APPENDIX

B

TOWN OF
READING, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Reading, Massachusetts

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 Reading, Massachusetts, as of and for the year June 30, 2014, (except for the Reading Contributory Retirement System, which is as of and for the year ended December 31, 2013) and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

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 opinions.

Opinions

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 Reading, Massachusetts, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance 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 Management's Discussion and Analysis and Schedule of Funding Progress 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 evidence sufficient 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's basic financial statements. The accompanying supplementary information appearing on pages 78 through 88 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2015 on our consideration of the Town's 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's internal control over financial reporting and compliance.

Melanson Heath

March 19, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Reading, Massachusetts we offer readers this narrative overview and analysis of the financial activities of the Town for the June 30, 2014. **Unless otherwise noted, all amounts reported in this analysis are expressed in thousands.**

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and liabilities, with the difference 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 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 to 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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include water supply and distribution, sewer disposal, landfill, electric, and storm water 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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds 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 available 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 funds 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.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, sewer, landfill, electric, and storm water operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, landfill, electric, and storm water operations. Water and electric operations are considered to be major funds.

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.

Notes to financial statements. The notes provide additional information that is essential to 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 certain required supplementary infor-

mation which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by $243,845 (i.e., net position), a change of $7,547 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of $33,993, a change of $2,456 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was $11,399, a change of $891 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was $33,959, a change of $(30) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 44,805	$ 40,444	$ 59,192	$ 48,672	$ 103,997	$ 89,116
Capital assets	122,418	124,529	90,648	91,533	213,066	216,062
Total assets	167,223	164,973	149,840	140,205	317,063	305,178
Long-term liabilities outstanding	37,795	39,458	17,372	14,428	55,167	53,886
Other liabilities	10,173	7,702	7,876	7,292	18,049	14,994
Total liabilities	47,968	47,160	25,248	21,720	73,216	68,880
Net position:						
Net investment in capital assets	99,820	99,515	81,328	81,395	181,148	180,910
Restricted	17,586	17,475	4,131	2,734	21,717	20,209
Unrestricted	1,848	823	39,132	34,356	40,980	35,179
Total net position	$ 119,254	$ 117,813	$ 124,591	$ 118,485	$ 243,845	$ 236,298

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	$ 7,599	$ 7,043	$ 97,545	$ 95,370	$ 105,144	$ 102,413
Operating grants and contributions	21,561	21,759	-	53	21,561	21,812
Capital grants and contributions	2,126	1,388	181	31	2,307	1,419
General revenues:						
Property taxes	55,753	54,504	-	-	55,753	54,504
Excises	3,226	3,090	-	-	3,226	3,090
Penalties, interest, and other taxes	972	853	-	-	972	853
Grants and contributions not restricted to specific programs	3,086	3,417	-	-	3,086	3,417
Investment income	1,112	542	138	33	1,250	575
Other	1,107	857	757	1,077	1,864	1,934
Total revenues	96,542	93,453	98,621	96,564	195,163	190,017
Expenses:						
General government	5,384	4,943	-	-	5,384	4,943
Public safety	12,381	11,826	-	-	12,381	11,826
Education	65,725	64,838	-	-	65,725	64,838
Public works	8,278	8,062	-	-	8,278	8,062
Human services	999	935	-	-	999	935
Culture and recreation	3,372	3,134	-	-	3,372	3,134
Interest on long-term debt	934	1,220	-	-	934	1,220
Intergovernmental	1,025	951	-	-	1,025	951
Electric	-	-	79,409	79,431	79,409	79,431
Water	-	-	4,395	4,356	4,395	4,356
Other	-	-	5,714	5,542	5,714	5,542
Total expenses	98,098	95,909	89,518	89,329	187,616	185,238
Change in net position before transfers	(1,556)	(2,456)	9,103	7,235	7,547	4,779
Transfers in (out)	2,997	2,915	(2,997)	(2,915)	-	-
Change in net position	1,441	459	6,106	4,320	7,547	4,779
Net position - beginning of year	117,813	117,354	118,485	114,165	236,298	231,519
Net position - end of year	$ 119,254	$ 117,813	$ 124,591	$ 118,485	$ 243,845	$ 236,298

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was $243,845, a change of $7,547 from the prior year.

The largest portion of net position $181,148 reflects our investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position $21,717 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position $40,980 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of $1,441. Key elements of this change are as follows:

General fund expenditures exceeding revenues	$ (1,661)
PILOT from RMLD	2,301
Enterprise fund indirect costs	696
Subtotal General Fund	1,336
Special revenue and permanent fund revenues exceeding expenditures	1,664
Current year revenue used for the acquisition of capital assets	3,480
Depreciation expense exceeding debt service principal	(3,162)
Increase in net OPEB obligation	(1,650)
Other	(227)
Total	$ 1,441

Business-type activities. Business-type activities for the year resulted in a change in net position of $6,106. Key elements of this change are as follows:

- The electric operations had revenues of $85,267 and expenses and transfers of $81,711, resulting in a change in net position of $3,556.
- The water operations had revenues of $5,984 and expenses and transfers of $4,808, resulting in a change in net position of $1,176.
- The sewer operations had revenues of $6,976 and expenses and transfers of $5,760, resulting in a change in net position of $1,216.
- The landfill operations did not report any revenues or expenditures.
- The storm water management operations had revenues of $395 and expenses of $237, resulting in a change in net position of $158.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of $33,993, a change of $2,456 in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures exceeding revenues	$ (1,661)
PILOT from RMLD	2,301
Enterprise fund indirect costs	696
Subtotal General Fund	1,336
Sale of Audobon Road property	311
Special education tuition receipts	239
Other special revenue fund revenues exceeding expenditures	501
Capital project fund expenditures exceeding expenditures	(544)
Permanent fund revenues exceeding expenditures	613
Total	$ 2,456

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was $11,399, while total fund balance was $15,848. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

General Fund	6/30/14	6/30/13	Change	% of Total General Fund Expenditures
Unassigned fund balance	$ 11,399	$ 10,508	$ 891	13.2%
Total fund balance	15,848	14,177	1,671	18.4%

The total fund balance of the general fund changed by $1,671 during the current fiscal year. Key factors in this change are as follows:

General fund:	
Use of free cash and overlay surplus as a funding source	$ (2,280)
Use of MSBA grant for debt service	(817)
Revenues in excess of budget	1,307
Expenditures less than budget	1,847
Expenditures of prior year encumbrances less than current year encumbrances	1,073
Unused overlay	541
Total	$ 1,671

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	6/30/14	6/30/13	Change
Stabilization - general	$ 1,553	$ 1,550	$ 3
Stabilization - smart growth	353	310	43
Stabilization - sick buy-back	12	55	(43)
Total	$ 1,918	$ 1,915	$ 3

The following table reflects the trend in all the components of the general fund's fund balance:

Last Six Fiscal Years

As of 30-Jun	Restricted for Debt Service	Committed for Stabilization Fund	Assigned for Encumbrances	Assigned for Subsequent Year's Expenditures	Unassigned	Total Fund Balance
2009	$ -	$ 350 [b]	$ 1,210	$ 763	$ 7,976 [b]	$ 10,299
2010	12,530	375 [b]	1,488	1,491	7,822 [b]	23,706
2011	11,833	705 [b]	1,006	928	8,649 [b]	23,121
2012	1,033 [a]	400 [b]	1,492	1,476	9,728 [b]	14,129 [a]
2013	817	365	1,087	1,400	10,508	14,177
2014	-	365	2,034	2,050	11,399	15,848

[a] The Town used $10,800 of debt reserves to pay down school related debt.
[b] Reclassified the Town's general stabilization account to unassigned fund balance.

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Net position of the enterprise funds at the end of the year amounted to $124,591, a change of $6,106 in comparison to the prior year. Factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of $1,101. Major reasons for these amendments include:

- $ 575 increase in snow and ice funding
- $ 447 increase in School technology/capital expenses
- $ 300 increase in stabilization account funding
- $ 79 increase in other departmental expenses
- $(300) decrease in health insurance/workers compensation

Of this increase, $879 was funded by free cash, $113 through the tax levy, $96 from additional state aid, and $68 from transfers in from other funds. In addition, other local revenues were reduced by $(55).

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to $213,066 (net of accumulated depreciation), a change of $(2,996) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

Governmental additions:

- $ 2,333 in roadway improvements
- $ 756 in library renovations
- $ 403 in various school improvements
- $ 126 for a sidewalk snow plow

Business-type additions:

- $ 3,894 in electric improvements
- $ 67 in water improvements
- $ 300 in sewer improvements
- $ 55 in stormwater improvements

Additional information on capital assets can be found in the Notes to Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was $35,959, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the Notes to Financial Statements.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The adopted FY15 General Fund budget of $82,332 is a 2.6% increase over the prior year. The FY15 budget is balanced.

FY2015 State aid will be $13,282 which represents a 1.4% percent increase over prior year.

The tax levy for FY15 of $58,795 represents a 4.2% increase over the prior year. The FY15 tax rate is $14.70 per thousand compared to $14.74 in the prior year. Overall, property values increased 4.5% to $3,999,638.

For FY2015, the Board of Selectmen, acting as the Water and Sewer Commissioners, voted to increase Water Rates by 3.1% and Sewer Rates by 1.7% for all customers effective for all billings after September 10, 2014. These increases are expected to cover all operations, planned infrastructure improvements, and debt.

The State passed legislation allowing Massachusetts municipalities to pass a Local Option Meals Tax of 0.75% with 100% of the revenue going to the Town. Reading voted to accept this local option at their November 2010 Town Meeting. We received revenue in FY2014 totaling $355. The FY15 revenue budgeted for this tax is $350.

The Town is working on an $18,400 capital improvement project for remodeling our library. In April 2013, voters approved $14,900 of debt exclusion. In April 2014, voters approved an additional $3,500 of debt exclusion. Note that of these totals, the state has approved $5,100 of grant funding for the project; the balance will be the local share.

At April 2012 Town Meeting, the Town voted to adopt Massachusetts General Laws Chapter 32B, Section 20 which allows the Town to set up an irrevocable trust for (OPEB), Other Post-Employment Benefits liabilities. Currently, the funds set aside in this trust are invested in MMDT, which invests in US Treasuries, commercial paper, and very short-term bonds according to the prudent investor rule set forth in Chapter 203C. The Town is exploring the possibility of investing the funds in the (SRBT) State Retiree Benefits Trust Fund administered by PRIM. The SRBT funds are invested in Pension Reserve Investment Trust (PRIT). Investment in PRIT offers higher returns which would reduce the Town's unfunded OPEB liability.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Reading's 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 Accountant
Town Hall
16 Lowell Street
Reading, MA 01867

TOWN OF READING, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	$ 23,296,746	$ 24,675,891	$ 47,972,637
Restricted cash	-	19,219,111	19,219,111
Investments	19,052,464	-	19,052,464
Receivables, net of allowance for uncollectibles:			
Property taxes	308,675	-	308,675
Excises	124,504	-	124,504
User fees	-	11,739,265	11,739,265
Departmental and other	661,129	-	661,129
Intergovernmental	860,401	-	860,401
Prepaid assets	-	772,766	772,766
Inventory	-	1,465,119	1,465,119
Other assets	3,525	-	3,525
Noncurrent:			
Restricted investments	-	1,292,906	1,292,906
Investment in associated companies	-	26,994	26,994
Receivables, net of allowance for uncollectibles:			
Property taxes	497,542	-	497,542
Capital assets being depreciated, net	117,208,492	88,649,152	205,857,644
Capital assets not being depreciated	5,209,566	1,998,500	7,208,066
TOTAL ASSETS	167,223,044	149,839,704	317,062,748
LIABILITIES			
Current:			
Warrants payable	1,886,134	4,572,219	6,458,353
Accrued liabilities	4,886,469	730,746	5,617,215
Unearned revenues	201,409	-	201,409
Tax refunds payable	510,000	-	510,000
Customer advances for construction	-	400,656	400,656
Customer deposits	-	749,900	749,900
Due to retirement trust	-	1,374,538	1,374,538
Retainage payable	1,104,104	-	1,104,104
Notes payable	1,000,000	-	1,000,000
Other current liabilities	585,319	48,062	633,381
Current portion of long-term liabilities:			
Bonds and loans payable	2,345,347	1,453,239	3,798,586
Accrued employee benefits	54,097	195,937	250,034
Noncurrent:			
Bonds and loans payable, net of current portion	19,654,992	12,505,648	32,160,640
Accrued employee benefits	1,491,527	2,782,656	4,274,183
Net OPEB obligation	14,249,155	434,870	14,684,025
TOTAL LIABILITIES	47,968,553	25,248,471	73,217,024
NET POSITION			
Net investment in capital assets	99,819,968	81,328,246	181,148,214
Restricted for:			
Grants and other statutory restrictions	7,887,610	4,130,585	12,018,195
Permanent funds:			
Nonexpendable	3,042,918	-	3,042,918
Expendable	6,656,154	-	6,656,154
Unrestricted	1,847,841	39,132,402	40,980,243
TOTAL NET POSITION	$ 119,254,491	$ 124,591,233	$ 243,845,724

The accompanying notes are an integral part of these financial statements.

TOWN OF READING, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues
Governmental Activities:					
General government	$ 5,384,032	$ 391,799	$ 211,963	$ -	$ (4,780,270)
Public safety	12,380,412	2,428,752	94,875	-	(9,856,785)
Education	65,725,154	3,907,540	20,971,717	-	(40,845,897)
Public works	8,277,697	176,836	1,250	1,104,797	(6,994,814)
Health and human services	998,524	70,216	236,981	-	(691,327)
Culture and recreation	3,372,336	623,893	43,844	1,021,024	(1,683,575)
Interest on long-term debt	934,019	-	-	-	(934,019)
Intergovernmental	1,025,356	-	-	-	(1,025,356)
Total Governmental Activities	98,097,530	7,599,036	21,560,630	2,125,821	(66,812,043)
Business-Type Activities:					
Electric operations	79,409,332	84,364,480	-	24,117	4,979,265
Water operations	4,394,603	5,972,166	-	-	1,577,563
Other	5,713,772	7,208,116	-	157,500	1,651,844
Total Business-type Activities	89,517,707	97,544,762	-	181,617	8,208,672
Total	$ 187,615,237	$ 105,143,798	$ 21,560,630	$ 2,307,438	(58,603,371)

The accompanying notes are an integral part of these financial statements.

(continued)

TOWN OF READING, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

(continued)

	Governmental Activities	Business-Type Activities	Total
Change in Net Position:			
Net (Expenses) revenue from previous page	$ (66,812,043)	$ 8,208,672	$ (58,603,371)
General Revenues and Transfers:			
Property taxes	55,752,791	-	55,752,791
Excises	3,225,690	-	3,225,690
Penalties, interest and other taxes	972,304	-	972,304
Grants and contributions not restricted to specific programs	3,085,799	-	3,085,799
Investment income	1,112,085	138,011	1,250,096
Other	1,106,936	757,279	1,864,215
Transfers, net	2,997,290	(2,997,290)	-
Total general revenues and transfers	68,252,895	(2,102,000)	66,150,895
Change in Net Position	1,440,852	6,106,672	7,547,524
Net Position:			
Beginning of year	117,813,639	118,484,561	236,298,200
End of year	$ 119,254,491	$ 124,591,233	$ 243,845,724

TOWN OF READING, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and short-term investments	$ 11,989,514	$ 11,307,232	$ 23,296,746
Investments	9,544,214	9,508,250	19,052,464
Receivables:			
Property taxes	892,836	-	892,836
Excises	200,465	-	200,465
Departmental and other	595,162	65,967	661,129
Intergovernmental	-	860,401	860,401
Other assets	3,525	-	3,525
TOTAL ASSETS	$ 23,225,716	$ 21,741,850	$ 44,967,566
LIABILITIES			
Warrants payable	$ 819,746	$ 1,066,388	$ 1,886,134
Accrued liabilities	4,337,583	224,586	4,562,169
Unearned revenue	-	201,409	201,409
Retainage payable	-	1,104,104	1,104,104
Notes payable	-	1,000,000	1,000,000
Other liabilities	585,319	-	585,319
TOTAL LIABILITIES	5,742,648	3,596,487	9,339,135
DEFERRED INFLOWS OF RESOURCES	1,634,982	-	1,634,982
FUND BALANCES			
Nonspendable	-	3,042,918	3,042,918
Restricted	-	15,902,823	15,902,823
Committed	364,628	-	364,628
Assigned	4,084,921	-	4,084,921
Unassigned	11,398,537	(800,378)	10,598,159
TOTAL FUND BALANCES	15,848,086	18,145,363	33,993,449
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 23,225,716	$ 21,741,850	$ 44,967,566

The accompanying notes are an integral part of these financial statements.

TOWN OF READING, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total governmental fund balances	$ 33,993,449
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	122,418,058
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	962,402
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(324,300)
• Long-term liabilities, (bonds payable, accrued employee benefits and net OPEB obligation) are not due and payable in the current period, and, therefore, are not reported in the governmental funds.	(37,795,118)
Net position of governmental activities	$ 119,254,491

The accompanying notes are an integral part of these financial statements.

TOWN OF READING, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	$ 56,375,530	$ -	$ 56,375,530
Excises	3,348,216	-	3,348,216
Penalties, interest and other taxes	972,304	-	972,304
Departmental	1,563,221	5,682,000	7,245,221
Licenses and permits	170,753	-	170,753
Fines and forfeitures	115,324	-	115,324
Intergovernmental	21,425,719	5,346,531	26,772,250
Investment income	136,322	765,413	901,735
Other	310,426	719,518	1,029,944
Total Revenues	84,417,815	12,513,462	96,931,277
Expenditures:			
Current:			
General government	3,991,015	129,831	4,120,846
Public safety	8,992,105	836,875	9,828,980
Education	46,313,176	7,263,614	53,576,790
Public works	6,270,374	1,630,353	7,900,727
Health and human services	598,509	221,521	820,030
Culture and recreation	2,029,192	1,311,293	3,340,485
Employee benefits	12,881,809	-	12,881,809
Debt service	3,977,419	-	3,977,419
Intergovernmental	1,025,356	-	1,025,356
Total Expenditures	86,078,955	11,393,487	97,472,442
Excess (deficiency) of revenues over expenditures	(1,661,140)	1,119,975	(541,165)
Other Financing Sources (Uses):			
Transfers in	3,332,445	-	3,332,445
Transfers out	-	(335,155)	(335,155)
Total Other Financing Sources (Uses)	3,332,445	(335,155)	2,997,290
Net change in fund balances	1,671,305	784,820	2,456,125
Fund Balances, at Beginning of Year	14,176,781	17,360,543	31,537,324
Fund Balances, at End of Year	$ 15,848,086	$ 18,145,363	$ 33,993,449

The accompanying notes are an integral part of these financial statements.

TOWN OF READING, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

Net changes in fund balances - Total governmental funds	$ 2,456,125
• 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:	
Capital outlay purchases, net of dispositions	4,061,511
Depreciation	(6,172,291)
• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(600,535)
• The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:	
Repayments of debt	3,010,000
Current year amortization of bond premiums	210,350
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	33,400
• Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds:	
Accrued employee benefits	92,358
Net OPEB obligation	(1,650,066)
Change in net position of governmental activities	$ 1,440,852

The accompanying notes are an integral part of these financial statements.

TOWN OF READING, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance with Final Budget
	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
Revenues and Transfers:				
Taxes	$ 55,719,440	$ 55,832,440	$ 55,832,440	$ -
Excise taxes	2,825,000	2,792,288	3,348,216	555,928
Penalties, interest and other taxes	850,000	872,000	972,304	100,304
Departmental	1,500,000	1,500,000	1,563,221	63,221
Licenses and permits	140,000	140,000	170,753	30,753
Fines and forfeitures	110,000	100,000	115,324	15,324
Intergovernmental	13,100,000	13,196,149	13,446,085	249,936
Investment income	125,000	90,000	136,322	46,322
Other	126,349	126,349	310,426	184,077
Transfers in	3,505,054	3,573,154	3,634,233	61,079
Total Revenues and Transfers	78,000,843	78,222,380	79,529,324	1,306,944
Expenditures and Transfers:				
General government	4,232,620	4,413,300	4,112,498	300,802
Public safety	9,124,790	9,380,468	9,161,580	218,888
Education	38,831,373	39,387,874	38,795,610	592,264
Public works	6,071,699	6,559,029	6,239,366	319,663
Health and human services	699,800	651,802	602,509	49,293
Culture and leisure	2,339,197	2,397,668	2,349,556	48,112
Intergovernmental	985,619	1,036,794	1,025,356	11,438
Employee benefits	13,565,050	13,215,050	12,908,309	306,741
Debt service	4,368,000	3,977,500	3,977,419	81
Transfers out	-	300,000	300,000	-
Total Expenditures and Transfers	80,218,148	81,319,485	79,472,203	1,847,282
Excess (deficiency) of revenues and other sources over expenditures and other uses	(2,217,305)	(3,097,105)	57,121	3,154,226
Other Financing Sources:				
Use of free cash				
For operating budget support	1,050,000	1,629,800	-	(1,629,800)
For stabilization account funding	-	300,000	-	(300,000)
Use of overlay surplus	350,000	350,000	-	(350,000)
Use of RMHS debt service reserve	817,305	817,305	-	(817,305)
Total Other Financing Sources	2,217,305	3,097,105	-	(3,097,105)
Excess of revenues and other sources over expenditures and other uses	$ -	$ -	$ 57,121	$ 57,121

The accompanying notes are an integral part of these financial statements.

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Funds			
	Electric Division Fund	Water Fund	Non Major Funds	Total
ASSETS				
Current:				
Cash and short-term investments	$ 11,533,212	$ 8,255,132	$ 4,887,547	$ 24,675,891
User fees, net of allowance for uncollectibles	7,871,050	1,660,010	2,208,205	11,739,265
Prepaid expenses	772,766	-	-	772,766
Inventory	1,407,500	56,203	1,416	1,465,119
Total current assets	21,584,528	9,971,345	7,097,168	38,653,041
Noncurrent:				
Restricted cash and cash equivalents	19,219,111	-	-	19,219,111
Restricted investments	1,292,906	-	-	1,292,906
Investment in associated companies	26,994	-	-	26,994
Capital assets being depreciated, net	68,928,263	13,484,818	6,236,071	88,649,152
Capital assets not being depreciated	1,265,842	121,823	610,835	1,998,500
Total noncurrent assets	90,733,116	13,606,641	6,846,906	111,186,663
TOTAL ASSETS	112,317,644	23,577,986	13,944,074	149,839,704
LIABILITIES				
Current:				
Warrants payable	4,407,535	22,118	142,566	4,572,219
Accrued liabilities	592,810	117,693	20,243	730,746
Customer advances for construction	400,656	-	-	400,656
Customer deposits	749,900	-	-	749,900
Due to pension trust	1,374,538	-	-	1,374,538
Other current liabilities	-	-	48,062	48,062
Current portion of long-term liabilities:				
Bonds and loans payable	-	1,336,200	117,039	1,453,239
Accrued employee benefits	195,937	-	-	195,937
Total current liabilities	7,721,376	1,476,011	327,910	9,525,297
Noncurrent:				
Bonds and loans payable	-	12,255,800	249,848	12,505,648
Accrued employee benefits	2,722,934	34,824	24,898	2,782,656
Net OPEB obligation	-	302,890	131,980	434,870
TOTAL LIABILITIES	10,444,310	14,069,525	734,636	25,248,471
NET POSITION				
Net investment in capital assets	70,194,105	4,376,598	6,757,543	81,328,246
Restricted for depreciation fund	4,130,585	-	-	4,130,585
Unrestricted	27,548,644	5,131,863	6,451,895	39,132,402
TOTAL NET POSITION	$ 101,873,334	$ 9,508,461	$ 13,209,438	$ 124,591,233

The accompanying notes are an integral part of these financial statements.

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds			
	Electric Division Fund	Water Fund	Non Major Funds	Total
Operating Revenues:				
Charges for services	$ 84,364,480	$ 5,972,166	$ 7,208,116	$ 97,544,762
Total Operating Revenues	84,364,480	5,972,166	7,208,116	97,544,762
Operating Expenses:				
Personnel expenses	-	960,830	547,249	1,508,079
Non-personnel expenses	-	342,230	205,560	547,790
Intergovernmental	1,397,270	1,854,203	4,499,328	7,750,801
Depreciation	3,779,635	873,176	433,155	5,085,966
Energy purchases	60,823,626	27,538	26,380	60,877,544
Operating	11,002,998	-	-	11,002,998
Maintenance	2,290,843	-	-	2,290,843
Total Operating Expenses	79,294,372	4,057,977	5,711,672	89,064,021
Operating Income	5,070,108	1,914,189	1,496,444	8,480,741
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	-	-	157,500	157,500
Investment income	120,832	11,511	5,668	138,011
Interest expense	-	(336,626)	(2,100)	(338,726)
Loss on disposal of capital assets	(114,960)	-	-	(114,960)
Other	757,279	-	-	757,279
Total Nonoperating Revenues (Expenses)	763,151	(325,115)	161,068	599,104
Income Before Transfers and Contributions	5,833,259	1,589,074	1,657,512	9,079,845
Capital contributions	24,117	-	-	24,117
Transfers out	(2,301,221)	(413,013)	(283,056)	(2,997,290)
Change in Net Position	3,556,155	1,176,061	1,374,456	6,106,672
Net Position at Beginning of Year	98,317,179	8,332,400	11,834,982	118,484,561
Net Position at End of Year	$ 101,873,334	$ 9,508,461	$ 13,209,438	$ 124,591,233

The accompanying notes are an integral part of these financial statements.

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds			
	Electric Division Fund	Water Fund	Non Major Funds	Total
Cash Flows From Operating Activities:				
Receipts from customers and users	$ 80,249,266	$ 6,027,136	$ 7,017,622	$ 93,294,024
Payments to vendors and employees	(74,778,752)	(1,711,621)	(736,224)	(77,226,597)
Customer refund, purchase power, and fuel charge adjustments	4,675,419	-	-	4,675,419
Payments to other governments	-	(1,854,203)	(4,499,328)	(6,353,531)
Net Cash Provided By Operating Activities	10,145,933	2,461,312	1,782,070	14,389,315
Cash Flows From Noncapital Financing Activities:				
MMWEC surplus	391,726	-	-	391,726
Intergovernmental revenue	-	-	157,500	157,500
Other	365,553	-	-	365,553
Transfer out	(2,301,221)	(413,013)	(283,056)	(2,997,290)
Net Cash (Used For) Noncapital Financing Activities	(1,543,942)	(413,013)	(125,556)	(2,082,511)
Cash Flows From Capital and Related Financing Activities:				
Proceeds from issuance of bonds and notes	-	4,012,000	192,500	4,204,500
Acquisition of capital assets	(3,894,282)	(67,022)	(354,350)	(4,315,654)
Capital grants and contributions	19,619	-	-	19,619
Principal payments on bonds and notes	-	(935,000)	(78,539)	(1,013,539)
Interest expense	-	(336,626)	(2,100)	(338,726)
Net Cash (Used For) Capital and Related Financing Activities	(3,874,663)	2,673,352	(242,489)	(1,443,800)
Cash Flows From Investing Activities:				
(Increase) decrease in restricted cash and investments	(2,466,799)	-	-	(2,466,799)
Investment income	120,832	11,511	5,668	138,011
Net Cash Provided By Investing Activities	(2,345,967)	11,511	5,668	(2,328,788)
Net Change in Cash and Short-Term Investments	2,381,361	4,733,162	1,419,693	8,534,216
Unrestricted Cash and Short Term Investments, Beginning of Year	9,151,851	3,521,970	3,467,854	16,141,675
Unrestricted Cash and Short Term Investments, End of Year	$ 11,533,212	$ 8,255,132	$ 4,887,547	$ 24,675,891
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:				
Operating income	$ 5,070,108	$ 1,914,189	$ 1,496,444	$ 8,480,741
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	3,779,635	873,176	433,155	5,085,966
Changes in assets and liabilities:				
User fees receivables	510,327	54,970	(190,494)	374,803
Inventory and prepayments	80,209	27,098	(787)	106,520
Warrants payable	(571,282)	(415,416)	41,744	(944,954)
Accrued liabilities	(147,480)	15,734	4,473	(127,273)
Other liabilities	49,878	-	(3,311)	46,567
Due to pension trust	1,374,538	-	-	1,374,538
Net OPEB obligation	-	(8,439)	846	(7,593)
Net Cash Provided By Operating Activities	$ 10,145,933	$ 2,461,312	$ 1,782,070	$ 14,389,315

The accompanying notes are an integral part of these financial statements.

TOWN OF READING, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Pension Trust Fund (As of December 31, 2013)	Municipal Light Pension Trust Funds	OPEB Trust Fund	Municipal Light OPEB Trust Fund	Agency Funds
ASSETS					
Cash and short term investments	$ 1,900,316	$ 2,632,367	$ 1,876,510	$ 1,846,042	$ 342,524
Investments	110,085,635	1,292,906	-	-	-
Accounts receivable	77,480	-	-	-	-
Due from proprietary fund	-	1,374,538	-	-	-
Other	-	-	-	-	2,763
Total Assets	112,063,431	5,299,811	1,876,510	1,846,042	345,287
LIABILITIES AND NET POSITION					
Warrants payable	-	-	-	-	19,366
Other liabilities	8,857	-	-	-	325,921
Total Liabilities	8,857	-	-	-	345,287
NET POSITION					
Total net position held in trust for pension benefits and other purposes	$ 112,054,574	$ 5,299,811	$ 1,876,510	$ 1,846,042	$ -

The accompanying notes are an integral part of these financial statements.

TOWN OF READING, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Pension Trust Fund (As of December 31, 2013)	Municipal Light Pension Trust Funds	OPEB Trust Fund	Municipal Light OPEB Trust Fund
Additions:				
Contributions:				
Employers	$ 4,747,889	$ 1,374,538	$ 508,899	$ 343,095
Intergovernmental	339,508	-	-	-
Plan members	2,254,760	-	-	-
Total contributions	7,342,157	1,374,538	508,899	343,095
Investment Income:				
Increase in fair value of investments	14,951,078	74,220	2,690	7,436
Less: management fees	(582,058)	-	-	-
Net investment income	14,369,020	74,220	2,690	7,436
Total additions	21,711,177	1,448,758	511,589	350,531
Deductions:				
Benefit payments to plan members, beneficiaries, and other systems	8,374,020	-	-	-
Refunds and transfers to other systems	117,846	-	-	-
Administrative expenses	117,334	-	-	-
Other	-	1,346,039	-	-
Total deductions	8,609,200	1,346,039	-	-
Net increase (decrease)	13,101,977	102,719	511,589	350,531
Net position:				
Beginning of year, as restated	98,952,597	5,197,092	1,364,921	1,495,511
End of year	$ 112,054,574	$ 5,299,811	$ 1,876,510	$ 1,846,042

The accompanying notes are an integral part of these financial statements.

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1. Summary of Significant Accounting Policies

The accounting policies of the Town of Reading, Massachusetts (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. *Reporting Entity*

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2014, it was determined that no entities met the required GASB 14 (as amended) criteria of component units. The Reading Contributory Retirement System was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 16 Lowell Street, Reading, Massachusetts 01867.

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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental 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 is 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 and major individual enterprise funds are reported as separate columns in the fund financial statements.

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 is the proprietary fund and 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements
Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- Electric Enterprise Fund
- Water Enterprise Fund

The Town reports the following fiduciary funds:

- The pension trust fund accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The municipal light pension trust fund accounts for the activities of the Municipal Light Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The OPEB trust fund accounts for reserves set aside by the Town to fund future OPEB costs.
- The municipal light OPEB trust fund accounts for reserves set aside by the Municipal Light Department to fund future OPEB costs.
- The agency fund is custodial in nature and is used to account for funds held for others.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. *Investments*

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. *Property Tax Limitations*

Legislation known as "Proposition 2½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2014 tax levy reflected an excess capacity of $118,969.

G. *Inventories*

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

H. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land improvements	20
Buildings and improvements	20-50
Machinery, equipment, and furnishings	5-20
Infrastructure	50

I. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

K. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Town Meeting).
4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

L. *Use of Estimates*

The preparation of basic 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 disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. *Budgetary Information*

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. *Budgetary Basis*

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. *Budget/GAAP Reconciliation*

The budgetary data for the General Fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

General Fund	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Revenues/Expenditures (GAAP Basis)	$ 84,417,815	$ 86,078,955
Other financing sources/uses (GAAP Basis)	3,332,445	-
Subtotal (GAAP Basis)	87,750,260	86,078,955
To adjust property tax revenue to the budgetary basis	(543,090)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(895,719)
Add end-of-year appropriation carryforwards to expenditures	-	1,968,601
To reverse the effects of non-budgeted State contributions for teacher retirements	(7,979,634)	(7,979,634)
To record stabilization activity	300,864	300,000
Other	924	-
Budgetary Basis	$ 79,529,324	$ 79,472,203

D. Deficit Fund Equity

The Town reported various special revenue and capital project funds reflecting individual deficit account balances as of June 30, 2014. The deficits in these funds will be eliminated through future intergovernmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or

banking company for such excess. Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company. The Town and System do not have a deposit policy for custodial credit risk.

As of June 30, 2014, $41,142,027 of the Town's and $104,482 of the System's bank balances of $74,745,357 and $401,208, respectively, were exposed to custodial credit risk. However, $39,721,938 of the Town's exposed balance and the entire System's exposed balance was on deposit with the Massachusetts Municipal Depository Trust (MMDT).

4. Investments

A. *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

The Town and System do not have a policy for credit risk.

Presented below (in thousands) is the actual rating as of year-end for each investment of the Town:

Investment Type	Fair Value	Exempt From Disclosure	Average Rating
Domestic corporate bonds	$ 4,244	$ -	A2
Foreign corporate bonds	2,519	-	A3
Certificates of deposits	11,586	11,586	
Corporate equities	2,398	2,398	
Federal agency securities	891	-	AAA
Total investments	$ 21,638	$ 13,984	

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

At June 30, 2014, the Contributory Retirement System maintained its investments in the State Investment Pool* with a fair value of $110,085,635. This investment type is not rated.

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

B. *Custodial Credit Risk*

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town and System do not have policies for custodial credit risk.

The System's investments of $110,085,635 were exposed to custodial credit risk as uninsured and uncollateralized. However, the investments were held in the State Investment Pool (PRIT).

Of the Town's investment of $21,638,276, the government has a custodial credit risk exposure of $21,638,276 because the related securities are uninsured, unregistered and held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. *Concentration of Credit Risk*

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows (in thousands):

Investment Issuer	Amount
NBTC - CDARS - General Fund	$ 2,010
SPDR S&P 500 ETF	1,733
NBTC - CDARS - General Fund	1,507
NBTC - CDARS - General Fund	1,507
NBTC - CDARS - General Fund	1,507
NBTC - CDARS - General Fund	1,506
NBTC - CDARS - General Fund	1,502
Total	$ 11,272

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

The System does not have an investment in one issuer greater than 5% of total investments, with the exception of the PRIT Fund.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town and System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows (in thousands):

		Investment Maturities (in Years)		
Investment Type	Fair Value	Less Than 1	1-5	6-10
Debt-related Securities:				
Domestic corporate bonds	$ 4,244	$ -	$ 32	$ 4,212
Foreign corporate bonds	2,519	-	-	2,519
Federal agency securities	891	-	-	891
Total	$ 7,654	$ -	$ 32	$ 7,622

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town and System do not have policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after

the demand notice has been sent the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2014 consist of the following (in thousands):

Real Estate		
2014	$ 224	
		224
Personal Property		
2014	4	
2013	2	
2012	2	
2011	2	
2010	5	
Prior	10	
		25
Tax Liens		547
Deferred Taxes		97
Total		$ 893

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	Governmental
Property taxes	$ 86
Excises	75

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014.

8. Transfers In/Out

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers

presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2014.

Fund	Transfers In	Transfers Out
General Fund	$ 3,332,445	$ -
Nonmajor Governmental Funds:		
Revolving funds	-	60,155
Receipts reserved for appropriation	-	225,000
Gifts and donations	-	50,000
Major Enterprise Funds:		
Electric Division fund	-	2,301,221
Water fund	-	413,013
Nonmajor Enterprise Funds:		
Sewer fund	-	283,056
Total	$ 3,332,445	$ 3,332,445

The transfers from the water and sewer funds to the general fund are made to cover indirect costs of water and sewer funds incurred in the general fund. The transfer from the electric division fund to the general fund is a payment in lieu of taxes (PILOT). The Town's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

9. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	$ 3,672	$ 21	$ -	$ 3,693
Buildings and improvements	133,737	312	(8)	134,041
Machinery, equipment, and furnishings	9,709	702	(223)	10,188
Infrastructure	34,538	1,948	-	36,486
Total capital assets, being depreciated	181,656	2,983	(231)	184,408
Less accumulated depreciation for:				
Land improvements	(1,063)	(200)	-	(1,263)
Buildings and improvements	(35,533)	(3,702)	8	(39,227)
Machinery, equipment, and furnishings	(4,643)	(944)	223	(5,364)
Infrastructure	(20,020)	(1,326)	-	(21,346)
Total accumulated depreciation	(61,259)	(6,172)	231	(67,200)
Total capital assets, being depreciated, net	120,397	(3,189)	-	117,208
Capital assets, not being depreciated:				
Land	3,981	-	-	3,981
Construction in progress	151	1,144	(66)	1,229
Total capital assets, not being depreciated	4,132	1,144	(66)	5,210
Governmental activities capital assets, net	$ 124,529	$ (2,045)	$ (66)	$ 122,418

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	$ 1,437	$ -	$ -	$ 1,437
Buildings and improvements	16,701	4	(91)	16,614
Machinery, equipment, and furnishings	34,903	978	(518)	35,363
Infrastructure	108,640	3,090	(739)	110,991
Total capital assets, being depreciated	161,681	4,072	(1,348)	164,405
Less accumulated depreciation for:				
Land improvements	(258)	(70)	-	(328)
Buildings and improvements	(9,814)	(477)	91	(10,200)
Machinery, equipment, and furnishings	(20,325)	(1,256)	518	(21,063)
Infrastructure	(41,506)	(3,283)	624	(44,165)
Total accumulated depreciation	(71,903)	(5,086)	1,233	(75,756)
Total capital assets, being depreciated, net	89,778	(1,014)	(115)	88,649
Capital assets, not being depreciated:				
Land	1,450	-	-	1,450
Construction in progress	305	244	-	549
Total capital assets, not being depreciated	1,755	244	-	1,999
Business-type activities capital assets, net	$ 91,533	$ (770)	$ (115)	$ 90,648

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	$ 260
Public safety	547
Education	3,436
Public works	1,687
Health and human services	33
Culture and recreation	209
Total depreciation expense - governmental activities	$ 6,172
Business-Type Activities:	
Electric	$ 3,780
Water	873
Other - Sewer	402
Other - Stormwater	31
Total depreciation expense - business-type activities	$ 5,086

10. Warrants Payable

Warrants payable represent 2014 expenditures paid by July 15, 2014.

11. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2014:

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/14
West Street roadway improvements	0.40%	06/19/14	09/26/14	$ 1,000,000
Total				$ 1,000,000

The following summarizes activity in notes payable during fiscal year 2014:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
West Street roadway improvements	$ -	$ 1,000,000	$ -	$ 1,000,000
Total	$ -	$ 1,000,000	$ -	$ 1,000,000

12. Long-Term Debt

A. *General Obligation Bonds*

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

Governmental Activities:	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/14
Barrow Elementary School	04/15/24	3.96%	$ 1,250,000
Wood End Elementary School	04/15/24	3.96%	1,500,000
Wood End Elementary School	04/15/24	3.92%	100,000
Wood End Elementary School	04/15/24	3.94%	300,000
Wood End Elementary School	04/15/24	3.94%	450,000
Downtown Improvement projects	11/01/17	3.45%	260,000
Parker School refunding	07/01/17	3.05%	720,000
Ladder truck	07/01/17	3.05%	320,000
Fire truck	08/01/15	4.61%	105,000
Energy Improvements	08/01/25	4.61%	3,660,000
RMHS refinance	02/01/24	2.25%	10,440,000
Coolidge refinance	02/01/15	0.59%	5,000
Killam Roof	02/01/22	1.83%	536,000
Birch Meadows windows	02/01/22	1.83%	264,000
Total Governmental Activities:			$ 19,910,000

Business-Type Activities:	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/14
Water treatment plant	06/30/15	3.38%	$ 100,000
MWRA buy-in	04/15/27	4.00%	2,060,000
MWRA buy-in	11/01/27	3.05%	5,460,000
MWRA buy-in	07/01/17	3.05%	320,000
MWRA water system pipeline	08/15/21	0.00%	1,640,000
MWRA water system pipeline	08/12/23	0.00%	4,012,000
MWPAT septic	02/01/17	0.00%	8,133
MWRA sewer	08/17/14	0.00%	32,934
MWRA sewer	08/15/16	0.00%	133,320
MWRA sewer	05/19/19	0.00%	192,500
Total Business-Type Activities:			$ 13,958,887

B. *Future Debt Service*

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2014 are as follows:

Governmental	Principal	Interest	Total
2015	$ 2,135,000	$ 852,730	$ 2,987,730
2016	2,030,000	778,458	2,808,458
2017	2,045,000	692,960	2,737,960
2018	2,055,000	605,275	2,660,275
2019	1,810,000	521,093	2,331,093
2020 - 2024	9,505,000	1,346,342	10,851,342
2025	330,000	6,188	336,188
Total	$ 19,910,000	$ 4,803,046	$ 24,713,046

The general fund has been designated as the sole source to repay the governmental-type general obligation debt outstanding as of June 30, 2014:

Business-Type	Principal	Interest	Total
2015	$ 1,453,239	$ 312,340	$ 1,765,579
2016	1,320,305	284,531	1,604,836
2017	1,320,305	256,785	1,577,090
2018	1,275,865	228,795	1,504,660
2019	1,195,865	205,575	1,401,440
2020 - 2024	5,373,308	697,875	6,071,183
2025 - 2028	2,020,000	162,338	2,182,338
Total	$ 13,958,887	$ 2,148,239	$ 16,107,126

C. *Changes in General Long-Term Liabilities*

During the year ended June 30, 2014, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/13	Additions	Reductions	Total Balance 6/30/14	Less Current Portion	Equals Long-Term Portion 6/30/14
Governmental Activities						
Bonds payable	$ 22,920	$ -	$ (3,010)	$ 19,910	$ (2,135)	$ 17,775
Unamortized bond premiums	2,301	-	(211)	2,090	(210)	1,880
Total bonds payable	25,221	-	(3,221)	22,000	(2,345)	19,655
Other:						
Accrued employee benefits	1,638	57	(149)	1,546	(54)	1,492
Net OPEB obligation	12,599	4,759	(3,109)	14,249	-	14,249
Totals	$ 39,458	$ 4,816	$ (6,479)	$ 37,795	$ (2,399)	$ 35,396

	Total Balance 7/1/13	Additions	Reductions	Total Balance 6/30/14	Less Current Portion	Equals Long-Term Portion 6/30/14
Business-Type Activities						
Bonds payable	$ 10,768	$ 4,205	$ (1,014)	$ 13,959	$ (1,453)	$ 12,506
Total bonds payable	10,768	4,205	(1,014)	13,959	(1,453)	12,506
Other:						
Accrued employee benefits	3,218	146	(386)	2,978	(196)	2,782
Net OPEB obligation	442	927	(934)	435	-	435
Totals	$ 14,428	$ 5,278	$ (2,334)	$ 17,372	$ (1,649)	$ 15,723

D. Bond Authorizations

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

Date Authorized	Purpose	Amount
November 2010	Killam School remodeling	$ 329,772
November 2010	Birch Meadow School remodeling	110,607
November 2010	MWRA water system pipeline	235,000
November 2012	MWRA I/I sewer loan	71,000
January 2013	Library renovations	14,900,000
April 2013	MWRA I/I sewer loan	460,000
April 2013	MWRA water loan	2,113,000
November 2013	West street roadway improvements	1,000,000
February 2014	Library renovations	3,500,000
April 2014	West street roadway improvements	300,000
	Total	$ 23,019,379

13. Deferred Inflows of Resources

The Town has implemented GASB 65, *Items Previously Reported as Assets and Liabilities*. Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

Governmental funds report *unavailable revenues* in connection with receivables that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund *unavailable revenues* account is equal to the total of all June 30, 2014 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

14. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

15. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions,* which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2014:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period. The

Town follows an informal policy that permits management to assign fund balance amounts to a specific purpose, although fund balance to be applied against a subsequent year's budget is voted by Town Meeting.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2014:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	$ -	$ 3,042,918	$ 3,042,918
Total Nonexpendable	-	3,042,918	3,042,918
Restricted			
Federal grants	-	6,004	6,004
State grants			
Circuit Breaker	-	1,186,248	1,186,248
State aid to libraries	-	181,427	181,427
Other	-	18,072	18,072
Revolving funds:			
Extended day program	-	668,577	668,577
RISE preschool program	-	474,070	474,070
Special Education tuition	-	840,705	840,705
All-day kindergarten program	-	655,141	655,141
Inspection permit	-	810,298	810,298
Recreation	-	249,027	249,027
Athletic activities	-	176,007	176,007
School lunch	-	345,717	345,717
Other	-	327,419	327,419
Receipts reserved for appropriation			
Sale of real estate	-	891,056	891,056
Affordable housing fund	-	260,391	260,391
Sale of cemetery lots	-	180,529	180,529
Other	-	13,207	13,207
Gifts and donations	-	603,718	603,718
Expendable permanent funds			
Healthcare	-	4,581,561	4,581,561
Cemetery	-	1,629,958	1,629,958
Other	-	444,635	444,635
Town capital project funds			
Library renovations	-	1,282,150	1,282,150
Other		29,707	29,707
School capital project funds	-	47,199	47,199
Total Restricted	-	15,902,823	15,902,823

(continued)

(continued)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed			
Smart growth stabilization fund	353,000	-	353,000
Sick buy-back stabilization fund	11,628	-	11,628
Total Committed	364,628	-	364,628
Assigned			
For encumbrances			
General government	235,506	-	235,506
Public safety	188,728	-	188,728
Education	1,059,084	-	1,059,084
Public works	152,708	-	152,708
Health and human services	10,550	-	10,550
Culture and recreation	348,345	-	348,345
Employee benefits	40,000	-	40,000
For next year's expenditures	2,050,000	-	2,050,000
Total Assigned	4,084,921	-	4,084,921
Unassigned [1]	11,398,537	(800,378)	10,598,159
Total Unassigned	11,398,537	(800,378)	10,598,159
Total Fund Balance	$ 15,848,086	$ 18,145,363	$ 33,993,449

[1] Includes $1.5 million in general Stabilization.

16. Subsequent Events

Debt

Subsequent to June 30, 2014, the Town has incurred the following additional debt:

	Amount	Interest Rate	Issue Date	Maturity Date
Roadway/pedestrian improvements bond anticipation notes	$ 1,000,000	1.25%	09/26/14	02/06/15
2015 general obligation bonds	15,800,000	3.00 - 4.00%	01/15/15	04/15/27

17. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to Town counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts, if any, to be immaterial.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

18. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described in Note 19, the Town provides post-employment health and life insurance benefits for retired employees through the Town's Massachusetts Interlocal Insurance Association (MIIA) Health Benefits Trust. Benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2013, the actuarial valuation date, approximately 683 retirees and 509 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides post-employment medical, prescription drug, and life insurance benefits to all eligible retirees and their surviving spouses. All active employees who retire from the Town and meet the eligibility criteria will be eligible to receive these benefits.

C. *Funding Policy*

Retirees contribute 29% of the cost of the medical and prescription drug plan, as determined by the MIIA Health Benefits Trust. Retirees also contribute 50% of the premium for a $5,000 life insurance benefit. The Town contributes the remainder of the medical, prescription drug, and life insurance plan costs on a pay-as-you-go basis.

D. *Annual OPEB Costs and Net OPEB Obligation*

The Town's fiscal 2014 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2013.

	Governmental Funds	Water Fund	Sewer Fund	Stormwater Fund	Electric Fund	Total
Annual Required Contribution (ARC)	$ 4,689,105	$ 110,074	$ 47,945	$ 4,758	$ 768,378	$ 5,620,260
Interest on net OPEB obligation	724,448	24,128	8,481	1,682	-	758,739
Adjustment to ARC	(654,924)	(27,517)	(9,673)	(1,918)	-	(694,032)
Annual OPEB cost	4,758,629	106,685	46,753	4,522	768,378	5,684,967
Contributions made	(2,658,563)	(69,909)	(36,693)	(52)	(425,283)	(3,190,500)
Additional funding to trust	(450,000)	(45,215)	(7,901)	(5,783)	(343,095)	(851,994)
Increase in net OPEB obligation	1,650,066	(8,439)	2,159	(1,313)	-	1,642,473
Net OPEB obligation - beginning of year	12,599,089	311,329	109,436	21,698	-	13,041,552
Net OPEB obligation - end of year	$ 14,249,155	$ 302,890	$ 111,595	$ 20,385	$ -	$ 14,684,025

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2014	$ 5,684,967	71.11%	$ 14,684,025
2013	$ 5,346,430	100.32%	$ 13,041,552
2012	$ 6,956,808	50.08%	$ 13,058,486
2011	$ 6,733,892	48.16%	$ 9,248,292
2010	$ 6,522,905	57.09%	$ 5,757,459
2009	$ 6,326,701	53.24%	$ 2,958,316

The Town's net OPEB obligation as of June 30, 2014 is recorded as a component of the "noncurrent liabilities" line item.

E. *Funded Status and Funding Progress*

The funded status of the plan as of June 30, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	$ 67,170,840
Actuarial value of plan assets	2,860,432
Unfunded actuarial accrued liability (UAAL)	$ 64,310,408
Funded ratio (actuarial value of plan assets/AAL)	4.26%
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability 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 to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, 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.

F. *Actuarial Methods and Assumptions*

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

In the June 30, 2013 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a blended 5.75% investment rate of return for governmental funds, a funded 7.75% investment rate of return for enterprise funds, and an initial annual healthcare cost trend rate of 8.5% which decreases to a 5.0% long-term rate for all healthcare benefits after seven years. The amortization costs for the

initial UAAL is a level percentage of payroll amortization, with governmental fund amortization payments increasing at 2.5% per year for a period of 30 years (open), and enterprise fund amortization payments increasing at 2.5% per year for a period of 18 years (closed). In open amortization, the period is reset to the initial value every year and the UAAL is re-amortized, while under a closed amortization the remaining period decreases and the UAAL is eventually paid off.

19. Contributory Retirement System

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees,* (as amended by GASB 50) with respect to the employees' retirement funds.

A. *Plan Description and Contribution Information*

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Reading Contributory Retirement System (Reading CRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the Reading CRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the Reading CRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The Reading CRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2013:

Retirees and beneficiaries receiving benefits	327
Terminated plan members entitled to but not yet receiving benefits	35
Active plan members	341
Total	703
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of $30,000 per year. All Group 1 members (general employees) with 30 or more years of creditable service, hired on or after

April 2, 2012, contribute 6% on all gross regular earnings per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

Schedule of Employer Contributions:

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	$ 3,405,725	100%
2006	$ 3,488,686	100%
2007	$ 3,696,695	100%
2008	$ 3,785,501	100%
2009	$ 3,600,826	100%
2010	$ 3,686,795	100%
2011	$ 4,231,461	100%
2012	$ 4,420,321	100%
2013	$ 4,543,434	100%
2014	$ 4,747,889	100%

B. *Summary of Significant Accounting Policies*

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value in accordance with PERAC requirements.

C. *Funded Status and Funding Progress*

The information presented below is from the Reading Contributory Retirement System's most recent valuation.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
07/01/13	$ 101,349	$ 140,807	$ 39,458	72.0%	$ 22,547	175.0%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. *Actuarial Methods and Assumptions*

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of $39.5 million was calculated. The actuarial assumptions included (a) 7.75% investment rate of return and (b) a projected salary increase of 4.75% - 8.00% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first $12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (7.75%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of June 30, 2014, the unfunded actuarially accrued liability is being amortized over 19 years using a 4.5% increase in payments method.

E. *Teachers*

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to $30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of $30,000.

The Town's current year covered payroll for teachers and administrators was not available.

In fiscal year 2014, the Commonwealth of Massachusetts contributed $7,979,634 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

21. Beginning Net Position Restatement

The beginning (January 1, 2013) net position of the Town has been restated as follows:

Fund Basis Financial Statements:

	Pension Trust Fund (As of December 31, 2013)
As previously reported	$ 100,175,593
Present contributory retirement system consistent with plan year	(1,222,996)
As restated	$ 98,952,597

22. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the actuarially accrued unfunded pension liability.

Town of Reading, Massachusetts Municipal Light Department

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The significant accounting policies of the Town of Reading Municipal Light Department ("the Department") (an enterprise fund of the Town of Reading) are as follows:

A. Business Activity - The Department purchases electricity for distribution to more than 25,000 customers within the towns of Reading, North Reading, Wilmington, and Lynnfield.

B. Regulation and Basis of Accounting - Under Massachusetts General Laws, the Department's electric rates are set by the Municipal Light Board. Electric rates, excluding the fuel charge, cannot be changed more often than once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Department, the Department's rates are not subject to DPU approval. The Department's policy is to prepare its financial statements in conformity with generally accepted accounting principles.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the Department's enterprise fund are charges to customers for electric sales and services. Operating expenses for the Department's enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Concentrations - The Department operates within the electric utility industry. In 1998, the Commonwealth of Massachusetts enacted energy deregulation legislation that restructured the Commonwealth's electricity industry to foster competition and promote reduced electric rates. Energy deregulation created a separation between the supply and delivery portions of electricity service and enabled consumers to purchase their energy from a retail supplier of their choice. Municipal utilities are not currently subject to this legislation.

D. Retirement Trust - The Reading Municipal Light Department Employees' Pension Trust (the "Pension Trust") was established on December 30,

1966, by the Reading Municipal Light Board pursuant to Chapter 64 of the General Laws of the Commonwealth of Massachusetts.

The Pension Trust constitutes the principal instrument of a plan established by the Municipal Light Board to fund the Department's annual required contribution to the Town of Reading Contributory Retirement System (the System), a cost sharing, multi-employer public employee retirement system.

E. Other Post-Employment Benefits Trust - The Other Post-Employment Benefits Liability Trust Fund (the "OPEB Trust") was established by the Reading Municipal Light Board pursuant to Chapter 32B, Section 20 of the General Laws of the Commonwealth of Massachusetts.

The OPEB Trust constitutes the principal instrument of a plan established by the Municipal Light Board to fund the Department's annual actuarially determined OPEB contribution for future retirees.

F. Revenues - Revenues are based on rates established by the Department and filed with the DPU. Revenues from sales of electricity are recorded on the basis of bills rendered from monthly meter readings taken on a cycle basis and are stated net of discounts. Recognition is given to the amount of sales to customers which are unbilled at the end of the fiscal period.

G. Cash and Short-term Investments - For the purposes of the Statement of Cash Flows, the Department considers both restricted and unrestricted cash on deposit with the Town Treasurer to be cash or short-term investments. For purpose of the Statement of Net Position, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

H. Investments - State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from date of purchase.

Investments for the Department and the Trust consist of domestic and foreign fixed income bonds which the Department intends to hold to maturity. These investments are reported at fair market value in the proprietary fund and fiduciary fund financial statements.

I. Inventory - Inventory consists of parts and accessories purchased for use in the utility business for construction, operation, and maintenance pur-

poses and is stated at average cost. Meters and transformers are capitalized when purchased.

J. Capital Assets and Depreciation - Capital assets, which include property, plant, equipment, and utility plant infrastructure, are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

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

Major outlays for capital assets and improvements are capitalized as they are acquired or constructed. Interest incurred during the construction phase of proprietary fund capital assets is included as part of the capitalized value of the constructed asset. When capital assets are retired, the cost of the retired asset, less accumulated depreciation, salvage value and any cash proceeds, is charged to the Department's unrestricted net position account.

Massachusetts General Laws require utility plant in service to be depreciated at an annual rate of 3%. To change this rate, the Department must obtain approval from the DPU. Changes in annual depreciation rates may be made for financial factors relating to cash flow for plant expansion, rather than engineering factors relating to estimates of useful lives.

K. Accrued Compensated Absences - Employee vacation leave is vested annually but may only be carried forward to the succeeding year with supervisor approval and, if appropriate, within the terms of the applicable Department policy or union contract. Generally, sick leave may accumulate according to union and Department contracts and policy, and is paid upon normal termination at the current rate of pay. The Department's policy is to recognize vacation costs at the time payments are made. The Department records accumulated, unused, vested sick pay as a liability. The amount recorded is the amount to be paid at termination at the current rate of pay.

L. Long-Term Obligations - The proprietary fund financial statements report long-term debt and other long-term obligations as liabilities in the proprietary fund statement of Net Position.

M. 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 disclosures for contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.

N. Rate of Return - The Department's rates must be set such that earnings attributable to electric operations do not exceed eight percent of the net cost of plant. The audited financial statements are prepared in accordance with auditing standards generally accepted in the United States of America. To determine the net income subject to the rate of return, the Department performs the following calculation. Using the net income per the audited financials, the return on investment to the Town of Reading is added back, the fuel charge adjustment is added or deducted, and miscellaneous debits/credits (i.e., gain/loss on disposal of fixed assets, etc.) are added or deducted, leaving an adjusted net income figure for rate of return purposes. Investment interest income and bond principal payments are then deducted from this figure to determine the net income subject to the rate of return. The net income subject to the rate of return is then subtracted from the allowable eight percent rate of return, which is calculated by adding the book value of net plant and the investment in associated companies less the contributions in aid of construction multiplied by eight percent. From this calculation, the Municipal Light Board will determine what cash transfers need to be made at year-end.

O. Comparative Financial Information – The financial statements include certain prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Department's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

2. Cash and Investments

Total cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Proprietary Fund:	
Unrestricted cash and short-term investments	$ 11,533,212
Restricted cash and short-term investments	19,219,111
Restricted investments	1,292,906
Fiduciary funds:	
Cash and short-term investments - Pension Trust	2,632,367
Cash and short-term investments - OPEB Trust	1,846,042
Investments - Pension Trust	1,292,906
Total cash and investments	$ 37,816,544

Cash and short-term investments at June 30, 2014 consist of the following:

Cash on hand	$ 3,000
Deposits with financial institutions	37,813,544
Total cash and investments	$ 37,816,544

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that the fair value of an investment will be adversely affected by changes in market interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Department manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2014, the Department (including the Pension Trust and OPEB Trust) held cash and short-term investments in pooled investments with the Massachusetts Municipal Depository Trust (MMDT), FDIC-insured savings accounts, and 90-day FDIC-insured bank certificates of deposit. Because of their immediate liquidity and/or short-term maturity, these funds are classified as cash and short-term investments in the accompanying financial statements and are not considered to be exposed to significant interest rate risk.

As of June 30, 2014, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying maturity dates as follows:

	Restricted Investments	Pension Trust	Maturity Date
Corporate bonds			
AT&T Inc	$ 212,158	$ 212,158	12/01/22
General Electric Cap Corp	206,472	206,472	01/09/23
Wells Fargo & Co	208,098	208,098	08/15/23
Rabobank Nederland Bank	254,085	254,085	11/09/22
Teva Pharmaceut fin BV	207,109	207,109	12/18/22
BNP Paribas	204,984	204,984	03/03/23
Total	$ 1,292,906	$ 1,292,906	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assigning of a rating by a nationally recognized statistical rating organization. As of June 30, 2014, the Department and Pension Trust held investments in domestic and foreign fixed income bonds with varying ratings as follows:

Investment Type	Restricted Investments	Pension Trust	Moody's Rating
Corporate bonds			
AT&T Inc	$ 212,158	$ 212,158	A3
General Electric Cap Corp	206,472	206,472	A1
Wells Fargo & Co	208,098	208,098	A3
Rabobank Nederland Bank	254,085	254,085	A2
Teva Pharmaceut fin BV	207,109	207,109	A3
BNP Paribas	204,984	204,984	A1
Total	$ 1,292,906	$ 1,292,906	

Concentration of Credit Risk

The Department follows the Town of Reading's investment policy, which does not limit the amount that can be invested in any one issuer beyond that stipulated by Massachusetts General Laws. At June 30, 2014, the Department and Pension Trust investments were held in domestic and foreign fixed income bonds, as detailed in the sections above. Five of the bonds each individually represent approximately 16% of the Department's and System's total investments, while the investment in Rabobank Nederland Bank represents approximately 20%.

Custodial Credit Risk

Custodial Credit Risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the Department will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Massachusetts General Laws, Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Department follows the Massachusetts statute as written, as well as the Town of Reading's deposit policy for custodial credit risk.

Because the Department pools its cash with the Town of Reading, the specific custodial credit risk of the Department's deposits could not be readily determined at June 30, 2014.

As of June 30, 2014, none of the Department's (including Pension Trust and OPEB Trust) short-term mutual fund investments were exposed to custodial credit risk.

As of June 30, 2014, none of the Department or Pension Trust investments were exposed to custodial credit risk because the related securities are registered in the Department's name.

3. Restricted Cash and Investments

The Department's proprietary fund restricted cash and investment balances represent the following reserves:

	06/30/14		06/30/13	
	Cash	Investments	Cash	Investments
Depreciation fund	$ 4,130,585	$ -	$ 2,733,147	$ -
Construction fund	1,000,000	-	1,500,000	-
Deferred fuel reserve	4,132,695	-	2,609,487	-
Deferred energy conservation reserve	457,261	-	319,022	-
Rate stabilization	6,723,797	-	6,692,239	-
Reserve for uncollectible accounts	200,000	-	200,000	-
Sick leave benefits	1,674,873	1,292,906	3,131,522	-
Hazardous waste fund	150,000	-	150,000	-
Customer deposits	749,900	-	700,021	-
Total	$ 19,219,111	$ 1,292,906	$ 18,035,438	$ -

The Department maintains the following reserves:

- Depreciation fund - The Department is normally required to reserve 3.0% of capital assets each year to fund capital improvements.
- Construction fund – This represents additional funds set aside to fund capital expenditures.
- Deferred fuel reserve - The Department transfers the difference between the customers' monthly fuel charge adjustment and actual fuel costs into this account to be used in the event of a sudden increase in fuel costs.
- Deferred energy conservation reserve - This account is used to reserve monies collected from a special energy charge added to customer bills. Customers who undertake measures to conserve and improve energy efficiency can apply for rebates that are paid from this account.

- Rate stabilization - This represents amounts set aside to help stabilize cost increases resulting from fluctuations in purchase power costs.
- Reserve for uncollectible accounts - This account was set up to offset a portion of the Department's bad debt reserve.
- Sick leave benefits - This account is used to offset the Department's actuarially determined compensated absence liability.
- Hazardous waste fund -This reserve was set up by the Board of Commissioners to cover the Department's insurance deductible in the event of a major hazardous materials incident.
- Customer deposits - Customer deposits that are held in escrow.

4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2014:

Customer Accounts:		
Billed	$ 2,227,603	
Less allowances:		
Uncollectible accounts	(200,000)	
Sales discounts	(231,632)	
Total billed		1,795,971
Unbilled, net		5,622,269
Total customer accounts		7,418,240
Other Accounts:		
Merchandise sales	34,746	
MMWEC surplus	390,088	
Intergovernmental grants	27,976	
Total other accounts		452,810
Total net receivables		$ 7,871,050

5. Prepaid Expenses

Prepaid expenses consist of the following:

Insurance and other	$ 269,616
Purchase power	24,964
NYPA prepayment fund	259,957
WC Fuel - Watson	218,229
Total	$ 772,766

6. Inventory

Inventory is comprised of supplies and materials at June 30, 2014, and is valued using the average cost method.

7. Investment in Associated Companies

Under agreements with the New England Hydro-Transmission Electric Company, Inc. (NEH) and the New England Hydro-Transmission Corporation (NHH), the Department has made the following advances to fund its equity requirements for the Hydro-Quebec Phase II interconnection. The Department is carrying its investment at cost, reduced by shares repurchased. The Department's equity position in the Project is less than one-half of one percent.

Investment in associated companies consists of the following, at June 30, 2014:

New England Hydro-Transmission (NEH & NHH)	$ 26,994

8. Capital Assets

The following is a summary of fiscal year 2014 activity in capital assets (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets, being depreciated:				
Structures and improvements	$ 14,179	$ 4	$ -	$ 14,183
Equipment and furnishings	31,359	867	(439)	31,787
Infrastructure	80,449	3,023	(733)	82,739
Total capital assets, being depreciated	125,987	3,894	(1,172)	128,709
Less accumulated depreciation for:				
Structures and improvements	(7,748)	(388)	-	(8,136)
Equipment and furnishings	(18,959)	(970)	439	(19,490)
Infrastructure	(30,352)	(2,422)	619	(32,155)
Total accumulated depreciation	(57,059)	(3,780)	1,058	(59,781)
Total capital assets, being depreciated, net	68,928	114	(114)	68,928
Capital assets, not being depreciated:				
Land	1,266	-	-	1,266
Total capital assets, not being depreciated	1,266	-	-	1,266
Capital assets, net	$ 70,194	$ 114	$ (114)	$ 70,194

9. Accounts Payable

Accounts payable represent fiscal 2014 expenses that were paid after June 30, 2014.

10. Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2014:

Accrued payroll	$ 304,089
Accrued sales tax	235,908
Other	52,813
Total	$ 592,810

11. Customer Deposits

This balance represents deposits received from customers that are held in escrow.

12. Customer Advances for Construction

This balance represents deposits received from vendors in advance for work to be performed by the Department. The Department recognizes these deposits as revenue after the work has been completed.

13. Accrued Employee Compensated Absences

Department employees are granted sick leave in varying amounts. Upon retirement, termination, or death, employees are compensated for unused sick leave (subject to certain limitations) at their then current rates of pay.

14. Restricted Net Position

The proprietary fund financial statements report restricted net position when external constraints are placed on net position. Specifically, restricted net position represents depreciation fund reserves, which are restricted for future capital costs.

15. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

The Department follows GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.* Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described in Note 16, the Department provides post-employment health and life insurance benefits for retired employees through the Town of Reading's Massachusetts Inter-local Insurance Association (MIIA) Health Benefits Trust. Benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2013, the actuarial valuation date, approximately 84 retirees and 52 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Department provides post-employment medical, prescription drug, and life insurance benefits to all eligible retirees and their surviving spouses. All active employees who retire from the Department and meet the eligibility criteria will be eligible to receive these benefits.

C. Funding Policy

As of the June 30, 2013, the actuarial valuation date, retirees were required to contribute 29% of the cost of the medical and prescription drug plan, as determined by the MIIA Health Benefits Trust. Retirees also contribute 50% of the premium for a $5,000 life insurance benefit. The Department contributes the remainder of the medical, prescription drug, and life insurance plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Department's fiscal 2014 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an

ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of twenty years. The following table shows the components of the Department's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the Department's net OPEB obligation based on an actuarial valuation as of June 30, 2013.

Annual Required Contribution (ARC)	$ 538,576
Interest on net OPEB obligation	229,802
Annual OPEB cost	768,378
Projected benefit payments	(425,283)
Increase in net OPEB obligation	343,095
Net OPEB obligation - beginning of year	-
Contributions to OPEB Trust	(343,095)
Net OPEB obligation - end of year[1]	$ -

[1] See Part E for additional information

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2014	$ 768,378	100.00%	$ -
2013	$ 604,987	100.00%	$ -
2012	$ 587,945	75.55%	$ 1,335,089

The Department's net OPEB obligation as of June 30, 2013 is recorded as a component of the "noncurrent liabilities" line item in the Statements of Net Position.

E. *Funded Status and Funding Progress*

The funded status of the plan as of June 30, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	$ 7,588,993
Actuarial value of plan assets	1,495,511
Unfunded actuarial accrued liability (UAAL)	$ 6,093,482
Funded ratio (actuarial value of plan assets/AAL)	19.7%
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

In 2010, the Department's Board of Commissioners voted to accept the provisions of Massachusetts General Law Chapter 32B §20, to create an *Other Post-Employment Benefits Liability Trust Fund* as a mechanism to set aside monies to fund its OPEB liability. In 2013, the Commissioners voted to create an OPEB trust instrument in alignment with the Town of Reading. In fiscal year 2014, the Department contributed $343,095 to this trust, which was equal to all of its actuarially determined annual contributions through June 30, 2014. The assets and net position of this trust are reported in the Department's Statement of Fiduciary Net Position.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability 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 to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, 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.

F. *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Department 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 Department and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility

in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The Department's actuarial value of assets was $1,495,511. The actuarial assumptions included a 7.75% investment rate of return and an initial annual health care cost trend rate of 8.5% which decreases to a 5.0% long-term rate for all health care benefits after eight years. The amortization costs for the initial UAAL is a level percentage of payroll amortization, with amortization payments increasing at 2.5% per year for a period of 18 years.

16. Pension Plan

The Department follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions for State and Local Government Employees,* with respect to the employees' retirement funds. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the Town of Reading Contributory Retirement system at Town Hall, Reading, MA.

A. *Plan Description*

The Department contributes to the Town of Reading Contributory Retirement System (the System), a cost sharing, multiple-employer, defined benefit pension plan administered by a Town Retirement Board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases.

B. *Funding Policy*

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Department is required to pay into the System its share of the remaining system wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Department are governed by Chapter 32 of the Massachusetts General Laws. The Department's contributions to the System for the years ended June 30, 2014, June 30, 2013, and June 30, 2012 were $1,346,039, $1,288,076, and $1,336,326, respectively, which were equal to its annual required contributions for each of these years.

17. Participation in Massachusetts Municipal Wholesale Electric Company

The Town of Reading, acting through its Light Department, is a participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its *pro rata* share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC, and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook), the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March, 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

Reading Municipal Light Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

Total capital expenditures for MMWEC's Projects amounted to $1,609,213,000, of which $115,506,000 represents the amount associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling $225,280,000, of which $9,478,000 is associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. After the July 1, 2014 principal payment, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is $184,003,000, of which $6,937,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of Reading Municipal Light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at June 30, 2014 and estimated for future years is shown below.

For the years ended June 30,	2015	$ 2,574,000
	2016	2,700,000
	2017	1,472,000
	2018	190,000
	2019	-
	2020	1,000
	Total	$ 6,937,000

In addition, under the PSAs, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs were $14,021,000 and $12,353,000 for the years ended June 30, 2014 and 2013, respectively.

18. Renewable Energy Certificates

In 2003, the Massachusetts Department of Energy and Environmental Affairs adopted the Massachusetts Renewable Energy Portfolio Standard (RPS), a regulation that requires Investor Owned Utilities (IOUs) to purchase mandated amounts of energy generated by renewable resources (Green Energy) as a percentage of their overall electricity sales. The Massachusetts RPS applies only to IOUs, so the Department is currently exempt from this mandate.

Energy suppliers meet their annual RPS obligations by acquiring a sufficient quantity of RPS-qualified renewable energy certificates (RECs) that are created and recorded at the New England Power Pool (NEPOOL) Generation Information System (GIS). Suppliers can purchase RECs from electricity generators or from other utilities that have acquired RECs.

As part of its ongoing commitment to Green Energy, the Department has entered into Purchase Power Agreements (PPAs) with Swift River Hydro LLC and Concord Steam Corporation to purchase power generated from renewable energy resources. These PPA's include the Department taking title to RECs, which certify that the energy produced was the product of a renewable resource. Because the Department is exempt from the RPS provisions, it has the option of holding these RECs until they expire or selling them through the NEPOOL GIS.

Information regarding the Department fiscal year 2014 REC activity and balances is as follows:

REC Sales During Fiscal 2014

	Certificates	Amount
Various	1,107	$ 70,848
Various	1,809	96,781
Various	752	18,988
Various	938	59,094
Various	1,680	107,100
Various	3,533	189,899
Various	1,142	29,121
Various	2,432	155,040
Various	245	15,300
Various	618	33,187
Various	166	4,316
Various	291	15,335
Various	98	2,421
	14,811	$ 797,430 [1]

[1] Sale proceeds netted against fiscal year 2014 purchased power fuel charge.

REC Holdings at June 30, 2014

	Banked Certificates	Projected Certificates	Total Certificates	Estimated Value
CT Class I	-	4,890	4,890	$ 283,620
MA Class II	-	3,631	3,631	149,940
Total	-	8,521	8,521	$ 433,560

Because there are currently no clear accounting guidelines under GAAP or IFRS for RECs and the Department does not have a formal policy for the future disposition of RECs, the estimated fair value of the Department's REC holdings at June 30, 2014 are not reported as an asset on the Proprietary Fund Statements of Net Position.

19. Leases

Related Party Transaction - Property Sub-Lease

The Department is sub-leasing facilities to the Reading Town Employees Federal Credit Union. The original sub-lease agreement commenced in

December 2000 and was extended by various amendments through November 30, 2011. An additional amendment, effective December 1, 2011, extends the lease through November 30, 2014. The following is the future minimum rental income for the years ending June 30:

2015	$ 3,630
Total	$ 3,630

20. Implementation of New GASB Standards

The Governmental Accounting Standards Board has issued *Statement No. 68, Accounting and Financial Reporting for Pensions*, which the Department is required to implement in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Department's basic financial statements by requiring the Department to recognize, as a liability and expense, its applicable portion of the Town of Reading Contributory Retirement System's actuarially accrued unfunded pension liability.

At January 1, 2014, the date of the most recent actuarial valuation of the Department's Retirement trust, the Department's portion of the Town of Reading Contributory Retirement System's unfunded actuarially accrued liability was $9,176,022. As of June 30, 2014, the department has accumulated total assets of $5,299,811 in the Pension Trust.

TOWN OF READING, MASSACHUSETTS

SCHEDULE OF FUNDING PROGRESS

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

(Unaudited)

(Amounts Expressed in thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
07/01/13	$ 101,349	$ 140,807	$ 39,458	72.0%	$ 22,547	175.0%
07/01/11	$ 91,359	$ 134,440	$ 43,081	68.0%	$ 20,934	205.8%
06/30/09	$ 83,167	$ 121,918	$ 38,751	68.2%	$ 21,005	184.5%
06/30/07	$ 84,784	$ 112,012	$ 27,228	75.7%	$ 19,313	141.0%
06/30/06	$ 77,151	$ 106,238	$ 29,087	72.6%	$ 18,860	154.2%
06/30/05	$ 71,468	$ 102,153	$ 30,685	70.0%	$ 18,048	170.0%
06/30/04	$ 66,580	$ 95,961	$ 29,381	69.4%	$ 17,487	168.0%
06/30/03	$ 62,897	$ 91,302	$ 28,405	68.9%	$ 16,734	169.7%
06/30/02	$ 60,933	$ 86,888	$ 25,955	70.1%	$ 16,855	154.0%
06/30/01	$ 58,286	$ 82,550	$ 24,264	70.6%	$ 16,129	150.4%
06/30/00	$ 54,076	$ 78,486	$ 24,410	68.9%	$ 15,798	154.5%

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
06/30/13	$ 2,860	$ 67,170	$ 64,310	4.26%	N/A	N/A
06/30/11	$ 1,167	$ 94,458	$ 93,291	1.24%	N/A	N/A
06/30/08	$ -	$ 60,023	$ 60,023	0.0%	N/A	N/A

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2014

	Special Revenue Funds		
	Federal Grants	State Grants	Revolving Funds
ASSETS			
Cash and short-term investments	$ (2,903)	$ 965,057	$ 4,797,312
Investments	-	-	-
Receivables:			
Departmental and other	-	-	65,967
Intergovernmental	118,299	742,102	-
Total Assets	$ 115,396	$ 1,707,159	$ 4,863,279
LIABILITIES AND FUND BALANCE			
Liabilities:			
Warrants payable	$ 2,382	$ 387,713	$ 56,753
Accrued liabilities	119,421	15,641	89,524
Unearned revenue	-	-	201,409
Notes payable	-	-	-
Retainage payable	-	-	-
Total Liabilities	121,803	403,354	347,686
Fund Balances:			
Non-spendable	-	-	-
Restricted	6,004	1,385,747	4,546,961
Unassigned	(12,411)	(81,942)	(31,368)
Total Fund Balance	(6,407)	1,303,805	4,515,593
Total Liabilities, Deferred Inflows, and Fund Balance	$ 115,396	$ 1,707,159	$ 4,863,279

See Independent Auditors' Report.

Special Revenue Funds		
Receipts Reserved	Gifts and Donations	Subtotals
$ 1,345,183	$ 612,663	$ 7,717,312
-	-	-
-	-	65,967
-	-	860,401
$ 1,345,183	$ 612,663	$ 8,643,680
$ -	$ 8,945	$ 455,793
-	-	224,586
-	-	201,409
-	-	-
-	-	-
-	8,945	881,788
-	-	-
1,345,183	603,718	7,887,613
-	-	(125,721)
1,345,183	603,718	7,761,892
$ 1,345,183	$ 612,663	$ 8,643,680

(continued)

TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2014

(continued)

	Capital Project Funds		
	Town Capital Project Funds	School Capital Project Funds	Subtotals
ASSETS			
Cash and short-term investments	$ 2,410,612	$ 980,522	$ 3,391,134
Investments	-	-	-
Receivables:			
Departmental and other	-	-	-
Intergovernmental	-	-	-
Total Assets	$ 2,410,612	$ 980,522	$ 3,391,134
LIABILITIES AND FUND BALANCE			
Liabilities:			
Warrants payable	$ 483,152	$ 119,479	$ 602,631
Accrued liabilities	-	-	-
Unearned revenue	-	-	-
Notes payable	1,000,000	-	1,000,000
Retainage payable	-	1,104,104	1,104,104
Total Liabilities	1,483,152	1,223,583	2,706,735
Fund Balances:			
Non-spendable	-	-	-
Restricted	1,311,857	47,199	1,359,056
Unassigned	(384,397)	(290,260)	(674,657)
Total Fund Balance	927,460	(243,061)	684,399
Total Liabilities, Deferred Inflows, and Fund Balance	$ 2,410,612	$ 980,522	$ 3,391,134

See Independent Auditors' Report.

Permanent Funds			
Town Trust Funds	School Trust Funds	Subtotals	Total Nonmajor Governmental Funds
$ -	$ 198,786	$ 198,786	$ 11,307,232
9,508,250	-	9,508,250	9,508,250
-	-	-	65,967
-	-	-	860,401
$ 9,508,250	$ 198,786	$ 9,707,036	$ 21,741,850
$ 7,936	$ 28	$ 7,964	$ 1,066,388
-	-	-	224,586
-	-	-	201,409
-	-	-	1,000,000
-	-	-	1,104,104
7,936	28	7,964	3,596,487
2,917,866	125,052	3,042,918	3,042,918
6,582,448	73,706	6,656,154	15,902,823
-	-	-	(800,378)
9,500,314	198,758	9,699,072	18,145,363
$ 9,508,250	$ 198,786	$ 9,707,036	$ 21,741,850

TOWN OF READING, MASSACHUSETTS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue Funds		
	Federal Grants	State Grants	Revolving Funds
Revenues:			
Departmental	$ -	$ -	$ 5,646,240
Intergovernmental	1,260,673	2,830,197	234,637
Investment income	-	-	92
Other	-	-	14,928
Total Revenues	1,260,673	2,830,197	5,895,897
Expenditures:			
Current:			
General government	-	-	71,458
Public safety	20,338	65,659	746,944
Education	1,141,609	1,671,465	3,933,657
Public works	-	1,106,047	4,908
Health and human services	52,903	42,718	19,901
Culture and recreation	15,658	8,006	503,326
Total Expenditures	1,230,508	2,893,895	5,280,194
Excess (deficiency) of revenues over (under) expenditures	30,165	(63,698)	615,703
Other Financing Sources (Uses):			
Transfers out	-	-	(60,155)
Total Other Financing Sources (Uses)	-	-	(60,155)
Change in fund balances	30,165	(63,698)	555,548
Fund Balances, beginning of year	(36,572)	1,367,503	3,960,045
Fund Balances, end of year	$ (6,407)	$ 1,303,805	$ 4,515,593

See Independent Auditors' Report.

Special Revenue Funds		
Receipts Reserved	Gifts and Donations	Subtotals
$ 35,760	$ -	$ 5,682,000
-	-	4,325,507
2,391	-	2,483
311,000	278,826	604,754
349,151	278,826	10,614,744
4,868	2,879	79,205
-	3,934	836,875
-	121,235	6,867,966
-	-	1,110,955
-	2,720	118,242
-	24,407	551,397
4,868	155,175	9,564,640
344,283	123,651	1,050,104
(225,000)	(50,000)	(335,155)
(225,000)	(50,000)	(335,155)
119,283	73,651	714,949
1,225,900	530,067	7,046,943
$ 1,345,183	$ 603,718	$ 7,761,892

(continued)

TOWN OF READING, MASSACHUSETTS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

(continued)

	Capital Project Funds		
	Town Capital Project Funds	School Capital Project Funds	Subtotals
Revenues:			
Departmental	$ -	$ -	$ -
Intergovernmental	1,021,024	-	1,021,024
Investment income	-	-	-
Other	-	-	-
Total Revenues	1,021,024	-	1,021,024
Expenditures:			
Current:			
General government	17,785	-	17,785
Public safety	-	-	-
Education	-	387,574	387,574
Public works	399,397	-	399,397
Health and human services	-	-	-
Culture and recreation	759,896	-	759,896
Total Expenditures	1,177,078	387,574	1,564,652
Excess (deficiency) of revenues over (under) expenditures	(156,054)	(387,574)	(543,628)
Other Financing Sources (Uses):			
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Change in fund balances	(156,054)	(387,574)	(543,628)
Fund Balances, beginning of year	1,083,514	144,513	1,228,027
Fund Balances, end of year	$ 927,460	$ (243,061)	$ 684,399

See Independent Auditors' Report.

Permanent Funds			
Town Trust Funds	School Trust Funds	Subtotals	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ 5,682,000
-	-	-	5,346,531
755,833	7,097	762,930	765,413
113,664	1,100	114,764	719,518
869,497	8,197	877,694	12,513,462
32,841	-	32,841	129,831
-	-	-	836,875
-	8,074	8,074	7,263,614
120,001	-	120,001	1,630,353
103,279	-	103,279	221,521
-	-	-	1,311,293
256,121	8,074	264,195	11,393,487
613,376	123	613,499	1,119,975
-	-	-	(335,155)
-	-	-	(335,155)
613,376	123	613,499	784,820
8,886,938	198,635	9,085,573	17,360,543
$ 9,500,314	$ 198,758	$ 9,699,072	$ 18,145,363

TOWN OF READING, MASSACHUSETTS

NONMAJOR PROPRIETARY FUNDS

COMBINING SCHEDULE OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	Total
ASSETS				
Current:				
Cash and short-term investments	$ 3,756,797	$ 59,798	$ 1,070,952	$ 4,887,547
User fees, net of allowance for uncollectibles	2,092,199	-	116,006	2,208,205
Inventory	1,416	-	-	1,416
Total current assets	5,850,412	59,798	1,186,958	7,097,168
Noncurrent:				
Capital assets being depreciated, net	5,878,913	-	357,158	6,236,071
Capital assets not being depreciated	250,731	-	360,104	610,835
Total noncurrent assets	6,129,644	-	717,262	6,846,906
TOTAL ASSETS	11,980,056	59,798	1,904,220	13,944,074
LIABILITIES				
Current:				
Warrants payable	130,039	11,736	791	142,566
Accrued liabilities	16,687	-	3,556	20,243
Other current liabilities	-	48,062	-	48,062
Current portion of long-term liabilities:				
Bonds payable	117,039	-	-	117,039
Total current liabilities	263,765	59,798	4,347	327,910
Noncurrent:				
Bonds payable, net of current portion	249,848	-	-	249,848
Accrued employee benefits	14,073	-	10,825	24,898
Net OPEB obligation	111,595	-	20,385	131,980
Total noncurrent liabilities	375,516	-	31,210	406,726
TOTAL LIABILITIES	639,281	59,798	35,557	734,636
NET POSITION				
Net investment in capital assets	6,040,281	-	717,262	6,757,543
Unrestricted	5,300,494	-	1,151,401	6,451,895
TOTAL NET POSITION	$ 11,340,775	$ -	$ 1,868,663	$ 13,209,438

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

NONMAJOR PROPRIETARY FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	Total
Operating Revenues:				
Charges for services	$ 6,813,869	$ -	$ 394,247	$ 7,208,116
Total Operating Revenues	6,813,869	-	394,247	7,208,116
Operating Expenses:				
Personnel expenses	399,571	-	147,678	547,249
Non personnel expenses	146,962	-	58,598	205,560
Intergovernmental	4,499,328	-	-	4,499,328
Depreciation	402,192	-	30,963	433,155
Energy purchases	26,380	-	-	26,380
Total Operating Expenses	5,474,433	-	237,239	5,711,672
Operating Income	1,339,436	-	157,008	1,496,444
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	157,500	-	-	157,500
Investment income	4,411	-	1,257	5,668
Interest expense	(2,100)	-	-	(2,100)
Total Nonoperating Revenues (Expenses)	159,811	-	1,257	161,068
Income Before Transfers	1,499,247	-	158,265	1,657,512
Transfers out	(283,056)	-	-	(283,056)
Change in Net Position	1,216,191	-	158,265	1,374,456
Net Position at Beginning of Year	10,124,584	-	1,710,398	11,834,982
Net Position at End of Year	$ 11,340,775	$ -	$ 1,868,663	$ 13,209,438

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

NONMAJOR PROPRIETARY FUNDS

COMBINING SCHEDULE OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	Total
Cash Flows From Operating Activities:				
Receipts from customers and users	$ 6,613,907	$ -	$ 403,715	$ 7,017,622
Payments to vendors and employees	(443,936)	(8,594)	(283,694)	(736,224)
Payments to other governments	(4,499,328)	-	-	(4,499,328)
Net Cash Provided By (Used For) Operating Activities	1,670,643	(8,594)	120,021	1,782,070
Cash Flows From Noncapital Financing Activities:				
Intergovernmental revenue	157,500	-	-	157,500
Transfer out	(283,056)	-	-	(283,056)
Net Cash (Used For) Noncapital Financing Activities	(125,556)	-	-	(125,556)
Cash Flows From Capital and Related Financing Activities:				
Proceeds from issuance of bonds and notes	192,500	-	-	192,500
Acquisition of capital assets	(299,618)	-	(54,732)	(354,350)
Principal payments on bonds and notes	(78,539)	-	-	(78,539)
Interest expense	(2,100)	-	-	(2,100)
Net Cash (Used For) Capital and Related Financing Activities	(187,757)	-	(54,732)	(242,489)
Cash Flows From Investing Activities:				
Investment income	4,411	-	1,257	5,668
Net Cash Provided By Investing Activities	4,411	-	1,257	5,668
Net Change in Cash and Short-Term Investments	1,361,741	(8,594)	66,546	1,419,693
Cash and Short Term Investments, Beginning of Year	2,395,056	68,392	1,004,406	3,467,854
Cash and Short Term Investments, End of Year	$ 3,756,797	$ 59,798	$ 1,070,952	$ 4,887,547
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:				
Operating income	$ 1,339,436	$ -	$ 157,008	$ 1,496,444
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	402,192	-	30,963	433,155
Changes in assets and liabilities:				
User fees receivables	(199,962)	-	9,468	(190,494)
Inventory and prepayments	(787)	-	-	(787)
Warrants payable	116,344	(5,283)	(69,317)	41,744
Accrued liabilities	11,261	-	(6,788)	4,473
Other liabilities	-	(3,311)	-	(3,311)
Net OPEB obligation	2,159	-	(1,313)	846
Net Cash Provided By (Used For) Operating Activities	$ 1,670,643	$ (8,594)	$ 120,021	$ 1,782,070

See Independent Auditors' Report.