

TOWN OF NORTH READING, MASSACHUSETTS

Financial Statements

June 30, 2015

(With Accountants' Report Thereon)

Town of North Reading, Massachusetts
Table of Contents

	Page
Independent Auditors' Report	1,2
Management's Discussion and Analysis (Required Supplementary Information)	3-10
Basic Financial Statements	
Government-wide Financial Statements	
• Statement of Net Position	11
• Statement of Activities	12
Fund Financial Statements	
• Balance Sheet - Governmental Funds	13
• Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	14
• Reconciliation of the Governmental Funds Balance Sheet - Total Fund Balances to the Statement of Net Position	15
• Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
• Statement of Net Position - Proprietary Funds	17
• Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	18
• Statement of Cash Flows - Proprietary Fund	19
• Statement of Fiduciary Net Position – Fiduciary Funds	20
• Statement of Changes in Fiduciary Net Position – Fiduciary Funds	21
Notes to the Financial Statements	22-55
Required Supplementary Information	
• Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	57
• Schedule of the Town of North Reading's Proportionate Share of the Net Pension Liability – Middlesex County Retirement System	58
• Schedule of the Town of North Reading's Contributions - Middlesex County Retirement System	59

Town of North Reading, Massachusetts
Table of Contents

	Page
• Schedule of the Town of North Reading’s Proportionate Share of the Collective Net Pension Liability – Massachusetts Teachers’ Retirement System	60
• Other Post Employment Benefits - Schedule of Funding Progress and Employer’s Contributions	61
• Other Post Employment Benefits - Valuation Details	62
• Notes to the Required Supplementary Information	63-66
Schedule of Expenditures of Federal Awards	67
Notes to Schedule of Expenditures of Federal Awards	68
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 <i>Government Auditing Standards</i>	69,70
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	71,72
Schedule of Findings and Questioned Costs	73

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, 2015, 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, 2015 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 March 21, 2016, 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
March 21, 2016

**Town of North Reading, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2015**

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, 2015.

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 \$39,441,668 (*net position*).
- The governmental activities total net position increased by \$9,056,624 or 14.9% (not including the prior period adjustment). The increase is primarily attributable to a capital grant (\$12,979,261) from the Massachusetts School Building Authority. The Hillview enterprise fund had an increase in net position of \$47,990, the Water enterprise fund had a decrease in net position of \$132,357 (not including the prior period adjustment) and the Recreation enterprise fund had a decrease in net position of \$104,729.
- The deficit in the unrestricted net position of the Hillview enterprise fund is the result of reporting the other post employment benefits liability and because the debt related to the Turf Field is reported in the enterprise fund while the asset is reported with the governmental activities.
- The deficit in the unrestricted net position of the Park and Recreation enterprise fund is the result of recognizing the other post employment benefits liability (\$281,316) in the fund.
- The deficit in the unrestricted net position of the Water enterprise fund is a result of recognizing the other post employment benefits liability and the net pension liability in the fund.
- At the end of the current fiscal year, unassigned fund balance in the general fund was \$4,383,754 or 7.0% of total general fund expenditures.
- The total long term debt of the Town of North Reading, Massachusetts decreased by \$1,286,517 or 1.3%. The governmental activities decreased by \$2,566,090 or 2.8% while the business type activities increased by \$1,279,573 or 30%.

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. The Town maintains fiduciary funds to account for activities related to scholarship trust funds and for its Other Post Employment Benefits (OPEB) trust fund. The OPEB Trust Fund is used to accumulate resources to provide funding for future OPEB liabilities.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Town of North Reading, Massachusetts' progress in funding its obligation to provide pension and OPEB benefits to its employees. The *required supplementary information* also includes budget versus actual information.

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 2014 amounts below have been adjusted to reflect prior period adjustments and the implementation of Governmental Accounting Standards Board Statement # 68.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Current and Other Assets	\$ 47,621,669	\$ 29,045,757	\$ 3,494,425	\$ 3,684,313	\$ 51,116,094	\$ 32,730,070
Capital Assets	133,872,868	165,900,086	12,695,548	13,253,356	146,568,416	179,153,442
Total Assets	<u>181,494,537</u>	<u>194,945,843</u>	<u>16,189,973</u>	<u>16,937,669</u>	<u>197,684,510</u>	<u>211,883,512</u>
Deferred Outflows of Recourses	<u>134,558</u>	<u>134,558</u>	<u>5,243</u>	<u>5,243</u>	<u>139,801</u>	<u>139,801</u>

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Other Liabilities	8,489,408	10,873,087	1,588,234	1,216,172	10,077,642	12,089,259
Long Term Liabilities	151,341,920	153,264,016	5,762,399	7,071,253	157,104,319	160,335,269
Total Liabilities	<u>159,831,328</u>	<u>164,137,103</u>	<u>7,350,633</u>	<u>8,287,425</u>	<u>167,181,961</u>	<u>172,424,528</u>
Deferred Inflows of Recourses	68,210	157,117	-	-	68,210	157,117
Net Position:						
Net Investment in Capital Assets	72,308,708	86,051,393	10,241,095	10,240,429	82,549,803	96,291,822
Restricted	5,576,641	6,482,088	-	-	5,576,641	6,482,088
Unrestricted	(56,155,792)	(61,747,300)	(1,396,512)	(1,584,942)	(57,552,304)	(63,332,242)
Total Net Position	<u>\$ 21,729,557</u>	<u>\$ 30,786,181</u>	<u>\$ 8,844,583</u>	<u>\$ 8,655,487</u>	<u>\$ 30,574,140</u>	<u>\$ 39,441,668</u>

The net position of the Town increased by \$8,867,528. The net position of the governmental activities increased by \$9,056,624 and the net position of the business-type activities decreased by (\$189,096).

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>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 4,658,959	\$ 4,807,589	\$ 5,451,199	\$ 5,585,436	\$ 10,110,158	\$ 10,393,025
Operating Grants and Contributions	14,416,618	13,060,615	28,312	34,307	14,444,930	13,094,922
Capital Grants and Contributions	23,155,567	13,029,261	-	-	23,155,567	13,029,261
General Revenues:						
Property Taxes	41,490,896	44,380,907	-	-	41,490,896	44,380,907
Motor Vehicle and Other Excises	2,611,584	2,765,788	-	-	2,611,584	2,765,788
Intergovernmental Not Restricted to a Specific Program	1,575,443	1,618,433	-	-	1,575,443	1,618,433
Other	621,514	599,368	-	-	621,514	599,368
Total Revenues	<u>88,530,581</u>	<u>80,261,961</u>	<u>5,479,511</u>	<u>5,619,743</u>	<u>94,010,092</u>	<u>85,881,704</u>
Expenses						
General Government	2,626,673	2,876,701	-	-	2,626,673	2,876,701
Public Safety	7,016,717	6,882,161	-	-	7,016,717	6,882,161
Education	35,091,120	35,447,329	-	-	35,091,120	35,447,329
Highways and Public Works	4,861,415	4,990,623	-	-	4,861,415	4,990,623
Human Services	695,546	719,557	-	-	695,546	719,557
Culture and Recreation	824,572	734,289	-	-	824,572	734,289
Fringe Benefits and Insurance	14,656,910	16,549,681	-	-	14,656,910	16,549,681
Interest on Debt Service	2,907,199	3,494,397	-	-	2,907,199	3,494,397
Water	-	-	3,215,514	3,435,617	3,215,514	3,435,617
Hillview	-	-	1,247,177	1,249,503	1,247,177	1,249,503
Recreation	-	-	565,991	634,318	565,991	634,318
Total Expenses	<u>68,680,152</u>	<u>71,694,738</u>	<u>5,028,682</u>	<u>5,319,438</u>	<u>73,708,834</u>	<u>77,014,176</u>

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Increase (Decrease) in Net Position Before Transfers	19,850,429	8,567,223	450,829	300,305	20,301,258	8,867,528
Transfers	411,479	489,401	(411,479)	(489,401)	-	-
Increase (Decrease) in Net Position	<u>\$ 20,261,908</u>	<u>\$ 9,056,624</u>	<u>\$ 39,350</u>	<u>\$ (189,096)</u>	<u>\$ 20,301,258</u>	<u>\$ 8,867,528</u>

Governmental Activities

In fiscal year 2015, property taxes accounted for approximately 55% of the revenues. During fiscal year 2014, property taxes accounted for 47% of the revenues. During fiscal year 2013 property taxes accounted for 59% of the revenues. The significant percentage changes over the last three fiscal years occurred because of the varying amounts of the school building capital grant from the Massachusetts School Building Authority (MSBA) during those years changed the total revenues of the governmental activities. In fiscal years 2015, 2014 and 2013 the Town received MSBA revenues of \$12,979,261, \$23,155,567 and \$4,619,760, respectively.

Business-type Activities

Water rates are structured to cover all costs related to the activity. The Water fund had a loss of \$132,357 in 2015. It had a loss of \$30,516 in 2014. The Golf enterprise fund had a gain of \$47,990 in 2015. It had a gain of \$165,142 in fiscal year 2014. The Recreation had a loss of \$104,729 in 2015. It had a loss of \$95,276 in 2014.

Financial Analysis of the Town's Funds

Governmental Funds

The focus of the Town of North Reading, Massachusetts' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of North Reading, Massachusetts' financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town of North Reading, Massachusetts itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Town of North Reading, Massachusetts' Selectmen.

General Fund – The year-end fund balances of the general fund were \$590,258 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>
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
2015	2,277,856	714,862	4,383,754	7,376,472

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>
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
2015	1,693,928

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.

The Unrestricted net position of the Water Enterprise Fund at year end was a deficit of \$495,782. The Unrestricted net position of the Recreation Enterprise Fund was a deficit of \$237,321. The Unrestricted net position of the Hillview Enterprise Fund at the end of the year was a deficit of \$851,239. The deficit in the Water fund is, primarily, a result of reporting the Net Pension liability and the Other Post Employment Benefit (OPEB) liability. The deficit in the Hillview fund was caused by reporting the OPEB liability and 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 deficit in the Parks and Recreation fund is, primarily, a result of reporting the Other Post Employment Benefit (OPEB) liability in the fund.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget relate to special town meetings and reserve fund transfers. The Town had positive budget results in substantially all budget areas. The deficit in the Department of Public Works function was due to expenditures related to the removal of snow and ice.

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, 2015, amounts to \$176,793,289 (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 (\$34,241,908)
- Irrigation System - Hillview (\$958,653)
- Roadway Paving (\$343,195)
- Fire Pumper (\$267,300)
- Culvert Skug River (\$146,000)

Capital Assets at June 30, 2015 (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Assets not Being Depreciated	\$ 93,707,587	\$ 19,095,908	\$ 3,487,452	\$ 4,500,106	\$ 97,195,039	\$ 23,596,014
Assets Being Depreciated:						
Buildings	30,903,185	134,599,241	849,534	779,397	31,752,719	135,378,638
Improvements Other Than Buildings	2,807,304	2,820,833	838,026	765,338	3,645,330	3,586,171
Infrastructure	3,604,087	4,058,700	7,008,602	6,748,928	10,612,689	10,807,628
Equipment	1,779,090	4,020,441	411,693	371,291	2,190,783	4,391,732
Vehicles	1,071,615	1,304,963	100,241	88,296	1,171,856	1,393,259
Total	<u>\$ 133,872,868</u>	<u>\$ 165,900,086</u>	<u>\$ 12,695,548</u>	<u>\$ 13,253,356</u>	<u>\$ 146,568,416</u>	<u>\$ 179,153,442</u>

Debt

The Town had \$94,441,389 in bonds payable (net bond premium) outstanding on June 30, 2015. The table below details the balances for the past two fiscal years.

	<u>2014</u>	<u>2015</u>	<u>Change</u>
Governmental Activities			
General Obligation Bonds Payable	\$ 85,880,979	\$ 83,495,682	\$ (2,385,297)
Premium	5,574,927	5,394,134	(180,793)
	<u>91,455,906</u>	<u>88,889,816</u>	<u>(2,566,090)</u>
Business-type Activities			
General Obligation Bonds Payable	<u>4,272,000</u>	<u>5,551,573</u>	<u>1,279,573</u>
Total Debt	<u>\$ 95,727,906</u>	<u>\$ 94,441,389</u>	<u>\$ (1,286,517)</u>

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

Fiscal Year 2016 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 2016 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 2016 departmental budgets.

Request for Information

This financial report is designed to provide a general overview of the Town of North Reading, Massachusetts’ finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town of North Reading
Finance Department
Town Hall
235 North Street
North Reading, Massachusetts 01864

Town of North Reading, Massachusetts
Statement of Net Position
June 30, 2015

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	<u>Total</u>
Assets:			
Current:			
Cash/Investments	\$ 24,020,801	\$ 3,210,184	\$ 27,230,985
Petty Cash	585	-	585
Accounts Receivable:			
Property Taxes	451,294	-	451,294
Tax Liens	722,692	66,223	788,915
Excises	198,702	-	198,702
User Charges	520,254	402,260	922,514
Liens	3,080	5,646	8,726
Intergovernmental	1,171,798	-	1,171,798
Noncurrent:			
Accounts Receivable:			
Intergovernmental	1,947,144	-	1,947,144
Deferred Special Assessments	9,407	-	9,407
Capital Assets:			
Assets Not Being Depreciated	19,095,908	4,500,106	23,596,014
Assets Being Depreciated, Net	146,804,178	8,753,250	155,557,428
Total Assets	194,945,843	16,937,669	211,883,512
Deferred Outflows of Resources:			
Pensions	134,558	5,243	139,801
Total Deferred Outflows of Resources	134,558	5,243	139,801
Liabilities:			
Current:			
Warrants Payable	2,104,704	48,358	2,153,062
Accounts Payable	-	168,429	168,429
Accrued Salaries Payable	3,030,320	22,806	3,053,126
Employees' Withholding Payable	407,612	-	407,612
Due to Other Governments	7,954	-	7,954
Unclaimed Checks	38,011	-	38,011
Guarantee Deposits	-	29,748	29,748
Accrued Interest Payable	299,727	31,656	331,383
Other Liabilities	135	-	135
Compensated Absences	737,546	85,385	822,931
Bonds Payable	4,247,078	829,790	5,076,868
Noncurrent:			
Bonds Payable	84,642,738	4,721,783	89,364,521
Compensated Absences	2,950,183	128,078	3,078,261
Net Pension Liability	39,844,618	1,552,387	41,397,005
Other Post Employment Benefit Obligations	25,826,477	669,005	26,495,482
Total Liabilities	164,137,103	8,287,425	172,424,528
Deferred Inflows of Resources:			
Taxes and User Charges Paid in Advance	157,117	-	157,117
Total Deferred Inflows of Resources	157,117	-	157,117
Net Position:			
Net Investment in Capital Assets	86,051,393	10,240,429	96,291,822
Restricted for:			
Gifts, Grants and Other Statutory Restrictions	5,588,172	-	5,588,172
Perpetual Funds:			
Expendable	178,724	-	178,724
Nonexpendable	715,192	-	715,192
Unrestricted	(61,747,300)	(1,584,942)	(63,332,242)
Total Net Position	\$ 30,786,181	\$ 8,655,487	\$ 39,441,668

Town of North Reading, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating	Capital	Governmental Activities	Business - Type Activities	Total
			Grants and Contributions	Grants and Contributions			
Primary Government:							
<i>Governmental Activities:</i>							
General Government	\$ 2,876,701	\$ 592,399	\$ 178,419	\$ -	\$ (2,105,883)	\$ -	\$ (2,105,883)
Public Safety	6,882,161	1,283,332	147,132	-	(5,451,697)	-	(5,451,697)
Education	35,447,329	1,783,383	11,447,943	13,029,261	(9,186,742)	-	(9,186,742)
Highways and Public Works	4,990,623	1,097,084	1,002,389	-	(2,891,150)	-	(2,891,150)
Human Services	719,557	49,211	231,329	-	(439,017)	-	(439,017)
Culture and Recreation	734,289	2,180	53,403	-	(678,706)	-	(678,706)
Fringe Benefits and Insurance	16,549,681	-	-	-	(16,549,681)	-	(16,549,681)
Interest on Debt Service	3,494,397	-	-	-	(3,494,397)	-	(3,494,397)
Total Governmental Activities	<u>71,694,738</u>	<u>4,807,589</u>	<u>13,060,615</u>	<u>13,029,261</u>	<u>(40,797,273)</u>	<u>-</u>	<u>(40,797,273)</u>
<i>Business-Type Activities:</i>							
Hillview	1,249,503	1,480,343	22,126	-	-	252,966	252,966
Recreation	634,318	405,456	-	-	-	(228,862)	(228,862)
Water Services	3,435,617	3,699,637	12,181	-	-	276,201	276,201
Total Business-Type Activities	<u>5,319,438</u>	<u>5,585,436</u>	<u>34,307</u>	<u>-</u>	<u>-</u>	<u>300,305</u>	<u>300,305</u>
Total Primary Government	<u>\$ 77,014,176</u>	<u>\$ 10,393,025</u>	<u>\$ 13,094,922</u>	<u>\$ 13,029,261</u>	<u>(40,797,273)</u>	<u>300,305</u>	<u>(40,496,968)</u>
					Property Taxes	-	44,380,907
					Motor Vehicle and Other Excise Taxes	-	2,765,788
					Penalties and Interest on Taxes	-	255,404
					Other Taxes, Assessments and In Lieu of Tax Payments	-	286,625
					Intergovernmental	-	1,618,433
					Interest and Investment Income	-	30,273
					Other Revenue	-	25,566
					Net Gain (Loss) on Sale of Assets	-	1,500
					Transfers, Net	(489,401)	-
					Total General Revenues and Transfers	(489,401)	49,364,496
					Change in Net Assets	(189,096)	8,867,528
Net Position:							
					Beginning of the Year	10,368,581	71,214,096
					Prior Period Adjustment	(1,523,998)	(40,639,956)
					Adjusted Beginning of the Year	8,844,583	30,574,140
					End of the Year	\$ 8,655,487	\$ 39,441,668

Town of North Reading, Massachusetts
Balance Sheet
Governmental Funds
June 30, 2015

	<u>General</u>	<u>School Building Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash/Investments	\$ 11,206,270	\$ 6,859,502	\$ 5,955,029	\$ 24,020,801
Petty Cash	585	-	-	585
Receivables:				
Property Taxes	451,294	-	-	451,294
Tax Liens	722,692	-	-	722,692
Excises	198,702	-	-	198,702
User Charges	90,774	-	429,480	520,254
Other Liens	3,080	-	-	3,080
Intergovernmental	2,190,537	-	928,405	3,118,942
Special Assessments	-	-	9,407	9,407
Tax Foreclosures	412,635	-	-	412,635
Total Assets	<u>\$ 15,276,569</u>	<u>\$ 6,859,502</u>	<u>\$ 7,322,321</u>	<u>\$ 29,458,392</u>
Liabilities:				
Warrants Payable	\$ 538,503	\$ 1,449,330	\$ 116,871	\$ 2,104,704
Accrued Salaries Payable	3,030,086	-	234	3,030,320
Employees' Withholding Payable	407,612	-	-	407,612
Due to Other Governments	7,954	-	-	7,954
Unclaimed Checks	5,511	-	32,500	38,011
Other Liabilities	135	-	-	135
Total Liabilities	<u>3,989,801</u>	<u>1,449,330</u>	<u>149,605</u>	<u>5,588,736</u>
Deferred Inflows of Resources:				
Unavailable Revenues	3,753,179	-	1,220,868	4,974,047
Taxes and User Charges Paid in Advance	157,117	-	-	157,117
Total Deferred Inflows of Resources	<u>3,910,296</u>	<u>-</u>	<u>1,220,868</u>	<u>5,131,164</u>
Fund Equity:				
Fund Balances:				
Nonspendable	-	-	715,192	715,192
Restricted	-	5,410,172	4,332,149	9,742,321
Committed	2,277,856	-	933,565	3,211,421
Assigned	714,862	-	-	714,862
Unassigned	4,383,754	-	(29,058)	4,354,696
Total Fund Balances	<u>7,376,472</u>	<u>5,410,172</u>	<u>5,951,848</u>	<u>18,738,492</u>
Total Liabilities Deferred Inflows of Resources and Fund Balances	<u>\$ 15,276,569</u>	<u>\$ 6,859,502</u>	<u>\$ 7,322,321</u>	<u>\$ 29,458,392</u>

Town of North Reading, Massachusetts
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2015

	<u>General</u>	<u>School Building Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 44,027,519	\$ -	\$ -	\$ 44,027,519
Tax Liens	188,874	-	-	188,874
Excises	2,756,403	-	-	2,756,403
Penalties and Interest	255,404	-	-	255,404
Licenses and Permits	419,535	-	-	419,535
Fees and Other Departmental	243,278	-	-	243,278
Intergovernmental	11,948,682	-	2,576,504	14,525,186
Charges for Services	999,199	-	2,897,479	3,896,678
Fines and Forfeits	16,010	-	-	16,010
Earnings on Investments	30,273	12,979,261	16,981	13,026,515
In Lieu of Taxes	286,625	-	-	286,625
Contributions	-	-	170,221	170,221
Miscellaneous	37,967	-	190,636	228,603
Total Revenues	<u>61,209,769</u>	<u>12,979,261</u>	<u>5,851,821</u>	<u>80,040,851</u>
<u>Expenditures:</u>				
General Government	2,515,806	-	127,716	2,643,522
Public Safety	6,560,307	-	456,286	7,016,593
Education	30,313,715	34,241,908	3,128,179	67,683,802
Intergovernmental	156,433	-	-	156,433
Highways and Public Works	4,099,932	-	1,382,286	5,482,218
Human Services	677,553	-	31,666	709,219
Culture and Recreation	528,463	-	57,265	585,728
Employee Benefits and Insurance	9,468,014	-	-	9,468,014
Debt Service	7,722,718	-	16,135	7,738,853
Total Expenditures	<u>62,042,941</u>	<u>34,241,908</u>	<u>5,199,533</u>	<u>101,484,382</u>
Excess of Revenues Over (Under) Expenditures	<u>(833,172)</u>	<u>(21,262,647)</u>	<u>652,288</u>	<u>(21,443,531)</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	1,562,063	-	-	1,562,063
Operating Transfers (Out)	(138,633)	-	(934,029)	(1,072,662)
Proceeds from Bonds	-	-	1,615,210	1,615,210
Total Other Financing Sources (Uses)	<u>1,423,430</u>	<u>-</u>	<u>681,181</u>	<u>2,104,611</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>590,258</u>	<u>(21,262,647)</u>	<u>1,333,469</u>	<u>(19,338,920)</u>
Fund Balance, Beginning	<u>6,786,214</u>	<u>26,672,819</u>	<u>4,618,379</u>	<u>38,077,412</u>
Fund Balance, Ending	<u>\$ 7,376,472</u>	<u>\$ 5,410,172</u>	<u>\$ 5,951,848</u>	<u>\$ 18,738,492</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, 2015

Total Governmental Fund Balances	\$ 18,738,492
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	165,900,086
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	4,561,412
Deferred Outflows of Resources related to pensions are reported in the governmental activities. They are not current financial resources and, therefore, reported in the fund financial statements.	134,558
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(88,889,816)
Other Post Employment Benefit Obligations	(25,826,477)
Net Pension Liability	(39,844,618)
Accrued Interest on Bonds	(299,727)
Compensated Absences	(3,687,729)
	(167,936,395)
Net Assets of Governmental Activities	\$ 30,786,181

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, 2015

Net change in fund balances - total governmental funds	\$ (19,338,920)
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.	32,025,718
In the statement of activities, the gain (loss) on the trade in of capital assets is reported, whereas in the governmental funds, the gain (loss) is not reported.	1,500
Revenues in the Statement of Activities that do not provide current financial resources are considered unavailable 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 unavailable revenue.	231,205
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.	2,566,090
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.	1,561
Some expenses reported in the Statement of Activities, such as compensated absences payable, net pension liability, other post employment benefits payable and accrued interest 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 in the accruals from the prior fiscal year.	<u>(6,430,530)</u>
Change in net assets of governmental activities	<u><u>\$ 9,056,624</u></u>

Town of North Reading, Massachusetts
Statement of Net Position
Proprietary Funds
June 30, 2015

	Business-Type Activities Enterprise Funds			
	Water	Hillview	Recreation	Total
Assets				
Current:				
Cash and Cash Investments	\$ 2,002,501	\$ 1,059,613	\$ 148,070	\$ 3,210,184
Receivables, Net of Allowance for Uncollectibles:				
User Charges	402,260	-	-	402,260
Tax Liens	66,223	-	-	66,223
Liens	5,646	-	-	5,646
Noncurrent:				
Accounts Receivable:				
Assets Not Being Depreciated	557,287	3,942,819	-	4,500,106
Assets Being Depreciated, Net	7,152,204	1,378,040	223,006	8,753,250
Total Assets	10,186,121	6,380,472	371,076	16,937,669
Deferred Outflows of Resources:				
Pensions	5,243	-	-	5,243
Total Deferred Outflows of Resources	5,243	-	-	5,243
Liabilities				
Current:				
Warrants Payable	15,894	25,402	7,062	48,358
Accounts Payable	168,429	-	-	168,429
Accrued Wages Payable	13,937	539	8,330	22,806
Guarantee Deposits	-	29,748	-	29,748
Accrued Interest Payable	12,430	19,226	-	31,656
Bonds Payable	469,790	360,000	-	829,790
Compensated Absences	46,324	3,588	35,473	85,385
Noncurrent:				
Bonds Payable	1,646,783	3,075,000	-	4,721,783
Net Pension Liability	1,552,387	-	-	1,552,387
Other Post Employment Benefits Payable	322,322	65,367	281,316	669,005
Compensated Absences	69,486	5,382	53,210	128,078
Total Liabilities	4,317,782	3,584,252	385,391	8,287,425
Net Assets				
Net Investment in Capital Assets	6,369,364	3,648,059	223,006	10,240,429
Unrestricted	(495,782)	(851,839)	(237,321)	(1,584,942)
Total Net Assets	\$ 5,873,582	\$ 2,796,220	\$ (14,315)	\$ 8,655,487

Town of North Reading, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2015

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Water</u>	<u>Hillview</u>	<u>Recreation</u>	
Operating Revenues:				
Charges for Services	\$ 3,686,287	\$ 1,416,223	\$ 404,996	\$ 5,507,506
Departmental	-	38,600	-	38,600
Contributions	-	22,096	-	22,096
Miscellaneous	13,350	25,520	460	39,330
Total Operating Revenues	<u>3,699,637</u>	<u>1,502,439</u>	<u>405,456</u>	<u>5,607,532</u>
Operating Expenditures:				
Personal Services	755,281	31,301	455,693	1,242,275
Nonpersonal Services	2,302,104	950,675	163,352	3,416,131
Depreciation	320,427	166,094	15,273	501,794
Total Operating Expenditures	<u>3,377,812</u>	<u>1,148,070</u>	<u>634,318</u>	<u>5,160,200</u>
Operating Income	<u>321,825</u>	<u>354,369</u>	<u>(228,862)</u>	<u>447,332</u>
Nonoperating Revenues (Expenses):				
Intergovernmental	10,016	-	-	10,016
Earnings on Investments	2,165	30	-	2,195
Interest on Debt	(57,805)	(101,433)	-	(159,238)
Total Nonoperating Revenues (Expenses)	<u>(45,624)</u>	<u>(101,403)</u>	<u>-</u>	<u>(147,027)</u>
Income Before Operating Transfers	<u>276,201</u>	<u>252,966</u>	<u>(228,862)</u>	<u>300,305</u>
Operating Transfers In	-	-	138,633	138,633
Operating Transfers Out	(408,558)	(204,976)	(14,500)	(628,034)
Total Transfers	<u>(408,558)</u>	<u>(204,976)</u>	<u>124,133</u>	<u>(489,401)</u>
Change in Net Assets	<u>(132,357)</u>	<u>47,990</u>	<u>(104,729)</u>	<u>(189,096)</u>
Net Position, July 1, 2014	7,529,937	2,748,230	90,414	10,368,581
Prior Period Adjustment	(1,523,998)	-	-	(1,523,998)
Adjusted Net Position, July 1, 2014	<u>6,005,939</u>	<u>2,748,230</u>	<u>90,414</u>	<u>8,844,583</u>
Net Position June 30, 2015	<u>\$ 5,873,582</u>	<u>\$ 2,796,220</u>	<u>\$ (14,315)</u>	<u>\$ 8,655,487</u>

Town of North Reading, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2015

	Business-Type Activities			
	<u>Enterprise Funds</u>			
	<u>Water</u>	<u>Hillview</u>	<u>Recreation</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 3,688,440	\$ 1,502,439	\$ 405,456	\$ 5,596,335
Payments to Employees	(752,844)	(28,676)	(392,899)	(1,174,419)
Payments to Vendors	(2,256,237)	(926,549)	(91,599)	(3,274,385)
Net Cash Flows Provided (Used) by Operating Activities	<u>679,359</u>	<u>547,214</u>	<u>(79,042)</u>	<u>1,147,531</u>
Cash Flows from Non Capital Related Financing Activities:				
Transfers from (to) Other Funds (Net)	(408,558)	(204,976)	124,133	(489,401)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(408,558)</u>	<u>(204,976)</u>	<u>124,133</u>	<u>(489,401)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(77,039)	(971,006)	(11,557)	(1,059,602)
Payments on Bond Anticipation Notes	(486,239)	(80,000)	-	(566,239)
Premium on Bond	22,783	-	-	22,783
Proceeds from Bonds	900,970	1,000,000	-	1,900,970
Principal Payments on Bonds	(301,682)	(335,000)	-	(636,682)
Interest Payments	(50,277)	(92,587)	-	(142,864)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>8,516</u>	<u>(478,593)</u>	<u>(11,557)</u>	<u>(481,634)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	2,165	30	-	2,195
Net Cash Flows Provided (Used) by Investing Activities	<u>2,165</u>	<u>30</u>	<u>-</u>	<u>2,195</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>281,482</u>	<u>(136,325)</u>	<u>33,534</u>	<u>178,691</u>
Cash and Cash Equivalents, July 1, 2014	1,721,019	1,195,938	114,536	3,031,493
Cash and Cash Equivalents, June 30, 2015	<u>\$ 2,002,501</u>	<u>\$ 1,059,613</u>	<u>\$ 148,070</u>	<u>\$ 3,210,184</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 321,825	\$ 354,369	\$ (228,862)	\$ 447,332
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	320,427	166,094	15,273	501,794
(Increase) Decrease in Accounts Receivable	(11,197)	-	-	(11,197)
Increase (Decrease) in Wages Payables	2,126	38	705	2,869
Increase (Decrease) in Compensated Absences	311	2,587	62,089	64,987
Increase (Decrease) in Net Pension Liability	23,146	-	-	23,146
Increase (Decrease) in Other Payables	22,721	24,126	71,753	118,600
Net Cash Provided by Operating Activities	<u>\$ 679,359</u>	<u>\$ 547,214</u>	<u>\$ (79,042)</u>	<u>\$ 1,147,531</u>

Town of North Reading, Massachusetts
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	Private Purpose Trust Fund <u>Scholarship</u>	Other Post Employment Benefits <u>Trust</u>	Agency <u>Funds</u>
Assets:			
Cash and Cash Investments	\$ 877,435	\$168,016	\$ 397,770
	<hr/>	<hr/>	<hr/>
Total Assets	877,435	168,016	397,770
	<hr/>	<hr/>	<hr/>
Liabilities:			
Current:			
Warrants Payable	-	-	18,019
Other Liabilities	-	-	379,751
	<hr/>	<hr/>	<hr/>
Total Liabilities	-	-	397,770
	<hr/>	<hr/>	<hr/>
Net Position:			
Restricted:			
Other Post Employment Benefits	-	168,016	-
Scholarships:			
Expendable	666,914	-	-
Nonexpendable	210,521	-	-
	<hr/>	<hr/>	<hr/>
Total Net Position	\$ 877,435	\$ 168,016	\$ -
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Town of North Reading, Massachusetts
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
June 30, 2015

	Private Purpose Trust Fund <u>Scholarship</u>	Other Post Employment Benefits <u>Trust</u>	<u>Total</u>
Revenues:			
Gift	\$ 5,469	\$ -	\$ 5,469
Earnings on Investments	(865)	511	(354)
	<u>4,604</u>	<u>511</u>	<u>5,115</u>
Total Additions			
Expenditures:			
Scholarships Awarded	18,700	-	18,700
	<u>18,700</u>	<u>-</u>	<u>18,700</u>
Total Distributions			
	<u>(14,096)</u>	<u>511</u>	<u>(13,585)</u>
Change in Net Position			
Net Position:			
Beginning of the Year	<u>891,531</u>	<u>167,505</u>	<u>1,059,036</u>
End of the Year	<u><u>\$ 877,435</u></u>	<u><u>\$ 168,016</u></u>	<u><u>\$ 1,045,451</u></u>

Town of North Reading, Massachusetts
Notes to the Financial Statements
June 30, 2015

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, 2015, 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**

Government Wide 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.

Fund Financial Statements

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.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at

least 10% of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and

- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

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

Government Wide Financial Statements

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.

Fund Financial Statements

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.

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 nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following types are funds are included in the nonmajor category:

The special revenue fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The permanent fund is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The other postemployment benefit trust fund is used to accumulate resources for future other postemployment benefits (OPEB) liabilities.

The private-purpose trust fund is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion to be spent. The Town maintains a private purpose trust fund for several scholarship trusts funds.

The agency fund is used to account for assets held in a purely custodial capacity.

(D) Assets, Deferred Outflows, Liabilities, Deferred Inflows 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 land, 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	20-50
Equipment	5-15
Improvements	10-40
Infrastructure	10-50
Vehicles	5-15

iv. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the balance sheet 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 net position and the balance sheet 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's governmental fund financial statements (balance sheet) reflect deferred inflows of resources for revenues that are not considered "available" criteria. The government wide financial statements (statement of net position) reflect deferred outflows of resources related to pensions and deferred inflows of resources for revenues that are not available as of June 30, 2015.

v. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows.

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be debt used to acquire capital assets.

Net position is reported as restricted when there is an externally imposed restriction on its use or it is limited by enabling legislation.

Fund Financial Statements (Fund Balances)

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 only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. For the Town, Town Meeting is the highest level of decision making authority that can vote, by article, to commit fund balance. Once committed, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a Town Meeting vote is taken to remove or revise the commitment.

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.

	General <u>Fund</u>	School Building <u>Fund</u>	Non Major <u>Funds</u>	<u>Total</u>
Fund Balances:				
Nonspendable:				
Education	\$ -	\$ -	\$ 10,000	\$ 10,000
Highways and Public Works	-	-	14,300	14,300
Cemetery Perpetual Care	-	-	665,523	665,523
Culture and Recreation	-	-	25,369	25,369
Total Nonspendable:	<u>-</u>	<u>-</u>	<u>715,192</u>	<u>715,192</u>
Restricted:				
Ambulance	-	-	1,068,723	1,068,723
Full Day Kindergarten	-	-	227,047	227,047
Martin Pond Mitigation	-	-	171,692	171,692
Deir Wastewater Project	-	-	112,156	112,156
General Government	-	-	586,692	586,692
Public Safety	-	-	14,748	14,748
Education	-	5,410,172	808,269	6,218,441
Highways and Public Works	-	-	440,359	440,359
Human Services	-	-	94,734	94,734
Culture and Recreation	-	-	224,705	224,705
Debt Services	-	-	583,024	583,024
Total Restricted:	<u>-</u>	<u>5,410,172</u>	<u>4,332,149</u>	<u>9,742,321</u>

	<u>General Fund</u>	<u>School Building Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
Committed to:				
General Government	434,496	-	270,270	704,766
Public Safety	44,601	-	-	44,601
Education	68,605	-	129,152	197,757
Highways and Public Works	233,981	-	27,771	261,752
Human Services	-	-	9,170	9,170
Culture and Recreation	1,860	-	25,594	27,454
Capital Outlay	154,244	-	-	154,244
Cell Tower	-	-	471,608	471,608
Debt Services	1,340,069	-	-	1,340,069
Total Committed:	<u>2,277,856</u>	<u>-</u>	<u>933,565</u>	<u>3,211,421</u>
Assigned to:				
General Government	334,558	-	-	334,558
Public Safety	55,857	-	-	55,857
Education	252,320	-	-	252,320
Highways and Public Works	48,569	-	-	48,569
Human Services	13,321	-	-	13,321
Culture and Recreation	3,281	-	-	3,281
Employee Benefits	6,956	-	-	6,956
Total Assigned:	<u>714,862</u>	<u>-</u>	<u>-</u>	<u>714,862</u>
Unassigned	<u>4,383,754</u>	<u>-</u>	<u>(29,058)</u>	<u>4,354,696</u>
Total Fund Balances	<u>\$ 7,376,472</u>	<u>\$ 5,410,172</u>	<u>\$ 5,951,848</u>	<u>\$ 18,738,492</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 \$2,042,415. 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 (\$130,539) and the capital improvement stabilization fund (\$1,340,068) are reported in the general fund as a component of committed fund balance.

v. Compensated Absences

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

vi. Long-Term Obligations

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

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

vii. Use of Estimates

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

viii. Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1, 2015 and July 15, 2015. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2015 and the corresponding credit is to the account entitled warrants payable.

ix. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Middlesex County Retirement System and the Massachusetts Teachers' Retirement System and additions to/deductions from the Systems' fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 2015 adjusted for any fiscal year 2015 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, 2015.

	<u>Revenues</u>
As Reported Budget Basis	\$ 58,312,074
Adjustments:	
Sixty Day Revenue Accrual - Net	22,437
Stabilization Fund Interest Not Reported Budget Basis	8,453
In Lieu of Tax from Golf Reclassified as a Transfer	(204,977)
On Behalf Payments Included in Intergovernmental	3,071,782
As Reported GAAP Statement	<u>\$ 61,209,769</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 59,003,973
Adjustments:	
July 1, 2014 Encumbrances/Continued Appropriations	1,295,052
June 30, 2015 Encumbrances/Continued Appropriations	(1,327,866)
On Behalf Payments Included in Employee Benefits	3,071,782
As Reported GAAP Statement	<u>\$ 62,042,941</u>

III Detailed Notes on All Funds

A. Deposits

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, 2015, \$83,696 of the Town's bank balance of \$26,727,815 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 83,696

Investments

As of June 30, 2015, 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	\$ 868,688	\$ -	\$ 868,688	\$ -
Corporate Bonds	<u>319,827</u>	<u>-</u>	<u>319,827</u>	<u>-</u>
Total	<u>\$ 1,188,515</u>	<u>\$ -</u>	<u>\$ 1,188,515</u>	<u>\$ -</u>

Other Investments:

Money Market Funds	46,276
Mutual Funds	386,436
Mass. Municipal Depository Trust	<u>535,597</u>
Total Other Investments	<u>968,309</u>
Total Investments	<u>\$ 2,156,824</u>

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

B. Capital Assets

Capital asset activity for the year ended June 30, 2015 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	74,611,679	-	(74,611,679)	-
Total Capital Assets Not Being Depreciated	<u>93,707,587</u>	<u>-</u>	<u>(74,611,679)</u>	<u>19,095,908</u>
Assets Being Depreciated:				
Buildings	56,173,111	106,018,205	-	162,191,316
Improvements Other Than Buildings	4,184,260	234,964	-	4,419,224
Infrastructure	15,074,761	590,254	-	15,665,015
Equipment	3,745,054	2,834,770	-	6,579,824
Vehicles	4,329,993	541,387	(7,500)	4,863,880
Total Capital Assets Being Depreciated	<u>83,507,179</u>	<u>110,219,580</u>	<u>(7,500)</u>	<u>193,719,259</u>
Less Accumulated Depreciation for:				
Buildings	(25,269,926)	(2,322,149)	-	(27,592,075)
Improvements Other Than Buildings	(1,376,956)	(221,435)	-	(1,598,391)
Infrastructure	(11,470,674)	(135,641)	-	(11,606,315)
Equipment	(1,965,964)	(593,419)	-	(2,559,383)
Vehicles	(3,258,378)	(308,039)	7,500	(3,558,917)
Total Accumulated Depreciation	<u>(43,341,898)</u>	<u>(3,580,683)</u>	<u>7,500</u>	<u>(46,915,081)</u>
Capital Assets Being Depreciated, Net	<u>40,165,281</u>	<u>106,638,897</u>	<u>-</u>	<u>146,804,178</u>
Governmental Activities Capital Assets, Net	<u>\$ 133,872,868</u>	<u>\$ 106,638,897</u>	<u>\$(74,611,679)</u>	<u>\$ 165,900,086</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General government	\$ 84,265
Public safety	557,207
Education	2,395,119
Highways and Public works	321,314
Culture and Recreation	222,778
Total Governmental Activities Depreciation Expense	<u>\$ 3,580,683</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-Type Activities:				
Assets Not Being Depreciated				
Land	\$ 3,447,950	\$ -	\$ -	\$ 3,447,950
Work in Process	39,502	1,012,654	-	1,052,156
Total Capital Assets Being Depreciated	<u>3,487,452</u>	<u>1,012,654</u>	<u>-</u>	<u>4,500,106</u>

B. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Assets Being Depreciated:				
Buildings	2,233,676	-	-	2,233,676
Improvements Other Than Buildings	2,038,848	3,153	-	2,042,001
Infrastructure	15,074,395	-	-	15,074,395
Equipment	1,009,109	23,910	-	1,033,019
Vehicles	304,873	19,885	-	324,758
Total Capital Assets Being Depreciated	<u>20,660,901</u>	<u>46,948</u>	<u>-</u>	<u>20,707,849</u>
Less Accumulated Depreciation for:				
Buildings	(1,384,142)	(70,137)	-	(1,454,279)
Improvements Other Than Buildings	(1,200,822)	(75,841)	-	(1,276,663)
Infrastructure	(8,065,793)	(259,674)	-	(8,325,467)
Equipment	(597,416)	(64,312)	-	(661,728)
Vehicles	(204,632)	(31,830)	-	(236,462)
Total Accumulated Depreciation	<u>(11,452,805)</u>	<u>(501,794)</u>	<u>-</u>	<u>(11,954,599)</u>
Capital Assets Being Depreciated, Net	<u>9,208,096</u>	<u>(454,846)</u>	<u>-</u>	<u>8,753,250</u>
Business Type Activities Capital Assets, Net	<u>\$ 12,695,548</u>	<u>\$ 557,808</u>	<u>\$ -</u>	<u>\$ 13,253,356</u>

Depreciation expense was charged to the enterprise funds as follows:

Business-Type Activities:	
Water	\$ 320,427
Hillview Golf	166,094
Recreation	15,273
Total Business-Type Activities Depreciation Expense	<u>\$ 501,794</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

2015	\$ 411,535
2014	9,739
2013	(369)
2012	1,356
2011	17
2001	666
2000	<u>127</u>
 Total Real Estate Taxes	 <u>423,071</u>

C. Accounts Receivable (Continued)

Personal Property Taxes		
2015	9,823	
2014	6,172	
2013	<u>12,228</u>	
Total Personal Property Taxes		<u>28,223</u>
Total Property Taxes Receivable		<u>\$ 451,294</u>
Tax Liens Receivable:		
Tax Liens	\$ 711,734	
Electric Light Tax Liens	259	
Trash Tax Liens	8,199	
Expenses in Tax Liens	<u>2,500</u>	
Total Tax Liens Receivable		<u>\$ 722,692</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Tax		
2015	\$ 145,413	
2014	22,673	
2013	10,575	
2012	6,415	
2011	7,965	
2010	<u>5,661</u>	
Total Motor Vehicle Excise Tax		<u>\$ 198,702</u>
Tax Excise Receivable		
User Charges:		
Trash Fees		
2015	\$ 93,390	
2014	(2,554)	
2013	(266)	
2012	9	
2010	(8)	
2008	180	
2007	<u>22</u>	
Total Trash Fees		<u>90,773</u>
Ambulance		<u>429,481</u>
Total User Charges		<u>\$ 520,254</u>

C. Accounts Receivable (Continued)

Trash Liens		
2015	\$ 3,080	
Total Liens		<u>\$ 3,080</u>

Intergovernmental:

Current:

Due from Commonwealth of Massachusetts:

Highways and Other Public Works Grants	\$ 781,981
Various Federal Grants	146,424
School Building Assistance Bureau Grant	<u>243,393</u>

Total Current	<u>1,171,798</u>
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Noncurrent:

School Building Assistance Bureau Grant	<u>1,947,144</u>
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Total Intergovernmental	<u>\$ 3,118,942</u>
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Special Assessments:

Septic Betterments	<u>\$ 9,407</u>
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Business Type Activities

Current:

Water Tax Liens	<u>\$ 66,223</u>
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User Charges:

Water	<u>\$ 402,260</u>
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Water Liens:

2015	<u>\$ 5,646</u>	
Total Water Liens		<u>\$ 5,646</u>

D. Debt

i Short Term Debt

Bond Anticipation Notes Payable

The Town did not have any bond anticipation notes outstanding as of June 30, 2015. The short term debt activity for the year is as follows:

<u>Governmental Activities:</u>	Balance Beginning of Year	Issued	Redeemed	Balance End of Year
<u>Purpose</u>				
MUNIS Software	\$ 257,290	\$ -	\$ (257,290)	\$ -
Class A Fire Pumper	35,000	-	(35,000)	-
Class A Fire Pumper	450,000	-	(450,000)	-
Roads	63,000	-	(63,000)	-
School Utility Truck	61,000	-	(61,000)	-
Departmental Equipment (Truck 31)	58,000	-	(58,000)	-
School Asbestos Abatement	50,000	-	(50,000)	-
Wastewater (DEIR)	29,540	-	(29,540)	-
Police Facility Improvements	<u>28,000</u>	<u>-</u>	<u>(28,000)</u>	<u>-</u>
Total Governmental Activities	<u>\$ 1,031,830</u>	<u>\$ -</u>	<u>\$(1,031,830)</u>	<u>\$ -</u>
 <u>Business-type Activities:</u>				
<u>Water Fund</u>				
Departmental Vehicle Replacement	\$ 71,239	\$ -	\$ (71,239)	\$ -
Water Department Backhoe	110,000	-	(110,000)	-
Water (DEIR)	205,000	-	(205,000)	-
Water System Upgrade	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>
Total Water	<u>486,239</u>	<u>-</u>	<u>(486,239)</u>	<u>-</u>
 <u>Hillview Golf Fund</u>				
Hillview Capital	<u>80,000</u>	<u>-</u>	<u>(80,000)</u>	<u>-</u>
Total Hillview Golf	<u>80,000</u>	<u>-</u>	<u>(80,000)</u>	<u>-</u>
Total Business--Type Activities	<u>\$ 566,239</u>	<u>\$ -</u>	<u>\$(566,239)</u>	<u>\$ -</u>

D. Debt (Continued)

ii Long Term Debt

The Town issues general obligation bonds to provide funds for major acquisitions, including equipment, major repairs/renovations and construction of 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, 2015 are as follows:

(a) General Obligation Bonds Outstanding at June 30, 2015

<u>Governmental Activities:</u>	Sale Date	Original	True	Final Maturity	Balance			Balance
General Obligation Bond	Fiscal Year	Borrowing	Interest Cost	Fiscal Year	July 1, 2014	Issued	Redeemed	June 30, 2015
MWPAT 97 1124 (O E)	2001	\$ 195,676	4.9%	2019	\$ 54,340	\$ -	\$ (10,868)	\$ 43,472
NSR Fire Pumper (I)	2003	75,000	3.2%	2017	15,000	-	(5,000)	10,000
NSR Fire Pumper II (I)	2003	200,000	3.1%	2017	35,000	-	(15,000)	20,000
New Money & Ref Purposes Elem Sch (IE)	2004	4,880,000	3.9%	2024	2,430,000	-	(245,000)	2,185,000
Modular Classrooms 1 (I)	2006	650,000	3.6%	2019	250,000	-	(50,000)	200,000
High School Hot Water System (I)	2006	47,000	3.4%	2015	5,000	-	(5,000)	-
School Remodeling (I)	2006	257,500	3.8%	2025	135,000	-	(15,000)	120,000
Police Station 1 (IE)	2006	300,000	3.8%	2024	150,000	-	(15,000)	135,000
Police Station 2 (IE)	2006	125,000	3.8%	2025	55,000	-	(5,000)	50,000
School Renovations 1 Batchelder (IE)	2006	600,000	3.8%	2024	320,000	-	(35,000)	285,000
School Renovations 2 Batchelder (IE)	2006	4,000,000	3.9%	2025	2,285,000	-	(220,000)	2,065,000
Land Acquisition 1 (IE)	2006	3,310,000	3.9%	2025	1,910,000	-	(175,000)	1,735,000
Modular Classrooms 2 (IE)	2006	184,600	3.6%	2018	60,000	-	(15,000)	45,000
Modular Classrooms 3 (IE)	2006	300,000	3.6%	2019	100,000	-	(20,000)	80,000
School Planning 1 (IE)	2006	50,000	3.4%	2016	10,000	-	(5,000)	5,000
School Planning 2 (IE)	2006	166,275	3.7%	2022	80,000	-	(10,000)	70,000
Dump Truck 1 (I)	2006	115,000	3.5%	2017	30,000	-	(10,000)	20,000
Replace Rack Truck (I)	2006	45,000	3.4%	2015	5,000	-	(5,000)	-
Dump Truck 2 (I)	2006	65,000	3.3%	2015	5,000	-	(5,000)	-
Road Program (I)	2006	300,000	3.4%	2015	30,000	-	(30,000)	-
Replace & Update Culverts (I)	2006	120,000	3.8%	2025	55,000	-	(5,000)	50,000
Police Station Remodeling 1 (IE)	2007	4,375,000	3.9%	2025	2,660,000	-	(245,000)	2,415,000
Police Station Remodeling 2 (IE)	2007	625,000	3.9%	2025	380,000	-	(35,000)	345,000
Batchelder School Renovation (IE)	2007	6,000,000	3.9%	2024	3,520,000	-	(385,000)	3,135,000
Fire Pumper Truck (I)	2007	150,000	3.8%	2021	70,000	-	(10,000)	60,000
Front End Loader (I)	2007	125,000	3.8%	2021	55,000	-	(10,000)	45,000
Dump Truck (I)	2007	130,000	3.6%	2016	25,000	-	(15,000)	10,000
MWPAT CW 03 16 Sewer (I)	2007	345,732	0.0%	2025	237,639	-	(17,639)	220,000
Fire Pumper (I)	2008	220,000	3.8%	2023	120,000	-	(15,000)	105,000
Police Station Remodeling (IE)	2008	2,375,000	4.0%	2027	1,618,000	-	(126,000)	1,492,000
6 Wheel Dump Truck (I)	2008	130,000	3.7%	2021	70,000	-	(10,000)	60,000
Modular Classrooms (IE)	2008	900,000	3.8%	2022	510,000	-	(65,000)	445,000

D. Debt (Continued)

	Sale Date	Original	True	Final Maturity	Balance			Balance
	<u>Fiscal Year</u>	<u>Borrowing</u>	Interest Cost	<u>Fiscal Year</u>	<u>July 1, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2015</u>
Police Station Remodeling (I)	2008	486,000	3.9%	2027	325,000	-	(25,000)	300,000
Eisenhaures Pond Park (I)	2009	1,361,775	3.9%	2029	1,010,000	-	(70,000)	940,000
Remodeling (I)	2009	650,000	3.8%	2028	475,000	-	(35,000)	440,000
School Building Security (I)	2009	150,000	2.8%	2019	25,000	-	(5,000)	20,000
Bridge (I)	2009	100,440	3.9%	2028	70,000	-	(5,000)	65,000
Technology (I)	2009	100,000	2.9%	2018	20,000	-	(5,000)	15,000
Town Hall Generator Preparation (I)	2009	40,000	2.9%	2017	15,000	-	(5,000)	10,000
Eisenhaures Pond Park 2 (I)	2009	1,095,334	3.9%	2029	820,000	-	(55,000)	765,000
Asbestos Abatement Little School (I)	2011	60,000	1.5%	2019	30,000	-	(10,000)	20,000
School Roof Repairs (I)	2011	150,000	2.2%	2024	105,000	-	(15,000)	90,000
Flint Memorial Library (I)	2011	61,000	2.2%	2023	45,000	-	(5,000)	40,000
Police Department Equipment (I)	2011	26,600	1.2%	2016	10,000	-	(5,000)	5,000
Fire Department Vehicle (I)	2011	40,000	1.1%	2015	10,000	-	(10,000)	-
DPW Truck (I)	2011	39,400	1.1%	2015	5,000	-	(5,000)	-
Building on the Common Improvements (I)	2011	280,000	2.3%	2024	205,000	-	(25,000)	180,000
DPW Garage Improvements (I)	2011	30,000	1.3%	2017	15,000	-	(5,000)	10,000
Light Fixtures (I)	2011	50,000	1.9%	2021	35,000	-	(5,000)	30,000
Cemetery Ledge Removal (I)	2011	65,000	1.1%	2015	15,000	-	(15,000)	-
Road Improvements 2 (I)	2011	150,000	1.1%	2015	35,000	-	(35,000)	-
High School/Middle School Construction (OE)	2012	50,000,000	3.6%	2037	47,325,000	-	(1,280,000)	46,045,000
Storm Water Infiltration (I)	2012	138,000	1.4%	2015	45,000	-	(45,000)	-
Culvert Installation (I)	2012	270,000	1.9%	2022	210,000	-	(30,000)	180,000
Ambulance Replacement (I)	2012	250,000	1.6%	2020	180,000	-	(30,000)	150,000
School Boiler (I)	2012	250,000	1.9%	2022	200,000	-	(25,000)	175,000
School Technology (I)	2012	163,000	1.7%	2021	120,000	-	(20,000)	100,000
Departmental Equipment (I)	2012	240,000	1.7%	2021	180,000	-	(30,000)	150,000
Middle High School Construction (OE)	2014	17,066,000	3.6%	2037	17,066,000		(366,000)	16,700,000
MUNIS Software (I)	2015	257,170	0.9%	2018	-	257,170	-	257,170
Class A Fire Pumper Truck (I)	2015	485,000	1.0%	2019	-	485,000	-	485,000
Road (I)	2015	63,000	1.7%	2025	-	63,000	-	63,000
School Utility Rack Truck (I)	2015	61,000	1.0%	2019	-	61,000	-	61,000
Departmental Equipment Truck #31 (I)	2015	58,000	1.0%	2019	-	58,000	-	58,000
School Asbestos Abatement (I)	2015	50,000	1.6%	2024	-	50,000	-	50,000
Wastewater (DEIR) (I)	2015	29,540	1.0%	2019	-	29,540	-	29,540
Police Facility Improvements (I)	2015	28,000	1.1%	2020	-	28,000	-	28,000
Town Road Program (I)	2015	165,175	1.7%	2025	-	165,175	-	165,175
Fire Station AC Upgrades (I)	2015	40,000	1.5%	2023	-	40,000	-	40,000
1987 Wood Chipper (I)	2015	41,000	1.0%	2020	-	41,000	-	41,000
Town Hall (I)	2015	20,000	1.0%	2019	-	20,000	-	20,000
Public Safety Exterior Repairs (I)	2015	35,000	1.4%	2022	-	35,000	-	35,000
New Senior Van (I)	2015	44,825	1.1%	2020	-	44,825	-	44,825
Drain System Repairs (I)	2015	87,500	1.6%	2025	-	87,500	-	87,500
Replace Culvert Skug River (I)	2015	150,000	1.8%	2025	-	150,000	-	150,000
				Total Governmental Activities	<u>\$ 85,880,979</u>	<u>\$ 1,615,210</u>	<u>\$ (4,000,507)</u>	<u>\$ 83,495,682</u>

D. Debt (Continued)

Business Type Activities:

	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, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2015</u>
NSR -Hillview Golf Course (I-SS)	2003	\$ 310,000	3.1%	2017	\$ 50,000	\$ -	\$ (20,000)	\$ 30,000
Hillview Club House 1 (I-SS)	2006	179,425	3.8%	2023	90,000	-	(10,000)	80,000
Hillview Club House 2 (I-SS)	2006	50,000	3.4%	2016	10,000	-	(5,000)	5,000
Hillview Capital 1 (I-SS)	2006	143,792	3.6%	2020	60,000	-	(10,000)	50,000
Land Acquisition 2 (I)	2006	430,000	3.8%	2025	230,000	-	(25,000)	205,000
Golf Course & Recreational Facility 1 (I-SS)	2007	600,000	3.8%	2021	285,000	-	(45,000)	240,000
Golf Course (I-SS)	2008	100,000	3.6%	2018	40,000	-	(10,000)	30,000
Turf Field North Reading High School	2011	2,000,000	2.3%	2024	1,535,000	-	(155,000)	1,380,000
Hillview Golf	2012	100,000	1.6%	2020	70,000	-	(15,000)	55,000
7th Fairway Improvement and Lawnmower	2014	100,000	1.9%	2023	100,000	-	(20,000)	80,000
Hillview Function Facility Improvements	2014	300,000	2.8%	2029	300,000	-	(20,000)	280,000
NSR -Water Tower (O-SS)	2003	1,150,000	3.2%	2017	255,000	-	(85,000)	170,000
MWPAT CW-00-56 Sewer (I)	2005	334,153	5.0%	2018	120,000	-	(30,000)	90,000
Water Tower (O-SS)	2006	866,850	3.8%	2025	495,000	-	(45,000)	450,000
Water System 1 (O-SS)	2006	214,200	3.8%	2025	110,000	-	(10,000)	100,000
Water System 2 (O-SS)	2006	180,000	3.4%	2015	20,000	-	(20,000)	-
Water System 1 (O-SS)	2007	50,000	3.7%	2016	10,000	-	(5,000)	5,000
Water Department Capital (O-SS)	2008	328,000	3.6%	2020	117,000	-	(34,000)	83,000
Water Departmental Equipment (O-SS)	2009	40,000	2.9%	2017	15,000	-	(5,000)	10,000
Water (O-SS)	2009	180,000	3.8%	2029	130,000	-	(10,000)	120,000
Well (O-SS)	2009	50,000	3.1%	2019	25,000	-	(5,000)	20,000
Water Treatment Plant	2011	40,000	1.6%	2019	25,000	-	(5,000)	20,000
Water Department Improvements (O)	2011	64,000	1.6%	2020	30,000	-	(5,000)	25,000
Water Department Improvements 1 (I)	2011	201,000	1.2%	2016	80,000	-	(40,000)	40,000
Water Department Improvements 1A (O)	2011	100,000	2.1%	2024	70,000	-	(10,000)	60,000
Water Department Vehicles (I)	2015	71,239	0.9%	2018	-	71,239	-	71,239
Water Department Backhoe (I)	2015	110,000	1.5%	2023	-	110,000	-	110,000
Water (DEIR) (I)	2015	205,000	1.0%	2019	-	205,000	-	205,000
Water System Upgrade (O)	2015	100,000	1.6%	2024	-	100,000	-	100,000
Tower Hill Anchor Bolt Replacement - Water (O)	2015	85,000	1.6%	2025	-	85,000	-	85,000
2001 3/4 Ton Pickup - Water (I)	2015	24,991	1.0%	2019	-	24,551	-	24,551
West Village Upgrade Wells - Water (O)	2015	55,000	1.1%	2020	-	55,000	-	55,000
WTP Studies- Improve Daily Water Production (I)	2015	50,000	1.1%	2020	-	50,000	-	50,000
Water System Modeling MWRA Connections (I)	2015	50,000	1.1%	2020	-	50,000	-	50,000
Water System Distribution Improvements (O)	2015	150,000	1.8%	2025	-	150,000	-	150,000
Hillview Taxable Series B (I)	2015	1,000,000	3.6%	2030	-	1,000,000	-	1,000,000
					<u>\$ 4,272,000</u>	<u>\$ 1,900,790</u>	<u>\$ (644,000)</u>	<u>\$ 5,528,790</u>

Total Business Type Activities

D. Debt (Continued)

(b) Summary of Debt Service Requirements to Maturity

<u>Fiscal Year Ended</u>	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 4,247,078	\$ 3,509,936	\$ 829,790	\$ 178,812	\$ 5,076,868	\$ 3,688,748
2017	4,276,868	3,348,720	764,000	140,814	5,040,868	3,489,534
2018	4,300,868	3,191,950	620,000	120,508	4,920,868	3,312,458
2019	4,255,868	3,037,623	560,000	104,263	4,815,868	3,141,886
2020	4,065,000	2,871,144	495,000	88,406	4,560,000	2,959,550
2021 - 2025	20,130,000	11,590,254	1,765,000	234,561	21,895,000	11,824,815
2026 - 2030	15,545,000	7,919,414	495,000	49,337	16,040,000	7,968,751
2031 - 2035	18,170,000	4,362,150	-	-	18,170,000	4,362,150
2036 - 2040	<u>8,505,000</u>	<u>513,598</u>	<u>-</u>	<u>-</u>	<u>8,505,000</u>	<u>513,598</u>
	<u>\$ 83,495,682</u>	<u>\$ 40,344,789</u>	<u>\$ 5,528,790</u>	<u>\$ 916,701</u>	<u>\$ 89,024,472</u>	<u>\$ 41,261,490</u>

(c) Subsidies through the Massachusetts Water Pollution Abatement Trust

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

SRF Subsidies

	<u>General Government</u>	<u>Enterprise</u>
2016	\$6,536	\$9,437
2017	5,667	8,343
2018	4,859	9,166
2019	4,059	-
2020	3,531	-
2021 - 2025	<u>12,884</u>	<u>-</u>
Total Subsidies	<u>\$ 37,536</u>	<u>\$ 26,946</u>

D. Debt (Continued)

(d) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2015, are as follows:

March 19, 2012 & March 24, 2012	School Construction Project	\$9,358,832
March 18, 2013 & March 22, 2013	School Construction Project	1,337,037
June 4, 2012	Water Department Vehicles	10,761
June 3, 2013	Water Interconnection Design	200,000
June 1, 2015	Town Road Program	100,000
June 1, 2015	Fire Station Upgrade	48,750
June 1, 2015	Cemetery Trucks	176,000
June 1, 2015	Drain System Repairs	30,000
June 1, 2015	Fund Sewer FEIR	150,000
June 1, 2015	Town Hall Renovation - 2 Offices	77,500
June 1, 2015	GIS Base Map	45,000
June 1, 2015	School Device Initiative	60,000
June 1, 2015	Replace Ambulance	292,000
June 1, 2015	Water FEIR	150,000
June 1, 2015	AMR & Meter Replacement	<u>1,700,000</u>
	Total	<u>\$ 13,735,880</u>

Subsequent to the balance sheet date (October 5, 2015), the Town authorized \$1,760,000 of general long term debt for the Little School Roof.

iii Changes in Long Term Debt

Changes in the government's long-term liabilities for the year ended June 30, 2015 are as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion
<u>Governmental Activities</u>					
Bonds Payable	\$ 85,880,979	\$ 1,615,210	\$ (4,000,507)	\$ 83,495,682	\$ 4,247,078
Add: Unamortized Premium	<u>5,574,927</u>	<u>61,595</u>	<u>(242,388)</u>	<u>5,394,134</u>	-
Total Bonds Payable	<u>91,455,906</u>	<u>1,676,805</u>	<u>(4,242,895)</u>	<u>88,889,816</u>	<u>4,247,078</u>
Compensated Absences	4,338,866	1,084,409	(1,735,546)	3,687,729	737,546
Net Pension Liability	39,250,517	594,101	-	39,844,618	-
Other Post Employment Benefits	<u>19,338,912</u>	<u>7,940,479</u>	<u>(1,452,914)</u>	<u>25,826,477</u>	-
Total Governmental Activities	<u>\$ 154,384,201</u>	<u>\$ 11,295,794</u>	<u>\$ (7,431,355)</u>	<u>\$ 158,248,640</u>	<u>\$ 4,984,624</u>
<u>Business Type Activities</u>					
Bonds Payable	\$ 4,272,000	\$ 1,900,790	\$ (644,000)	\$ 5,528,790	\$ 829,790
Add: Unamortized Premium	-	<u>22,783</u>	-	<u>22,783</u>	-
Bonds Payable	4,272,000	1,923,573	(644,000)	5,551,573	829,790
Compensated Absences	148,476	124,377	(59,390)	213,463	85,385
Net Pension Liability	1,529,240	23,147	-	1,552,387	-
Other Post Employment Benefits	<u>501,225</u>	<u>183,565</u>	<u>(15,785)</u>	<u>669,005</u>	-
Total Business Type Activities	<u>\$ 6,450,941</u>	<u>\$ 2,254,662</u>	<u>\$ (719,175)</u>	<u>\$ 7,986,428</u>	<u>\$ 915,175</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	\$ 1,562,063	\$ (138,633)	\$ 1,423,430
Non-Major Governmental	-	(934,029)	(934,029)
Recreation - Business Type	138,633	(14,500)	124,133
Golf - Business Type	-	(204,976)	(204,976)
Water - Business Type	-	(408,558)	(408,558)
Total Fund Financial Statements	<u>1,700,696</u>	<u>(1,700,696)</u>	<u>-</u>
<u>Entity Wide Financial Statements</u>			
Net Transfers In/Out Governmental Funds	489,401	-	489,401
Net Transfers In/Out Enterprise Funds	-	(489,401)	(489,401)
Net Transfers Entity Wide	<u>\$ 489,401</u>	<u>\$ (489,401)</u>	<u>\$ -</u>

IV Other Information

a. General Information about the Pension Plan

Plan Description

The Town provides pension benefits to eligible employees by contributing to the Middlesex County Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex County Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees (not including teachers who are included in the Massachusetts Teachers' 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 (M.G.L.). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex County Retirement System issues a stand-alone financial report that is available to the public at:

<http://www.middlesexretirement.org/MCRS%20Final%20Audit%20Report%2012-31-14%20Financial%20Statements%20and%20GASB%2068.pdf> or by writing to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

Benefits Provided

The Middlesex County Retirement System provides retirement, disability and death benefits as detailed below:

Retirement Benefits

Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations. (Officers and inspectors of the State Police are classified as Group 3.)

For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's final three-year average salary multiplied by the number of years and

full months of creditable service at the time of retirement and multiplied by a percentage according to the table below based on the age of the member at retirement.

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
		<u>Hired on or before April 1 2012</u>	
2.50%	65+	60+	55+
2.40%	64	59	54
2.30%	63	58	53
2.20%	62	57	52
2.10%	61	56	51
2.00%	60	55	50
1.90%	59	N/A	49
1.80%	58	N/A	48
1.70%	57	N/A	47
1.60%	56	N/A	46
1.50%	55	N/A	45

For employees hired on April 2, 2012 or later, the annual amount of the retirement allowance is based on the member's final five-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the tables below based on the age of the member at retirement:

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
		<u>Hired after April 1 2012</u>	
2.50%	67+	62+	57+
2.35%	66	61	56
2.20%	65	60	55
2.05%	64	59	54
1.90%	63	58	53
1.75%	62	57	52
1.60%	61	56	51
1.45%	60	55	50

For all employees, the maximum annual amount of the retirement allowance is 80 percent of the member's final average salary. Any member who is a veteran also receives an additional yearly retirement allowance of \$15 per year of creditable service, not exceeding \$300. The veteran allowance is paid in addition to the 80 percent maximum.

Retirement Benefits - Superannuation

Members of Group 1, 2 or 4 hired prior to April 2, 2012 may retire upon the attainment of age 55. For retirement at ages below 55, twenty years of creditable service is required.

Members hired prior to April 2, 2012 who terminate before age 55 with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System).

Members of Group 1 hired April 2, 2012 or later may retire upon the attainment of age 60. Members of Group 2 or 4 hired April 2, 2012 or later may retire upon the attainment of age 55.

Members hired April 2, 2012 or later who terminate before age 55 (60 for members of Group 1) with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (60 for members of Group 1) provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System.

Ordinary Disability Benefits

A member who is unable to perform his or her job due to a non-occupational disability will receive a retirement allowance if he or she has ten or more years of creditable service and has not reached age 55. The annual amount of such allowance shall be determined as if the member retired for superannuation at age 55 (age 60 for Group 1 members hired on or after April 2, 2012), based on the amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50 percent of the member's most recent year's pay plus an annuity based on his or her own contributions.

Accidental Disability Benefit

For a job-connected disability, the benefit is 72 percent of the member's most recent annual pay plus an annuity based on his or her own contributions, plus additional amounts for surviving children. Benefits are capped at 75 percent of annual rate of regular compensation for employees who become members after January 1, 1988.

Death Benefits

In general, the beneficiary of an employee who dies in active service will receive a refund of the employee's own contributions. Alternatively, if the employee were eligible to retire on the date of death, a spouse's benefit will be paid equal to the amount the employee would have received under Option C. The surviving spouse of a member who dies with two or more years of credited service has the option of a refund of the employee's contributions or a monthly benefit regardless of eligibility to retire, if they were married for at least one year. There is also a minimum widow's pension of \$500 per month, and there are additional amounts for surviving children.

If an employee's death is job-connected, the spouse will receive 72 percent of the member's most recent annual pay, in addition to a refund of the member's accumulated deductions, plus additional amounts for surviving children. However, in accordance with Section 100 of Chapter 32, the surviving spouse of a police officer, firefighter or corrections officer who is killed in the line of duty will be eligible to receive an annual benefit equal to the maximum salary held by the member at the time of death. Upon the death of a job-connected disability retiree who retired prior to November 7, 1996 and could not elect an Option C benefit, a surviving spouse will receive an allowance of \$9,000 per year if the member dies for a reason unrelated to cause of disability.

Contributions

Active members of the Middlesex County 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 requirement of plan members is determined by M.G.L. Chapter 32. The contribution requirements are established by and may be amended by the Middlesex County Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contractually required contribution rate for the year ended June 30, 2015 was 25.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$3,126,208 for the year ending June 30, 2015.

b. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Town reported a liability of \$41,397,005 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Accordingly, update procedures were utilized to roll forward the liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2014, the Town's proportion was 3.445972%. Since this is the implementation year of GASB 68 the increase/decrease of its proportion measured as of December 31, 2013 was not calculated.

Costs related to the Town's pension assessment are not charged to the Town's Hillview and Park and Recreation enterprise funds by way of direct or indirect charges. The Town's has no intention to charge those enterprise funds for the pension related costs in the future. As a result the pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions were not allocated to Hillview or Park and Recreation enterprise funds.

Chapter 176 of the Acts of 2011 was incorporated in this valuation, which changes many of the benefit features for members hired on or after April 2, 2012. In addition, the COLA base was increased to \$14,000 effective July 1, 2014.

For the year ended June 30, 2015, the Town recognized pension expense of \$3,743,456. Since the system performs an actuarial valuation bi-annually, there are not reported differences between expected and actual experience or a change of assumptions as of December 31, 2014. Additionally, the changes in proportion and differences between employer contributions and proportionate share of contributions are not presented in the initial year of reporting in accordance with GASB Statements 67, 68 and 71. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	139,801	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
	<u>\$ 139,801</u>	<u>\$ -</u>

Contributions made subsequent to the measurement date (deferred outflows of resources) are recognized as a reduction of the net pension liability in the next fiscal year. The Town did not have any deferred outflows of resources for contributions made subsequent to the measurement date. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		Amount
2016	\$	34,950
2017		34,950
2018		34,950
2019		34,951

Actuarial Assumptions

The total pension liability as of December 31, 2014 was determined by updating an actuarial valuation as of January 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

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 year 2016 through fiscal year 2020, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI Liability amortized in level payments.			
Remaining Amortization Period	As of July 1, 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 as described by Revenue Procedure 2000-40. Asset value is adjusted to be within 20% of market value.			
Investment rate of return	7.875% (8% in previous valuation)			
Discount Rate	7.875% (previously 8.0%)			
Inflation	4.00%			
Projected Salary Increases	<u>Years of Service</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
	0	6.00%	6.00%	7.00%
	1	5.50%	5.50%	6.50%
	2	5.50%	5.50%	6.00%
	3	5.25%	5.25%	5.75%
	4	5.25%	5.25%	5.25%
	5	4.75%	4.75%	5.25%
	6	4.75%	4.75%	4.75%
	7	4.50%	4.50%	4.75%
	8	4.50%	4.50%	4.75%
	9+	4.25%	4.50%	4.75%
Cost of Living Adjustments	3.00% of first \$14,000			

Mortality Rates were based on the tables noted below:

Healthy:

Pre-Retirement	RP-2000 Employee Mortality Table projected 22 years with Scale AA (previously, projected 12 years with Scale AA)
Post-Retirement	RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA (previously, projected 12 years with Scale AA)
Disabled	RP-2000 Healthy Annuitant Mortality Table set forward three years projected 17 years with Scale AA (previously, set forward 2 years and projected 0 years)

In performing the actuarial valuation, various assumptions are made regarding mortality, retirement, disability and withdrawal rates as well as salary increases and investment returns. A comparison of the results of the current valuation and the prior valuation is made to determine how closely actual experience relates to expected. The RP-2000 Employee Mortality Table projected 22 years with Scale AA and the RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA were determined to contain provisions appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience of the plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity	19.60%	6.60%
International developed markets equity	15.60%	7.10%
International emerging markets equity	6.50%	9.40%
Core fixed income	15.30%	2.20%
High yield fixed income	8.30%	4.70%
Real estate	9.90%	4.40%
Commodities	3.90%	4.40%
Short-term government money market	0.00%	1.80%
Hedge fund, GTAA. Risk parity	9.80%	3.90%
Private equity	11.10%	11.70%
	<u>100%</u>	

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2014 (net of investment expenses) was 7.54%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is adjusted for the changing amounts actually invested, measured monthly.

Discount Rate

The discount rate used to measure the total pension liability was 7.875% (8.0) % in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Middlesex County Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Middlesex County Retirement System, calculated using the discount rate of 7.875%, as well as what the Middlesex County Retirement System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.875%) or 1-percentage-point higher (8.875%) than the current rate:

	1% Decrease <u>(6.875%)</u>	Discount Rate <u>(7.875%)</u>	1% Increase <u>(8.875%)</u>
Town's proportionate share of the Net Pension Liability	\$50,057,749	\$41,397,005	\$34,023,370

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Middlesex County Retirement System financial report. The System issues a stand-alone financial report is available that can be obtained through the System's website at: <http://www.middlesexretirement.org/MCRS%20Final%20Audit%20Report%2012-31-14%20Financial%20Statements%20and%20GASB%2068.pdf>.

c. Massachusetts Teachers Retirement System

Special Funding Situation

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. The MTRS covers certified teachers and certain school administrators. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. Therefore, the Town is considered to be in a "special funding situation" according to GASB Statement # 68 *Accounting and Financial Reporting for Pensions*. Since the Town does not contribute to the MTRS it does not have a pension liability to report.

MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members-two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB. The MTRB includes 452 employers.

For the fiscal year ended June 30, 2014, the Town's proportionate share of the collective pension expense was \$3,071,782. The Town's proportionate share was based on its percentage share of covered payroll in the MTRS. Since this is the implementation year for GASB 68, the Town's percentage has not changed. Accordingly, the accompanying 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, 2015, or fund balance/net position at June 30, 2015.

The Commonwealth's proportionate share of the collective net pension liability associated with the Town is \$44,214,335.

The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. The Commonwealth's report is available on the internet at: <http://www.mass.gov/osc/docs/reports-audits/cafr/cafr-2014.pdf>.

Benefits provided

MTRS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. All members of the MTRS are classified in Group 1. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' contribution requirements have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Member contributions for MTRS vary depending on the most recent date of membership.

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984-6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation
1979 to present	An additional 2% of regular compensation over \$30,000

Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

1. (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
3. Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for "white-collar" employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)

- Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

	Target Allocation	Long Term Expected Rate of Return	
		2014	2013
Global Equity	43.00%	7.20%	7.70%
Core fixed income	13.00%	2.50%	2.00%
Hedge Funds	10.00%	5.50%	4.75%
Private Equity	10.00%	8.80%	9.00%
Real estate	10.00%	6.30%	6.00%
Value Added Fixed Income	10.00%	6.30%	6.30%
Timber/Natural Resources	4.00%	5.00%	5.00%
	100%		

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

Since the Town is not responsible for its proportionate share of the collective net pension liability, a sensitivity analysis of the discount rate is not required.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the Commonwealth of Massachusetts financial report. The financial report is available on the internet at: <http://www.mass.gov/osc/docs/reports-audits/cafr/cafr-2014.pdf>.

Based upon updated actuarial information, the Commonwealth has adjusted certain information as previously reported in the Schedule of Changes in the Massachusetts Teachers’ Retirement System’s Collective Net Pension Liability and Related Ratios (changes in total pension liability) as contained in the required supplemental section of the Commonwealth’s 2014 CAFR. The change resulted in a reduction of previously reported

differences between expected and actual experience by \$85,597,000 which affected the following elements in the schedule of pension amounts as of and for the year ending June 30, 2014 (amounts in thousands):

Beginning total pension liability	\$(21,000)
Service cost	(26,337)
Interest on pension liability and benefit payments	<u>132,934</u>
Total adjustments	<u>\$85,597</u>

A. 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 490 active employees and 369 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, 2015, the amount actually contributed to the plan, and the Town’s Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$8,477,931
Interest on Net OPEB Obligation	793,605
Adjustment to Annual Required Contribution	<u>(1,147,492)</u>
Annual OPEB Cost (Expense)	8,124,044
Contributions Made:	
Contributions for Benefits - Including Implied Subsidy	<u>1,468,699</u>
Total Contributions	<u>1,468,699</u>
Increase in Net OPEB Obligation	<u>6,655,345</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>19,840,137</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$26,495,482</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>
2013	\$7,134,483	22.9%	\$14,093,549
2014	\$7,428,045	22.6%	\$19,840,137
2015	\$8,124,044	18.1%	\$26,495,482

- d. **Funded Status and Funding Progress.** As of July 1, 2014, the most recent actuarial valuation date the Actuarial Accrued Liability (AAL) for benefits was \$81,868,357 and the actuarial value of assets was \$167,505, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$81,700,852. The actuarial value of the assets as a percentage of the Actuarial Accrued Liability (funded ratio) was 0.20%. The covered payroll as of the valuation date was \$28,251,818 and the UAAL as a percentage of covered payroll was 289.2%. The plan assets are recorded and reported in the Town's fiduciary fund financial statements.

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, 2014, 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 8.0% initially, reduced by decrements of 0.5% per year to an ultimate rate of 5.0% in year seven (previously 9.0% initially, reduced by decrements of 1.0% per year to an ultimate rate of 5 percent in year five). The actuarial value of assets was determined using market value. The UAAL is being amortized over a thirty year open amortization period.

D. Subsequent Year Authorizations

On June 1, 2015, October 5, 2015 and October 8, 2015, the Town adopted a fiscal 2016 operating and capital budget of \$67,125,517. Fiscal 2016 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

2015 Property Taxes, State Aid and Non-Property Tax Revenue	\$ 58,396,030
Enterprise Fund Revenues	5,680,162
Enterprise Fund Retained Earnings	357,500
Restricted Fund Balance:	
Non-Major Funds	1,370,951
Committed Fund Balance:	
General Fund	215,700
Non-Major Funds	250,000
Unassigned Fund Balance:	
General Fund	855,174
	<u>\$ 67,125,517</u>

E. Significant Commitments and Contingencies

Litigation

The Town has threatened litigation relating to the payment for work done on the Middle/High Schools' project. The outcome is unknown at this time. If the plaintiff prevails, the expenditure will be funded by future borrowings or appropriations.

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 \$674,862.

F. Prior Period Adjustment

Fiscal year 2015 is the implementation year for Governmental Accounting Standards Board Statement # 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. In accordance with the statement, a prior period adjustment (\$39,115,958) was made in the governmental activities to reflect the net pension liability as of July 1, 2014. The net position previously reported was \$60,845,515. The net position after the adjustment was \$21,729,557. In addition, a prior period adjustment (\$1,523,998) was made in the business type activities (water fund) to reflect the net pension liability as of July 1, 2014. The net position previously reported was \$10,368,581. The net position after the adjustment was \$8,844,583.

G. Implementation of New GASB Pronouncements

During fiscal year 2015, the following GASB pronouncements were implemented:

- The GASB issued Statement #68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. The implementation of this pronouncement required a restatement of prior net position to reflect the net pension liability as of July 1, 2014, the recognition of the pension expense and the reporting of deferred outflows/inflows related to pensions. The notes to the financial statements and the Required Supplementary Information were enhanced to comply with Statement #68.

- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the financial statements.
- *The GASB issued Statement #71, Pension Transitions for Contributions Made Subsequent to the Measurement Date*. The implementation of this pronouncement did not impact the financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement No. 72 *Fair Value Measurement and Application*, which is required to be implemented in fiscal year 2016.
- The GASB issued Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in fiscal year 2016.
- The GASB issued Statement No. 77 *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements. Management's current assessment is that GASB Statements #74 & #75 will have a significant impact on the Town's basic financial statements by recognizing the entire actuarially accrued liability and expense, related to the Town's Other Post-Employment Benefits.

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, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Property Taxes	\$43,864,384	\$ 44,151,386	\$ 43,985,448	\$ (165,938)
Tax Liens	-	-	188,874	188,874
Excises	2,410,000	2,410,000	2,776,037	366,037
Penalties and Interest	225,000	225,000	255,404	30,404
Licenses and Permits	375,000	375,000	419,535	44,535
Fees and Other Departmental	210,000	210,000	243,278	33,278
Intergovernmental	8,843,945	8,843,945	8,876,900	32,955
Charges for Services	930,000	930,000	999,199	69,199
Fines and Forfeits	13,000	13,000	16,010	3,010
Earnings on Investments	15,000	15,000	21,820	6,820
In Lieu of Taxes	254,000	254,000	491,602	237,602
Miscellaneous	-	-	37,967	37,967
Total Revenues	<u>57,140,329</u>	<u>57,427,331</u>	<u>58,312,074</u>	<u>884,743</u>
<u>Expenditures:</u>				
Current:				
General Government	2,719,242	2,934,939	2,576,739	358,200
Public Safety	6,533,044	6,600,771	6,505,116	95,655
Education	27,323,936	27,363,933	27,360,770	3,163
Highway and Public Works	3,261,220	3,840,605	4,005,580	(164,975)
Health and Human Services	793,745	780,655	686,635	94,020
Culture and Recreation	539,228	541,717	530,522	11,195
Intergovernmental	141,241	141,241	156,433	(15,192)
Employee Benefits and Insurance	9,754,246	9,674,700	9,459,460	215,240
Debt Service	7,747,273	7,747,273	7,722,718	24,555
Total Expenditures	<u>58,813,175</u>	<u>59,625,834</u>	<u>59,003,973</u>	<u>621,861</u>
Excess (Deficiency) of Revenues Over Expenditure	<u>(1,672,846)</u>	<u>(2,198,503)</u>	<u>(691,899)</u>	<u>1,506,604</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	1,907,087	1,907,087	1,907,087	-
Transfers Out	(138,633)	(1,238,055)	(1,238,055)	-
Budgetary Fund Balance - Sources	137,395	1,762,474	1,762,474	-
Budgetary Fund Balance - Uses	(233,003)	(233,003)	(233,003)	-
Total Other Financing Sources (Uses)	<u>1,672,846</u>	<u>2,198,503</u>	<u>2,198,503</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,506,604</u>	<u>\$ 1,506,604</u>

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of North Reading, Massachusetts' Proportionate Share of the Net Pension Liability
Middlesex County Retirement System
Last Ten Fiscal Years**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	
Town's proportionate share of net pension liability (asset) (%)	3.445972%	<i>(Historical information prior to implementation of GASB 67/68 is not required)</i>									
Town's proportionate share of net pension liability (asset) (\$)	41,397,005										
Town's covered-employee payroll	12,101,624										
Town's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	342.08%										
Plan fiduciary net position as a percentage of the pension liability	47.65%										

** The amounts presented for each fiscal year were determined as of December 31.

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of North Reading, Massachusetts' Contributions
Middlesex County Retirement System
Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 3,126,208	\$ 2,932,808	\$ 2,716,251	\$ 2,596,324	\$ 1,441,417	\$ 1,379,346	\$ 2,138,978	\$ 1,954,596	\$ 1,773,999	\$ 1,569,774
Contributions in relation to the contractually required contribution	<u>(3,126,208)</u>	<u>(2,932,808)</u>	<u>(2,716,251)</u>	<u>(2,596,324)</u>	<u>(1,441,417)</u>	<u>(1,379,346)</u>	<u>(2,138,978)</u>	<u>(1,954,596)</u>	<u>(1,773,999)</u>	<u>(1,569,774)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	12,101,624	<i>(Historical information prior to implementation of GASB 67/68 is not required)</i>								
Contributions as a percentage of covered-employee payroll	25.83%									

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of North Reading Massachusetts' Proportionate Share of the Collective Net Pension Liability
Massachusetts Teachers' Retirement System
Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Town's proportionate share of the collective net pension liability (asset) (%)	0.00% <i>(Historical information prior to implementation of GASB 67/68 is not required)</i>									
Town's proportionate share of the collective net pension liability (asset) (\$)	\$	-								
State's proportionate share of the collective net pension liability (asset) associated with Town (\$)	\$	44,214,335								
Total	<u>\$</u>	<u>44,214,335</u>								
Town's covered-employee payroll	17,054,199									
Town's proportionate share of the collective net pension liability (asset) as a percentage of its covered-employee payroll	0.00%									
Plan fiduciary net position as a percentage of the pension liability	61.64%									
Town's expense and revenue recognized for Commonwealth support	<u>\$</u>	<u>3,071,782</u>								

See Notes to the Required Supplementary Information

See Notes to the Required Supplementary Information

Town of North Reading, Massachusetts
 Required Supplementary Information
 Other Post Employment Benefits
 Schedule of Funding Progress and Employer's Contributions
 Fiscal Year Ended June 30, 2015

Schedule of Funding Progress

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)]
7/1/2010	\$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%
7/1/2014	\$167,505	\$81,868,357	\$81,700,852	0.20%	28,251,818	289.2%

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.

Schedule of Employer's Contributions

Fiscal Year Ended June 30	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$4,163,043	37.6%	\$2,597,952
2010	\$4,306,578	38.7%	\$5,238,530
2011	\$3,437,880	54.7%	\$6,794,986
2012	\$3,410,128	47.2%	\$8,594,033
2013	\$7,134,483	22.9%	\$14,093,549
2014	\$7,428,045	22.6%	\$19,840,137
2015	\$8,124,044	18.1%	\$26,495,482

See Notes to the Required Supplementary Information

Town of North Reading, Massachusetts
 Required Supplementary Information
 Other Post Employment Benefits
 Valuation Details
 Fiscal Year Ended June 30, 2015

Valuation Date	July 1, 2014
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% Pay as you go (same as previous valuation)
Medical/Drug Cost Trend Rate	8.0% graded off 0.5% per year to an ultimate rate of 5.0% in year 7. (previously 9.0% graded off 1.0% per year to an ultimate rate of 5% in year 5.)
Consumer Price Index	3% (same as previous report)

Plan Membership:

Current retirees, beneficiaries and dependents	359
Current active members	<u>490</u>
Total	849

See Notes to the Required Supplementary Information

Town of North Reading, Massachusetts
Notes to the Required Supplementary Information
June 30, 2015

(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

a. Plan Description

The Town provides pension benefits to eligible employees by contributing to the Middlesex County Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex County Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees (not including teachers who are included in the Massachusetts Teachers' Retirement System). The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The Town 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 County Retirement System issues a stand-alone financial report that is available to the public at:

<http://www.middlesexretirement.org/MCRS%20Final%20Audit%20Report%2012-31-14%20Financial%20Statements%20and%20GASB%2068.pdf> or by writing to the to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

The Town, also, provides benefits to teachers through the Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67. The Commonwealth of Massachusetts is statutorily responsible for 100% of the actuarially determined employer contributions. Therefore, the Town has a special funding situation.

b. Funding Plan

Active members of the Middlesex County 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 are determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex County Retirement System with the approval of the Public Employee Retirement Administration Commission.

c. Changes in Benefit Terms

Chapter 176 of the Acts of 2011 was incorporated in this valuation, which changes many of the benefit features for members hired on or after April 2, 2012. In addition, the COLA base was increased to \$14,000 effective July 1, 2014.

d. Change in Assumptions

The following changes were effective January 1, 2014:

- The actuarial cost method was changed to better reflect the impact of the plan changes effective for employees hired on or after April 2, 2012.
- The pre-retirement mortality assumption was changed from the RP-2000 Employee Mortality Table projected 12 years with Scale AA to the RP-2000 Employee Mortality Table projected 22 years with Scale AA.
- The mortality assumption for non-disabled retirees was changed from the RP-2000 Healthy Annuitant Mortality Table projected 12 years with Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward two years to the RP-2000 Healthy Annuitant Mortality Table set forward three years projected 17 years with Scale AA.
- The investment return assumption was lowered from 8.00% to 7.875%.
- The salary increase assumption was changed from level rates of 4.75% per year for Group 1 and Group 2 members and 5.25% per year for Group 4 members, including an allowance for inflation of 4.5% per year, to rates based on years of service with ultimate rates of 4.25% per year for Group 1 members, 4.5% per year for Group 2 members and 4.75% per year for Group 4 members, including an allowance for inflation of 4.0% per year.
- The assumed retirement age for inactive vested participants was changed from age 65 to age 60 for Group 1 and 2 members and remained the same at age 55 for Group 4 members hired prior to April 2, 2012. For participants hired April 2, 2012 or later, the assumption is 60 for Group 1 members, 55 for Group 2 members and 50 for Group 4 members.
- The administrative expense assumption was increased from \$3,100,000 for calendar 2012 to \$3,400,000 for calendar 2014.

e. Massachusetts Teachers Retirement System

Special Funding Situation

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. The MTRS covers certified teachers and certain school administrators. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. Therefore, the Town is considered to be in a "special funding situation" according to GASB Statement # 68 *Accounting and Financial Reporting for Pensions*. Since the Town does not contribute to the MTRS it does not have a pension liability to report.

MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members-two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB. The MTRB includes 452 employers.

The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. The Commonwealth's report is available on the internet at: <http://www.mass.gov/osc/docs/reports-audits/cafr/cafr-2014.pdf>.

Benefits provided

MTRS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. All members of the MTRS are classified in Group 1. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' contribution requirements have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Member contributions for MTRS vary depending on the most recent date of membership.

Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013.

f. Schedule of Town's Proportionate Share of the Net Pension Liability - Middlesex County Retirement System

The schedule details the Town's percentage of the collective net pension liability, the proportionate amount of the collective net pension liability, the Town's covered-employee payroll, the Town's proportionate share of the collective net pension liability as a percentage of the Town's covered-employee payroll and the plans fiduciary net position as a percentage of the total pension liability. As more information becomes available, this will be a ten year schedule.

g. Schedule of the Town's Contributions

The schedule details the Town's contractually required contributions, the contributions made by the Town, the deficiency/(excess) of contributions made by the Town, the Town's covered-employee payroll and the Town's contributions as a percentage of covered-employee payroll. . As more information becomes available, this will be a ten year schedule.

h. Schedule of Town's Proportionate Share of the Collective Net Pension Liability - Massachusetts Teachers' Retirement System

Since the Commonwealth of Massachusetts is statutorily responsible for 100% of the actuarially determined employer contribution, the Town has a special funding situation. Therefore, the Town does not recognize a net pension liability. This schedule provides information about the state's proportionate share of the collective net pension liability associated with the Town and the plans fiduciary net position as a percentage of the total pension liability. It, also, details the Town's revenue and expense recognized from the Commonwealth's support. As more information becomes available, this will be a ten year schedule.

C) 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.

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 490 active employees and 369 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.

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.

Town of North Reading, Massachusetts
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2015

<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	\$ 108,232
Total U.S. Department of Agriculture		<u>108,232</u>
<u>U.S. Department of Justice</u>		
Bulletproof Vest Partnership Program	16.607	1,610
Total U.S. Department of Justice		<u>1,610</u>
<u>U.S. Department of Education</u>		
Title I	84.010	88,541
SPED PL 94-142 Allocation	84.027	493,793
SPED Transition	84.027	1,019
SPED Program Improvement	84.027	22,540
Subtotal # 84.027		<u>517,352</u>
SPED Preschool	84.173	5,990
SPED Early Childhood	84.173	15,472
Subtotal #84.173		<u>21,462</u>
Total Special Education Cluster		<u>538,814</u>
Teacher Quality	84.367	33,360
Total U.S. Department of Education		<u>660,715</u>
<u>U.S. Department Homeland Security</u>		
Essex County Trench Rescue	97.Unk	38,056
Total U.S. Department Homeland Security		<u>38,056</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 808,613</u>

Town of North Reading, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2015

(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, 2015, and the related notes to the financial statements and have issued our report thereon dated March 21, 2016.

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.

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
March 21, 2016

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, 2015. 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, 2015.

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
March 21, 2016

Town of North Reading, Massachusetts
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2015

(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 Transition	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.