

TOWN OF NORTH READING, MASSACHUSETTS

Financial Statements

June 30, 2013

(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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of North Reading, Massachusetts as of and for the year ended June 30, 2013, and the related notes to the financial statements, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2013 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary statement, the retirement system schedules and the other post employment benefit schedules listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of North Reading, Massachusetts' basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated February 18, 2014, on our consideration of the Town of North Reading, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of North Reading, Massachusetts' internal control over financial reporting and compliance.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
February 18, 2014

**Town of North Reading, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2013**

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, 2013.

Financial Highlights

- The assets of the Town of North Reading, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$55,693,643 (*net position*).
- The governmental activities total net position increased by \$1,829,759. The Hillview enterprise fund had an increase in net position of \$281,387, the Water enterprise fund had an increase in net position of \$159,364 and the Recreation enterprise fund had a decrease in net position of \$123,301.
- The deficit in the unrestricted net position of the recreation fund is a result of an increase in OPEB liability.
- 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 \$13,742,698 reduction of the governmental activities net position.
- At the end of the current fiscal year, unassigned fund balance in the general fund was \$3,563,554, or 6 percent of total general fund expenditures.
- The total long term debt of the Town of North Reading, Massachusetts decreased by \$5,099,035 or 6.2%. The decrease was due to payment of debt principal, \$4,379,187 – Governmental Activities and \$719,848 – Business Type Activities.

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 Position* presents information on all of the Town of North Reading, Massachusetts' assets and liabilities, with the differences between the two reported as *Net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 relate to water supply distribution, a 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 Position. 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 position.
- 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 Position

Net position may serve over time as a useful indicator of a government's financial position. However, the Net position 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 position.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Current and Other Assets	\$ 74,320,570	\$ 60,334,195	\$ 2,642,628	\$ 3,133,237	\$ 76,963,198	\$ 63,467,432
Capital Assets	64,818,292	79,916,664	13,185,807	13,024,237	78,004,099	92,940,901
Total Assets	<u>139,138,862</u>	<u>140,250,859</u>	<u>15,828,435</u>	<u>16,157,474</u>	<u>154,967,297</u>	<u>156,408,333</u>
Other Liabilities	10,559,491	8,332,841	1,091,742	1,466,485	11,651,233	9,799,326
Long Term Liabilities	85,094,718	86,553,606	4,724,912	4,361,758	89,819,630	90,915,364
Total Liabilities	<u>95,654,209</u>	<u>94,886,447</u>	<u>5,816,654</u>	<u>5,828,243</u>	<u>101,470,863</u>	<u>100,714,690</u>
Net Position:						
Invested in Capital Assets						
Net of Related Debt	39,652,346	51,828,235	10,065,330	10,128,934	49,717,676	61,957,169
Restricted	9,922,971	5,423,375	-	-	9,922,971	5,423,375
Unrestricted	(6,090,664)	(11,887,198)	(53,549)	200,297	(6,144,213)	(11,686,901)
Total Net Position	<u>\$ 43,484,653</u>	<u>\$ 45,364,412</u>	<u>\$ 10,011,781</u>	<u>\$ 10,329,231</u>	<u>\$ 53,496,434</u>	<u>\$ 55,693,643</u>

The Net Position of the Town increased by \$2,197,209. The Net Position of the governmental activities increased by \$1,879,759 and the Net Position of the business-type activities increased by \$317,450.

Changes in Net Position

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 4,090,391	\$ 4,387,018	\$ 5,771,232	\$ 5,546,846	\$ 9,861,623	\$ 9,933,864
Operating Grants and Contributions	14,192,233	13,845,669	17,927	12,774	14,210,160	13,858,443
Capital Grants and Contributions	422,672	4,619,760	-	-	422,672	4,619,760
General Revenues:						
Property Taxes	35,964,682	40,138,512	-	-	35,964,682	40,138,512
Motor Vehicle and Other Excises	2,389,506	2,519,475	-	-	2,389,506	2,519,475
Intergovernmental Not Restricted to a Specific Program	1,570,956	1,538,555	-	-	1,570,956	1,538,555
Other	567,894	746,501	-	-	567,894	746,501
Total Revenues	<u>59,198,334</u>	<u>67,795,490</u>	<u>5,789,159</u>	<u>5,559,620</u>	<u>64,987,493</u>	<u>73,355,110</u>
Expenses						
General Government	2,580,223	2,218,556	-	-	2,580,223	2,218,556
Public Safety	6,387,279	6,790,245	-	-	6,387,279	6,790,245
Education	34,211,361	34,408,899	-	-	34,211,361	34,408,899
Highways and Public Works	4,351,141	4,339,810	-	-	4,351,141	4,339,810
Human Services	601,451	679,087	-	-	601,451	679,087
Culture and Recreation	774,356	768,697	-	-	774,356	768,697
Fringe Benefits and Insurance	10,159,179	13,993,839	-	-	10,159,179	13,993,839
Interest on Debt Service	1,129,524	2,933,150	-	-	1,129,524	2,933,150
Water	-	-	2,940,605	3,076,648	2,940,605	3,076,648
Hillview	-	-	1,170,855	1,200,379	1,170,855	1,200,379
Recreation	-	-	516,967	620,177	516,967	620,177
Total Expenses	<u>60,194,514</u>	<u>66,132,283</u>	<u>4,628,427</u>	<u>4,897,204</u>	<u>64,822,941</u>	<u>71,029,487</u>
Increase (Decrease) in Net Position Before Special Items and Transfers:	<u>(996,180)</u>	<u>1,663,207</u>	<u>1,160,732</u>	<u>662,416</u>	<u>164,552</u>	<u>2,325,623</u>
Special Items	4,953,849	1,698	-	24,000	4,953,849	25,698
Transfers	<u>201,741</u>	<u>214,854</u>	<u>(225,741)</u>	<u>(368,966)</u>	<u>(24,000)</u>	<u>(154,112)</u>
Increase (Decrease) in Net Position	<u>\$ 4,159,410</u>	<u>\$ 1,879,759</u>	<u>\$ 934,991</u>	<u>\$ 317,450</u>	<u>\$ 5,094,401</u>	<u>\$ 2,197,209</u>

Governmental Activities

In fiscal year 2013, property taxes accounted for approximately 59% of the revenues. During fiscal year 2012, property taxes accounted for 61% of the revenues. During fiscal year 2011 property taxes accounted for 57% 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 \$159,364 in 2013. It had a gain of \$367,351 in 2012. The Golf enterprise fund had a gain of \$281,387 in 2013. It had a gain of \$448,154 in fiscal year 2012. The Recreation had a loss of \$123,301 in 2013. It had a gain of \$119,486 in 2012.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – The year-end fund balances of the general fund were \$263,760 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>
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
2013	1,911,289	443,588	3,563,554	5,918,431

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>
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
2013	1,192,510

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 position of the Water Enterprise Fund at year end was \$1,286,439. Unrestricted net position of the Hillview Enterprise Fund at the end of the year was a deficit of \$1,030,415. The deficit is the result of the debt for the turf field being carried in the Hillview Fund while the asset is carried in the governmental activities. The balance in the unrestricted net position, of the Recreation Enterprise Fund was a deficit of \$55,727. The deficit is a result of the Other Post Employment Benefit (OPEB) liability.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget relate to special town meetings and reserve fund transfers.

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, 2013, amounts to \$92,940,901 (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:

- Backhoe (\$132,171)
- Trucks (\$141,328)
- Little School Retaining Wall (\$100,000)
- Middle and High School (\$16,732,928)
- Storm Water Infiltration (\$139,091)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Assets not Being Depreciated	\$ 21,975,869	\$ 38,329,297	\$ 3,493,523	\$ 3,473,860	\$ 25,469,392	\$ 41,803,157
Assets Being Depreciated:						
Buildings	33,147,622	32,166,780	989,807	919,671	34,137,429	33,086,451
Improvements Other Than Buildings	2,865,554	2,988,163	783,493	775,403	3,649,047	3,763,566
Infrastructure	3,818,942	3,711,523	7,532,404	7,270,745	11,351,346	10,982,268
Equipment	1,600,986	1,473,220	301,360	452,597	1,902,346	1,925,817
Vehicles	1,409,319	1,247,681	85,220	131,961	1,494,539	1,379,642
Total	<u>\$ 64,818,292</u>	<u>\$ 79,916,664</u>	<u>\$ 13,185,807</u>	<u>\$ 13,024,237</u>	<u>\$ 78,004,099</u>	<u>\$ 92,940,901</u>

Debt

The Town had \$77,194,805 in bonds, outstanding on June 30, 2013.

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

	Outstanding Debt at June 30,	
	<u>2012</u>	<u>2013</u>
Governmental Activities		
General Obligation Bonds Payable	\$ 77,097,992	\$ 72,718,805
Business-type Activities		
General Obligation Bonds Payable	<u>5,195,848</u>	<u>4,476,000</u>
Total Debt	<u><u>\$ 82,293,840</u></u>	<u><u>\$ 77,194,805</u></u>

Fiscal Year 2014 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 2014 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 2014 departmental budgets.

Town of North Reading, Massachusetts
Statement of Net Position
June 30, 2013
(Continued on Page 11)

	<u>Governmental</u> <u>Activities</u>	<u>Business - Type</u> <u>Activities</u>	<u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 55,443,693	\$ 2,710,181	\$ 58,153,874
Petty Cash	585	-	585
Accounts Receivable:			
Property Taxes	490,602	-	490,602
Tax Liens	540,125	57,083	597,208
Excises	273,671	-	273,671
User Charges	314,539	353,063	667,602
Liens	10,277	12,910	23,187
Intergovernmental	801,751	-	801,751
Noncurrent:			
Accounts Receivable:			
Intergovernmental	2,433,930	-	2,433,930
Deferred Special Assessments	25,022	-	25,022
Capital Assets:			
Assets Not Being Depreciated	38,329,297	3,473,860	41,803,157
Assets Being Depreciated, Net	41,587,367	9,550,377	51,137,744
Total Assets	<u>140,250,859</u>	<u>16,157,474</u>	<u>156,408,333</u>
Liabilities			
Current:			
Warrants Payable	419,036	82,979	502,015
Accounts Payable	-	122,000	122,000
Accrued Salaries Payable	2,749,291	16,199	2,765,490
Employees' Withholding Payable	403,806	-	403,806
Due to Other Governments	4,493	-	4,493
Unclaimed Checks	41,563	-	41,563
Guarantee Deposits	-	29,748	29,748
Accrued Interest Payable	239,911	30,320	270,231
Other Liabilities	313,625	-	313,625
Bonds Payable	3,903,826	604,000	4,507,826
Bond Anticipation Notes Payable	257,290	581,239	838,529
Noncurrent:			
Bonds Payable	68,814,979	3,872,000	72,686,979
Other Post Employment Benefit Obligations	13,742,698	350,851	14,093,549
Due to Other Governments	32,910	-	32,910
Compensated Absences	3,963,019	138,907	4,101,926
Total Liabilities	<u>94,886,447</u>	<u>5,828,243</u>	<u>100,714,690</u>

Town of North Reading, Massachusetts
Statement of Net Position
June 30, 2013
(Continued from Page 10)

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	51,828,235	10,128,934	61,957,169
Restricted for:			
Capital Projects	374,796	-	374,796
Special Revenue	4,151,423	-	4,151,423
Perpetual Funds:			
Expendable	204,914	-	204,914
Nonexpendable	692,242	-	692,242
Unrestricted	<u>(11,887,198)</u>	<u>200,297</u>	<u>(11,686,901)</u>
Total Net Position	<u>\$ 45,364,412</u>	<u>\$ 10,329,231</u>	<u>\$ 55,693,643</u>

Town of North Reading, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2013

		Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
Functions/Programs	Expenses	Charges for	Operating	Capital	Governmental	Business -	Total	
		Services	Grants and	Grants and		Type		
		<u>Services</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Activities</u>	<u>Activities</u>		
Primary Government:								
Governmental Activities:								
General Government	\$ 2,218,556	\$ 527,162	\$ 135,518	\$ -	\$ (1,555,876)	\$ -	\$ (1,555,876)	
Public Safety	6,790,245	1,099,745	109,615	-	(5,580,885)	-	(5,580,885)	
Education	34,408,899	1,637,919	12,772,563	4,619,760	(15,378,657)	-	(15,378,657)	
Highways and Public Works	4,339,810	1,064,488	657,773	-	(2,617,549)	-	(2,617,549)	
Human Services	679,087	55,320	120,574	-	(503,193)	-	(503,193)	
Culture and Recreation	768,697	2,384	49,626	-	(716,687)	-	(716,687)	
Fringe Benefits and Insurance	13,993,839	-	-	-	(13,993,839)	-	(13,993,839)	
Interest on Debt Service	2,933,150	-	-	-	(2,933,150)	-	(2,933,150)	
Total Governmental Activities	66,132,283	4,387,018	13,845,669	4,619,760	(43,279,836)	-	(43,279,836)	
Business-Type Activities:								
Hillview	1,200,379	1,609,957	124	-	-	409,702	409,702	
Recreation	620,177	358,928	-	-	-	(261,249)	(261,249)	
Water Services	3,076,648	3,577,961	12,650	-	-	513,963	513,963	
Total Business-Type Activities	4,897,204	5,546,846	12,774	-	-	662,416	662,416	
Total Primary Government	\$ 71,029,487	\$ 9,933,864	\$ 13,858,443	\$ 4,619,760	(43,279,836)	662,416	(42,617,420)	
Property Taxes					40,138,512	-	40,138,512	
Motor Vehicle and Other Excise Taxes					2,519,475	-	2,519,475	
Penalties and Interest on Taxes					287,249	-	287,249	
Other Taxes, Assessments and in Lieu of Payments					273,337	-	273,337	
Intergovernmental					1,538,555	-	1,538,555	
Interest and Investment Income					157,625	-	157,625	
Other Revenue					21,789	-	21,789	
Contributions to Permanent Funds					6,501	-	6,501	
Net Gain (Loss) on Sale of Assets					1,698	24,000	25,698	
Transfers, Net					214,854	(368,966)	(154,112)	
Total General Revenues and Transfers					45,159,595	(344,966)	44,814,629	
Change in Net Assets					1,879,759	317,450	2,197,209	
Net Position:								
Beginning of the Year					43,484,653	10,011,781	53,496,434	
End of the Year					\$ 45,364,412	\$ 10,329,231	\$ 55,693,643	

Town of North Reading, Massachusetts

Balance Sheet

Governmental Funds

June 30, 2013

	<u>General</u>	<u>School Building Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash/Investments	\$ 9,253,200	\$ 40,683,446	\$ 5,507,047	\$ 55,443,693
Petty Cash	585	-	-	585
Receivables:				
Property Taxes	490,602	-	-	490,602
Tax Liens	540,125	-	-	540,125
Excises	273,671	-	-	273,671
User Charges	83,640	-	230,899	314,539
Other Liens	10,277	-	-	10,277
Intergovernmental	2,677,323	-	558,358	3,235,681
Special Assessments	-	-	25,022	25,022
Tax Foreclosures	399,019	-	-	399,019
Total Assets	<u>\$ 13,728,442</u>	<u>\$ 40,683,446</u>	<u>\$ 6,321,326</u>	<u>\$ 60,733,214</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Warrants Payable	\$ 299,415	\$ 5,994	\$ 113,627	\$ 419,036
Accrued Salaries Payable	2,749,178	-	113	2,749,291
Employees' Withholding Payable	403,806	-	-	403,806
Due to Other Governments	4,493	-	-	4,493
Unclaimed Checks	9,063	-	32,500	41,563
Other Liabilities	-	-	313,625	313,625
Bonds Anticipation Notes Payable	-	-	257,290	257,290
Unearned Revenue:				
Property Taxes	455,576	-	-	455,576
Taxes and User Charges Paid in Advance	122,081	-	-	122,081
Liens	550,402	-	-	550,402
Excises	56,015	-	-	56,015
Special Assessments	-	-	25,022	25,022
Tax Foreclosures	399,019	-	-	399,019
User Charges	83,640	-	230,899	314,539
Intergovernmental	2,677,323	-	432,461	3,109,784
Total Liabilities	<u>7,810,011</u>	<u>5,994</u>	<u>1,405,537</u>	<u>9,221,542</u>
Fund Equity:				
Fund Balances:				
Nonspendable	-	-	692,242	692,242
Restricted	-	40,677,452	3,529,756	44,207,208
Committed	1,911,289	-	155,098	2,066,387
Assigned	443,588	-	548,410	991,998
Unassigned	3,563,554	-	(9,717)	3,553,837
Total Fund Balances	<u>5,918,431</u>	<u>40,677,452</u>	<u>4,915,789</u>	<u>51,511,672</u>
Total Liabilities and Fund Balances	<u>\$ 13,728,442</u>	<u>\$ 40,683,446</u>	<u>\$ 6,321,326</u>	<u>\$ 60,733,214</u>

Town of North Reading, Massachusetts
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2013

	<u>General</u>	<u>School Building Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 39,987,564	\$ -	\$ -	\$ 39,987,564
Tax Liens	413,325	-	-	413,325
Excises	2,497,111	-	-	2,497,111
Penalties and Interest	287,249	-	-	287,249
Licenses and Permits	432,813	-	-	432,813
Fees and Other Departmental	218,332	-	-	218,332
Intergovernmental	13,540,350	4,619,760	1,681,894	19,842,004
Charges for Services	953,762	-	2,627,777	3,581,539
Fines and Forfeits	7,946	-	-	7,946
Earnings on Investments	157,625	-	12,669	170,294
In Lieu of Taxes	273,337	-	-	273,337
Contributions	-	-	128,345	128,345
Miscellaneous	28,101	-	27,913	56,014
Total Revenues	<u>58,797,515</u>	<u>4,619,760</u>	<u>4,478,598</u>	<u>67,895,873</u>
<u>Expenditures:</u>				
General Government	1,911,157	-	230,597	2,141,754
Public Safety	6,120,326	-	172,511	6,292,837
Education	30,568,947	16,576,377	3,056,728	50,202,052
Intergovernmental	192,416	-	-	192,416
Highways and Public Works	3,754,815	-	402,900	4,157,715
Human Services	635,296	-	25,092	660,388
Culture and Recreation	496,062	-	61,605	557,667
Employee Benefits and Insurance	8,728,264	-	-	8,728,264
Debt Service	7,347,987	-	-	7,347,987
Total Expenditures	<u>59,755,270</u>	<u>16,576,377</u>	<u>3,949,433</u>	<u>80,281,080</u>
Excess of Revenues Over (Under) Expenditures	<u>(957,755)</u>	<u>(11,956,617)</u>	<u>529,165</u>	<u>(12,385,207)</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	2,955,068	4,692,048	510,908	8,158,024
Operating Transfers (Out)	(1,733,553)	-	(6,209,617)	(7,943,170)
Total Other Financing Sources (Uses)	<u>1,221,515</u>	<u>4,692,048</u>	<u>(5,698,709)</u>	<u>214,854</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>263,760</u>	<u>(7,264,569)</u>	<u>(5,169,544)</u>	<u>(12,170,353)</u>
Fund Balance, Beginning	5,654,671	47,942,021	10,085,333	63,682,025
Fund Balance, Ending	<u>\$ 5,918,431</u>	<u>\$ 40,677,452</u>	<u>\$ 4,915,789</u>	<u>\$ 51,511,672</u>

Town of North Reading, Massachusetts
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position
Fiscal Year Ended June 30, 2013

Total Governmental Fund Balances	\$ 51,511,672
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	79,916,664
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	4,633,419
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(72,718,805)
Other Post Employment Benefit Obligations	(13,742,698)
Due to Other Governments	(32,910)
Accrued Interest on Bonds	(239,911)
Compensated Absences	<u>(3,963,019)</u>
Net Assets of Governmental Activities	<u><u>\$ 45,364,412</u></u>

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, 2013

Net change in fund balances - total governmental funds	\$ (12,170,353)
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 in the current period.	15,096,674
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.	1,698
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.	(100,383)
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.	4,379,187
In the statement of activities, interest on outstanding long-term debt is accrued, whereas in governmental funds, interest is not reported until due. This amount represents the change from the prior year's accrual.	35,650
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.	(5,362,714)
Change in net assets of governmental activities	<u><u>\$ 1,879,759</u></u>

Town of North Reading, Massachusetts
Statement of Net Position
Proprietary Funds
June 30, 2013

	<u>Business-Type Activities</u> <u>Enterprise Funds</u>			
	<u>Water</u>	<u>Hillview</u>	<u>Recreation</u>	<u>Total</u>
Assets				
Current:				
Cash and Cash Investments	\$ 1,464,205	\$ 1,123,039	\$ 122,937	\$ 2,710,181
Receivables, Net of Allowance for Uncollectibles:				
User Charges	353,063	-	-	353,063
Tax Liens	57,083	-	-	57,083
Liens	12,910	-	-	12,910
Noncurrent:				
Accounts Receivable:				
Assets Not Being Depreciated	25,910	2,970,574	-	2,996,484
Assets Being Depreciated, Net	8,120,261	1,666,075	241,417	10,027,753
Total Assets	<u>10,033,432</u>	<u>5,759,688</u>	<u>364,354</u>	<u>16,157,474</u>
Liabilities				
Current:				
Warrants Payable	38,661	39,293	5,025	82,979
Accounts Payable	122,000	-	-	122,000
Accrued Wages Payable	7,376	249	8,574	16,199
Guarantee Deposits	-	29,748	-	29,748
Accrued Interest Payable	8,738	21,582	-	30,320
Bond Anticipation Notes Payable	181,239	400,000	-	581,239
Bonds Payable	309,000	295,000	-	604,000
Noncurrent:				
Bonds Payable	1,502,000	2,370,000	-	3,872,000
Other Post Employment Benefits Payable	193,095	14,887	142,869	350,851
Compensated Absences	110,870	5,841	22,196	138,907
Total Liabilities	<u>2,472,979</u>	<u>3,176,600</u>	<u>178,664</u>	<u>5,828,243</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	6,274,014	3,613,503	241,417	10,128,934
Unrestricted	1,286,439	(1,030,415)	(55,727)	200,297
Total Net Assets	<u><u>\$ 7,560,453</u></u>	<u><u>\$ 2,583,088</u></u>	<u><u>\$ 185,690</u></u>	<u><u>\$ 10,329,231</u></u>

Town of North Reading, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2013

	Business-Type Activities Enterprise Funds			
	<u>Water</u>	<u>Hillview</u>	<u>Recreation</u>	<u>Total</u>
Operating Revenues:				
Charges for Services	\$ 3,553,129	\$ 1,535,578	\$ 358,928	\$ 5,447,635
Departmental	-	56,750	-	56,750
Miscellaneous	24,832	17,629	-	42,461
Total Operating Revenues	<u>3,577,961</u>	<u>1,609,957</u>	<u>358,928</u>	<u>5,546,846</u>
Operating Expenditures:				
Personal Services	723,679	26,754	354,124	1,104,557
Nonpersonal Services	1,967,373	925,499	251,358	3,144,230
Depreciation	322,079	166,771	14,695	503,545
Total Operating Expenditures	<u>3,013,131</u>	<u>1,119,024</u>	<u>620,177</u>	<u>4,752,332</u>
Operating Income	<u>564,830</u>	<u>490,933</u>	<u>(261,249)</u>	<u>794,514</u>
Nonoperating Revenues (Expenses):				
Intergovernmental	12,085	-	-	12,085
Earnings on Investments	565	124	-	689
Net Gain (Loss) on Sale of Assets	24,000	-	-	24,000
Interest on Debt	(63,517)	(81,355)	-	(144,872)
Total Nonoperating Revenues (Expenses)	<u>(26,867)</u>	<u>(81,231)</u>	<u>-</u>	<u>(108,098)</u>
Income Before Operating Transfers	<u>537,963</u>	<u>409,702</u>	<u>(261,249)</u>	<u>686,416</u>
Operating Transfers In	-	-	151,525	151,525
Operating Transfers Out	(378,599)	(128,315)	(13,577)	(520,491)
Total Transfers	<u>(378,599)</u>	<u>(128,315)</u>	<u>137,948</u>	<u>(368,966)</u>
Change in Net Assets	<u>159,364</u>	<u>281,387</u>	<u>(123,301)</u>	<u>317,450</u>
Net Position, July 1, 2012	<u>7,401,089</u>	<u>2,301,701</u>	<u>308,991</u>	<u>10,011,781</u>
Net Position June 30, 2013	<u>\$ 7,560,453</u>	<u>\$ 2,583,088</u>	<u>\$ 185,690</u>	<u>\$ 10,329,231</u>

Town of North Reading, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2013

	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	\$ 3,576,111	\$ 1,609,957	\$ 358,928	\$ 5,544,996
Payments to Employees	(718,708)	(26,737)	(353,364)	(1,098,809)
Payments to Vendors	(2,034,721)	(1,054,469)	(115,178)	(3,204,368)
Net Cash Flows Provided (Used) by Operating Activities	<u>822,682</u>	<u>528,751</u>	<u>(109,614)</u>	<u>1,241,819</u>
Cash Flows from Non Capital Related Financing Activities:				
Transfers from (to) Other Funds (Net)	(378,599)	(128,315)	137,948	(368,966)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(378,599)</u>	<u>(128,315)</u>	<u>137,948</u>	<u>(368,966)</u>
Cash Flows from Capital and Related Financing Activities:				
Payments on Bond Anticipation Notes	-	(100,000)	-	(100,000)
Proceeds from Bond Anticipation Notes	181,239	400,000	-	581,239
Principal Payments on Bonds	(383,903)	(330,000)	-	(713,903)
Interest Payments	(67,988)	(84,131)	-	(152,119)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(270,652)</u>	<u>(114,131)</u>	<u>-</u>	<u>(384,783)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	565	124	-	689
Net Cash Flows Provided (Used) by Investing Activities	<u>565</u>	<u>124</u>	<u>-</u>	<u>689</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>173,996</u>	<u>286,429</u>	<u>28,334</u>	<u>488,759</u>
Cash and Cash Equivalents, July 1, 2012	1,290,209	836,610	94,603	2,221,422
Cash and Cash Equivalents, June 30, 2013	<u>\$ 1,464,205</u>	<u>\$ 1,123,039</u>	<u>\$ 122,937</u>	<u>\$ 2,710,181</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 564,830	\$ 490,933	\$ (261,249)	\$ 794,514
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	322,079	166,771	14,695	503,545
Assets Acquired	(195,274)	(122,701)	-	(317,975)
(Increase) Decrease in Accounts Receivable	(1,850)	-	-	(1,850)
Increase (Decrease) in Wages Payables	(281)	17	(894)	(1,158)
Increase (Decrease) in Compensated Absences	5,252	-	1,654	6,906
Increase (Decrease) in Other Payables	127,926	(6,269)	136,180	257,837
Net Cash Provided by Operating Activities	<u>\$ 822,682</u>	<u>\$ 528,751</u>	<u>\$ (109,614)</u>	<u>\$ 1,241,819</u>

Town of North Reading, Massachusetts
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2013

	Private-Purpose <u>Trust</u>
Assets	
Cash and Cash Investments	\$ 414,320
	<hr/>
Total Assets	414,320
	<hr/>
Liabilities	-
	<hr/>
Total Liabilities	-
	<hr/>
Net Assets	
Held in Trust	414,320
	<hr/>
Total Net Assets	\$ 414,320
	<hr/> <hr/>

Town of North Reading, Massachusetts
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Fiscal Year Ended June 30, 2013

Additions:

Interest, Dividends, and Other	<u>(\$1,073)</u>
Total Additions	<u>(1,073)</u>

Deductions:

Scholarships Awarded	<u>7,025</u>
Operating Transfers In	<u>113,000</u>
Total Transfers	<u>113,000</u>
Change in Net Assets	<u>104,902</u>

Net Assets:

Beginning of the Year	<u>309,418</u>
Prior Period Adjustment	<u>-</u>
Fund Balance, Beginning as Restated	<u>309,418</u>
End of the Year	<u><u>\$414,320</u></u>

Town of North Reading, Massachusetts
Notes to the Financial Statements
June 30, 2013

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, 2013, 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 Position** 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 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 Position 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 Position 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 does 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. Only the general fund can have a positive unassigned fund balance.

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>
Fund Balances:				
Nonspendable:				
Education	\$ -	\$ -	\$ 10,000	\$ 10,000
Highways and Public Works	-	-	656,873	656,873
Culture and Recreation	-	-	25,369	25,369
Total Nonspendable:	<u>-</u>	<u>-</u>	<u>692,242</u>	<u>692,242</u>

	<u>General Fund</u>	<u>School Building Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
Restricted:				
General Government	-	-	548,271	548,271
Public Safety	-	-	659,026	659,026
Education	-	40,677,452	1,235,793	41,913,245
Highways and Public Works	-	-	778,658	778,658
Human Services	-	-	138,415	138,415
Culture and Recreation	-	-	161,571	161,571
Debt Services	-	-	8,022	8,022
Total Restricted:	<u>-</u>	<u>40,677,452</u>	<u>3,529,756</u>	<u>44,207,208</u>
Committed to:				
General Government	562,912	-	32,467	595,379
Public Safety	129,635	-	14,960	144,595
Education	28,605	-	42,930	71,535
Highways and Public Works	374,113	-	36,117	410,230
Human Services	-	-	4,411	4,411
Culture and Recreation	3,385	-	24,213	27,598
Employee Benefits	-	-	-	-
Debt Services	812,639	-	-	812,639
Total Committed:	<u>1,911,289</u>	<u>-</u>	<u>155,098</u>	<u>2,066,387</u>
Assigned to:				
General Government	82,598	-	548,410	631,008
Public Safety	32,065	-	-	32,065
Education	119,627	-	-	119,627
Highways and Public Works	184,097	-	-	184,097
Human Services	10,292	-	-	10,292
Culture and Recreation	91	-	-	91
Employee Benefits	14,818	-	-	14,818
Total Assigned:	<u>443,588</u>	<u>-</u>	<u>548,410</u>	<u>991,998</u>
Unassigned	<u>3,563,554</u>	<u>-</u>	<u>(9,717)</u>	<u>3,553,837</u>
Total Fund Balances	<u>\$ 5,918,431</u>	<u>\$ 40,677,452</u>	<u>\$ 4,915,789</u>	<u>\$ 51,511,672</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 \$1,918,488. 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 (\$83,355) and the capital improvement stabilization fund (\$812,639) 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, 2013 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 year 2013 adjusted for any fiscal year 2013 special Town meeting votes 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, 2013.

	<u>Revenues</u>
As Reported Budget Basis	\$ 53,969,835
Adjustments:	
Sixty Day Revenue Accrual - Net	37,291
Stabilization Fund Interest Not Reported Budget Basis	10,406
In Lieu of Tax from Golf Reclassified as a Transfer	(128,315)
On Behalf Payments Included in Intergovernmental	4,908,298
As Reported GAAP Statement	<u>\$ 58,797,515</u>
	<u><u>Expenditures</u></u>
As Reported Budget Basis	\$ 55,778,386
Adjustments:	
July 1, 2012 Encumbrances	527,469
June 30, 2013 Encumbrances	(1,458,883)
On Behalf Payments Included in Employee Benefits	4,908,298
As Reported GAAP Statement	<u>\$ 59,755,270</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, 2013, \$2,839,338 of the Town's bank balance of \$58,134,756 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 2,839,338

Investments

As of June 30, 2013, 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>
<u>Debt Related Securities</u>				
U. S. Government Obligations	\$ 137,555	\$ -	\$ 137,555	\$ -
Corporate Bonds	150,872	-	150,872	-
Total	\$ 288,427	\$ -	\$ 288,427	\$ -

Other Investments:

Money Market Funds	163,612
Mutual Funds	167,475
Mass. Municipal Depository Trust	<u>533,511</u>
Total Other Investments	<u>864,598</u>
 Total Investments	 <u>\$ 1,153,025</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, 2013 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	2,879,961	16,732,928	(379,500)	19,233,389
Total Capital Assets Not Being Depreciated	<u>21,975,869</u>	<u>16,732,928</u>	<u>(379,500)</u>	<u>38,329,297</u>
Assets Being Depreciated:				
Buildings	55,894,051	279,060	-	56,173,111
Improvements Other Than Buildings	3,820,314	328,445	-	4,148,759
Infrastructure	14,918,461	140,440	-	15,058,901
Equipment	3,124,493	123,690	(93,179)	3,155,004
Vehicles	4,263,019	174,987	(209,534)	4,228,472
Total Capital Assets Being Depreciated	<u>82,020,338</u>	<u>1,046,622</u>	<u>(302,713)</u>	<u>82,764,247</u>
Less Accumulated Depreciation for:				
Buildings	(22,746,429)	(1,259,902)	-	(24,006,331)
Improvements Other Than Buildings	(954,761)	(205,835)	-	(1,160,596)
Infrastructure	(11,099,518)	(247,860)	-	(11,347,378)
Equipment	(1,523,507)	(246,385)	88,108	(1,681,784)
Vehicles	(2,853,700)	(332,844)	205,753	(2,980,791)
Total Accumulated Depreciation	<u>(39,177,915)</u>	<u>(2,292,826)</u>	<u>293,861</u>	<u>(41,176,880)</u>
Capital Assets Being Depreciated, Net	<u>42,842,423</u>	<u>(1,246,204)</u>	<u>(8,852)</u>	<u>41,587,367</u>
Governmental Activities Capital Assets, Net	<u>\$ 64,818,292</u>	<u>\$ 15,486,724</u>	<u>\$ (388,352)</u>	<u>\$ 79,916,664</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General government	\$ 64,390
Public safety	564,171
Education	992,475
Highways and Public works	440,586
Human Services	8,799
Culture and Recreation	222,405
Total Governmental Activities Depreciation Expense	<u>\$ 2,292,826</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-Type Activities:				
Assets Not Being Depreciated				
Land	\$ 3,447,950	\$ -	\$ -	\$ 3,447,950
Work in Process	45,574	-	(19,664)	25,910
Total Capital Assets Being Depreciated	<u>3,493,524</u>	<u>-</u>	<u>(19,664)</u>	<u>3,473,860</u>
Assets Being Depreciated:				
Buildings	2,233,676	-	-	2,233,676
Improvements Other Than Buildings	1,838,042	63,922	-	1,901,964
Infrastructure	15,054,731	19,664	-	15,074,395
Equipment	819,520	206,725	(41,384)	984,861
Vehicles	308,855	71,328	(26,310)	353,873
Total Capital Assets Being Depreciated	<u>20,254,824</u>	<u>361,639</u>	<u>(67,694)</u>	<u>20,548,769</u>

B. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Less Accumulated Depreciation for:				
Buildings	(1,243,867)	(70,138)	-	(1,314,005)
Improvements Other Than Buildings	(1,054,550)	(72,011)	-	(1,126,561)
Infrastructure	(7,522,327)	(281,323)	-	(7,803,650)
Equipment	(518,162)	(55,486)	41,384	(532,264)
Vehicles	(223,635)	(24,587)	26,310	(221,912)
Total Accumulated Depreciation	<u>(10,562,541)</u>	<u>(503,545)</u>	<u>67,694</u>	<u>(10,998,392)</u>
Capital Assets Being Depreciated, Net	<u>9,692,283</u>	<u>(141,906)</u>	<u>-</u>	<u>9,550,377</u>
Business Type Activities Capital Assets, Net	<u>\$ 13,185,807</u>	<u>\$ (141,906)</u>	<u>\$ (19,664)</u>	<u>\$ 13,024,237</u>

Depreciation expense was charged to the enterprise funds as follows:

Business-Type Activities:	
Water	\$ 322,079
Hillview Golf	166,771
Recreation	14,695
Total Business-Type Activities Depreciation Expense	<u>\$ 503,545</u>

C. Accounts Receivable

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

Governmental Activities

Property Taxes Receivable:

Real Estate Taxes	
2013	\$ 448,068
2012	(11,785)
2011	977
2010	(318)
2009	303
2008	118
2002	147
2001	3,300
2000	<u>349</u>
Total Real Estate Taxes	<u>441,159</u>

C. Accounts Receivable (Continued)

Personal Property Taxes

2013	8,074
2012	7,445
2011	6,500
2010	7,613
2009	6,222
2008	6,466
2007	3,943
2006	<u>3,180</u>

Total Personal Property Taxes	<u>49,443</u>
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Total Property Taxes Receivable	<u>\$ 490,602</u>
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Tax Liens	<u>\$ 540,125</u>
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Excise Taxes Receivable:

Motor Vehicle Excise Tax

2013	\$ 204,528
2012	20,330
2011	10,609
2010	7,163
2009	7,298
2008	6,952
2007	8,743
2006	7,632
2004	<u>416</u>

Total Motor Vehicle Excise Tax	<u>\$ 273,671</u>
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Tax Excise Receivable

User Charges:

Trash Fees

2013	\$ 86,137
2012	(2,692)
2010	(8)
2009	180
2008	<u>23</u>

Total Trash Fees	<u>83,640</u>
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C. Accounts Receivable (Continued)

Ambulance		230,899	
Total User Charges			\$ 314,539
Light Liens			
2013	\$ 3,069		
2009	(551)		
2002	751		
2001	1,343		
2000	906		
Total Light Liens:		5,518	
Trash Liens			
2013	2,249		
2011	(295)		
2010	(253)		
2009	308		
Total Trash Liens:		2,009	
Other Liens		2,750	
Total Liens			\$ 10,277
<u>Intergovernmental:</u>			
Current:			
Due from Commonwealth of Massachusetts:			
Highways and Other Public Works Grants	\$ 456,586		
Various Federal Grants	101,772		
School Building Assistance Bureau Grant	243,393		
Total Current		801,751	
Noncurrent:			
School Building Assistance Bureau Grant		2,433,930	
Total Intergovernmental			\$ 3,235,681
Special Assessments:			
Septic Betterments			\$ 25,022

C. Accounts Receivable (Continued)

Business Type Activities

Current:

User Charges:

Water	\$ 353,063
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Water Liens:

2013	\$ 11,713
2012	669
2011	(138)
2010	588
2009	(60)
2002	138

Total Water Liens	\$ 12,910
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Water Tax Liens	\$ 57,083
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D. Debt

i Short Term Debt

Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2013 as follows:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>	<u>Maturity Date</u>
Departmental Equipment	\$ 240,000	\$ -	\$ (240,000)	\$ -	
School Technology	163,000	-	(163,000)	-	
School Boiler	250,000	-	(250,000)	-	
Ambulance Replacement	250,000	-	(250,000)	-	
Storm Water Infiltration	138,000	-	(138,000)	-	
Culvert Installation	270,000	-	(270,000)	-	
School Feasibility	1,000,000	-	(1,000,000)	-	
MUNIS Software	-	257,290	-	257,290	5/30/2014
Total Governmental Activities	<u>\$ 2,311,000</u>	<u>\$ 257,290</u>	<u>\$ (2,311,000)</u>	<u>\$ 257,290</u>	

D. Debt (Continued)

	Balance Beginning of Year	Issued	Redeemed	Balance End of Year	Maturity Date
<u>Business-type Activities:</u>					
<u>Water Fund</u>					
Departmental Vehicle Replacement	\$ -	\$ 71,239	\$ -	\$ 71,239	5/30/2014
Water Department Backhoe	-	110,000	-	110,000	5/30/2014
Total Water	-	181,239	-	181,239	
<u>Hillview Golf Fund</u>					
Hillview Function Facility Improvements	\$ -	\$ 300,000	\$ -	\$ 300,000	5/30/2014
Seventh Fairway Improvements	-	50,000	-	50,000	5/30/2014
Seventh Fairway Improvements	-	50,000	-	50,000	5/30/2014
Hillview Capital	100,000	-	(100,000)	-	
Total Hillview Golf	100,000	400,000	(100,000)	400,000	
Total Business--Type Activities	<u>\$ 100,000</u>	<u>\$ 581,239</u>	<u>\$ (100,000)</u>	<u>\$ 581,239</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 Activities	Business-type Activities	Total
Balance 7/01/11	\$ 77,097,992	\$ 5,195,848	\$ 82,293,840
Add: New Issues	-	-	-
Less: Maturities	(4,379,187)	(719,848)	(5,099,035)
Balance 6/30/12	<u>\$ 72,718,805</u>	<u>\$ 4,476,000</u>	<u>\$ 77,194,805</u>

- (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>
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	3,465,868	2,502,575	380,000	63,908
2019 - 2023	17,240,868	10,424,126	1,455,000	172,981
2024 - 2028	13,330,000	6,976,831	340,000	12,515
2029 - 2033	12,245,000	4,549,366	5,000	109
2034 - 2037	<u>12,030,000</u>	<u>1,317,300</u>	<u>0</u>	<u>0</u>
	<u>\$72,718,805</u>	<u>\$37,007,028</u>	<u>\$4,476,000</u>	<u>\$676,529</u>

D. Debt

(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>	
	General	
	<u>Government</u>	<u>Enterprise</u>
2014	\$8,122	\$10,762
2015	7,339	10,017
2016	6,536	9,437
2017	5,667	8,343
2018	4,859	9,166
2018 - 2022	16,483	0
2023 - 2027	<u>3,991</u>	<u>0</u>
Total Subsidies	<u>\$52,997</u>	<u>\$47,725</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>
March 19, 2012 & March 24, 2012	School Construction Project	\$57,305,328
October 1, 2012	Class A Fire Pumper Truck	485,000
October 1, 2012	Water Department Vehicles	10,761
March 18, 2013 & March 22, 2013	School Construction Project	15,500,000
June 3, 2013	Water (DEIR)	205,000
June 3, 2013	Water Interconnection Design	200,000
June 3, 2013	Water System Upgrade	100,000
June 3, 2013	Road	63,000
June 3, 2013	School Utility Rack Truck	61,000
June 3, 2013	Departmental Equipment (Truck #31)	58,000
June 3, 2013	School Asbestos Abatement	50,000
June 3, 2013	Golf Course Improvement (Tee Boxes)	50,000
June 3, 2013	Wastewater (DEIR)	29,540
June 3, 2013	Police Facility Improvements	28,000
June 3, 2013	Golf Course Improvement (Cart Path)	15,000
June 3, 2013	Golf Course Improvement (Nursery)	<u>15,000</u>
Total		<u>\$74,175,629</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	\$ 2,955,068	\$ (1,733,553)	\$ 1,221,515
Other Major Fund	4,692,048	-	4,692,048
Non-Major Governmental	510,908	(6,209,617)	(5,698,709)
Recreation - Business Type	151,525	(13,577)	137,948
Golf - Business Type	-	(128,315)	(128,315)
Water - Business Type	-	(378,599)	(378,599)
Fiduciary Fund	113,000	-	113,000
Agency Fund	41,112	-	41,112
Total Fund Financial Statements	<u>8,463,661</u>	<u>(8,463,661)</u>	<u>-</u>
<u>Entity Wide Financial Statements</u>			
Net Transfers In/Out Governmental Funds	214,854	-	214,854
Net Transfers In/Out Enterprise Funds	-	(368,966)	(368,966)
Fiduciary Funds	113,000	-	113,000
Agency Funds	41,112	-	41,112
Net Transfers Entity Wide	<u>\$ 327,854</u>	<u>\$ (368,966)</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, 2013, 2012 and 2011 were \$2,716,251, \$2,596,324 and \$2,355,904, 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 499 active employees and 258 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, 2013, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$7,287,774
Interest on Net OPEB Obligation	343,761
Adjustment to Annual Required Contribution	(497,052)
Annual OPEB Cost (Expense)	<u>7,134,483</u>
Contributions Made:	
Contributions for Benefits	1,634,967
Allocation for Expected Benefit Payments (Implicit Subsidy)	<u>0</u>
Total Contributions	<u>1,634,967</u>
Increase in Net OPEB Obligation	<u>5,499,516</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>8,594,033</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$14,093,549</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>
2011	\$3,437,880	54.7%	\$6,794,986
2012	\$3,410,128	47.2%	\$8,594,033
2013	\$7,134,483	22.9%	\$14,093,549

- d. **Funded Status and Funding Progress.** As of July 1, 2012, the most recent actuarial valuation date, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$67,236,259, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$67,236,259.

Subsequent to the valuation date, the Town established an Other Post Employment Benefits Liability trust fund. The balance in the fund as of June 30, 2013 was \$154,475.

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, 2012, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (same as previous valuation), 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 9.0 percent initially, reduced by decrements of 1.0% to an ultimate rate of 5 percent (previously 8.0% reduced by decrements of 0.5% to an ultimate rate of 5.0%). 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, 2013, the Commonwealth paid \$4,908,298 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, 2013, or fund balances/net position at June 30, 2014.

D. Subsequent Year Authorizations

On June 3, 2013 and October 7, 2013, the Town adopted a fiscal 2014 operating and capital budget of \$61,207,391. Fiscal 2014 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	\$ 54,377,264
Enterprise Fund Revenues	5,356,766
Restricted Fund Balance:	
Non-Major Funds	664,036
Committed Fund Balance:	
General Fund	609,325
Assigned Fund Balance:	
Non-Major Funds	200,000
	<u>\$ 61,207,391</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 \$39,210.

F. 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 \$443,588.

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
<u>Revenues:</u>				
Property Taxes	\$ 36,408,093	\$ 40,137,245	\$ 40,026,061	\$ (111,184)
Tax Liens	-	-	413,325	413,325
Excises	2,164,000	2,164,000	2,421,322	257,322
Penalties and Interest	200,000	200,000	287,249	87,249
Licenses and Permits	375,000	375,000	432,813	57,813
Fees and Other Departmental	171,000	171,000	218,332	47,332
Intergovernmental	8,476,620	8,476,620	8,632,052	155,432
Charges for Services	960,000	960,000	953,762	(6,238)
Fines and Forfeits	13,000	13,000	7,946	(5,054)
Earnings on Investments	140,000	140,000	147,220	7,220
In Lieu of Taxes	350,000	350,000	401,652	51,652
Miscellaneous	166,000	166,000	28,101	(137,899)
Total Revenues	49,423,713	53,152,865	53,969,835	816,970
<u>Expenditures:</u>				
Current:				
General Government	2,403,989	2,690,231	2,445,410	244,821
Public Safety	6,140,062	6,211,476	6,129,892	81,584
Education	25,629,213	25,725,662	25,722,513	3,149
Highway and Public Works	3,235,732	3,810,422	4,077,597	(267,175)
Health and Human Services	529,852	650,071	643,137	6,934
Culture and Recreation	505,133	502,044	491,852	10,192
Intergovernmental	191,050	191,050	192,416	(1,366)
Employee Benefits	8,991,251	8,820,377	8,727,582	92,795
Debt Service	3,822,402	7,350,852	7,347,987	2,865
Total Expenditures	51,448,684	55,952,185	55,778,386	173,799
Excess (Deficiency) of Revenues Over Expenditures	(2,024,971)	(2,799,320)	(1,808,551)	990,769
<u>Other Financing Sources (Uses):</u>				
Transfers In	1,710,971	1,910,971	1,919,471	8,500
Transfers Out	-	(1,212,205)	(1,212,205)	-
Budgetary Fund Balance - Sources	314,000	2,166,932	2,166,932	-
Budgetary Fund Balance - Uses	-	(66,378)	(66,378)	-
Total Other Financing Sources (Uses)	2,024,971	2,799,320	2,807,820	8,500
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	\$ -	\$ -	\$ 999,269	\$ 999,269

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 Ration (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%
1/1/2012	862,323,395	1,974,144,909	1,111,821,514	43.68%	393,100,905	282.83%

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

System Wide				Town of North Reading	
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%
2010	76,146,963	76,146,963	100.00%	1,379,346	1.81%
2011	78,662,214	78,662,214	100.00%	1,441,417	1.83%

Town of North Reading, Massachusetts
Required Supplementary Information
Other Post Employment Benefits
Schedule of Funding Progress
Fiscal Year Ended June 30, 2013

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%
7/1/2012	\$0	\$67,236,259	\$67,236,259	0	30,705,469	219.0%

Subsequent to the valuation date, the Town established an Other Post Employment Benefits Liability fund. The balance in the fund as of June 30, 2013 was \$154,475.

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, 2013

Valuation Date	July 1, 2012
Actuarial Cost Method	Projected Unit Credit
Amortization of Unfunded Liability	Level dollar thirty year open amortization period
Asset Valuation Method	Market Value

Actuarial Assumptions:

Investment Rate of Return	4.0% (same as previous valuation)
Medical/Drug Cost Trend Rate	9.0% graded off 1.0% per year to an ultimate rate of 5.0% per year (previously 8.0% graded off 0.5% per year to an ultimate rate of 5.0%)

Plan Membership:

Current retirees, beneficiaries and dependents	258
Current active members	<u>499</u>
Total	757

Town of North Reading, Massachusetts
Notes to the Required Supplementary Information
June 30, 2013

(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

Valuation Date	January 1, 2012
Actuarial Cost Method	Entry age normal cost method.
Amortization Method	Prior year's total contribution increased by 6.5% for fiscal year 2014 through fiscal year 2020, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI liability amortized in level payments
Remaining Amortization Period	As of July 1, 2012, 7 years remaining for the 2002 ERI liability; 8 years remaining for the 2003 ERI liability; 10 years remaining for the 2010 ERI liability and 23 years for the remaining unfunded liability.
Asset Valuation Method	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.
Actuarial Assumptions:	
Investment Rate of Return	8.00% (previously, 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 \$14,000 of retirement income, (previously, 3.00% of first \$12,000 of retirement income)

Plan Membership:

Retired Participants and Beneficiaries Receiving Benefits	4,886
Inactive Participants Entitled to a Return of their Employee Contributions	2,708
Invested Participants with a Vested Right to a Deferred or Immediate Benefit	394
Active Participants	<u>8,979</u>
Total	<u>16,967</u>

Town of North Reading, Massachusetts
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2013

<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	\$ 95,844
Total U.S. Department of Agriculture		<u>95,844</u>
<u>U.S. Department of Justice</u>		
Bulletproof Vest Partnership Program	16.607	6,286
Total U.S. Department of Justice		<u>6,286</u>
<u>Office of Water and Environmental Protection Agency</u>		
Stormwater	66.605	66,533
Total Office of Water and Environmental Protection Agency		<u>66,533</u>
<u>U.S. Department of Education</u>		
Title I	84.010	88,998
SPED PL 94-142 Allocation	84.027	541,715
SPED Early Childhood	84.173	1,550
SPED Early Childhood	84.173	15,510
Subtotal #84.173		<u>17,060</u>
Teacher Quality	84.367	32,214
Total U.S. Department of Education		<u>679,987</u>
<u>U.S. Department Homeland Security</u>		
Essex County Trench Rescue	97.Unk	9,520
Disaster Grant - Public Assistance	97.036	101,310
Total U.S. Department Homeland Security		<u>110,830</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 959,480</u>

Town of North Reading, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2013

(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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE 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, in accordance with the 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, the basic financial statements of the Town of North Reading, Massachusetts as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated February 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of North Reading, Massachusetts' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of North Reading, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of North Reading, Massachusetts' internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did issue a management letter dated March 10, 2014 that addresses issues (not significant deficiencies or material weaknesses) that we believe should be communicated to you.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of North Reading, Massachusetts' financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
February 18, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR
A-133

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

Report on Compliance for Each Major Federal Program

We have audited the Town of North Reading, Massachusetts' compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the Town of North Reading, Massachusetts' major federal programs for the year ended June 30, 2013. The Town of North Reading, Massachusetts' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of North Reading, Massachusetts' major federal programs based on or audit of the types of compliance requirements referred to above. 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, Massachusetts' 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of North Reading, Massachusetts' compliance.

Basis for Qualified Opinion on the U.S. Department of Education - Special Education Cluster (CFDA # 84.027 and # 84.173)

As described in the accompanying schedule of findings and questioned costs, the Town of North Reading, Massachusetts did not comply with requirements regarding allowable costs/cost principals, relating to the United States Department of Education grants, (Special Education cluster) Special Education – IDEA Allocation – CFDA #84.027, Early Childhood – CFDA #84.173 as explained in finding 2013-1. Compliance with such requirements is necessary, in our opinion, for the Town of North Reading, Massachusetts to comply with the requirements applicable to that program.

Qualified Opinion on the U.S. Department of Education Special Education Cluster (CFDA # 84.027 and # 84.173)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Town of North Reading, Massachusetts, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the U.S. Department of Education - Special Education Cluster (CFDA # 84.027 and # 84.173) for the year ended June 30, 2013.

Other Matters

The Town of North Reading, Massachusetts' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of North Reading, Massachusetts' response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

The management of the Town of North Reading, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of North Reading, Massachusetts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies that may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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 a 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 consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item #2013-1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Town of North Reading, Massachusetts' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of North Reading, Massachusetts' response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

The purposes of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Giusti, Hingston and Company

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Town of North Reading, Massachusetts
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013
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(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 A deficiency in internal control relating to a major program was reported.
- 5 The opinion on compliance with requirements applicable to a major program was qualified.
- 6 A finding relative to a major federal award program was reported.
- 7 The major program identified was:

<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

- 8 The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- 9 The Town did qualify as low risk.

(II) Findings - Financial Statement Audit

No findings were reported related to the financial statements.

Town of North Reading, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013
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III Findings and Questioned Costs for Federal Awards

Finding Number

2013-1

Program

U.S. Department of Education – Special Education Cluster – Special Education Grants to States (CFDA #84.027) and Special Education Pre School Grant (CFDA #84.173)

Finding

Time and Effort Certification

The School Department had the required “time and effort” certifications for the employees charged to Special Education Grants to States program (CFDA #84.027). However, the certifications for an employee charged to the Special Education Pre School grant (CFDA #84.173) were not obtained

The Office of Management and Budget (OMB) established documentation requirements (i.e. payroll certifications) in order to ensure that payroll charges to federal programs represent actual costs of the programs. In absence of signed timesheets to support payroll charges to federal grant programs, the United States Office of Management and Budget (OMB) Circular A-87 specifies that certain certifications must be made as noted below:

1. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
2. Where employees work on multiple activities or cost objectives a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards (**unless the employees meet the criteria that allows for “substitute documentation” explained in #3 below**) :
 - a. They must reflect an after-the-fact distribution of the actual activity of each employee.
 - b. They must account for the total activity for which each employee is compensated.
 - c. They must be prepared at least **monthly** and must coincide with one or more pay periods.
 - d. They must be signed by the employee.
 - e. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards, but, may be used for interim accounting purposes when certain other requirements are met.

Town of North Reading, Massachusetts
Schedule of Findings and Questioned Costs
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3. To be eligible to document time and effort under the substitute system (**which allows for semiannual certifications instead of monthly**), employees must -
- a. Currently work on a schedule that includes multiple activities or cost objectives that must be supported by monthly personnel activity reports;
 - b. Work on specific activities or cost objectives based on a predetermined schedule; and
 - c. Not work on multiple activities or cost objectives at the exact same time on their schedule.

Under the substitute system, in lieu of personnel activity reports, eligible employees may support a distribution of their salaries and wages through documentation of an established work schedule that meets the standards explained below. An acceptable work schedule may be in a style and format already used by an LEA.

Employee schedules must:

- a. Indicate the specific activity or cost objective that the employee worked on for each segment of the employee's schedule;
- b. Account for the total hours for which each employee is compensated during the period reflected on the employee's schedule; and
- c. **Be certified at least semiannually and signed by the employee and a supervisory official having firsthand knowledge of the work performed by the employee.**

Any revisions to an employee's established schedule that continue for a prolonged period must be documented and certified. The effective dates of any changes must be clearly indicated in the documentation provided.

Any significant deviations from an employee's established schedule, that require the employee to work on multiple activities or cost objectives at the exact same time, including but not limited to lengthy, unanticipated schedule changes, must be documented by the employee using a personnel activity report that covers the period during which the deviations occurred.

We recommend that the Town implement controls and procedures that will ensure that the time and effort certification requirements are met.

Corrective Action Plan

The North Reading School Department has established procedures that will ensure that the required time and effort certifications are met. I am confident we will implement the appropriate procedures to comply with the Time and Effort certification requirements.