ -	\$ 240,000	\$ -	\$ 240,000	9/14/2012
School Technology	-	163,000	-	163,000	9/14/2012
School Boiler	-	250,000	-	250,000	9/14/2012
Ambulance Replacement	250,000	250,000	(250,000)	250,000	9/14/2012
Storm Water Infiltration	138,000	138,000	(138,000)	138,000	9/14/2012
Culvert Installation	270,000	270,000	(270,000)	270,000	9/14/2012
School Feasibility	<u>1,000,000</u>	<u>1,000,000</u>	<u>(1,000,000)</u>	<u>1,000,000</u>	9/14/2012
Total	<u>\$ 1,658,000</u>	<u>\$ 2,311,000</u>	<u>\$ (1,658,000)</u>	<u>\$ 2,311,000</u>	

Business-type Activities:

Hillview Capital	\$ 100,000	\$ 100,000	\$ (100,000)	\$ 100,000	9/14/2012
Total	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ (100,000)</u>	<u>\$ 100,000</u>	

ii Long Term Debt

(a) Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2012

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Balance 7/01/11	\$28,748,741	\$ 5,884,925	\$ 34,633,666
Add: New Issues	51,311,000	100,000	51,411,000
Less: Maturities	<u>(2,961,749)</u>	<u>(789,077)</u>	<u>(3,750,826)</u>
Balance 6/30/12	<u>\$77,097,992</u>	<u>\$ 5,195,848</u>	<u>\$ 82,293,840</u>

D. Debt (Continued)

(b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$4,379,187	\$2,919,644	\$719,848	\$158,019
2014	3,903,826	2,983,802	604,000	136,116
2015	3,634,507	2,872,649	604,000	116,593
2016	3,411,868	2,751,584	574,000	96,443
2017	3,456,868	2,628,795	514,000	77,864
2018 - 2022	17,336,736	11,146,017	1,585,000	220,327
2023 - 2027	14,415,000	7,540,993	595,000	29,188
2028 - 2032	11,865,000	5,094,088	0	0
2033 - 2037	<u>14,695,000</u>	<u>1,989,100</u>	<u>0</u>	<u>0</u>
	<u>\$77,097,992</u>	<u>\$39,926,672</u>	<u>\$5,195,848</u>	<u>\$834,550</u>

(c) Subsidies through the Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust (the Trust) was created by Chapter 275 of the Acts of 1989 to implement the State Revolving Fund Program (SRF) contemplated by the Title VI of the Federal Clean Water Act.

The Trust administers a SRF program which includes both a federal and state capitalized revolving funds. Loans are made from the fund to local governmental units to finance the costs of eligible water pollution abatement programs.

Local governments obtain financing through the SRF and receive subsidies, but are obligated for the entire amount of the debt. The Town has borrowed four issues through the program. Subsidies which will be utilized to offset the principal and interest debt service costs disclosed in the summary above are noted below:

	<u>SRF Subsidies</u>	
	<u>General</u>	
	<u>Government</u>	<u>Enterprise</u>
2013	\$5,384	\$12,085
2014	5,167	10,762
2015	4,942	10,017
2016	4,695	9,437
2017	4,434	8,343
2017 - 2021	18,219	9,166
2022 - 2026	<u>6,861</u>	<u>0</u>
Total Subsidies	<u>\$49,702</u>	<u>\$59,810</u>

(d) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2012, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
June 7, 2010	School Feasibility Study	\$1,000,000
October 3, 2011	Capital Improvement Plan	88,000
March 19, 2012 & March 24, 2012	School Construction Project	<u>57,305,328</u>
	Total	<u>\$58,393,328</u>

E. Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds. Operating transfers made during the year were as follows:

	<u>Transfer In</u>	<u>Transfer (Out)</u>	<u>Total</u>
<u>Fund Financial Statements</u>			
General	\$ 1,299,082	\$ (224,269)	\$ 1,074,813
Non-Major Governmental	37,569	(910,641)	(873,072)
Recreation - Business Type	263,243	(8,160)	255,083
Golf - Business Type	6,823	(114,647)	(107,824)
Water - Business Type	-	(373,000)	(373,000)
Fiduciary Fund	24,000	-	24,000
Total Fund Financial Statements	<u>1,630,717</u>	<u>(1,630,717)</u>	<u>-</u>
<u>Entity Wide Financial Statements</u>			
Net Transfers In/Out Governmental Funds	201,741	-	201,741
Net Transfers In/Out Enterprise Funds	-	(225,741)	(225,741)
Fiduciary Fund	24,000	-	24,000
Net Transfers Entity Wide	<u>\$ 225,741</u>	<u>\$ (225,741)</u>	<u>\$ -</u>

IV Other Information

A. Pension Plans

(a) Plan Description

The Town provides pension benefits to employees by contributing to Middlesex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Middlesex Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

(b) Funding Plan

Active members of the Middlesex Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members is determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contributions for the years ending June 30, 2012, 2011 and 2010 were \$2,596,324, \$2,355,904 and \$2,257,816, respectively, equal to 100% of the required contribution each year.

**B. Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45**

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information that is required to be disclosed by GASB 43 and 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 43 and 45, is presented following the notes to the financial statements.

- a. **Plan Description.** In addition to providing pension benefits described above, the Town provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the Town retirees receiving a pension from the Middlesex Regional Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 755 active employees and 303 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan. The benefits are provided primarily through Blue Cross of Massachusetts, Inc.
- b. **Funding Policy.** The Town pays 50% of the total premiums for indemnity and Medicare supplement plans, 70% for HMO plans and 50% of the premiums for life insurance with the employees paying the remaining percentage. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town may be amended from time to time.
- c. **Annual OPEB Cost and OPEB Obligation.** The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Town, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. 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 following table shows the components of the Town's annual OPEB cost for the fiscal year ended June 30, 2012, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$3,531,284
Interest on Net OPEB Obligation	271,799
Adjustment to Annual Required Contribution	<u>(392,955)</u>
Annual OPEB Cost (Expense)	3,410,128
Contributions Made:	
Contributions for Benefits	1,160,673
Allocation for Expected Benefit Payments (Implicit Subsidy)	<u>450,408</u>
Total Contributions	<u>1,611,081</u>
Increase in Net OPEB Obligation	<u>1,799,047</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>6,794,986</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$8,594,033</u></u>

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

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2010	\$4,306,578	38.7%	\$5,238,530
2011	\$3,437,880	54.7%	\$6,794,986
2012	\$3,410,128	47.2%	\$8,594,033

- d. **Funded Status and Funding Progress.** As of July 1, 2010, the most recent actuarial valuation date, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$38,652,339, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$38,652,339.

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 revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

- e. **Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements of 0.5% to an ultimate rate of 5 percent. The actuarial value of assets was determined using market value. The UAAL is being amortized over a thirty year amortization period.

### C. On Behalf Payments

In accordance with Governmental Accounting Standards Board Statement Number 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance," the Town is required to recognize, as income, certain payments made on behalf of the Town by the Commonwealth of Massachusetts. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the Town's teaching employees. The Town is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2012, the Commonwealth paid \$4,765,431 to the State Plan on behalf of employees of the Town. Accordingly, the accompanying fund financial statements include the required adjustments, which have increased both Intergovernmental revenues and the Education expenditures by the same amount in the fund financial statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2012, or fund balances/net assets at June 30, 2012.

D. Subsequent Year Authorizations

On June 4, 2012 and October 2, 2012, the Town adopted a fiscal 2013 operating and capital budget of \$61,740,107. Fiscal 2013 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

2013 Property Taxes, State Aid and Non-Property Tax Revenue	\$ 52,895,433
Enterprise Fund Revenues	5,411,158
Enterprise Fund Retained Earnings	107,000
Restricted Fund Balance:	
Non-Major Funds	586,470
Committed Fund Balance:	
General Fund	859,325
Non-Major Funds	11,690
Assigned Fund Balance:	
Non-Major Funds	400,000
Unassigned Fund Balance:	
General Fund	1,469,031
	<u>\$ 61,740,107</u>

E. Due to Other Governments

Prior to fiscal year 2004, the Town had questioned costs relating to their federal Copsfast grant. The questioned costs appear to be the result of an error in the amount of funds drawn down per officer and the timing of the draw downs. The Department of Justice and the Town have entered into an agreement whereby the Town will repay the questioned costs over a five year period. The balance remaining to be paid is \$64,862.

F. Prior Period Adjustments

Prior period adjustments were made as follows:

1. Reclassify the Other Post Employment Benefit Trust Fund from the governmental fund/activities to the Fiduciary Fund (\$17,475).
2. Reclassify capital assets from the Hillview Enterprise Fund to the Recreation Enterprise Fund (\$189,505).

G. Significant Commitments

Encumbrances

Encumbrances for open purchase are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose. The general fund's assigned fund balance includes encumbrances in the amount of \$249,274.

# REQUIRED SUPPLEMENTARY INFORMATION

Town of North Reading, Massachusetts  
Required Supplementary Information  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$ 35,473,115	\$ 35,748,858	\$ 35,688,162	\$ (60,696)
Tax Liens	-	-	289,023	289,023
Excises	2,033,000	2,033,000	2,377,914	344,914
Penalties and Interest	160,000	160,000	220,692	60,692
Licenses and Permits	350,000	350,000	377,509	27,509
Fees and Other Departmental	196,000	196,000	206,919	10,919
Intergovernmental	8,223,940	8,223,940	8,568,970	345,030
Charges for Services	960,000	960,000	984,592	24,592
Fines and Forfeits	13,000	13,000	12,365	(635)
Earnings on Investments	15,000	15,000	13,835	(1,165)
In Lieu of Taxes	350,000	350,000	382,105	32,105
Miscellaneous	196,405	196,405	94,040	(102,365)
Total Revenues	<u>47,970,460</u>	<u>48,246,203</u>	<u>49,216,126</u>	<u>969,923</u>
<u>Expenditures:</u>				
Current:				
General Government	2,537,464	2,534,418	2,186,253	348,165
Public Safety	5,651,272	6,160,345	6,101,922	58,423
Education	24,496,751	24,531,751	24,486,358	45,393
Highway and Public Works	2,964,198	3,047,746	3,095,651	(47,905)
Health and Human Services	469,098	550,315	546,143	4,172
Culture and Recreation	493,874	500,389	497,889	2,500
Intergovernmental	217,863	217,863	207,039	10,824
Employee Benefits	8,803,255	8,821,255	8,391,143	430,112
Debt Service	4,030,063	4,030,063	4,030,063	-
Total Expenditures	<u>49,663,838</u>	<u>50,394,145</u>	<u>49,542,461</u>	<u>851,684</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,693,378)</u>	<u>(2,147,942)</u>	<u>(326,335)</u>	<u>1,821,607</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	1,929,849	2,075,975	2,086,136	10,161
Transfers Out	(110,700)	(382,769)	(382,769)	-
Budgetary Fund Balance - Sources	-	580,519	580,519	-
Budgetary Fund Balance - Uses	(125,771)	(125,783)	(125,783)	-
Total Other Financing Sources (Uses)	<u>1,693,378</u>	<u>2,147,942</u>	<u>2,158,103</u>	<u>10,161</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>\$ -</u>	<u>-</u>	<u>\$ 1,831,768</u>	<u>\$ 1,831,768</u>

Town of North Reading, Massachusetts  
Required Supplementary Information  
Middlesex Regional Retirement System  
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/1996	\$ 373,750,361	\$ 634,920,488	\$ 261,170,127	58.87%	\$ 218,345,024	119.61%
1/1/1998	476,708,969	763,093,878	286,384,909	62.47%	215,380,186	132.97%
1/1/2000	570,263,467	905,280,472	335,017,005	62.99%	253,228,818	132.30%
1/1/2002	599,699,143	1,020,828,178	421,129,035	58.75%	280,740,439	150.01%
1/1/2004	618,163,380	1,223,828,127	605,664,747	50.51%	306,025,949	197.91%
1/1/2006	653,156,866	1,364,582,969	711,426,103	47.86%	330,999,861	214.93%
1/1/2008	774,863,669	1,529,806,307	754,942,638	50.65%	360,206,302	209.59%
1/1/2010	819,987,914	1,743,581,707	923,593,793	47.03%	384,933,571	239.94%

This schedule of funding progress 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.

Town of North Reading, Massachusetts  
 Required Supplementary Information  
 Middlesex Regional Retirement System  
 Schedule of Employer's Contribution

<b>System Wide</b>				<b>Town of North Reading</b>	
Plan Year Ended December 31	Annual Required Contributions	Actual Contributions (A)	Percentage Contributed	Actual Contributions (B)	Town's Percentage of System Wide Actual Contributions (B/A)
2001	\$ 27,900,209	\$ 27,900,209	100.00%	\$ 797,425	2.86%
2002	30,248,147	30,248,147	100.00%	838,583	2.77%
2003	35,411,500	35,411,500	100.00%	949,837	2.68%
2004	52,902,366	52,902,366	100.00%	1,296,853	2.45%
2005	52,298,150	52,298,150	100.00%	1,383,883	2.65%
2006	60,169,717	60,169,717	100.00%	1,569,774	2.61%
2007	64,664,829	64,664,829	100.00%	1,773,999	2.74%
2008	72,050,318	72,050,318	100.00%	1,954,596	2.71%
2009	78,212,121	78,212,121	100.00%	2,138,978	2.73%

Town of North Reading, Massachusetts  
 Required Supplementary Information  
 Other Post Employment Benefits  
 Schedule of Funding Progress  
 Fiscal Year Ended June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
7/1/2007	\$0	\$37,352,019	\$37,352,019	0%	12,295,225	303.8%
7/1/2010	\$0	\$38,652,339	\$38,652,339	0%	26,498,449	145.9%

This schedule of funding progress 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.

Town of North Reading, Massachusetts  
 Required Supplementary Information  
 Other Post Employment Benefits  
 Valuation Details  
 Fiscal Year Ended June 30, 2012

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Valuation Date	July 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization of Unfunded Liability	Level dollar thirty year open amortization basis
Asset Valuation Method	Not applicable - plan is unfunded

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**Actuarial Assumptions:**

Investment Rate of Return	4.0%
Medical/Drug Cost Trend Rate	8.0% graded off 0.5% per year to an ultimate rate of 5.0% per year

Plan Membership:

Current retirees, beneficiaries and dependents	303
Current active members	<u>755</u>
Total	1,058

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Town of North Reading, Massachusetts  
Notes to the Required Supplementary Information  
June 30, 2012

(A) Budgetary Information

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January and February of each year. The Selectmen and Finance Committee have until March, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances do not constitute expenditures or liabilities.

(B) Pension Plans

1. Plan Description

The Town provides pension benefits to employees by contributing to Middlesex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Middlesex Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

2. Funding Plan

Active members of the Middlesex Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members is determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex Retirement System with the approval of the Public Employee Retirement Administration Commission.

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the accrued liability for benefits. Additionally, a schedule of employer contributions is presented as required supplementary information. The schedules presented relate to the Middlesex Retirement System as a whole (of which the Town is one participating employer). The Town's data included should be helpful for understanding the scale of the information presented relative to the Town.

3. Actuarial Assumptions

<b>Valuation Date</b>	January 1, 2010
<b>Actuarial Cost Method</b>	Entry age normal cost method.
<b>Amortization Method</b>	Level dollar for the 2002 and 2003 Early Retirement Incentives (ERI) and increasing for the remaining unfunded liability.
<b>Remaining Amortization Period</b>	As of July 1, 2010, 9 years remaining for the 2002 ERI liability; 10 years remaining for the 2003 ERI liability and 25 years for the remaining unfunded liability.
<b>Asset Valuation Method</b>	The difference between the expected return and the actual investment return on a market value basis is recognized over a five year period as described by Revenue Procedure 2000-40.
<b>Actuarial Assumptions:</b>	
Investment Rate of Return	8.125%
Projected Salary Increases	4.75% for Group 1 and 5.25% for Group 4
Cost of Living Adjustments	3.00% of the first \$12,000 of retirement income, increasing to \$13,000 on July 1, 2011 and to \$14,000 on July 1, 2012

**Plan Membership:**

Retired Participants and Beneficiaries Receiving Benefits	4,833
Inactive Participants Entitled to a Return of their Employee Contributions	3,147
Invested Participants with a Vested Right to a Deferred or Immediate Benefit	283
Active Participants	<u>9,093</u>
Total	<u>17,356</u>

Town of North Reading, Massachusetts  
Schedule of Expenditures of Federal Awards  
Fiscal Year Ended June 30, 2012

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
National School Lunch Program	10.555	\$ 95,428
Total U.S. Department of Agriculture		<u>95,428</u>
<u>U.S. Department of Justice</u>		
Bulletproof Vest Partnership Program	16.607	7,650
Total U.S. Department of Justice		<u>7,650</u>
<u>Office of Water and Environmental Protection Agency</u>		
Stormwater	66.605	103,636
Total Office of Water and Environmental Protection Agency		<u>103,636</u>
<u>U.S. Department of Education</u>		
Title I	84.010	73,771
SPED PL 94-142 Allocation	84.027	520,257
SPED Program Improvement	84.027	26,941
Subtotal # 84.027		<u>547,198</u>
SPED Early Childhood	84.173	15,563
Teacher Quality	84.367	40,474
Education Jobs	84.410	345,505
Total U.S. Department of Education		<u>1,022,511</u>
<u>U.S. Department Homeland Security</u>		
Essex County Trench Rescue	97.Unk	21,582
Disaster Grant - Public Assistance	97.036	147,056
Total U.S. Department Homeland Security		<u>168,638</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 1,397,863</u>

Town of North Reading, Massachusetts  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2012

(1) Scope of Audit

The Town of North Reading, Massachusetts (the Town) is a governmental agency established by the laws of the Commonwealth of Massachusetts.

All federal grant operations of the Town are included in the scope of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The single audit was performed in accordance with the provisions of OMB's Circular A-133, *Compliance Supplement*.

(2) Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes all of the federal grant expenditures of the Town.

Federal grant revenues are recognized in the Town's financial statements on the accrual basis for proprietary fund grants. Grant receipts in governmental funds are recorded on the modified accrual basis whereby revenue is recognized when it becomes available and measurable.

Disbursements of federal grant funds are recorded on the modified accrual basis.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Selectmen  
Town of North Reading, Massachusetts  
Town Hall  
235 North Street  
North Reading, MA 01864

We have audited the basic financial statements of the Town of North Reading as of and for the year ended June 30, 2012, and have issued our report thereon dated January 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of North Reading's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of North Reading's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of North Reading's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of North Reading's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town of North Reading, in a separate letter dated January 31, 2013.

The report is intended solely for the information and use of management, the Board of Selectmen and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
January 31, 2013

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133

Board of Selectmen  
Murphy Center  
235 North Street  
North Reading, MA 01864

Compliance

We have audited the compliance of the Town of North Reading, Massachusetts with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. The Town of North Reading, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of North Reading's management. Our responsibility is to express an opinion on the Town of North Reading's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of North Reading's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of North Reading's compliance with those requirements.

In our opinion, the Town of North Reading, Massachusetts complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the Town of North Reading is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of North Reading's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of North Reading, Massachusetts' internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance

with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Selectmen, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
January 31, 2013

Town of North Reading, Massachusetts  
 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2012

(I) Summary of Auditors' Results

- 1 The opinion of the financial statements was unqualified.
- 2 No significant deficiencies in internal control were reported in the audit of the financial statements.
- 3 No instances of noncompliance which were material to the financial statements were reported.
- 4 No deficiencies in internal control relating to major programs were reported.
- 5 The opinion on compliance with requirements applicable to major programs was unqualified.
- 6 No findings relative to the major federal award programs were reported.
- 7 The major programs identified were:

<u>Funding Source</u>	<u>Program</u>	<u>CFDA Number</u>
Department of Education	SPED IDEA Allocation	84.027
Department of Education	SPED IDEA Program Improvement	84.027
Department of Education	SPED IDEA Preschool	84.173
Department of Education	Education Jobs	84.410

- 8 The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- 9 The Town did not qualify as low risk.

(II) Findings - Financial Statement Audit

No findings were reported related to the financial statements.

(III) Findings and Questioned Costs for Federal Awards

No findings or questioned costs were reported.