

TOWN OF NORTH READING, MASSACHUSETTS

Financial Statements

June 30, 2014

(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, 2014, 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, 2014 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, 2015, 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
Georgetown, Massachusetts
February 18, 2015

**Town of North Reading, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2014**

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, 2014.

Financial Highlights

- The assets of the Town of North Reading, Massachusetts exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$71,214,096 (*net position*).
- The governmental activities total net position increased by \$20,261,908 or 44.7%. The increase is primarily attributable to a capital grant (\$23,155,167) from the Massachusetts School Building Authority. The Hillview enterprise fund had an increase in net position of \$165,142, the Water enterprise fund had a decrease in net position of \$30,516 and the Recreation enterprise fund had a decrease in net position of \$95,276.
- The deficit in the unrestricted net position of the Hillview Enterprise Fund is the result of reporting the debt related to the Turf Field in the enterprise fund while the asset is reported with the governmental activities.
- The deficit in the unrestricted net position of the recreation fund is a result of recognizing the other post employment benefits liability (\$211,710) in the fund.
- At the end of the current fiscal year, unassigned fund balance in the general fund was \$4,433,901 or 7.3 percent of total general fund expenditures.
- The total long term debt of the Town of North Reading, Massachusetts increased by \$13,752,296 or 16.8%. The governmental activities increased by \$13,956,296 or 18.7% while the business type activities decreased by \$204,000 or 4.6%. The increase in the governmental activities related to the issuance of the school building project debt.

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 recreation water and golf operations, all of which 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.

The fiscal year 2013 amounts below have been adjusted to reflect prior period adjustments and the implementation of Governmental Accounting Standards Board Statement # 65.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Current and Other Assets	\$ 60,334,195	\$ 47,621,669	\$ 3,133,237	\$ 3,494,425	\$ 63,467,432	\$ 51,116,094
Capital Assets	79,916,664	133,872,868	13,024,237	12,695,548	92,940,901	146,568,416
Total Assets	<u>140,250,859</u>	<u>181,494,537</u>	<u>16,157,474</u>	<u>16,189,973</u>	<u>156,408,333</u>	<u>197,684,510</u>
Other Liabilities	8,210,760	8,489,408	1,466,485	1,588,234	9,677,245	10,077,642
Long Term Liabilities	91,334,411	112,091,404	4,361,758	4,233,158	95,696,169	116,324,562
Total Liabilities	<u>99,545,171</u>	<u>120,580,812</u>	<u>5,828,243</u>	<u>5,821,392</u>	<u>105,373,414</u>	<u>126,402,204</u>
Deferred Inflows of Recourses	<u>122,081</u>	<u>68,210</u>	<u>-</u>	<u>-</u>	<u>122,081</u>	<u>68,210</u>
Net Position:						
Net Investment in Capital Assets	47,047,430	72,308,708	10,128,934	10,241,095	57,176,364	82,549,803
Restricted	5,423,375	5,576,641	-	-	5,423,375	5,576,641
Unrestricted	(11,887,198)	(17,039,834)	200,297	127,486	(11,686,901)	(16,912,348)
Total Net Position	<u>\$ 40,583,607</u>	<u>\$ 60,845,515</u>	<u>\$ 10,329,231</u>	<u>\$ 10,368,581</u>	<u>\$ 50,912,838</u>	<u>\$ 71,214,096</u>

The net position of the Town increased by \$20,301,258. The net position of the governmental activities increased by \$20,261,908 and the net position of the business-type activities increased by \$39,350.

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>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 4,387,018	\$ 4,658,959	\$ 5,546,846	\$ 5,451,199	\$ 9,933,864	\$ 10,110,158
Operating Grants and Contributions	13,845,669	14,416,618	12,774	28,312	13,858,443	14,444,930
Capital Grants and Contributions	4,619,760	23,155,567	-	-	4,619,760	23,155,567
General Revenues:						
Property Taxes	40,138,512	41,490,896	-	-	40,138,512	41,490,896
Motor Vehicle and Other Excises	2,519,475	2,611,584	-	-	2,519,475	2,611,584
Intergovernmental Not Restricted to a Specific Program	1,538,555	1,575,443	-	-	1,538,555	1,575,443
Other	748,199	621,514	24,000	-	772,199	621,514
Total Revenues	<u>67,797,188</u>	<u>88,530,581</u>	<u>5,583,620</u>	<u>5,479,511</u>	<u>73,380,808</u>	<u>94,010,092</u>
Expenses						
General Government	2,218,556	2,626,673	-	-	2,218,556	2,626,673
Public Safety	6,790,245	7,016,717	-	-	6,790,245	7,016,717
Education	34,408,899	35,091,120	-	-	34,408,899	35,091,120
Highways and Public Works	4,339,810	4,861,415	-	-	4,339,810	4,861,415
Human Services	679,087	695,546	-	-	679,087	695,546
Culture and Recreation	768,697	824,572	-	-	768,697	824,572
Fringe Benefits and Insurance	13,993,839	14,656,910	-	-	13,993,839	14,656,910
Interest on Debt Service	2,933,150	2,907,199	-	-	2,933,150	2,907,199
Water	-	-	3,076,648	3,215,514	3,076,648	3,215,514
Hillview	-	-	1,200,379	1,247,177	1,200,379	1,247,177
Recreation	-	-	620,177	565,991	620,177	565,991
Total Expenses	<u>66,132,283</u>	<u>68,680,152</u>	<u>4,897,204</u>	<u>5,028,682</u>	<u>71,029,487</u>	<u>73,708,834</u>
Increase (Decrease) in Net Position Before Transfers	<u>1,664,905</u>	<u>19,850,429</u>	<u>686,416</u>	<u>450,829</u>	<u>2,351,321</u>	<u>20,301,258</u>
Transfers	<u>214,854</u>	<u>411,479</u>	<u>(368,966)</u>	<u>(411,479)</u>	<u>(154,112)</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 1,879,759</u>	<u>\$ 20,261,908</u>	<u>\$ 317,450</u>	<u>\$ 39,350</u>	<u>\$ 2,197,209</u>	<u>\$ 20,301,258</u>

Governmental Activities

In fiscal year 2014, property taxes accounted for approximately 47% of the revenues. During fiscal year 2013, property taxes accounted for 59% of the revenues. During fiscal year 2012 property taxes accounted for 61% of the revenues. The significant percentage decrease in fiscal year 2014 was because the substantial (\$23,155,567) school building capital grant from the Massachusetts School Building Authority increased the total revenues of the governmental activities.

Business-type Activities

Water rates are structured to cover all costs related to the activity. The Water fund had a loss of \$30,516 in 2014. It had a gain of \$159,364 in 2013. The Golf enterprise fund had a gain of \$165,142 in 2014. It had a gain of \$281,387 in fiscal year 2013. The Recreation had a loss of \$95,276 in 2014. It had a gain of \$123,301 in 2013.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – The year-end fund balances of the general fund were \$867,783 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>
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
2014	1,742,436	609,877	4,433,901	6,786,214

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>
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
2014	1,696,140

Proprietary Funds

Water and Golf Enterprise Funds. The Town of North Reading, Massachusetts' proprietary funds' financial statements 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 \$1,137,364. Unrestricted net position of the Hillview Enterprise Fund at the end of the year was a deficit of \$873,570. 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 \$136,308. 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, 2014, amounts to \$148,568,416 (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:

- Middle and High School (\$55,160,365)
- Fire Pumper (\$217,655)
- Hydrants and Valves Upgrade (\$95,863)
- One Ton Dump Truck (\$62,768)
- Other Vehicles/Trucks (\$82,163)

Capital Assets at June 30, 2014 (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Assets not Being Depreciated	\$ 38,329,297	\$ 93,707,587	\$ 3,473,860	\$ 3,487,452	\$ 41,803,157	\$ 97,195,039
Assets Being Depreciated:						
Buildings	32,166,780	30,903,185	919,671	849,534	33,086,451	31,752,719
Improvements Other Than Buildings	2,988,163	2,807,304	775,403	838,026	3,763,566	3,645,330
Infrastructure	3,711,523	3,604,087	7,270,745	7,008,602	10,982,268	10,612,689
Equipment	1,473,220	1,779,090	452,597	411,693	1,925,817	2,190,783
Vehicles	1,247,681	1,071,615	131,961	100,241	1,379,642	1,171,856
Total	<u>\$ 79,916,664</u>	<u>\$ 133,872,868</u>	<u>\$ 13,024,237</u>	<u>\$ 12,695,548</u>	<u>\$ 92,940,901</u>	<u>\$ 146,568,416</u>

Debt

The Town had \$95,927,906 in bonds payable (net bond premium) outstanding on June 30, 2014. The table below details the balances for the past two fiscal years.

	<u>2013</u>	<u>2014</u>	<u>Change</u>
Governmental Activities			
General Obligation Bonds Payable	\$ 72,718,805	\$ 85,880,979	\$ 13,162,174
Premium	4,780,805	5,574,927	794,122
	<u>77,499,610</u>	<u>91,455,906</u>	<u>13,956,296</u>
 Business-type Activities			
General Obligation Bonds Payable	<u>4,476,000</u>	<u>4,272,000</u>	<u>(204,000)</u>
 Total Debt	<u>\$ 81,975,610</u>	<u>\$ 95,727,906</u>	<u>\$ 13,752,296</u>

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

Fiscal Year 2015 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 2015 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 2015 departmental budgets.

Town of North Reading, Massachusetts
Statement of Net Position
June 30, 2014
(Continued on Page 11)

	<u>Governmental</u> <u>Activities</u>	<u>Business - Type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Current:			
Cash/Investments	\$ 42,971,104	\$ 3,031,493	\$ 46,002,597
Petty Cash	585	-	585
Accounts Receivable:			
Property Taxes	555,934	-	555,934
Tax Liens	470,461	54,472	524,933
Excises	147,246	-	147,246
User Charges	359,361	365,950	725,311
Liens	5,792	42,510	48,302
Intergovernmental	906,179	-	906,179
Noncurrent:			
Accounts Receivable:			
Intergovernmental	2,190,537	-	2,190,537
Deferred Special Assessments	14,470	-	14,470
Capital Assets:			
Assets Not Being Depreciated	93,707,587	3,487,452	97,195,039
Assets Being Depreciated, Net	40,165,281	9,208,096	49,373,377
Total Assets	<u>181,494,537</u>	<u>16,189,973</u>	<u>197,684,510</u>
Liabilities:			
Current:			
Warrants Payable	430,199	100,606	530,805
Accounts Payable	-	165,361	165,361
Accrued Salaries Payable	2,898,180	19,937	2,918,117
Employees' Withholding Payable	380,494	-	380,494
Due to Other Governments	4,381	-	4,381
Unclaimed Checks	57,141	-	57,141
Guarantee Deposits	-	29,748	29,748
Accrued Interest Payable	301,288	17,800	319,088
Other Liabilities	343,615	-	343,615
Compensated Absences	867,773	44,543	912,316
Bonds Payable	2,174,507	644,000	2,818,507
Bond Anticipation Notes Payable	1,031,830	566,239	1,598,069
Noncurrent:			
Bonds Payable	89,281,399	3,628,000	92,909,399
Other Post Employment Benefit Obligations	19,338,912	501,225	19,840,137
Compensated Absences	3,471,093	103,933	3,575,026
Total Liabilities	<u>120,580,812</u>	<u>5,821,392</u>	<u>126,402,204</u>
Deferred Inflows of Resources:			
Taxes and User Charges Paid in Advance	<u>68,210</u>	<u>-</u>	<u>68,210</u>

Town of North Reading, Massachusetts
Statement of Net Position
June 30, 2014
(Continued from Page 10)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	<u>Total</u>
Net Position:			
Net Investment in Capital Assets	72,308,708	10,241,095	82,549,803
Restricted for:			
Special Revenue	4,678,457	-	4,678,457
Perpetual Funds:			
Expendable	193,942	-	193,942
Nonexpendable	704,242	-	704,242
Unrestricted	<u>(17,039,834)</u>	<u>127,486</u>	<u>(16,912,348)</u>
Total Net Position	<u><u>\$ 60,845,515</u></u>	<u><u>\$ 10,368,581</u></u>	<u><u>\$ 71,214,096</u></u>

Town of North Reading, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2014

		Net (Expenses) Revenues and					
		Program Revenues			Changes in Net Assets		
			Operating	Capital	Business -		
		Charges for	Grants and	Grants and	Governmental	Type	
Functions/Programs	Expenses	Services	Contributions	Contributions	Activities	Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 2,626,673	\$ 569,567	\$ 227,009	\$ -	\$ (1,830,097)	\$ -	\$ (1,830,097)
Public Safety	7,016,717	1,185,470	98,983	-	(5,732,264)	-	(5,732,264)
Education	35,091,120	1,786,732	13,121,639	23,155,567	2,972,818	-	2,972,818
Highways and Public Works	4,861,415	1,066,897	679,530	-	(3,114,988)	-	(3,114,988)
Human Services	695,546	48,010	243,131	-	(404,405)	-	(404,405)
Culture and Recreation	824,572	2,283	46,326	-	(775,963)	-	(775,963)
Fringe Benefits and Insurance	14,656,910	-	-	-	(14,656,910)	-	(14,656,910)
Interest on Debt Service	2,907,199	-	-	-	(2,907,199)	-	(2,907,199)
Total Governmental Activities	68,680,152	4,658,959	14,416,618	23,155,567	(26,449,008)	-	(26,449,008)
Business-Type Activities:							
Hillview	1,247,177	1,539,579	14,385	-	-	306,787	306,787
Recreation	565,991	343,891	-	-	-	(222,100)	(222,100)
Water Services	3,215,514	3,567,729	13,927	-	-	366,142	366,142
Total Business-Type Activities	5,028,682	5,451,199	28,312	-	-	450,829	450,829
Total Primary Government	\$ 73,708,834	\$ 10,110,158	\$ 14,444,930	\$ 23,155,567	(26,449,008)	450,829	(25,998,179)
Property Taxes					41,490,896	-	41,490,896
Motor Vehicle and Other Excise Taxes					2,611,584	-	2,611,584
Penalties and Interest on Taxes					247,133	-	247,133
Other Taxes, Assessments and in Lieu of Payments					283,929	-	283,929
Intergovernmental					1,575,443	-	1,575,443
Interest and Investment Income					65,172	-	65,172
Other Revenue					8,280	-	8,280
Contributions to Permanent Funds					12,000	-	12,000
Net Gain (Loss) on Sale of Assets					5,000	-	5,000
Transfers, Net					411,479	(411,479)	-
Total General Revenues and Transfers					46,710,916	(411,479)	46,299,437
Change in Net Assets					20,261,908	39,350	20,301,258
Net Position:							
Beginning of the Year					45,364,412	10,329,231	55,693,643
Prior Period Adjustment					(4,780,805)	-	(4,780,805)
Adjusted Beginning of the Year					40,583,607	10,329,231	50,912,838
End of the Year					\$ 60,845,515	\$ 10,368,581	\$ 71,214,096

Town of North Reading, Massachusetts
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General</u>	<u>School Building Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash/Investments	\$ 10,248,133	\$ 26,672,819	\$ 6,050,152	\$ 42,971,104
Petty Cash	585	-	-	585
Receivables:				
Property Taxes	555,934	-	-	555,934
Tax Liens	470,461	-	-	470,461
Excises	147,246	-	-	147,246
User Charges	105,424	-	253,937	359,361
Other Liens	5,792	-	-	5,792
Intergovernmental	2,433,930	-	662,786	3,096,716
Special Assessments	-	-	14,470	14,470
Tax Foreclosures	420,284	-	-	420,284
Total Assets	<u>\$ 14,387,789</u>	<u>\$ 26,672,819</u>	<u>\$ 6,981,345</u>	<u>\$ 48,041,953</u>
Liabilities:				
Warrants Payable	\$ 380,812	\$ -	\$ 49,387	\$ 430,199
Accrued Salaries Payable	2,897,951	-	229	2,898,180
Employees' Withholding Payable	380,494	-	-	380,494
Due to Other Governments	4,381	-	-	4,381
Unclaimed Checks	24,641	-	32,500	57,141
Other Liabilities	-	-	343,615	343,615
Bonds Anticipation Notes Payable	-	-	1,031,830	1,031,830
Total Liabilities	<u>3,688,279</u>	<u>-</u>	<u>1,457,561</u>	<u>5,145,840</u>
Deferred Inflows of Resources:				
Unavailable Revenues	3,845,086	-	905,405	4,750,491
Taxes and User Charges Paid in Advance	68,210	-	-	68,210
Total Deferred Inflows of Resources	<u>3,913,296</u>	<u>-</u>	<u>905,405</u>	<u>4,818,701</u>
Fund Equity:				
Fund Balances:				
Nonspendable	-	-	704,242	704,242
Restricted	-	26,672,819	3,407,629	30,080,448
Committed	1,742,436	-	829,719	2,572,155
Assigned	609,877	-	-	609,877
Unassigned	4,433,901	-	(323,211)	4,110,690
Total Fund Balances	<u>6,786,214</u>	<u>26,672,819</u>	<u>4,618,379</u>	<u>38,077,412</u>
Total Liabilities Deferred Inflows of Resources and Fund Balances	<u>\$ 14,387,789</u>	<u>\$ 26,672,819</u>	<u>\$ 6,981,345</u>	<u>\$ 48,041,953</u>

Town of North Reading, Massachusetts
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2014

	<u>General</u>	<u>School Building Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 41,581,044	\$ -	\$ -	\$ 41,581,044
Tax Liens	156,598	-	-	156,598
Excises	2,663,464	-	-	2,663,464
Penalties and Interest	247,133	-	-	247,133
Licenses and Permits	467,967	-	-	467,967
Fees and Other Departmental	254,020	-	-	254,020
Intergovernmental	13,812,421	23,155,567	2,024,912	38,992,900
Charges for Services	953,858	-	2,860,352	3,814,210
Fines and Forfeits	16,255	-	-	16,255
Earnings on Investments	64,737	435	22,716	87,888
In Lieu of Taxes	283,929	-	-	283,929
Contributions	-	-	131,138	131,138
Miscellaneous	34,274	-	1,134,483	1,168,757
Total Revenues	<u>60,535,700</u>	<u>23,156,002</u>	<u>6,173,601</u>	<u>89,865,303</u>
<u>Expenditures:</u>				
General Government	2,303,603	-	142,219	2,445,822
Public Safety	6,289,097	-	356,490	6,645,587
Education	30,979,850	55,160,635	3,400,375	89,540,860
Intergovernmental	211,584	-	-	211,584
Highways and Public Works	3,968,319	-	632,293	4,600,612
Human Services	651,049	-	33,252	684,301
Culture and Recreation	533,592	-	61,952	595,544
Employee Benefits and Insurance	9,060,696	-	-	9,060,696
Debt Service	6,895,642	-	96,394	6,992,036
Total Expenditures	<u>60,893,432</u>	<u>55,160,635</u>	<u>4,722,975</u>	<u>120,777,042</u>
Excess of Revenues Over (Under) Expenditures	<u>(357,732)</u>	<u>(32,004,633)</u>	<u>1,450,626</u>	<u>(30,911,739)</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	1,416,323	934,000	50,000	2,400,323
Operating Transfers (Out)	(190,808)	-	(1,798,036)	(1,988,844)
Proceeds from Bonds	-	17,066,000	-	17,066,000
Total Other Financing Sources (Uses)	<u>1,225,515</u>	<u>18,000,000</u>	<u>(1,748,036)</u>	<u>17,477,479</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>867,783</u>	<u>(14,004,633)</u>	<u>(297,410)</u>	<u>(13,434,260)</u>
Fund Balance, Beginning	5,918,431	40,677,452	4,915,789	51,511,672
Fund Balance, Ending	<u>\$ 6,786,214</u>	<u>\$ 26,672,819</u>	<u>\$ 4,618,379</u>	<u>\$ 38,077,412</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, 2014

Total Governmental Fund Balances	\$ 38,077,412
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	133,872,868
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	4,330,207
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(91,455,906)
Other Post Employment Benefit Obligations	(19,338,912)
Accrued Interest on Bonds	(301,288)
Compensated Absences	(4,338,866)
	<hr/>
Net Assets of Governmental Activities	<u><u>\$ 60,845,515</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, 2014

Net change in fund balances - total governmental funds	\$ (13,434,260)
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.	53,951,204
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.	5,000
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.	(303,212)
The issuance of long-term debt (e.g., bonds, leases, premiums and discounts) provide 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.	(13,956,296)
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.	(61,377)
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.	(5,939,151)
Change in net assets of governmental activities	<u><u>\$ 20,261,908</u></u>

Town of North Reading, Massachusetts
Statement of Net Position
Proprietary Funds
June 30, 2014

Business-Type Activities
Enterprise Funds

	<u>Water</u>	<u>Hillview</u>	<u>Recreation</u>	<u>Total</u>
Assets				
Current:				
Cash and Cash Investments	\$ 1,721,019	\$ 1,195,938	\$ 114,536	\$ 3,031,493
Receivables, Net of Allowance for Uncollectibles:				
User Charges	365,950	-	-	365,950
Tax Liens	54,472	-	-	54,472
Liens	42,510	-	-	42,510
Noncurrent:				
Accounts Receivable:				
Assets Not Being Depreciated	503,286	2,984,166	-	3,487,452
Assets Being Depreciated, Net	7,449,593	1,531,781	226,722	9,208,096
Total Assets	<u>10,136,830</u>	<u>5,711,885</u>	<u>341,258</u>	<u>16,189,973</u>
Liabilities				
Current:				
Warrants Payable	51,110	44,581	4,915	100,606
Accounts Payable	165,361	-	-	165,361
Accrued Wages Payable	11,811	501	7,625	19,937
Guarantee Deposits	-	29,748	-	29,748
Accrued Interest Payable	7,420	10,380	-	17,800
Bond Anticipation Notes Payable	486,239	80,000	-	566,239
Bonds Payable	309,000	335,000	-	644,000
Compensated Absences	34,650	1,915	7,978	44,543
Noncurrent:				
Bonds Payable	1,193,000	2,435,000	-	3,628,000
Other Post Employment Benefits Payable	267,453	22,062	211,710	501,225
Compensated Absences	80,849	4,468	18,616	103,933
Total Liabilities	<u>2,606,893</u>	<u>2,963,655</u>	<u>250,844</u>	<u>5,821,392</u>
Net Assets				
Net Investment in Capital Assets	6,392,573	3,621,800	226,722	10,241,095
Unrestricted	1,137,364	(873,570)	(136,308)	127,486
Total Net Assets	<u>\$ 7,529,937</u>	<u>\$ 2,748,230</u>	<u>\$ 90,414</u>	<u>\$ 10,368,581</u>

Town of North Reading, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2014

	Business-Type Activities Enterprise Funds			
	<u>Water</u>	<u>Hillview</u>	<u>Recreation</u>	<u>Total</u>
Operating Revenues:				
Charges for Services	\$ 3,561,485	\$ 1,424,749	\$ 341,949	\$ 5,328,183
Departmental	-	44,700	-	44,700
Contributions	-	14,355	-	14,355
Miscellaneous	6,244	70,130	1,942	78,316
Total Operating Revenues	<u>3,567,729</u>	<u>1,553,934</u>	<u>343,891</u>	<u>5,465,554</u>
Operating Expenditures:				
Personal Services	710,022	31,447	379,725	1,121,194
Nonpersonal Services	2,127,050	981,660	171,571	3,280,281
Depreciation	319,136	169,582	14,695	503,413
Total Operating Expenditures	<u>3,156,208</u>	<u>1,182,689</u>	<u>565,991</u>	<u>4,904,888</u>
Operating Income	<u>411,521</u>	<u>371,245</u>	<u>(222,100)</u>	<u>560,666</u>
Nonoperating Revenues (Expenses):				
Intergovernmental	10,762	-	-	10,762
Earnings on Investments	3,165	30	-	3,195
Interest on Debt	(59,306)	(64,488)	-	(123,794)
Total Nonoperating Revenues (Expenses)	<u>(45,379)</u>	<u>(64,458)</u>	<u>-</u>	<u>(109,837)</u>
Income Before Operating Transfers	<u>366,142</u>	<u>306,787</u>	<u>(222,100)</u>	<u>450,829</u>
Operating Transfers In	-	-	140,808	140,808
Operating Transfers Out	(396,658)	(141,645)	(13,984)	(552,287)
Total Transfers	<u>(396,658)</u>	<u>(141,645)</u>	<u>126,824</u>	<u>(411,479)</u>
Change in Net Assets	<u>(30,516)</u>	<u>165,142</u>	<u>(95,276)</u>	<u>39,350</u>
Net Position, July 1, 2013	<u>7,560,453</u>	<u>2,583,088</u>	<u>185,690</u>	<u>10,329,231</u>
Net Position June 30, 2014	<u>\$ 7,529,937</u>	<u>\$ 2,748,230</u>	<u>\$ 90,414</u>	<u>\$ 10,368,581</u>

Town of North Reading, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2014

	Business-Type Activities			
	Enterprise Funds			
	Water	Hillview	Recreation	Total
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 3,527,853	\$ 1,553,934	\$ 343,891	\$ 5,425,678
Payments to Employees	(700,957)	(30,653)	(376,276)	(1,107,886)
Payments to Vendors	(1,996,882)	(969,197)	(102,840)	(3,068,919)
Net Cash Flows Provided (Used) by Operating Activities	<u>830,014</u>	<u>554,084</u>	<u>(135,225)</u>	<u>1,248,873</u>
Cash Flows from Non Capital Related Financing Activities:				
Transfers from (to) Other Funds (Net)	<u>(396,658)</u>	<u>(141,645)</u>	<u>126,824</u>	<u>(411,479)</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(396,658)</u>	<u>(141,645)</u>	<u>126,824</u>	<u>(411,479)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(125,845)	(48,880)	-	(174,725)
Proceeds from Bond Anticipation Notes	486,239	80,000	-	566,239
Payments on Bond Anticipation Notes	(181,239)	(400,000)	-	(581,239)
Proceeds from Bonds	-	400,000	-	400,000
Principal Payments on Bonds	(302,046)	(295,000)	-	(597,046)
Interest Payments	(56,816)	(75,690)	-	(132,506)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(179,707)</u>	<u>(339,570)</u>	<u>-</u>	<u>(519,277)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	<u>3,165</u>	<u>30</u>	<u>-</u>	<u>3,195</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>3,165</u>	<u>30</u>	<u>-</u>	<u>3,195</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>256,814</u>	<u>72,899</u>	<u>(8,401)</u>	<u>321,312</u>
Cash and Cash Equivalents, July 1, 2013	<u>1,464,205</u>	<u>1,123,039</u>	<u>122,937</u>	<u>2,710,181</u>
Cash and Cash Equivalents, June 30, 2014	<u>\$ 1,721,019</u>	<u>\$ 1,195,938</u>	<u>\$ 114,536</u>	<u>\$ 3,031,493</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 411,521	\$ 371,245	\$ (222,100)	\$ 560,666
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	319,136	169,582	14,695	503,413
(Increase) Decrease in Accounts Receivable	(39,876)	-	-	(39,876)
Increase (Decrease) in Wages Payables	4,435	252	(949)	3,738
Increase (Decrease) in Compensated Absences	4,630	542	4,398	9,570
Increase (Decrease) in Other Payables	130,168	12,463	68,731	211,362
Net Cash Provided by Operating Activities	<u>\$ 830,014</u>	<u>\$ 554,084</u>	<u>\$ (135,225)</u>	<u>\$ 1,248,873</u>

Town of North Reading, Massachusetts
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Private-Purpose <u>Trust</u>
Assets	
Cash and Cash Investments	\$ 1,059,036
	<hr/>
Total Assets	1,059,036
	<hr/>
Liabilities	-
Total Liabilities	-
	<hr/>
Net Assets	
Held in Trust for OPEB Benefits and Other Purposes	1,059,036
	<hr/>
Total Net Assets	\$ 1,059,036
	<hr/> <hr/>

Town of North Reading, Massachusetts
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Fiscal Year Ended June 30, 2014

Additions:

Contributions	\$ 630,000
Interest, Dividends, and Other	<u>17,716</u>
Total Additions	<u>647,716</u>

Deductions:

Trust Distributions	<u>3,000</u>
Operating Transfers In	<u>-</u>
Total Transfers	<u>-</u>
Change in Net Assets	<u>644,716</u>

Net Assets:

Beginning of the Year	<u>414,320</u>
End of the Year	<u><u>\$ 1,059,036</u></u>

Town of North Reading, Massachusetts
Notes to the Financial Statements
June 30, 2014

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, 2014, 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.

Recreation Fund – This fund is used to account for recreation activities not included in the Hillview Golf Fund.

(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. The Town may exceed the levy limit (i.e. override, debt exclusion) if approved by a voter referendum.

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 Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Town had deferred inflows of resources relating to property taxes received in advance of the Town's statutory authority to utilize those resources. In addition, the governmental fund financial statements reflect deferred inflows of resources related to billed but unavailable revenues.

v 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	-	-	668,873	668,873
Culture and Recreation	-	-	25,369	25,369
Total Nonspendable:	<u>-</u>	<u>-</u>	<u>704,242</u>	<u>704,242</u>
Restricted:				
General Government	-	-	536,298	536,298
Public Safety	-	-	889,322	889,322
Education	-	26,672,819	1,190,021	27,862,840
Highways and Public Works	-	-	497,416	497,416
Human Services	-	-	101,702	101,702
Culture and Recreation	-	-	185,482	185,482
Debt Services	-	-	7,388	7,388
Total Restricted:	<u>-</u>	<u>26,672,819</u>	<u>3,407,629</u>	<u>30,080,448</u>
Committed to:				
General Government	507,936	-	680,220	1,188,156
Public Safety	75,997	-	14,960	90,957
Education	68,605	-	71,045	139,650
Highways and Public Works	261,208	-	33,766	294,974
Human Services	-	-	8,054	8,054
Culture and Recreation	1,860	-	21,674	23,534
Debt Services	826,830	-	-	826,830
Total Committed:	<u>1,742,436</u>	<u>-</u>	<u>829,719</u>	<u>2,572,155</u>
Assigned to:				
General Government	200,185	-	-	200,185
Public Safety	124,652	-	-	124,652
Education	133,483	-	-	133,483
Highways and Public Works	130,586	-	-	130,586
Human Services	4,239	-	-	4,239
Culture and Recreation	1,222	-	-	1,222
Employee Benefits	15,510	-	-	15,510
Total Assigned:	<u>609,877</u>	<u>-</u>	<u>-</u>	<u>609,877</u>
Unassigned	<u>4,433,901</u>	<u>-</u>	<u>(323,211)</u>	<u>4,110,690</u>
Total Fund Balances	<u>\$ 6,786,214</u>	<u>\$ 26,672,819</u>	<u>\$ 4,618,379</u>	<u>\$ 38,077,412</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 \$2,035,280. 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 (\$93,036) and the capital improvement stabilization fund (\$826,830) are reported in the general fund as a component of committed fund balance.

vi 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.

vii 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.

viii 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.

ix Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1, 2014 and July 15, 2014. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2014 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 2014 adjusted for any fiscal year 2014 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, 2014.

	<u>Revenues</u>
As Reported Budget Basis	\$ 55,711,056
Adjustments:	
Sixty Day Revenue Accrual - Net	41,304
Stabilization Fund Interest Not Reported Budget Basis	8,433
In Lieu of Tax from Golf Reclassified as a Transfer	(141,645)
On Behalf Payments Included in Intergovernmental	4,916,552
As Reported GAAP Statement	<u>\$ 60,535,700</u>

	<u>Expenditures</u>
As Reported Budget Basis	\$ 55,813,048
Adjustments:	
July 1, 2013 Encumbrances	1,458,883
June 30, 2014 Encumbrances	(1,295,051)
On Behalf Payments Included in Employee Benefits	4,916,552
As Reported GAAP Statement	<u>\$ 60,893,432</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, 2014, \$87,769 of the Town's bank balance of \$45,610,740 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 87,769

Investments

As of June 30, 2014, 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	\$ 512,392	\$ -	\$ 512,392	\$ -
Corporate Bonds	274,910	-	274,910	-
Total	<u>\$ 787,302</u>	<u>\$ -</u>	<u>\$ 787,302</u>	<u>\$ -</u>
<u>Other Investments:</u>				
Money Market Funds	109,686			
Mutual Funds	425,445			
Mass. Municipal Depository Trust	<u>534,528</u>			
Total Other Investments	<u>1,069,659</u>			
Total Investments	\$ 1,856,961			

A. Deposits (Continued)

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, 2014 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	19,233,389	55,378,290	-	74,611,679
Total Capital Assets Not Being Depreciated	<u>38,329,297</u>	<u>55,378,290</u>	<u>-</u>	<u>93,707,587</u>
Assets Being Depreciated:				
Buildings	56,173,111	-	-	56,173,111
Improvements Other Than Buildings	4,148,759	35,501	-	4,184,260
Infrastructure	15,058,901	15,860	-	15,074,761
Equipment	3,155,004	590,050	-	3,745,054
Vehicles	4,228,472	144,951	(43,430)	4,329,993
Total Capital Assets Being Depreciated	<u>82,764,247</u>	<u>786,362</u>	<u>(43,430)</u>	<u>83,507,179</u>
Less Accumulated Depreciation for:				
Buildings	(24,006,331)	(1,263,595)	-	(25,269,926)
Improvements Other Than Buildings	(1,160,596)	(216,360)	-	(1,376,956)
Infrastructure	(11,347,378)	(123,296)	-	(11,470,674)
Equipment	(1,681,784)	(284,180)	-	(1,965,964)
Vehicles	(2,980,791)	(321,017)	43,430	(3,258,378)
Total Accumulated Depreciation	<u>(41,176,880)</u>	<u>(2,208,448)</u>	<u>43,430</u>	<u>(43,341,898)</u>
Capital Assets Being Depreciated, Net	<u>41,587,367</u>	<u>(1,422,086)</u>	<u>-</u>	<u>40,165,281</u>
Governmental Activities Capital Assets, Net	<u>\$ 79,916,664</u>	<u>\$ 53,956,204</u>	<u>\$ -</u>	<u>\$ 133,872,868</u>

B. Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Government Activities:	
General government	\$ 79,499
Public safety	554,279
Education	1,028,524
Highways and Public works	318,968
Human Services	4,400
Culture and Recreation	222,778
Total Governmental Activities Depreciation Expense	<u>\$ 2,208,448</u>

	Beginning Balance	Additions	Reductions	Ending Balance
Business-Type Activities:				
Assets Not Being Depreciated				
Land	\$ 3,447,950	\$ -	\$ -	\$ 3,447,950
Work in Process	25,910	13,592	-	39,502
Total Capital Assets Being Depreciated	<u>3,473,860</u>	<u>13,592</u>	<u>-</u>	<u>3,487,452</u>
Assets Being Depreciated:				
Buildings	2,233,676	-	-	2,233,676
Improvements Other Than Buildings	1,901,964	136,884	-	2,038,848
Infrastructure	15,074,395	-	-	15,074,395
Equipment	984,861	24,248	-	1,009,109
Vehicles	353,873	-	(49,000)	304,873
Total Capital Assets Being Depreciated	<u>20,548,769</u>	<u>161,132</u>	<u>(49,000)</u>	<u>20,660,901</u>
Less Accumulated Depreciation for:				
Buildings	(1,314,005)	(70,137)	-	(1,384,142)
Improvements Other Than Buildings	(1,126,561)	(74,261)	-	(1,200,822)
Infrastructure	(7,803,650)	(262,143)	-	(8,065,793)
Equipment	(532,264)	(65,152)	-	(597,416)
Vehicles	(221,912)	(31,720)	49,000	(204,632)
Total Accumulated Depreciation	<u>(10,998,392)</u>	<u>(503,413)</u>	<u>49,000</u>	<u>(11,452,805)</u>
Capital Assets Being Depreciated, Net	<u>9,550,377</u>	<u>(342,281)</u>	<u>-</u>	<u>9,208,096</u>
Business Type Activities Capital Assets, Net	<u>\$ 13,024,237</u>	<u>\$ (328,689)</u>	<u>\$ -</u>	<u>\$ 12,695,548</u>

Depreciation expense was charged to the enterprise funds as follows:

Business-Type Activities:	
Water	\$ 319,136
Hillview Golf	169,582
Recreation	14,695
Total Business-Type Activities Depreciation Expense	<u>\$ 503,413</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

2014	\$ 567,630
2013	(15,945)
2012	(17,058)
2011	434
2010	(318)
2009	303
2002	(20)
2001	668
2000	52

Total Real Estate Taxes	535,746
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Personal Property Taxes

2014	7,638
2013	12,550

Total Personal Property Taxes	20,188
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Total Property Taxes Receivable	\$ 555,934
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Tax Liens	\$ 470,461
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Excise Taxes Receivable:

Motor Vehicle Excise Tax

2014	\$ 91,725
2013	30,489
2012	9,431
2011	9,349
2010	6,252

Total Motor Vehicle Excise Tax	\$ 147,246
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C. Accounts Receivable (Continued)

Tax Excise Receivable

User Charges:

Trash Fees

2014	\$ 111,925
2013	(4,240)
2012	(2,455)
2010	(8)
2008	180
2007	23

Total Trash Fees	105,425
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Ambulance	253,936
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Total User Charges	\$ 359,361
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Light Liens

2009	\$ (552)
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Total Light Liens:	(552)
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Trash Liens

2014	4,618
2013	
2011	(295)
2010	(253)
2009	308

Total Trash Liens:	4,378
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Other Liens	1,966
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Total Liens	\$ 5,792
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Intergovernmental:

Current:

Due from Commonwealth of Massachusetts:

Highways and Other Public Works Grants	\$ 637,123
Various Federal Grants	25,663
School Building Assistance Bureau Grant	243,393

Total Current	906,179
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C. Accounts Receivable (Continued)

Noncurrent:

School Building Assistance Bureau Grant

2,190,537

Total Intergovernmental

\$ 3,096,716

Special Assessments:

Septic Betterments

\$ 14,470

Business Type Activities

Current:

User Charges:

Water

\$ 365,950

Water Liens:

2014

\$ 41,369

2012

751

2011

(138)

2010

588

2009

(60)

Total Water Liens

\$ 42,510

Water Tax Liens

\$ 54,472

D. Debt

i Short Term Debt

Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2014 as follows:

Governmental Activities:

<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>	<u>Interest Rate</u>
MUNIS Software	\$ 257,290	\$ 257,290	\$ (257,290)	\$ 257,290	11/7/2014	0.60%
Class A Fire Pumper	-	35,000	-	35,000	11/7/2014	0.60%
Class A Fire Pumper	-	450,000	-	450,000	11/7/2014	0.45%
Roads	-	63,000	-	63,000	11/7/2014	0.45%
School Utility Truck	-	61,000	-	61,000	11/7/2014	0.45%
Departmental Equipment (Truck 31)	-	58,000	-	58,000	11/7/2014	0.45%
School Asbestos Abatement	-	50,000	-	50,000	11/7/2014	0.45%
Wastewater (DEIR)	-	29,540	-	29,540	11/7/2014	0.45%
Police Facility Improvements	-	28,000	-	28,000	11/7/2014	0.45%
Total Governmental Activities	<u>\$ 257,290</u>	<u>\$ 1,031,830</u>	<u>\$ (257,290)</u>	<u>\$ 1,031,830</u>		

Business-type Activities:

Water Fund

Departmental Vehicle Replacement	\$ 71,239	\$ 71,239	\$ (71,239)	\$ 71,239	11/7/2014	0.60%
Water Department Backhoe	110,000	110,000	(110,000)	110,000	11/7/2014	0.60%
Water (DEIR)	-	205,000	-	205,000	11/7/2014	0.45%
Water System Upgrade	-	100,000	-	100,000	11/7/2014	0.45%
Total Water	<u>181,239</u>	<u>486,239</u>	<u>(181,239)</u>	<u>486,239</u>		

Hillview Golf Fund

Hillview Function Facility Improvements	\$ 300,000		\$ (300,000)	\$ -		
Seventh Fairway Improvements	50,000	-	(50,000)	-		
Seventh Fairway Improvements	50,000	-	(50,000)	-		
Hillview Capital	-	80,000	-	80,000	11/30/2014	0.90%
Total Hillview Golf	<u>400,000</u>	<u>80,000</u>	<u>(400,000)</u>	<u>80,000</u>		

Total Business--Type Activities	<u>\$ 581,239</u>	<u>\$ 566,239</u>	<u>\$ (581,239)</u>	<u>\$ 566,239</u>		
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D. Debt (Continued)

ii Long Term Debt

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 25 years. General obligation bonds outstanding at June 30, 2014 are as follows:

(a) General Obligation Bonds Outstanding at June 30, 2014

<u>Governmental Activities:</u>	Sale Date	Original	True	Final Maturity	Balance			Balance
<u>General Obligation Bond</u>	<u>Fiscal Year</u>	<u>Borrowing</u>	<u>Interest Cost</u>	<u>Fiscal Year</u>	<u>July 1, 2013</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2014</u>
MWPAT 97 1124 (O E)	2001	\$ 195,676	4.9%	2019	\$ 65,212	\$ -	\$ (10,872)	\$ 54,340
NSR Fire Pumper (I)	2003	75,000	3.2%	2017	25,000	-	(10,000)	15,000
NSR Fire Pumper II (I)	2003	200,000	3.1%	2017	50,000	-	(15,000)	35,000
New Money & Ref Purposes Elem Sch (IE)	2004	4,880,000	3.9%	2024	2,675,000	-	(245,000)	2,430,000
New Money & Ref Purposes Mod Classrooms (I)	2004	-		2014	50,000	-	(50,000)	-
Modular Classrooms 1 (I)	2006	650,000	3.6%	2019	300,000	-	(50,000)	250,000
High School Hot Water System (I)	2006	47,000	3.4%	2015	10,000	-	(5,000)	5,000
School Remodeling (I)	2006	257,500	3.8%	2025	150,000	-	(15,000)	135,000
Police Station 1 (IE)	2006	300,000	3.8%	2024	165,000	-	(15,000)	150,000
Police Station 2 (IE)	2006	125,000	3.8%	2025	60,000	-	(5,000)	55,000
School Renovations 1 Batchelder (IE)	2006	600,000	3.8%	2024	355,000	-	(35,000)	320,000
School Renovations 2 Batchelder (IE)	2006	4,000,000	3.9%	2025	2,500,000	-	(215,000)	2,285,000
Land Acquisition 1 (IE)	2006	3,310,000	3.9%	2025	2,085,000	-	(175,000)	1,910,000
Modular Classrooms 2 (IE)	2006	184,600	3.6%	2018	75,000	-	(15,000)	60,000
Modular Classrooms 3 (IE)	2006	300,000	3.6%	2019	125,000	-	(25,000)	100,000
School Planning 1 (IE)	2006	50,000	3.4%	2016	15,000	-	(5,000)	10,000
School Planning 2 (IE)	2006	166,275	3.7%	2022	90,000	-	(10,000)	80,000
Dump Truck 1 (I)	2006	115,000	3.5%	2017	40,000	-	(10,000)	30,000
Replace Rack Truck (I)	2006	45,000	3.4%	2015	10,000	-	(5,000)	5,000
Dump Truck 2 (I)	2006	65,000	3.3%	2015	10,000	-	(5,000)	5,000
Road Program (I)	2006	300,000	3.4%	2015	60,000	-	(30,000)	30,000
Replace & Update Culverts (I)	2006	120,000	3.8%	2025	60,000	-	(5,000)	55,000
Police Station Remodeling 1 (IE)	2007	4,375,000	3.9%	2025	2,905,000	-	(245,000)	2,660,000
Police Station Remodeling 2 (IE)	2007	625,000	3.9%	2025	415,000	-	(35,000)	380,000
Batchelder School Renovation (IE)	2007	6,000,000	3.9%	2024	3,900,000	-	(380,000)	3,520,000
Fire Pumper Truck (I)	2007	150,000	3.8%	2021	80,000	-	(10,000)	70,000
2 Police Cruisers (I)	2007	-		2014	5,000	-	(5,000)	-
Front End Loader (I)	2007	125,000	3.8%	2021	65,000	-	(10,000)	55,000
Dump Truck (I)	2007	130,000	3.6%	2016	40,000	-	(15,000)	25,000
MWPAT CW 03 16 Sewer (I)	2007	345,732	0.0%	2025	254,593	-	(16,954)	237,639
Fire Pumper (I)	2008	220,000	3.8%	2023	135,000	-	(15,000)	120,000
Police Station Remodeling (IE)	2008	2,375,000	4.0%	2027	1,744,000	-	(126,000)	1,618,000
6 Wheel Dump Truck (I)	2008	130,000	3.7%	2021	80,000	-	(10,000)	70,000
Modular Classrooms (IE)	2008	900,000	3.8%	2022	575,000	-	(65,000)	510,000

D. Debt (Continued)

	Sale Date <u>Fiscal Year</u>	Original <u>Borrowing</u>	True Interest Cost	Final Maturity <u>Fiscal Year</u>	Balance <u>July 1, 2013</u>	<u>Issued</u>	<u>Redeemed</u>	Balance <u>June 30, 2014</u>
Police Station Remodeling (I)	2008	486,000	3.9%	2027	350,000	-	(25,000)	325,000
Eisenhaures Pond Park (I)	2009	1,361,775	3.9%	2029	1,080,000	-	(70,000)	1,010,000
Remodeling (I)	2009	650,000	3.8%	2028	510,000	-	(35,000)	475,000
School Building Security (I)	2009	150,000	2.8%	2019	30,000	-	(5,000)	25,000
Bridge (I)	2009	100,440	3.9%	2028	75,000	-	(5,000)	70,000
Technology (I)	2009	100,000	2.9%	2018	25,000	-	(5,000)	20,000
Town Hall Generator Preparation (I)	2009	40,000	2.9%	2017	20,000	-	(5,000)	15,000
Eisenhaures Pond Park 2 (I)	2009	1,095,334	3.9%	2029	875,000	-	(55,000)	820,000
School Security System Improvements (I)	2011	-		2014	50,000	-	(50,000)	-
Asbestos Abatement Little School (I)	2011	60,000	1.5%	2019	40,000	-	(10,000)	30,000
School Roof Repairs (I)	2011	150,000	2.2%	2024	120,000	-	(15,000)	105,000
Senior Center Van (I)	2011	-		2014	10,000	-	(10,000)	-
Cemetery Phase 3 (I)	2011	-		2014	20,000	-	(20,000)	-
Municipal Departmental Vehicles (I)	2011	-		2014	15,000	-	(15,000)	-
DPW Dump Truck (I)	2011	-		2014	45,000	-	(45,000)	-
DPW Pick Up Truck (I)	2011	-		2014	10,000	-	(10,000)	-
Road Improvements 1 (I)	2011	-		2014	80,000	-	(80,000)	-
Flint Memorial Library (I)	2011	61,000	2.2%	2023	50,000	-	(5,000)	45,000
Police Department Equipment (I)	2011	26,600	1.2%	2016	15,000	-	(5,000)	10,000
Fire Department Vehicle (I)	2011	40,000	1.1%	2015	20,000	-	(10,000)	10,000
DPW Truck (I)	2011	39,400	1.1%	2015	15,000	-	(10,000)	5,000
Building on the Common Improvements (I)	2011	280,000	2.3%	2024	230,000	-	(25,000)	205,000
DPW Garage Improvements (I)	2011	30,000	1.3%	2017	20,000	-	(5,000)	15,000
Light Fixtures (I)	2011	50,000	1.9%	2021	40,000	-	(5,000)	35,000
Cemetery Ledge Removal (I)	2011	65,000	1.1%	2015	30,000	-	(15,000)	15,000
Road Improvements 2 (I)	2011	150,000	1.1%	2015	70,000	-	(35,000)	35,000
High School/Middle School Construction (OE)	2012	50,000,000	3.6%	2037	48,580,000	-	(1,255,000)	47,325,000
Storm Water Infiltration (I)	2012	138,000	1.4%	2015	90,000	-	(45,000)	45,000
Culvert Installation (I)	2012	270,000	1.9%	2022	240,000	-	(30,000)	210,000
Ambulance Replacement (I)	2012	250,000	1.6%	2020	215,000	-	(35,000)	180,000
School Boiler (I)	2012	250,000	1.9%	2022	225,000	-	(25,000)	200,000
School Technology (I)	2012	163,000	1.7%	2021	140,000	-	(20,000)	120,000
Departmental Equipment (I)	2012	240,000	1.7%	2021	210,000	-	(30,000)	180,000
Middle High School Construction (OE)	2014	17,066,000	3.6%	2037	-	17,066,000	-	17,066,000
Total Governmental Activities					<u>\$ 72,718,805</u>	<u>\$ 17,066,000</u>	<u>\$ (3,903,826)</u>	<u>\$ 85,880,979</u>

D. Debt (Continued)

Business Type Activities:

General Obligation Bond

	Sale Date Fiscal Year	Original Borrowing	Interest Rates to Maturities	Final Maturity Fiscal Year	Balance July 1, 2013	Issued	Redeemed	Balance June 30, 2014
NSR -Hillview Golf Course (I-SS)	2003	\$ 310,000	3.1%	2017	\$ 70,000	\$ -	\$ (20,000)	\$ 50,000
Hillview Club House 1 (I-SS)	2006	179,425	3.8%	2023	100,000	-	(10,000)	90,000
Hillview Club House 2 (I-SS)	2006	50,000	3.4%	2016	15,000	-	(5,000)	10,000
Hillview Capital 1 (I-SS)	2006	143,792	3.6%	2020	70,000	-	(10,000)	60,000
Land Acquisition 2 (I)	2006	430,000	3.8%	2025	255,000	-	(25,000)	230,000
Golf Course & Recreational Facility 1 (I-SS)	2007	600,000	3.8%	2021	330,000	-	(45,000)	285,000
Golf Course (I-SS)	2008	100,000	3.6%	2018	50,000	-	(10,000)	40,000
Turf Field North Reading High School	2011	2,000,000	2.3%	2024	1,690,000	-	(155,000)	1,535,000
Hillview Golf	2012	100,000	1.6%	2020	85,000	-	(15,000)	70,000
7th Fairway Improvement and Lawnmower	2014	100,000	1.9%	2023	-	100,000	-	100,000
Hillview Function Facility Improvements	2014	300,000	2.8%	2029	-	300,000	-	300,000
NSR -Water Tower (O-SS)	2003	1,150,000	3.2%	2017	340,000	-	(85,000)	255,000
MWPAT CW-00-56 Sewer (I)	2005	334,153	5.0%	2018	145,000	-	(25,000)	120,000
Water Tower (O-SS)	2006	866,850	3.8%	2025	540,000	-	(45,000)	495,000
Water System 1 (O-SS)	2006	214,200	3.8%	2025	120,000	-	(10,000)	110,000
Water System 2 (O-SS)	2006	180,000	3.4%	2015	40,000	-	(20,000)	20,000
Water System 1 (O-SS)	2007	50,000	3.7%	2016	15,000	-	(5,000)	10,000
Water Department Capital (O-SS)	2008	328,000	3.6%	2020	151,000	-	(34,000)	117,000
Water Departmental Equipment (O-SS)	2009	40,000	2.9%	2017	20,000	-	(5,000)	15,000
Water (O-SS)	2009	180,000	3.8%	2029	140,000	-	(10,000)	130,000
Well (O-SS)	2009	50,000	3.1%	2019	30,000	-	(5,000)	25,000
Water Treatment Plant	2011	40,000	1.6%	2019	30,000	-	(5,000)	25,000
Water Department Improvements (O)	2011	64,000	1.6%	2020	40,000	-	(10,000)	30,000
Water Department Improvements 1 (I)	2011	201,000	1.2%	2016	120,000	-	(40,000)	80,000
Water Department Improvements 1A (O)	2011	100,000	2.1%	2024	80,000	-	(10,000)	70,000
Total Business Type Activities					<u>\$ 4,476,000</u>	<u>\$ 400,000</u>	<u>\$ (604,000)</u>	<u>\$ 4,272,000</u>

(b) Summary of Debt Service Requirements to Maturity

Fiscal Year Ended	Governmental Activities		Business-type Activities		Total Primary Government	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 2,174,507	\$ 410,528	\$ 644,000	\$ 137,441	\$ 2,818,507	\$ 547,969
2016	3,792,868	3,640,581	604,000	113,443	4,396,868	3,754,024
2017	3,876,868	3,432,020	544,000	93,364	4,420,868	3,525,384
2018	3,905,868	3,282,249	410,000	77,908	4,315,868	3,360,157
2019	3,960,868	3,134,168	365,000	66,287	4,325,868	3,200,455
2020 - 2024	16,830,000	13,201,440	1,500,000	167,505	18,330,000	13,368,945
2025 - 2029	15,470,000	9,106,779	205,000	16,313	15,675,000	9,123,092
2030 - 2034	16,590,000	5,946,050	-	-	16,590,000	5,946,050
2035 - 2039	<u>16,280,000</u>	<u>1,750,700</u>	<u>-</u>	<u>-</u>	<u>16,280,000</u>	<u>1,750,700</u>
	<u>\$ 82,880,979</u>	<u>\$ 43,904,515</u>	<u>\$ 4,272,000</u>	<u>\$ 672,261</u>	<u>\$ 87,152,979</u>	<u>\$ 44,576,776</u>

D. Debt (Continued)

(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 federal and state capitalized revolving funds. Loans are made from the fund to local governmental units to finance the costs of eligible water pollution abatement programs. Local governments obtain financing through the SRF and receive subsidies, but are obligated for the entire amount of the debt. The Town has borrowed four issues through the program. Subsidies which will be utilized to offset the principal and interest debt service costs disclosed in the summary above are noted below:

	<u>SRF Subsidies</u>	
	<u>General Government</u>	<u>Enterprise</u>
2015	\$7,339	\$10,017
2016	6,536	9,437
2017	5,667	8,343
2018	4,859	9,166
2019	4,059	0
2019 - 2023	14,737	0
2024	<u>1,678</u>	<u>0</u>
Total Subsidies	<u>\$44,875</u>	<u>\$36,963</u>

(d) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2014, are as follows:

March 19, 2012 & March 24, 2012	School Construction Project	\$35,035,952
June 4, 2012	Water Department Vehicles	82,000
October 1, 2012	MUNIS Software	257,290
October 1, 2012	Class A Fire Pumper Truck	485,000
October 1, 2012	Water Department Backhoe	110,000
March 18, 2013 & March 22, 2013	School Construction Project	1,337,037
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	Depart'l Equip (Truck #31)	58,000
June 3, 2013	School Asbestos Abatement	50,000
June 3, 2013	Golf Course Improv (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 2, 2014	Golf Course Improvement (Nursery)	15,000
June 2, 2014	Town Road Program	165,175
June 2, 2014	Fire Station - AC Upgrades	40,000

D. Debt (Continued)

June 2, 2014	Drain System Repairs	87,500
June 2, 2014	1987 Wood Chipper #53 Repl	41,000
June 2, 2014	Town Hall - Replace Exterior Doors	20,000
June 2, 2014	Public Safety Building Exterior Repairs	35,000
June 2, 2014	New Senior Van	44,825
June 2, 2014	Replace Culvert-Central at Skug River	150,000
June 2, 2014	Installation of Irrigation System	1,000,000
June 2, 2014	Tower Hill Anchor Bolt Repairs	85,000
June 2, 2014	West Village - Upgrade Wells	55,000
June 2, 2014	Water System Modeling MWRA Connect	50,000
June 2, 2014	WTP Studies-Improve Daily Water Prod	50,000
June 2, 2014	Water System Distribution Improv	150,000
June 2, 2014	2001 3/4 Ton Pickup #24 Replacement	<u>24,551</u>
	Total	<u>\$40,179,870</u>

Subsequent to the balance sheet date (October 6, 2014), the Town authorized \$250,000 of general long term debt for land acquisition.

iii Changes in Long Term Debt

Changes in the government's long-term liabilities for the year ended June 30, 2014 are as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
<u>Governmental Activities</u>					
Bonds Payable	\$ 72,718,805	\$ 17,066,000	\$ (3,903,826)	\$ 85,880,979	\$ 2,174,507
Add: Unamortized Premium	<u>4,780,805</u>	<u>1,036,510</u>	<u>(242,388)</u>	<u>5,574,927</u>	-
Total Bonds Payable	<u>77,499,610</u>	<u>18,102,510</u>	<u>(4,146,214)</u>	<u>91,455,906</u>	<u>2,174,507</u>
Compensated Absences	3,963,019	1,168,451	(792,604)	4,338,866	867,773
Other Post Employment Benefits	<u>13,742,698</u>	<u>7,250,495</u>	<u>(1,654,281)</u>	<u>19,338,912</u>	-
Total Governmental Activities	<u>\$ 95,205,327</u>	<u>\$ 26,521,456</u>	<u>\$ (6,593,099)</u>	<u>\$ 115,133,684</u>	<u>\$ 3,042,280</u>
<u>Business Type Activities</u>					
Bonds Payable	\$ 4,476,000	\$ 400,000	\$ (604,000)	\$ 4,272,000	\$ 644,000
Compensated Absences	138,907	51,241	(41,672)	148,476	44,543
Other Post Employment Benefits	<u>350,851</u>	<u>177,550</u>	<u>(27,176)</u>	<u>501,225</u>	-
Total Business Type Activities	<u>\$ 4,965,758</u>	<u>\$ 628,791</u>	<u>\$ (672,848)</u>	<u>\$ 4,921,701</u>	<u>\$ 688,543</u>

E. Interfund Transfers

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

	<u>Transfer In</u>	<u>Transfer (Out)</u>	<u>Total</u>
<u>Fund Financial Statements</u>			
General	\$ 1,416,323	\$ (190,808)	\$ 1,225,515
Other Major Fund	934,000	-	934,000
Non-Major Governmental	50,000	(1,798,036)	(1,748,036)
Recreation - Business Type	140,808	(13,984)	126,824
Golf - Business Type	-	(141,645)	(141,645)
Water - Business Type	-	(396,658)	(396,658)
Total Fund Financial Statements	<u>2,541,131</u>	<u>(2,541,131)</u>	<u>-</u>
<u>Entity Wide Financial Statements</u>			
Net Transfers In/Out Governmental Funds	411,479	-	411,479
Net Transfers In/Out Enterprise Funds	-	(411,479)	(411,479)
Net Transfers Entity Wide	<u>\$ 411,479</u>	<u>\$ (411,479)</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, 2014, 2013 and 2012 were \$2,932,808, \$2,716,251 and \$2,596,324, 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 premium for a \$5,000 life insurance policy 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, 2014, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$7,679,430
Interest on Net OPEB Obligation	563,742
Adjustment to Annual Required Contribution	(815,127)
Annual OPEB Cost (Expense)	<u>7,428,045</u>
Contributions Made:	
Contributions for Benefits	<u>1,681,456</u>
Total Contributions	<u>1,681,456</u>
Increase in Net OPEB Obligation	5,746,589
Net OPEB Obligation (NOO)- Beginning of Year	<u>14,093,548</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$19,840,137</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>
2012	\$3,410,128	47.2%	\$8,594,033
2013	\$7,134,483	22.9%	\$14,093,549
2014	\$7,428,045	22.6%	\$19,840,137

- 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, 2014 was \$167,505.

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, 2014, the Commonwealth paid \$4,916,551 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, 2014, or fund balances/net position at June 30, 2014.

D. Subsequent Year Authorizations

On June 2, 2014 and October 6, 2014, the Town adopted a fiscal 2015 operating and capital budget of \$64,860,695. Fiscal 2015 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

2014 Property Taxes, State Aid	
and Non-Property Tax Revenue	\$ 57,053,087
Enterprise Fund Revenues	5,616,184
Restricted Fund Balance:	
Non-Major Funds	934,029
Committed Fund Balance:	
General Fund	687,395
Unassigned Fund Balance:	
General Fund	570,000
	<u>\$ 64,860,695</u>

E. 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 \$609,877.

F. Prior Period Adjustment

In order to comply with generally accepted accounting principles and the Governmental Accounting Standards Board requirements a prior period adjustment (\$4,780,805) was made in the entity wide financial statements. The entry was made to reflect the bond premium (received in fiscal year 2012) as a component of bonds payable. The premium will be amortized as interest expense over the life of the bond. The adjustment does not affect the fund financial statements.

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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
<u>Revenues:</u>				
Property Taxes	\$41,303,500	\$41,404,655	\$41,465,195	\$ 60,540
Tax Liens	-	-	156,598	156,598
Excises	2,200,000	2,200,000	2,738,009	538,009
Penalties and Interest	209,064	209,064	247,133	38,069
Licenses and Permits	332,602	332,602	467,967	135,365
Fees and Other Departmental	176,755	176,755	254,020	77,265
Intergovernmental	8,661,997	8,661,997	8,895,869	233,872
Charges for Services	912,281	912,281	953,859	41,578
Fines and Forfeits	12,354	12,354	16,255	3,901
Earnings on Investments	71,272	71,272	56,304	(14,968)
In Lieu of Taxes	350,000	350,000	425,573	75,573
Miscellaneous	-	-	34,274	34,274
Total Revenues	<u>54,229,825</u>	<u>54,330,980</u>	<u>55,711,056</u>	<u>1,380,076</u>
<u>Expenditures:</u>				
Current:				
General Government	2,490,237	2,476,964	2,366,214	110,750
Public Safety	6,314,870	6,316,708	6,283,047	33,661
Education	26,061,105	26,079,168	26,077,154	2,014
Highway and Public Works	3,277,712	3,505,078	3,739,825	(234,747)
Health and Human Services	781,814	762,924	644,996	117,928
Culture and Recreation	517,895	533,198	533,197	1
Intergovernmental	206,688	206,688	211,584	(4,896)
Employee Benefits	9,135,005	9,153,837	9,061,389	92,448
Debt Service	6,938,065	6,938,065	6,895,642	42,423
Total Expenditures	<u>55,723,391</u>	<u>55,972,630</u>	<u>55,813,048</u>	<u>159,582</u>
Excess (Deficiency) of Revenues Over Expenditure:	<u>(1,493,566)</u>	<u>(1,641,650)</u>	<u>(101,992)</u>	<u>1,539,658</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	1,884,003	1,884,003	1,884,003	-
Transfers Out	(140,808)	(932,363)	(932,363)	-
Budgetary Fund Balance - Sources	230	939,869	939,869	-
Budgetary Fund Balance - Uses	(249,859)	(249,859)	(249,859)	-
Total Other Financing Sources (Uses)	<u>1,493,566</u>	<u>1,641,650</u>	<u>1,641,650</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,539,658</u>	<u>\$ 1,539,658</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/1996	\$ 373,750,361	\$ 634,920,488	\$ 261,170,127	58.87%	\$ 218,345,024	119.61%
1/1/1998	476,708,969	763,093,878	286,384,909	62.47%	215,380,186	132.97%
1/1/2000	570,263,467	905,280,472	335,017,005	62.99%	253,228,818	132.30%
1/1/2002	599,699,143	1,020,828,178	421,129,035	58.75%	280,740,439	150.01%
1/1/2004	618,163,380	1,223,828,127	605,664,747	50.51%	306,025,949	197.91%
1/1/2006	653,156,866	1,364,582,969	711,426,103	47.86%	330,999,861	214.93%
1/1/2008	774,863,669	1,529,806,307	754,942,638	50.65%	360,206,302	209.59%
1/1/2010	819,987,914	1,743,581,707	923,593,793	47.03%	384,933,571	239.94%
1/1/2012	862,323,395	1,974,144,909	1,111,821,514	43.68%	393,100,905	282.83%
1/1/2014	967,146,018	2,195,732,452	1,228,586,434	44.05%	415,752,810	295.51%

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%
2012	81,933,448	81,933,488	100.00%	2,596,324	3.17%
2013	88,287,112	88,287,112	100.00%	2,716,251	3.08%

Town of North Reading, Massachusetts
Required Supplementary Information
Other Post Employment Benefits
Schedule of Funding Progress
Fiscal Year Ended June 30, 2014

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, 2014 was \$167,505

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, 2014

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, 2014

(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 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.

(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, 2014
Actuarial Cost Method	Entry Age Normal Cost Method.
Amortization Method	Prior year's total contribution increased by 6.5% for fiscal 2016 through fiscal 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, 2014, 5 years remaining for the 2002 ERI liability; 6 years remaining for the 2003 ERI liability; 8 years remaining for the 2010 ERI liability and 21 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. Asset value is adjusted as necessary to be within 20% of the market value.
Actuarial Assumptions:	
Investment Rate of Return	7.875% (previously, 8.00%)
Projected Salary Increases	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.50% for Group 2, and 4.75% for Group 4 (previously, 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

Plan Membership:

Retired participants and beneficiaries in pay status or with suspended benefits	5,077
Inactive participants entitled to a return of their employee contributions	2,632
Invested participants with a vested right to a deferred or immediate benefit	384
Active participants	<u>9,082</u>
Total	<u>17,175</u>

Town of North Reading, Massachusetts
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2014

<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	\$ 103,329
Total U.S. Department of Agriculture		<u>103,329</u>
<u>U.S. Department of Justice</u>		
Bulletproof Vest Partnership Program	16.607	4,026
Total U.S. Department of Justice		<u>4,026</u>
<u>U.S. Department of Education</u>		
Title I	84.010	79,173
SPED PL 94-142 Allocation	84.027	511,187
SPED Transition	84.027	581
SPED Program Improvement	84.027	11,563
Subtotal # 84.027		<u>523,331</u>
SPED Preschool	84.173	1,450
SPED Early Childhood	84.173	14,883
Subtotal #84.173		<u>16,333</u>
Total Special Education Cluster		<u>539,664</u>
Teacher Quality	84.367	25,027
Total U.S. Department of Education		<u>643,864</u>
<u>U.S. Department Homeland Security</u>		
Essex County Trench Rescue	97.Unk	8,190
Disaster Grant - Public Assistance	97.036	140,302
Public Assistance Grant/Hazard Mitigation	97.039	4,847
Total U.S. Department Homeland Security		<u>153,339</u>
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 904,558</u></u>

Town of North Reading, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2014

(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, 2014, and the related notes to the financial statements and have issued our report thereon dated February 18, 2015.

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 9, 2015 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
Georgetown, Massachusetts
February 18, 2015

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 each of the Town of North Reading, Massachusetts' major federal programs for the year ended June 30, 2014. 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 our 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.

Opinion on Each Major Federal Program

In our opinion, 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 each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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.

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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose 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

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
February 18, 2015

Town of North Reading, Massachusetts
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2014

(I) Summary of Auditors' Results

- 1 The opinion of the financial statements was unmodified.
- 2 No significant deficiencies in internal control were reported in the audit of the financial statements.
- 3 No instances of noncompliance which were material to the financial statements were reported.
- 4 No significant deficiencies in internal control relating to a major program were reported.
- 5 The opinion on compliance with requirements applicable to a major program was unmodified.
- 6 No findings relative to a major federal award program were 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 not qualify as low risk.

(II) Findings - Financial Statement Audit

No findings were reported related to the financial statements.

(III) Findings and Questioned Costs for Federal Awards

No findings or questioned costs were reported.

Town of North Reading, Massachusetts
Summary of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2014
(Continued on Page 61)

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
Summary of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2014
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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.

Current Status

The School Department established internal controls in order to ensure that time and effort certifications were on file.