

**TOWN OF
READING, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Reading, Massachusetts

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 ended June 30, 2012, which collectively comprises the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town of Reading's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Additional Offices:

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2012 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are 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.

Melanson, Heath + Company P. C.
December 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Reading, we offer readers this narrative overview and analysis of the financial activities of the Town of Reading for the fiscal year ended June 30, 2012. 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 Assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise 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 compli-

ance 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, and electricity 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 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 information 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 \$ 231,519 (i.e., net assets), a change of \$ 5,509 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 29,379, a change of \$ (8,650) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 7,852 a change of \$ 743 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 38,245, a change of \$ (16,826) 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.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 37,452	\$ 45,253	\$ 49,264	\$ 44,283	\$ 86,716	\$ 89,537
Capital assets	<u>128,670</u>	<u>131,441</u>	<u>89,594</u>	<u>88,109</u>	<u>218,264</u>	<u>219,550</u>
Total assets	<u>166,122</u>	<u>176,694</u>	<u>138,858</u>	<u>132,392</u>	<u>304,980</u>	<u>309,087</u>
Long-term liabilities outstanding	41,898	54,633	16,642	15,534	58,540	70,167
Other liabilities	<u>6,870</u>	<u>6,499</u>	<u>8,051</u>	<u>6,411</u>	<u>14,921</u>	<u>12,910</u>
Total liabilities	<u>48,768</u>	<u>61,132</u>	<u>24,693</u>	<u>21,945</u>	<u>73,461</u>	<u>83,077</u>
Net assets:						
Invested in capital assets, net	100,475	88,067	79,844	77,337	180,319	165,404
Restricted	15,580 ^(a)	26,050	3,981	5,436	19,561	31,487
Unrestricted	<u>1,299</u>	<u>1,445</u>	<u>30,340</u>	<u>27,674</u>	<u>31,639</u>	<u>29,119</u>
Total net assets	<u>\$ 117,354</u>	<u>\$ 115,562</u>	<u>\$ 114,165</u>	<u>\$ 110,447</u>	<u>\$ 231,519</u>	<u>\$ 226,010</u>

^(a) The Town used \$ 10,800 of debt reserves to pay down school related debt.

CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 7,437	\$ 6,029	\$ 92,725	\$ 98,831	\$ 100,162	\$ 104,860
Operating grants and contributions	21,039	21,253	325	1,784	21,364	23,037
Capital grants and contributions	1,651	770	199	66	1,849	836
General revenues:						
Property taxes	53,082	51,465	-	-	53,082	51,465
Excises	2,834	2,839	-	-	2,834	2,839
Penalties, interest, and other taxes	842	695	-	-	842	695
Grants and contributions not restricted to specific programs	7,237	2,963	-	-	7,237	2,963
Investment income	584	1,089	100	113	684	1,202
Other	667	696	892	839	1,559	1,535
Total revenues	<u>95,373</u>	<u>87,799</u>	<u>94,241</u>	<u>101,633</u>	<u>189,613</u>	<u>189,432</u>
Expenses:						
General government	4,336	4,247	-	-	4,336	4,247
Public safety	11,737	10,978	-	-	11,737	10,978
Education	63,731	63,373	-	-	63,731	63,373
Public works	7,306	8,462	-	-	7,306	8,462
Human services	1,354	1,101	-	-	1,354	1,101
Culture and recreation	3,297	3,076	-	-	3,297	3,076
Interest on long-term debt	3,706	1,944	-	-	3,706	1,944
Intergovernmental	956	923	-	-	956	923
Electric	-	-	77,949	85,317	77,949	85,317
Water	-	-	4,435	4,735	4,435	4,735
Other	-	-	5,297	4,931	5,297	4,931
Total expenses	<u>96,423</u>	<u>94,104</u>	<u>87,681</u>	<u>94,983</u>	<u>184,104</u>	<u>189,087</u>
Change in net assets before transfers	(1,050)	(6,305)	6,560	6,650	5,509	345
Transfers in (out)	<u>2,842</u>	<u>2,808</u>	<u>(2,842)</u>	<u>(2,808)</u>	<u>-</u>	<u>-</u>
Change in net assets	1,792	(3,497)	3,718	3,842	5,509	345
Net assets - beginning of year	<u>115,562</u>	<u>119,059</u>	<u>110,447</u>	<u>106,605</u>	<u>226,010</u>	<u>225,665</u>
Net assets - end of year	<u>\$ 117,354</u>	<u>\$ 115,562</u>	<u>\$ 114,165</u>	<u>\$ 110,447</u>	<u>\$ 231,519</u>	<u>\$ 226,010</u>

As noted earlier, net assets 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 assets were \$ 231,519, a change of \$ 5,509 from the prior year.

The largest portion of net assets \$ 180,319 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 assets \$ 19,561 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 31,639 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 assets of \$ 1,792. Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ (2,671)
MSBA final grant payment	4,164
PILOT from RMLD	2,206
Enterprise fund indirect costs	636
Special revenue and permanent fund revenues exceeding expenditures	1,139
Current year revenue used for the acquisition of capital assets	1,232
Depreciation expense exceeding debt service principal, exclusive of refunding	(1,838)
Increase in OPEB obligation	(2,694)
Other	<u>(382)</u>
Total	\$ <u><u>1,792</u></u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 3,718. Key elements of this change are as follows:

- The electric operations had revenues of \$ 83,086 and expenses and transfers of \$ 80,156, resulting in a change in net assets of \$ 2,930.
- The water operations had revenues of \$ 5,284 and expenses and transfers of \$ 4,813, resulting in a change in net assets of \$ 471.

- The sewer operations had revenues of \$ 5,476 and expenses and transfers of \$ 5,293, resulting in a change in net assets of \$ 183.
- The landfill operations did not report any revenues or expenditures.
- The storm water management operations had revenues of \$ 396 and expenses of \$ 262, resulting in a change in net assets of \$ 134.

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 \$ 29,379, a change of \$ (8,650) in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ (2,671)
General fund special items (MSBA advanced refunding)	(9,791)
PILOT from RMLD	2,206
Enterprise fund indirect costs	636
Special revenue and permanent fund revenues exceeding expenditures	1,139
Other	<u>(169)</u>
Total	<u>\$ (8,650)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 7,852, while total fund balance was \$ 14,129. 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.

<u>General Fund</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 7,852	\$ 7,109	\$ 743	9.6%
Total fund balance	14,129	23,121	(8,992) ^(a)	17.3%

^(a) The Town used \$ 10,800 of debt reserves to pay down school related debt.

The total fund balance of the general fund changed by \$ (8,992) 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	\$ (985)
Use of MSBA grant for debt service	(720)
Revenues in excess of budget	1,177
Expenditures less than budget	1,052
Other	<u>275</u>
Results from operations	799

Special items (MSBA advanced refunding):

Final payment of MSBA grant	4,164
Bond premium on refunding	2,389
Issuance of refunding bonds	10,620
Payments to refunding escrow agent	<u>(26,964)</u>
Results from special items	<u>(9,791)</u>
Total	\$ <u><u>(8,992)</u></u>

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

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
Stabilization	\$ <u>2,276</u>	\$ <u>2,245</u>	\$ <u>31</u>

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
2007	\$ -	\$ 896	\$ 1,435	\$ 264	\$ 5,788	\$ 8,383
2008	4,362	1,454	1,597	227	6,451	14,091
2009	-	1,840	1,210	763	6,486	10,299
2010	12,530	1,900	1,488	1,491	6,297	23,706
2011	11,833	2,245	1,006	928	7,109	23,121
2012	1,033 ^(a)	2,276	1,492	1,476	7,852	14,129 ^(a)

^(a) The Town used \$ 10,800 of debt reserves to pay down school related debt.

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 assets of the enterprise funds at the end of the year amounted to \$ 114,165, a change of \$ 3,718 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 \$ 331. The majority of this increase was related to the public works supplemental appropriation, which was primarily funded through transfers in from other funds.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 218,264 (net of accumulated depreciation), a change of \$ (1,286) 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:

- \$ 1,192 in Killam roofing project
- \$ 897 in roadway improvements
- \$ 647 in Birch Meadow windows
- \$ 130 in Town Hall technology improvements

Business-type additions:

- \$ 5,227 in electric improvements
- \$ 823 in water improvements
- \$ 634 in sewer improvements
- \$ 170 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 \$ 38,245, 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 FY13 General Fund budget of \$ 77,505 is a 2.3% increase over the prior year. The FY13 budget is balanced.

FY2013 State aid will be \$ 12,986. This figure includes a \$ 685 increase over original estimates and represents a 3.8% percent increase over prior year.

The tax levy for FY13 of \$ 55,078 represents a 3.4% increase over the prior year. The FY13 tax rate is \$ 14.94 per thousand compared to \$ 14.15 in the prior year. Overall, property values decreased 2.0% to \$ 3,687,000.

For FY2013, the Board of Selectmen, acting as the Water and Sewer Commissioners, voted to increase Water Rates by 8.3% and Sewer Rates by 14.4% for all customers effective September 2012. 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 FY2012 totaling \$ 322. The FY13 revenue budgeted for this tax is \$ 300.

The Town is working on a \$ 12,000 capital improvement project for remodeling our library. The state has approved \$ 5,100 of funding for the project. Town meeting must vote for funding of the town's share of the project and a special town wide vote for debt exclusion must be completed within 6 months of the

grant becoming available. A Special Town Meeting is scheduled for January 28, 2013 and the debt exclusion will be voted at an April 2013 local election.

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 ASSETS

JUNE 30, 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 30,946,387	\$ 16,432,393	\$ 47,378,780
Restricted cash	-	19,187,119	19,187,119
Investments	4,714,352	-	4,714,352
Receivables, net of allowance for uncollectibles:			
Property taxes	285,898	-	285,898
Excises	176,873	-	176,873
User fees	-	11,204,251	11,204,251
Departmental and other	365,306	-	365,306
Intergovernmental	380,607	-	380,607
Prepaid assets	-	762,930	762,930
Unamortized discounts on bonds	7,880	296	8,176
Inventory	-	1,615,127	1,615,127
Other assets	3,206	-	3,206
Noncurrent:			
Investment in associated companies	-	61,574	61,574
Receivables, net of allowance for uncollectibles:			
Property taxes	497,350	-	497,350
Deferred charges	73,196	592	73,788
Capital assets being depreciated, net	124,058,370	87,829,725	211,888,095
Capital assets not being depreciated	<u>4,612,465</u>	<u>1,763,819</u>	<u>6,376,284</u>
TOTAL ASSETS	166,121,890	138,857,826	304,979,716
LIABILITIES			
Current:			
Warrants payable	1,135,160	5,264,254	6,399,414
Accrued liabilities	3,483,069	717,297	4,200,366
Customer advances for construction	-	363,459	363,459
Customer deposits	-	631,268	631,268
Due to retirement trust	-	1,000,000	1,000,000
Retainage payable	1,104,104	-	1,104,104
Other current liabilities	1,147,735	73,611	1,221,346
Current portion of long-term liabilities:			
Bonds and loans payable	3,535,000	1,022,405	4,557,405
Accrued employee benefits	61,691	116,062	177,753
Unamortized premiums on bonds	204,782	776	205,558
Noncurrent:			
Bonds and loans payable, net of current portion	22,920,000	10,767,927	33,687,927
Accrued employee benefits	1,700,911	2,950,178	4,651,089
Unamortized premiums on bonds	2,201,221	1,552	2,202,773
Net OPEB obligation	<u>11,274,086</u>	<u>1,784,400</u>	<u>13,058,486</u>
TOTAL LIABILITIES	48,767,759	24,693,189	73,460,948
NET ASSETS			
Invested in capital assets, net of related debt	100,475,001	79,844,408	180,319,409
Restricted for:			
Grants and other statutory restrictions	6,767,830	2,635,206	9,403,036
OPEB Trust	-	1,344,829	1,344,829
Permanent funds:			
Nonexpendable	3,575,769	-	3,575,769
Expendable	5,236,851	-	5,236,851
Unrestricted	<u>1,298,680</u>	<u>30,340,194</u>	<u>31,638,874</u>
TOTAL NET ASSETS	\$ <u>117,354,131</u>	\$ <u>114,164,637</u>	\$ <u>231,518,768</u>

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 4,335,841	\$ 418,125	\$ 155,294	\$ -
Public safety	11,737,641	2,474,053	220,002	-
Education	63,730,836	3,651,460	20,368,948	1,312,520
Public works	7,306,244	194,417	1,250	338,230
Health and human services	1,353,556	67,305	264,113	-
Culture and recreation	3,297,133	631,941	29,583	-
Debt service interest	3,705,880	-	-	-
Intergovernmental	955,854	-	-	-
Total Governmental Activities	96,422,985	7,437,301	21,039,190	1,650,750
Business-Type Activities:				
Electric operations	77,949,091	81,764,964	325,007	17,226
Water operations	4,434,989	5,273,387	-	-
Other	5,296,906	5,686,300	-	181,800
Total Business-type Activities	87,680,986	92,724,651	325,007	199,026
Total	\$ <u>184,103,971</u>	\$ <u>100,161,952</u>	\$ <u>21,364,197</u>	\$ <u>1,849,776</u>

General Revenues and Transfers:

Property taxes
 Excises
 Penalties, interest and other taxes
 Grants and contributions not restricted to specific programs
 Investment income
 Other
 Transfers, net

Total general revenues and transfers

Change in Net Assets

Net Assets:

Beginning of year

End of year

See notes to financial statements.

Net (Expenses) Revenues and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
\$ (3,762,422)	\$ -	\$ (3,762,422)
(9,043,586)	-	(9,043,586)
(38,397,908)	-	(38,397,908)
(6,772,347)	-	(6,772,347)
(1,022,138)	-	(1,022,138)
(2,635,609)	-	(2,635,609)
(3,705,880)	-	(3,705,880)
<u>(955,854)</u>	<u>-</u>	<u>(955,854)</u>
(66,295,744)	-	(66,295,744)
-	4,158,106	4,158,106
-	838,398	838,398
<u>-</u>	<u>571,194</u>	<u>571,194</u>
-	5,567,698	5,567,698
<u>(66,295,744)</u>	<u>5,567,698</u>	<u>(60,728,046)</u>
53,081,786	-	53,081,786
2,833,703	-	2,833,703
841,939	-	841,939
7,236,790	-	7,236,790
583,866	100,610	684,476
666,940	891,570	1,558,510
<u>2,842,328</u>	<u>(2,842,328)</u>	<u>-</u>
<u>68,087,352</u>	<u>(1,850,148)</u>	<u>66,237,204</u>
1,791,608	3,717,550	5,509,158
<u>115,562,523</u>	<u>110,447,087</u>	<u>226,009,610</u>
<u>\$ 117,354,131</u>	<u>\$ 114,164,637</u>	<u>\$ 231,518,768</u>

TOWN OF READING, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

ASSETS	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash and short-term investments	\$ 19,050,119	\$ 11,896,268	\$ 30,946,387
Investments	-	4,714,352	4,714,352
Receivables:			
Property taxes	884,089	-	884,089
Excises	252,649	-	252,649
Departmental and other	363,147	2,159	365,306
Intergovernmental	-	380,607	380,607
Other assets	<u>3,206</u>	<u>-</u>	<u>3,206</u>
TOTAL ASSETS	\$ <u>20,553,210</u>	\$ <u>16,993,386</u>	\$ <u>37,546,596</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 936,834	\$ 198,326	\$ 1,135,160
Accrued liabilities	2,880,462	346,445	3,226,907
Deferred revenues	1,459,012	94,661	1,553,673
Retainage payable	-	1,104,104	1,104,104
Other liabilities	<u>1,147,735</u>	<u>-</u>	<u>1,147,735</u>
TOTAL LIABILITIES	6,424,043	1,743,536	8,167,579
Fund Balances:			
Nonspendable	-	3,575,769	3,575,769
Restricted	1,033,133	12,004,680	13,037,813
Committed	2,275,967	-	2,275,967
Assigned	2,968,472	-	2,968,472
Unassigned	<u>7,851,595</u>	<u>(330,599)</u>	<u>7,520,996</u>
TOTAL FUND BALANCES	<u>14,129,167</u>	<u>15,249,850</u>	<u>29,379,017</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>20,553,210</u>	\$ <u>16,993,386</u>	\$ <u>37,546,596</u>

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

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

JUNE 30, 2012

Total governmental fund balances	\$ 29,379,017
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	128,670,835
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,377,056
<ul style="list-style-type: none">• Governmental funds report the effect of long-term debt issuance costs, premiums, and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(2,324,927)
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(256,162)
<ul style="list-style-type: none">• 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.	<u>(39,491,688)</u>
Net assets of governmental activities	<u><u>\$ 117,354,131</u></u>

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 53,002,666	\$ -	\$ 53,002,666
Excises	2,752,620	-	2,752,620
Penalties, interest and other taxes	841,939	-	841,939
Departmental	1,566,961	5,442,694	7,009,655
Licenses and permits	165,967	-	165,967
Fines and forfeitures	115,549	-	115,549
Intergovernmental	20,477,810	5,284,556	25,762,366
Investment income	161,142	397,964	559,106
Other	139,283	343,253	482,536
Total Revenues	<u>79,223,937</u>	<u>11,468,467</u>	<u>90,692,404</u>
Expenditures:			
Current:			
General government	3,353,843	191,715	3,545,558
Public safety	8,182,521	1,095,369	9,277,890
Education	43,437,852	8,416,097	51,853,949
Public works	4,811,993	734,100	5,546,093
Health and human services	595,652	497,466	1,093,118
Culture and recreation	1,973,307	565,185	2,538,492
Employee benefits	12,441,164	-	12,441,164
Debt service	6,142,478	-	6,142,478
Intergovernmental	955,854	-	955,854
Total Expenditures	<u>81,894,664</u>	<u>11,499,932</u>	<u>93,394,596</u>
Deficiency of revenues over expenditures	(2,670,727)	(31,465)	(2,702,192)
Other Financing Sources (Uses):			
Issuance of bonds	-	1,000,000	1,000,000
Transfers in	3,469,547	-	3,469,547
Transfers out	-	(627,219)	(627,219)
Total Other Financing Sources (Uses)	<u>3,469,547</u>	<u>372,781</u>	<u>3,842,328</u>
Net change before special items	798,820	341,316	1,140,136
Special Items:			
Final payment of MSBA grant	4,164,368	-	4,164,368
Bond premium on refunding	2,389,383	-	2,389,383
Issuance of refunding bonds	10,620,000	-	10,620,000
Payments to refunding escrow agent	(26,964,333)	-	(26,964,333)
Change from special items	<u>(9,790,582)</u>	<u>-</u>	<u>(9,790,582)</u>
Net change in fund balances	(8,991,762)	341,316	(8,650,446)
Fund Balances, at Beginning of Year	<u>23,120,929</u>	<u>14,908,534</u>	<u>38,029,463</u>
Fund Balances, at End of Year	<u>\$ 14,129,167</u>	<u>\$ 15,249,850</u>	<u>\$ 29,379,017</u>

See notes to 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, 2012

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (8,650,446)												
<ul style="list-style-type: none"> • 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: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Capital outlay purchases, net of dispositions</td> <td style="text-align: right;">3,252,663</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">(6,023,410)</td> </tr> </table> • 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. 306,917 • 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 assets: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Issuance of debt</td> <td style="text-align: right;">(11,620,000)</td> </tr> <tr> <td style="padding-left: 20px;">Repayments of debt</td> <td style="text-align: right;">29,230,000</td> </tr> <tr> <td style="padding-left: 20px;">Current year amortization of bond premiums and costs, net of deferrals</td> <td style="text-align: right;">(2,189,830)</td> </tr> <tr> <td style="padding-left: 20px;">Increase in other long-term liabilities (OPEB)</td> <td style="text-align: right;">(2,694,367)</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 179,940 • 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. 141 		Capital outlay purchases, net of dispositions	3,252,663	Depreciation	(6,023,410)	Issuance of debt	(11,620,000)	Repayments of debt	29,230,000	Current year amortization of bond premiums and costs, net of deferrals	(2,189,830)	Increase in other long-term liabilities (OPEB)	(2,694,367)
Capital outlay purchases, net of dispositions	3,252,663												
Depreciation	(6,023,410)												
Issuance of debt	(11,620,000)												
Repayments of debt	29,230,000												
Current year amortization of bond premiums and costs, net of deferrals	(2,189,830)												
Increase in other long-term liabilities (OPEB)	(2,694,367)												
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>1,791,608</u>												

See notes to 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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers:				
Taxes	\$ 52,674,378	\$ 52,674,378	\$ 53,028,882	\$ 354,504
Excise taxes	2,900,000	2,900,000	3,074,275	174,275
Penalties, interest and other taxes	460,000	460,000	519,254	59,254
Departmental	1,475,000	1,475,000	1,567,603	92,603
Licenses and permits	156,000	156,000	165,923	9,923
Fines and forfeitures	130,000	130,000	115,525	(14,475)
Intergovernmental	13,039,510	13,039,510	13,296,222	256,712
Investment income	200,000	200,000	161,206	(38,794)
Other	-	-	140,983	140,983
Transfers in	3,442,497	3,773,497	3,915,818	142,321
Total Revenues and Transfers	74,477,385	74,808,385	75,985,691	1,177,306
Expenditures:				
General government	3,975,900	3,986,133	3,851,908	134,225
Public safety	8,149,714	8,254,714	8,200,572	54,142
Education	36,286,307	36,261,307	36,196,742	64,565
Public works	5,347,452	5,683,952	5,149,727	534,225
Health and human services	646,760	646,760	602,153	44,607
Culture and leisure	1,994,936	1,996,436	1,989,134	7,302
Intergovernmental	980,239	980,239	965,854	14,385
Employee benefits	12,712,086	12,615,086	12,458,465	156,621
Debt service	6,063,446	6,063,446	6,021,688	41,758
Total Expenditures	76,156,840	76,488,073	75,436,243	1,051,830
Excess (deficiency) of revenues and other sources over expenditures	(1,679,455)	(1,679,688)	549,448	2,229,136
Other Financing Sources:				
Use of free cash and overlay surplus	984,385	984,618	-	(984,618)
Use of debt service reserve (advanced refunding)	720,070	720,070	-	(720,070)
Funding of stabilization reserve	(25,000)	(25,000)	(25,000)	-
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 524,448	\$ 524,448

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities Enterprise Funds			Total
	Electric Division Fund	Water Fund	Non Major Funds	
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 9,957,960	\$ 3,698,855	\$ 2,775,578	\$ 16,432,393
User fees, net of allowance for uncollectibles	8,115,722	1,458,650	1,629,879	11,204,251
Prepaid expenses	762,930	-	-	762,930
Deferred charges	-	296	-	296
Inventory	1,495,337	116,833	2,957	1,615,127
Total current assets	20,331,949	5,274,634	4,408,414	30,014,997
Noncurrent:				
Restricted cash and cash equivalents	19,187,119	-	-	19,187,119
Investment in associated companies	61,574	-	-	61,574
Deferred charges, net of current portion	-	592	-	592
Capital assets being depreciated, net	67,405,075	13,881,630	6,543,020	87,829,725
Capital assets not being depreciated	1,265,842	211,068	286,909	1,763,819
Total noncurrent assets	87,919,610	14,093,290	6,829,929	108,842,829
TOTAL ASSETS	108,251,559	19,367,924	11,238,343	138,857,826
<u>LIABILITIES</u>				
Current:				
Warrants payable	4,934,861	287,896	41,497	5,264,254
Accrued liabilities	469,906	182,855	64,536	717,297
Customer advances for construction	363,459	-	-	363,459
Customer deposits	631,268	-	-	631,268
Due to retirement trust	1,000,000	-	-	1,000,000
Other current liabilities	-	-	73,611	73,611
Current portion of long-term liabilities:				
Bonds and loans payable	-	847,595	174,810	1,022,405
Accrued employee benefits	116,062	-	-	116,062
Unamortized premiums on bonds	-	776	-	776
Total current liabilities	7,515,556	1,319,122	354,454	9,189,132
Noncurrent:				
Bonds and loans payable	-	10,602,405	165,522	10,767,927
Accrued employee benefits	2,866,854	55,643	27,681	2,950,178
Unamortized premiums on bonds	-	1,552	-	1,552
Net OPEB obligation	1,335,089	318,867	130,444	1,784,400
TOTAL LIABILITIES	11,717,499	12,297,589	678,101	24,693,189
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	68,670,917	4,514,663	6,658,828	79,844,408
Restricted for depreciation fund	2,635,206	-	-	2,635,206
Restricted for OPEB trust	1,344,829	-	-	1,344,829
Unrestricted	23,883,108	2,555,672	3,901,414	30,340,194
TOTAL NET ASSETS	\$ 96,534,060	\$ 7,070,335	\$ 10,560,242	\$ 114,164,637

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds			Total
	Electric Division Fund	Water Fund	Non Major Funds	
Operating Revenues:				
Charges for services	\$ 81,764,964	\$ 5,273,387	\$ 5,686,300	\$ 92,724,651
Total Operating Revenues	81,764,964	5,273,387	5,686,300	92,724,651
Operating Expenses:				
Personnel expenses	-	935,802	539,879	1,475,681
Non-personnel expenses	-	440,040	202,716	642,756
Intergovernmental	1,351,568	1,772,389	4,128,058	7,252,015
Depreciation	3,552,330	855,934	396,547	4,804,811
Energy purchases	60,361,614	28,337	26,964	60,416,915
Other	12,118,162	-	-	12,118,162
Total Operating Expenses	77,383,674	4,032,502	5,294,164	86,710,340
Operating Income	4,381,290	1,240,885	392,136	6,014,311
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	325,007	-	-	325,007
Investment income	88,705	8,286	3,619	100,610
Interest expense	(1,460)	(402,487)	(2,742)	(406,689)
Loss on disposal of capital assets	(563,957)	-	-	(563,957)
Other	889,624	1,946	-	891,570
Total Nonoperating Revenues (Expenses)	737,919	(392,255)	877	346,541
Income Before Transfers and Contributions	5,119,209	848,630	393,013	6,360,852
Capital contributions	17,226	-	181,800	199,026
Transfers out	(2,205,957)	(377,367)	(259,004)	(2,842,328)
Change in Net Assets	2,930,478	471,263	315,809	3,717,550
Net Assets at Beginning of Year	93,603,582	6,599,072	10,244,433	110,447,087
Net Assets at End of Year	\$ 96,534,060	\$ 7,070,335	\$ 10,560,242	\$ 114,164,637

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds			Total
	Electric Division Fund	Water Fund	Non Major Funds	
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 83,250,940	\$ 5,262,324	\$ 5,683,006	\$ 94,196,270
Payments to vendors and employees	(72,408,534)	(928,167)	(659,716)	(73,996,417)
Customer refund, purchase power, and fuel charge adjustments	(781,977)	-	-	(781,977)
Payments to other governments	-	(1,772,389)	(4,128,058)	(5,900,447)
Net Cash Provided By Operating Activities	10,060,429	2,561,768	895,232	13,517,429
Cash Flows From Noncapital Financing Activities:				
MMWEC refund	516,183	-	-	516,183
FEMA Grant	325,007	-	-	325,007
Other	373,441	1,946	-	375,387
Transfer out	(2,205,957)	(377,367)	(259,004)	(2,842,328)
Net Cash (Used For) Noncapital Financing Activities	(991,326)	(375,421)	(259,004)	(1,625,751)
Cash Flows From Capital and Related Financing Activities:				
Proceeds from issuance of bonds and notes	-	2,050,000	222,200	2,272,200
Acquisition of capital assets	(5,226,695)	(823,009)	(803,902)	(6,853,606)
Capital grants and contributions	17,226	-	181,800	199,026
Principal payments on bonds and notes	-	(1,370,000)	(117,964)	(1,487,964)
Interest expense	(1,460)	(402,487)	(2,742)	(406,689)
Net Cash (Used For) Capital and Related Financing Activities	(5,210,929)	(545,496)	(520,608)	(6,277,033)
Cash Flows From Investing Activities:				
(Increase) decrease in restricted cash and investments	(585,553)	-	-	(585,553)
Investment income	88,705	8,286	3,619	100,610
Net Cash Provided By (Used For) Investing Activities	(496,848)	8,286	3,619	(484,943)
Net Change in Cash and Short-Term Investments	3,361,326	1,649,137	119,239	5,129,702
Unrestricted Cash and Short Term Investments, Beginning of Year	6,596,634	2,049,718	2,656,339	11,302,691
Unrestricted Cash and Short Term Investments, End of Year	\$ 9,957,960	\$ 3,698,855	\$ 2,775,578	\$ 16,432,393
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:				
Operating income	\$ 4,381,290	\$ 1,240,885	\$ 392,136	\$ 6,014,311
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	3,552,330	855,934	396,546	4,804,810
Changes in assets and liabilities:				
User fees receivables	634,116	(11,063)	(8,763)	614,290
Inventory and prepayments	81,110	38,397	551	120,058
Other assets	-	296	-	296
Warrants payable	(62,531)	269,127	11,105	217,701
Accrued liabilities	127,463	74,026	-	201,489
Other liabilities	177,362	16,067	72,797	266,226
Due to retirement trust	1,000,000	-	-	1,000,000
OPEB liability	169,289	78,099	30,860	278,248
Net Cash Provided By (Used For) Operating Activities	\$ 10,060,429	\$ 2,561,768	\$ 895,232	\$ 13,517,429

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	<u>Pension Trust Fund</u>	<u>Municipal Light Pension Trust Funds</u>	<u>OPEB Trust Fund</u>	<u>Agency Funds</u>
<u>ASSETS</u>				
Cash and short term investments	\$ 114,223	\$ 4,476,777	\$ 500,034	\$ 323,489
Investments	90,394,414	-	-	-
Accounts receivable	117,121	-	-	-
Due from proprietary fund	-	1,000,000	-	-
Other	-	-	-	5,301
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	90,625,758	5,476,777	500,034	328,790
<u>LIABILITIES AND NET ASSETS</u>				
Warrants payable	-	-	-	27,583
Other liabilities	201,265	-	-	301,207
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	201,265	-	-	328,790
<u>NET ASSETS</u>				
Total net assets held in trust for pension benefits and other purposes	\$ <u>90,424,493</u>	\$ <u>5,476,777</u>	\$ <u>500,034</u>	\$ <u>-</u>

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Pension Trust Fund</u>	<u>Municipal Light Pension Trust Funds</u>	<u>OPEB Trust Fund</u>
Additions:			
Contributions:			
Employers	\$ 4,420,321	\$ 1,000,000	\$ 500,000
Intergovernmental	385,031	-	-
Plan members	1,983,473	-	-
Other	18,712	-	-
Total contributions	<u>6,807,537</u>	<u>1,000,000</u>	<u>500,000</u>
Investment Income:			
Increase in fair value of investments	16,985	25,605	34
Less: management fees	<u>(447,309)</u>	<u>-</u>	<u>-</u>
Net investment income	<u>(430,324)</u>	<u>25,605</u>	<u>34</u>
Total additions	6,377,213	1,025,605	500,034
Deductions:			
Benefit payments to plan members, beneficiaries, and other systems	7,979,615	-	-
Refunds and transfers to other systems	104,924	-	-
Administrative expenses	87,488	-	-
Other	-	1,336,326	-
Total deductions	<u>8,172,027</u>	<u>1,336,326</u>	<u>-</u>
Net increase (decrease)	(1,794,814)	(310,721)	500,034
Net assets:			
Beginning of year	<u>92,219,307</u>	<u>5,787,498</u>	<u>-</u>
End of year	<u>\$ 90,424,493</u>	<u>\$ 5,476,777</u>	<u>\$ 500,034</u>

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Reading (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 government 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 2012, it was determined that no entities met the required GASB 39 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 Assets and the Statement of Changes in Net Assets) 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 government 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Electric Enterprise Fund
- Water Enterprise Fund

The government 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 agency fund is custodial in nature and do not involve measurements

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 2012 tax levy reflected an excess capacity of \$ 1,993.

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 government 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.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	20-40
Machinery, equipment, and furnishings	3-20
Infrastructure	50

I. Compensated Absences

It is the government'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 assets.

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 assets”.

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 Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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 assets are 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. All other net assets are 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 and proprietary funds 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.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 79,223,937	\$ 81,894,664
Other financing sources/uses (GAAP Basis)	3,469,547	-
Special items (GAAP Basis)	<u>17,173,751</u>	<u>26,964,333</u>
Subtotal (GAAP Basis)	99,867,235	108,858,997
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,006,105)
Add end-of-year appropriation carryforwards from expenditures	-	1,492,525
To reverse the effects of special items	(17,173,751)	(26,964,333)
To reverse the effects of non- budgeted State contributions for teacher retirements	(7,181,588)	(7,181,588)
To record stabilization fund	331,000	(25,000)
Other	<u>142,795</u>	<u>286,747</u>
Budgetary Basis	<u>\$ 75,985,691</u>	<u>\$ 75,461,243</u>

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, 2012, \$ 7,682,687 of the Town's and \$ 5,180 of the System's bank balances of \$ 76,209,443 and \$ 179,584, respectively, were exposed to custodial credit risk. However, the System's entire 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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-end</u>					
			<u>Aaa</u>	<u>Aa1</u>	<u>Aa3</u>	<u>A2</u>	<u>A3</u>	<u>Baa1</u>
Corporate bonds	\$ 675	\$ -	\$ -	\$ 98	\$ 98	\$ 120	\$ 258	\$ 101
Corporate equities	1,854	1,854	-	-	-	-	-	-
Certificates of deposits	1,683	1,683	-	-	-	-	-	-
Federal agency securities	502	-	502	-	-	-	-	-
Total investments	<u>\$ 4,714</u>	<u>\$ 3,537</u>	<u>\$ 502</u>	<u>\$ 98</u>	<u>\$ 98</u>	<u>\$ 120</u>	<u>\$ 258</u>	<u>\$ 101</u>

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, 2012, the Contributory Retirement System maintained its investments in the State Investment Pool* with a fair value of \$ 90,394,414. 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 \$ 90,394,414 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 \$ 4,714,352, the government has a custodial credit risk exposure of \$ 4,714,352 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):

<u>Investment Issuer</u>	<u>Amount</u>
SPDR S&P 500 ETF	\$ 1,385
People's United Bank certificate of deposit	1,000
Freddie Mac - FreddieNotes	502
iShares Russell 2000 Index Fund	<u>348</u>
Total	<u>\$ 3,235</u>

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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt-related Securities:				
Corporate bonds	\$ 675	\$ -	\$ 60	\$ 615
Federal agency securities	<u>502</u>	<u>-</u>	<u>-</u>	<u>502</u>
Total	<u>\$ 1,177</u>	<u>\$ -</u>	<u>\$ 60</u>	<u>\$ 1,117</u>

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, 2012 consist of the following (in thousands):

Real Estate		
2012	\$ 222	
		222
Personal Property		
2012	3	
2011	3	
2010	5	
2009	2	
2008	2	
Prior	<u>6</u>	
		21
Tax Liens		553
Deferred Taxes		<u>88</u>
Total		\$ <u><u>884</u></u>

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):

	<u>Governmental</u>
Property taxes	\$ 101
Excises	76

7. Transfers In/Out

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. 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 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 2012.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 3,469,547	\$ -
Nonmajor Governmental Funds:		
Revolving funds	-	146,748
Receipts reserved for appropriation	-	325,000
Gifts and donations	-	100,000
Town capital project funds	-	55,471
Major Enterprise Funds:		
Electric Division fund	-	2,205,957
Water fund	-	377,367
Nonmajor Enterprise Funds:		
Sewer fund	-	259,004
Total	<u>\$ 3,469,547</u>	<u>\$ 3,469,547</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 3,302	\$ 350	\$ -	\$ 3,652
Buildings and improvements	131,660	1,838	-	133,498
Machinery, equipment, and furnishings	9,101	538	(294)	9,345
Infrastructure	<u>37,379</u>	<u>-</u>	<u>(2,098)</u>	<u>35,281</u>
Total capital assets, being depreciated	181,442	2,726	(2,392)	181,776
Less accumulated depreciation for:				
Land improvements	(769)	(138)	-	(907)
Buildings and improvements	(28,185)	(3,651)	-	(31,836)
Machinery, equipment, and furnishings	(3,664)	(846)	294	(4,216)
Infrastructure	<u>(21,469)</u>	<u>(1,388)</u>	<u>2,098</u>	<u>(20,759)</u>
Total accumulated depreciation	<u>(54,087)</u>	<u>(6,023)</u>	<u>2,392</u>	<u>(57,718)</u>
Total capital assets, being depreciated, net	127,355	(3,297)	-	124,058
Capital assets, not being depreciated:				
Land	3,939	42		3,981
Construction in progress	<u>147</u>	<u>547</u>	<u>(63)</u>	<u>631</u>
Total capital assets, not being depreciated	<u>4,086</u>	<u>589</u>	<u>(63)</u>	<u>4,612</u>
Governmental activities capital assets, net	<u>\$ 131,441</u>	<u>\$ (2,708)</u>	<u>\$ (63)</u>	<u>\$ 128,670</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 1,437	\$ -	\$ -	\$ 1,437
Buildings and improvements	16,634	367	(140)	16,861
Machinery, equipment, and furnishings	33,261	512	(195)	33,578
Infrastructure	<u>103,747</u>	<u>5,661</u>	<u>(4,984)</u>	<u>104,424</u>
Total capital assets, being depreciated	155,079	6,540	(5,319)	156,300
Less accumulated depreciation for:				
Land improvements	(118)	(70)	-	(188)
Buildings and improvements	(9,443)	(509)	140	(9,812)
Machinery, equipment, and furnishings	(18,230)	(1,225)	195	(19,260)
Infrastructure	<u>(40,629)</u>	<u>(3,001)</u>	<u>4,420</u>	<u>(39,210)</u>
Total accumulated depreciation	<u>(68,420)</u>	<u>(4,805)</u>	<u>4,755</u>	<u>(68,470)</u>
Total capital assets, being depreciated, net	86,659	1,735	(564)	87,830
Capital assets, not being depreciated:				
Land	1,450	-	-	1,450
Construction in progress	<u>-</u>	<u>314</u>	<u>-</u>	<u>314</u>
Total capital assets, not being depreciated	<u>1,450</u>	<u>314</u>	<u>-</u>	<u>1,764</u>
Business-type activities capital assets, net	<u>\$ 88,109</u>	<u>\$ 2,049</u>	<u>\$ (564)</u>	<u>\$ 89,594</u>

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

Governmental Activities:	
General government	\$ 244
Public safety	548
Education	3,350
Public works	1,647
Health and human services	30
Culture and recreation	<u>204</u>
Total depreciation expense - governmental activities	<u>\$ 6,023</u>
Business-Type Activities:	
Electric	\$ 3,552
Water	856
Other - Sewer	369
Other - Stormwater	<u>28</u>
Total depreciation expense - business-type activities	<u>\$ 4,805</u>

9. Warrants Payable

Warrants payable represent 2012 expenditures paid by July 15, 2012.

10. Deferred Revenue

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

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2012 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

11. 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:

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/12
<u>Governmental Activities:</u>			
Memorial High School	03/15/24	4.22%	\$ 3,280,000
Barrow Elementary School	06/30/24	3.96%	1,505,000
Wood End Elementary School	06/30/24	3.96%	1,800,000
Wood End Elementary School	06/30/24	3.92%	120,000
Wood End Elementary School	04/15/24	3.94%	360,000
Wood End Elementary School	04/15/24	3.94%	540,000
Downtown Improvement projects	11/01/17	3.45%	390,000
Fire Engine	11/01/12	3.45%	80,000
Turf Field improvements	11/01/12	3.45%	75,000
Joshua Eaton refunding	07/01/13	3.05%	40,000
Birch Meadow refunding	07/01/12	3.05%	10,000
Parker School refunding	07/01/17	3.05%	1,140,000
Ladder truck	07/01/17	3.05%	480,000
Tennis courts	07/01/12	3.05%	95,000
Financial hardware and software	01/27/13	2.00%	275,000
Fire truck	08/01/14	4.61%	315,000
Energy Improvements	08/01/24	4.61%	4,330,000
RMHS Refinance	02/01/24	2.25%	10,440,000
Coolide refinance	02/01/15	0.59%	180,000
Killam Roof	02/01/22	1.83%	670,000
Birch Meadows windows	02/01/22	1.83%	330,000
			<u>330,000</u>
Total Governmental Activities:			\$ <u><u>26,455,000</u></u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/12
<u>Business-Type Activities:</u>			
Water treatment plant	06/30/15	3.38%	\$ 300,000
MWRA buy-in	04/15/27	4.00%	2,380,000
MWRA buy-in	11/01/27	3.05%	6,240,000
Water demo	07/01/17	3.05%	480,000
MWRA water system pipeline	08/15/21	0.00%	2,050,000
MWPAT septic	02/01/12	0.00%	10,464
MWRA sewer	08/15/12	0.00%	8,866
MWRA sewer	08/20/14	0.00%	98,802
MWRA sewer	08/15/16	0.00%	222,200
			<u>222,200</u>
Total Business-Type Activities:			\$ <u><u>11,790,332</u></u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,535,000	\$ 1,959,040	\$ 5,494,040
2014	3,010,000	1,928,275	4,938,275
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 - 2022	9,555,000	2,194,367	11,749,367
2023 - 2025	<u>4,145,000</u>	<u>284,530</u>	<u>4,429,530</u>
Total	\$ <u>26,455,000</u>	\$ <u>8,690,360</u>	\$ <u>35,145,360</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation debt outstanding as of June 30, 2012:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,022,405	\$ 366,670	\$ 1,389,075
2014	1,013,539	339,905	1,353,444
2015	1,013,539	312,340	1,325,879
2016	880,605	284,531	1,165,136
2017	880,605	256,783	1,137,388
2018 - 2022	3,859,639	919,097	4,778,736
2023 - 2027	2,730,000	367,688	3,097,688
2028	<u>390,000</u>	<u>7,800</u>	<u>397,800</u>
Total	\$ <u>11,790,332</u>	\$ <u>2,854,814</u>	\$ <u>14,645,146</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/12</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 44,065	\$ 11,620	\$ (29,230)	\$ 26,455	\$ (3,535)	\$ 22,920
Other:						
Accrued employee benefits	1,763	62	(62)	1,763	(62)	1,701
Unamortized premium on bonds	225	2,389	(208)	2,406	(205)	2,201
Net OPEB obligation	<u>8,580</u>	<u>6,164</u>	<u>(3,470)</u>	<u>11,274</u>	-	<u>11,274</u>
Totals	\$ <u>54,633</u>	\$ <u>20,235</u>	\$ <u>(32,970)</u>	\$ <u>41,898</u>	\$ <u>(3,802)</u>	\$ <u>38,096</u>

	Total Balance 7/1/11	Additions	Reductions	Total Balance 6/30/12	Less Current Portion	Equals Long-Term Portion 6/30/12
<u>Business-Type Activities</u>						
Bonds payable	\$ 11,006	\$ 2,272	\$ (1,488)	\$ 11,790	\$ (1,022)	\$ 10,768
Other:						
Accrued employee benefits	3,019	104	(57)	3,066	(116)	2,950
Unamortized premium on bonds	3	-	(1)	2	(1)	1
Net OPEB obligation	<u>1,506</u>	<u>792</u>	<u>(514)</u>	<u>1,784</u>	<u>-</u>	<u>1,784</u>
Totals	<u>\$ 15,534</u>	<u>\$ 3,168</u>	<u>\$ (2,060)</u>	<u>\$ 16,642</u>	<u>\$ (1,139)</u>	<u>\$ 15,503</u>

D. Bond Authorizations

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

<u>Purpose</u>	<u>Amount</u>
MWRA water system pipeline	\$ 235,000
Killam School remodeling	221,162
Birch Meadow School remodeling	<u>38,354</u>
Total	<u>\$ 494,516</u>

E. Advance and Current Refundings

Current Year

On March 7, 2012, the Town issued general obligation bonds in the amount of \$ 10,620,000 with a variable interest rate ranging from 3.0% to 5.0% to, with the use of the Town's Debt Service reserve account, advance refund \$ 25,045,000 of term bonds with an interest rate of 4.22%. The term bonds mature on March 15, 2024 and are callable on March 15, 2014. The general obligation bonds were issued at 1.99% and, after paying issuance costs of \$ 89,238, the net proceeds were \$ 12,804,713. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called on March 15, 2014. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the Town's financial statements.

As a result of the advance refunding, the Town reduced its total debt service cash flow requirements by \$ 4,849,985, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 2,496,517.

Defeased debt still outstanding at June 30, 2012 is \$ 22,730,550.

12. **Restricted Net Assets**

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

Permanent fund restricted net assets 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.

13. **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, 2012:

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, capital reserve funds set aside by Town Meeting

vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), 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, 2012:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 3,575,769	\$ 3,575,769
Total Nonexpendable	-	3,575,769	3,575,769
Restricted			
For high school debt service	1,033,133	-	1,033,133
Federal grants	-	10,918	10,918
State grants	-	1,411,768	1,411,768
Revolving funds	-	3,102,162	3,102,162
Receipts reserved for appropriation	-	1,130,155	1,130,155
Gifts and donations	-	449,675	449,675
Expendable permanent funds	-	5,236,851	5,236,851
Other trust funds	-	198,401	198,401
Town capital project funds	-	182,600	182,600
School capital project funds	-	282,150	282,150
Total Restricted	1,033,133	12,004,680	13,037,813
Committed			
General stabilization fund	1,545,414	-	1,545,414
Smarth growth stabilization fund	700,000	-	700,000
Sick buy-back stabilization fund	30,553	-	30,553
Total Committed	2,275,967	-	2,275,967

(continued)

(continued)

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Assigned			
For encumbrances	1,492,525	-	1,492,525
For next year's expenditures	<u>1,475,947</u>	-	<u>1,475,947</u>
Total Assigned	2,968,472	-	2,968,472
Unassigned	<u>7,851,595</u>	<u>(330,599)</u>	<u>7,520,996</u>
Total Unassigned	<u>7,851,595</u>	<u>(330,599)</u>	<u>7,520,996</u>
Total Fund Balance	<u>\$ 14,129,167</u>	<u>\$ 15,249,850</u>	<u>\$ 29,379,017</u>

14. 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.

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.

15. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

During the year, the Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment 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 Revenues, Expenses, and Changes in Net Assets 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 Assets over time.

A. Plan Description

In addition to providing the pension benefits described in Note 17, the Town 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, 2011, the actuarial valuation date, approximately 677 retirees and 525 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 Department 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 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 Town's fiscal 2012 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, 2012, 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, 2011.

	Governmental Funds	Water Fund	Sewer Fund	Stormwater Fund	Electric Fund	Total
Annual Required Contribution (ARC)	\$ 6,150,815	\$ 137,042	\$ 51,239	\$ 11,949	\$ 587,945	\$ 6,938,990
Interest on net OPEB obligation	407,537	11,436	4,210	520	25,437	449,140
Adjustment to ARC	<u>(394,024)</u>	<u>(11,057)</u>	<u>(4,041)</u>	<u>(503)</u>	<u>(21,697)</u>	<u>(431,322)</u>
Annual OPEB cost	6,164,328	137,421	51,408	11,966	591,685	6,956,808
Contributions made	(2,969,961)	(59,322)	(32,469)	(45)	(422,396)	(3,484,193)
Additional funding to trust	<u>(500,000)</u>	-	-	-	- ^(b)	<u>(500,000)</u>
Increase in net OPEB obligation	2,694,367	78,099	18,939	11,921	169,289	2,972,615
Net OPEB obligation - beginning of year	<u>8,579,719</u>	<u>240,768</u>	<u>88,634</u>	<u>10,950</u>	<u>1,165,800</u> ^(a)	<u>10,085,871</u>
Net OPEB obligation - end of year	<u>\$ 11,274,086</u>	<u>\$ 318,867</u>	<u>\$ 107,573</u>	<u>\$ 22,871</u>	<u>\$ 1,335,089</u>	<u>\$ 13,058,486</u>

^(a) Does not include FY2011 restricted contribution of \$ 1,165,800

^(b) Does not include FY2012 restricted contribution of \$ 169,289

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
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, 2012 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, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 94,458,486
Actuarial value of plan assets	<u>1,167,161</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 93,291,325</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>1.24%</u>
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, 2011 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.75% investment rate of return (7.75% for the Reading Municipal Light Department) and an initial annual healthcare cost trend rate of 9.0% which decreases to a 5.0% long-term rate for all healthcare benefits after six 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 20 years.

16. 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, 2011:

Retirees and beneficiaries receiving benefits	327
Terminated plan members entitled to but not yet receiving benefits	34
Active plan members	<u>338</u>
Total	<u><u>699</u></u>
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. 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:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2003	\$ 3,051,200	100%
2004	\$ 3,124,800	100%
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%

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.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent- age of Covered Payroll [(b-a)/c]</u>
06/30/09	\$ 83,167	\$ 121,918	\$ 38,751	68.2%	\$ 21,005	184.5%
07/01/11	\$ 91,359	\$ 134,440	\$ 43,081	68.0%	\$ 20,934	205.8%

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 \$ 43.1 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, 2012, the unfunded actuarially accrued liability is being amortized over 19 years using 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 2012, the Commonwealth of Massachusetts contributed \$ 7,181,588 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

17. 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.

18. Implementation of New GASB Standards

- The GASB has issued Statement 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by eliminating the deferred charges. The Town anticipates that by eliminating the deferred charges, its net assets will be reduced accordingly.
- 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 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 which it distributes to consumers 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 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Department has elected not to follow subsequent private-sector guidance.

- C. Concentrations - The Department operates within the electric utility industry which has undergone significant restructuring and deregulation. Legislation was enacted by the Commonwealth of Massachusetts in 1998 which changed the electric industry. The law introduced competition and pro-

vided consumers with choices while assuring continued reliable service. Municipal utilities are not currently subject to this legislation.

- D. Retirement Trust - The Reading Municipal Light Department Employees' Pension Trust (the "Trust") was established on December 30, 1966, by the Town of Reading's Municipal Light Board pursuant to Chapter 164 of the General Laws of the Commonwealth of Massachusetts.

The Trust constitutes the principal instrument of a plan established by the Municipal Light Board for the purpose of funding 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. 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.
- F. 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 Assets, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.
- G. 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 shares in the Massachusetts Municipal Depository Trust (MMDT) and money market mutual funds. Because of their immediate liquidity, these funds are classified as cash and short-term investments in the accompanying financial statements.

- H. Inventory - Inventory consists of parts and accessories purchased for use in the utility business for construction, operation, and maintenance purposes and is stated at average cost. Meters and transformers are capitalized when purchased.

- I. 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 assets 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.

- J. 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.
- K. 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 assets.
- L. 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.
- M. 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.

2. Cash and Short-Term Investments

Cash and short-term investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:

Unrestricted cash and short-term investments	\$ 9,957,960
Restricted cash and short-term investments	19,187,119

Fiduciary funds:

Cash and short-term investments	<u>4,476,777</u>
Total cash and investments	<u>\$ 33,621,856</u>

Cash and short-term investments at June 30, 2012 consist of the following:

Cash on hand	\$ 2,024
Deposits with financial institutions	<u>33,619,832</u>
Total cash investments	<u>\$ 33,621,856</u>

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, 2012, all Department (including the Pension Trust) monies were held in pooled investments with the Massachusetts Municipal Depository Trust (MMDT) and other money market mutual funds. Because of their immediate liquidity, 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.

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, 2012, none of the Department's (including Pension Trust) short-term investments were exposed to significant credit risk.

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, 2012, the Department's (including Pension Trust) short-term investments were held in MMDT's investment pool and the Federated Prime Cash Obligations Fund, an open-end money market fund which invests primarily in a portfolio of short-term, high-quality, fixed income securities issued by banks, corporations, and the U.S. government.

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 determined at June 30, 2012.

As of June 30, 2012, none of the Department's (including Pension Trust) short-term mutual fund investments were exposed to custodial credit risk.

3. Restricted Cash and Investments

Restricted cash and investments consist of the following at June 30, 2012:

	<u>Cash</u>
Depreciation fund	\$ 2,635,206
Construction fund	2,000,000
Deferred fuel reserve	2,270,044
Deferred energy conservation reserve	293,161
OPEB reserve	1,344,829
Rate stabilization	6,679,695
Reserve for uncollectible accounts	200,000
Sick leave benefits	2,982,916
Hazardous waste fund	150,000
Customer deposits	<u>631,268</u>
Total	<u>\$ 19,187,119</u>

The Department maintains the following restricted cash accounts:

- 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.
- OPEB reserve - This account is used to account for the Department's contributions to fund its actuarially determined Other Post-Employment Benefits (OPEB) liability.

- 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, 2012:

Customer Accounts:		
Billed	\$ 2,646,502	
Less allowances:		
Uncollectible accounts	(200,000)	
Sales discounts	<u>(249,097)</u>	
Total billed		2,197,405
Unbilled, net		<u>4,915,937</u>
Total customer accounts		7,113,342
Other Accounts:		
Merchandise sales	118,886	
MMWEC refund	516,183	
FEMA grant	325,007	
Liens and other	<u>42,304</u>	
Total other accounts		<u>1,002,380</u>
Total net receivables		<u>\$ 8,115,722</u>

5. Prepaid Expenses

Prepaid expenses consist of the following:

Insurances	\$ 303,507
Purchase power	54,868
NYPA prepayment fund	241,849
WC Fuel - Watson	<u>162,706</u>
Total	<u>\$ 762,930</u>

6. Inventory

Inventory is comprised of supplies and materials at June 30, 2012, 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, 2012:

New England Hydro-Transmission Electric Company, Inc.	\$ 2,976
New England Hydro-Transmission Corporation	<u>58,598</u>
Total	<u>\$ 61,574</u>

8. Capital Assets

The following is a summary of fiscal year 2012 activity in capital assets (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Structures and improvements	\$ 13,667	\$ 367	\$ -	\$ 14,034
Equipment and furnishings	30,364	252	(145)	30,471
Infrastructure	<u>74,662</u>	<u>4,608</u>	<u>(1,588)</u>	<u>77,682</u>
Total capital assets, being depreciated	118,693	5,227	(1,733)	122,187
Less accumulated depreciation for:				
Structures and improvements	(7,158)	(391)	-	(7,549)
Equipment and furnishings	(17,617)	(969)	145	(18,441)
Infrastructure	<u>(27,624)</u>	<u>(2,192)</u>	<u>1,024</u>	<u>(28,792)</u>
Total accumulated depreciation	<u>(52,399)</u>	<u>(3,552)</u>	<u>1,169</u>	<u>(54,782)</u>
Total capital assets, being depreciated, net	66,294	1,675	(564)	67,405
Capital assets, not being depreciated:				
Land	<u>1,266</u>	-	-	<u>1,266</u>
Total capital assets, not being depreciated	<u>1,266</u>	-	-	<u>1,266</u>
Capital assets, net	<u>\$ 67,560</u>	<u>\$ 1,675</u>	<u>\$ (564)</u>	<u>\$ 68,671</u>

9. Accounts Payable

Accounts payable represent fiscal 2012 expenses that were paid after June 30, 2012.

10. Customer Deposits

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

11. 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.

12. Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2012:

Accrued payroll	\$ 268,823
Accrued sales tax	188,244
Other	<u>12,839</u>
Total	<u>\$ 469,906</u>

13. Due to Retirement Trust

This balance represents the Department's fiscal year 2012 contribution to the Reading Municipal Light Department Employees' Pension Trust, which was a cash transfer in transit at June 30, 2012.

14. 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.

15. Restricted Net Assets

The proprietary fund financial statements report restricted net assets when external constraints are placed on net assets. Specifically, restricted net

assets represent depreciation fund reserves, which are restricted for future capital costs.

16. 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 Statements of Revenues, Expenses, and Changes in Net Assets 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 Statements of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described in Note 17, 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, 2011, the actuarial valuation date, approximately 73 retirees and 50 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, 2011, 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 2012 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, 2012, 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, 2011.

Annual Required Contribution (ARC)	\$ 494,220
Interest on net OPEB obligation	<u>93,725</u>
Annual OPEB cost	587,945
Contributions made	<u>(418,656)</u>
Increase in net OPEB obligation	169,289
Net OPEB obligation - beginning of year	<u>1,165,800</u>
Net OPEB obligation - end of year	<u>\$ 1,335,089</u>

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the two preceding fiscal years were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 587,945	71.21%	\$1,335,089
2011	\$ 905,981	61.11%	\$1,165,800
2010	\$ 878,668	57.09%	\$ 813,461

The Department's net OPEB obligation as of June 30, 2012 is recorded as a component of the "noncurrent liabilities" line item in the Statements of Net Assets.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 8,643,438
Actuarial value of plan assets	<u>1,167,161</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 7,476,277</u>
Funded ratio (actuarial value of plan assets/AAL)	13.5%
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

In fiscal year 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 fiscal year 2012, the Department contributed \$ 169,289 to this fund, which was equal to its actuarially determined annual contribution. Because these monies are not held in an irrevocable trust supported by a trust instrument, they are reported as restricted net assets on the Department's Statements of Net Assets, rather than in the fiduciary funds. However, the monies set aside by the Department are actuarially considered to be Department plan assets in the June 30, 2011 OPEB actuarial valuation report.

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, 2011 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The Department's actuarial value of assets was

\$ 1,167,161. The actuarial assumptions included a 7.75% investment rate of return and an initial annual health care cost trend rate of 9.0% which decreases to a 5.0% long-term rate for all health care benefits after seven 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 20 years.

17. **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, 2012, 2011, and 2010 were \$ 1,336,326, \$ 1,278,695, and \$ 919,336, respectively, which were equal to its annual required contributions for each of these years.

18. 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 (formerly FPL Energy 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) (formerly FPL Energy Seabrook LLC), the majority owner and an indirect subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC). The operating license for Seabrook Station extends to March, 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.

Seven municipal light departments that are Participants under PSAs with MMWEC have submitted a demand for arbitration of a dispute relating to charges under the PSAs. MMWEC cannot predict the outcome of the arbitration demand, but in the opinion of MMWEC management, it will not have a material adverse effect on the financial position of MMWEC.

Total capital expenditures for MMWEC's Projects amounted to \$ 1,586,581,000, of which \$ 113,528,000 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 \$ 284,005,000, of which \$ 12,913,000 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, 2012 principal payment, MMWEC's total future debt service requirement on outstand-

ing bonds issued for the Projects is \$ 308,241,000, of which \$ 13,478,000 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, 2012 and estimated for future years is shown below.

	<u>Annual Costs</u>
For years ended June 30, 2013	\$ 4,042,000
2014	3,552,000
2015	2,574,000
2016	2,700,000
2017	1,472,000
2018 - 2020	<u>(862,000)</u>
Total	<u>\$ 13,478,000</u>

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 \$ 12,596,000 and \$ 14,350,000 for the years ended June 30, 2012 and 2011, respectively.

19. 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.

In fiscal year 2012, the Department sold all of its 2011 Connecticut Class I REC holdings and retired all of its 2011 Connecticut Class II REC holdings, which expired on June 15, 2012. Proceeds totaling \$ 344,470 from the sale of the Class I REC holdings were netted against the Department's fiscal year 2012 purchased power fuel charge.

At June 30, 2012, the Department held a total of 13,192 additional Class I and Class II RECs with an estimated market value of \$ 401,980. Because there are no clear accounting guidelines for RECs and the Department does not have a formal policy for the future disposition of these RECs, they are not reported as an asset on the Statements of Net Assets.

20. 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:

2013	\$ 8,712
2014	8,712
2015	<u>3,630</u>
Total	<u>\$ 21,054</u>

**TOWN OF READING, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2012

(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 Percent- age of Covered Payroll [(b-a)/c]
06/30/00	\$ 54,076	\$ 78,486	\$ 24,410	68.9%	\$ 15,798	154.5%
06/30/01	\$ 58,286	\$ 82,550	\$ 24,264	70.6%	\$ 16,129	150.4%
06/30/02	\$ 60,933	\$ 86,888	\$ 25,955	70.1%	\$ 16,855	154.0%
06/30/03	\$ 62,897	\$ 91,302	\$ 28,405	68.9%	\$ 16,734	169.7%
06/30/04	\$ 66,850	\$ 95,961	\$ 29,111	69.7%	\$ 17,487	166.5%
06/30/05	\$ 71,468	\$ 102,153	\$ 30,685	70.0%	\$ 18,048	170.0%
06/30/06	\$ 77,151	\$ 106,238	\$ 29,087	72.6%	\$ 18,860	154.2%
06/30/07	\$ 84,784	\$ 112,012	\$ 27,228	75.7%	\$ 19,313	141.0%
06/30/09	\$ 83,167	\$ 121,918	\$ 38,751	68.2%	\$ 21,005	184.5%
07/01/11	\$ 91,359	\$ 134,440	\$ 43,081	68.0%	\$ 20,934	205.8%

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 Percent- age of Covered Payroll [(b-a)/c]
06/30/08	\$ -	\$ 60,023	\$ 60,023	0.0%	N/A	N/A
06/30/11	\$ 1,167	\$ 94,458	\$ 93,291	1.24%	N/A	N/A

See Independent Auditors' Report.

TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2012

	<u>Special Revenue Funds</u>			
	<u>Federal Grants</u>	<u>State Grants</u>	<u>Revolving Funds</u>	<u>Receipts Reserved</u>
<u>ASSETS</u>				
Cash and short-term investments	\$ (95,452)	\$ 1,385,819	\$ 3,211,721	\$ 1,130,155
Investments	-	-	-	-
Receivables:				
Departmental and other	-	-	2,159	-
Intergovernmental	151,613	-	92,502	-
	<u>56,161</u>	<u>1,385,819</u>	<u>3,306,382</u>	<u>1,130,155</u>
Total Assets	<u>\$ 56,161</u>	<u>\$ 1,385,819</u>	<u>\$ 3,306,382</u>	<u>\$ 1,130,155</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Warrants payable	\$ 15,742	\$ 50,404	\$ 46,994	\$ -
Accrued liabilities	51,115	232,632	62,565	-
Deferred revenue	-	-	94,661	-
Retainage payable	-	-	-	-
	<u>66,857</u>	<u>283,036</u>	<u>204,220</u>	<u>-</u>
Total Liabilities	66,857	283,036	204,220	-
Fund Balances:				
Non-spendable	-	-	-	-
Restricted	10,918	1,411,768	3,102,162	1,130,155
Unassigned	(21,614)	(308,985)	-	-
	<u>(10,696)</u>	<u>1,102,783</u>	<u>3,102,162</u>	<u>1,130,155</u>
Total Fund Balance	<u>(10,696)</u>	<u>1,102,783</u>	<u>3,102,162</u>	<u>1,130,155</u>
Total Liabilities and Fund Balance	<u>\$ 56,161</u>	<u>\$ 1,385,819</u>	<u>\$ 3,306,382</u>	<u>\$ 1,130,155</u>

Special Revenue Funds

<u>Gifts and Donations</u>	<u>Trust Funds</u>	<u>Other Trust Funds</u>	<u>Subtotals</u>
\$ 492,841	\$ 4,104,393	\$ 198,401	\$ 10,427,878
-	4,714,352	-	4,714,352
-	-	-	2,159
<u>-</u>	<u>-</u>	<u>-</u>	<u>244,115</u>
<u>\$ 492,841</u>	<u>\$ 8,818,745</u>	<u>\$ 198,401</u>	<u>\$ 15,388,504</u>
\$ 43,033	\$ 6,125	\$ -	\$ 162,298
133	-	-	346,445
-	-	-	94,661
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
43,166	6,125	-	603,404
-	3,575,769	-	3,575,769
449,675	5,236,851	198,401	11,539,930
<u>-</u>	<u>-</u>	<u>-</u>	<u>(330,599)</u>
<u>449,675</u>	<u>8,812,620</u>	<u>198,401</u>	<u>14,785,100</u>
<u>\$ 492,841</u>	<u>\$ 8,818,745</u>	<u>\$ 198,401</u>	<u>\$ 15,388,504</u>

(continued)

TOWN OF READING, MASSACHUSETTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2012

(continued)

	<u>Capital Project Funds</u>			Total
	<u>Town</u>	<u>School</u>	<u>Subtotals</u>	<u>Nonmajor</u>
	<u>Capital</u>	<u>Capital</u>		<u>Governmental</u>
	<u>Project Funds</u>	<u>Project Funds</u>		<u>Funds</u>
<u>ASSETS</u>				
Cash and short-term investments	\$ 211,634	\$ 1,256,756	\$ 1,468,390	\$ 11,896,268
Investments	-	-	-	4,714,352
Receivables:				
Departmental and other	-	-	-	2,159
Intergovernmental	-	136,492	136,492	380,607
	<u>-</u>	<u>136,492</u>	<u>136,492</u>	<u>380,607</u>
Total Assets	<u>\$ 211,634</u>	<u>\$ 1,393,248</u>	<u>\$ 1,604,882</u>	<u>\$ 16,993,386</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Warrants payable	\$ 29,034	\$ 6,994	\$ 36,028	\$ 198,326
Accrued liabilities	-	-	-	346,445
Deferred revenue	-	-	-	94,661
Retainage payable	-	1,104,104	1,104,104	1,104,104
	<u>-</u>	<u>1,104,104</u>	<u>1,104,104</u>	<u>1,104,104</u>
Total Liabilities	29,034	1,111,098	1,140,132	1,743,536
Fund Balances:				
Non-spendable	-	-	-	3,575,769
Restricted	182,600	282,150	464,750	12,004,680
Unassigned	-	-	-	(330,599)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(330,599)</u>
Total Fund Balance	<u>182,600</u>	<u>282,150</u>	<u>464,750</u>	<u>15,249,850</u>
Total Liabilities and Fund Balance	<u>\$ 211,634</u>	<u>\$ 1,393,248</u>	<u>\$ 1,604,882</u>	<u>\$ 16,993,386</u>

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TOWN OF READING, MASSACHUSETTS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue Funds			
	<u>Federal Grants</u>	<u>State Grants</u>	<u>Revolving Funds</u>	<u>Receipts Reserved</u>
Revenues:				
Departmental	\$ -	\$ -	\$ 5,407,629	\$ 31,980
Intergovernmental	2,134,483	2,112,628	186,961	-
Investment income	-	-	111	3,016
Other	-	-	95,020	-
	2,134,483	2,112,628	5,689,721	34,996
Total Revenues				
	2,134,483	2,112,628	5,689,721	34,996
Expenditures:				
Current:				
General government	-	13,267	14,179	-
Public safety	140,651	80,665	874,003	-
Education	1,891,969	1,006,515	3,509,251	-
Public works	-	602,554	7,398	-
Health and human services	111,203	35,845	19,325	200,000
Culture and recreation	2,187	7,608	446,182	-
	2,146,010	1,746,454	4,870,338	200,000
Total Expenditures				
	2,146,010	1,746,454	4,870,338	200,000
Excess (deficiency) of revenues over (under) expenditures				
	(11,527)	366,174	819,383	(165,004)
Other Financing Sources (Uses):				
Issuance of bonds	-	-	-	-
Transfers out	-	-	(146,748)	(325,000)
	-	-	(146,748)	(325,000)
Total Other Financing Sources (Uses)				
	-	-	(146,748)	(325,000)
Change in fund balances				
	(11,527)	366,174	672,635	(490,004)
Fund Balances, beginning of year				
	831	736,609	2,429,527	1,620,159
Fund Balances, end of year				
	\$ (10,696)	\$ 1,102,783	\$ 3,102,162	\$ 1,130,155

Special Revenue Funds

<u>Gifts and Donations</u>	<u>Trust Funds</u>	<u>Other Trust Funds</u>	<u>Subtotals</u>
\$ -	\$ 3,085	\$ -	\$ 5,442,694
-	-	-	4,434,072
-	389,067	5,770	397,964
<u>230,439</u>	<u>12,794</u>	<u>5,000</u>	<u>343,253</u>
230,439	404,946	10,770	10,617,983
2,928	28,642	-	59,016
50	-	-	1,095,369
113,614	-	8,032	6,529,381
2,515	120,001	-	732,468
4,534	126,559	-	497,466
<u>104,486</u>	<u>4,722</u>	<u>-</u>	<u>565,185</u>
<u>228,127</u>	<u>279,924</u>	<u>8,032</u>	<u>9,478,885</u>
2,312	125,022	2,738	1,139,098
-	-	-	-
<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(571,748)</u>
<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(571,748)</u>
(97,688)	125,022	2,738	567,350
<u>547,363</u>	<u>8,687,598</u>	<u>195,663</u>	<u>14,217,750</u>
<u>\$ 449,675</u>	<u>\$ 8,812,620</u>	<u>\$ 198,401</u>	<u>\$ 14,785,100</u>

(continued)

TOWN OF READING, MASSACHUSETTS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

(continued)

	Capital Project Funds			Total Nonmajor Governmental Funds
	Town Capital Project Funds	School Capital Project Funds	Subtotals	
Revenues:				
Departmental	\$ -	\$ -	\$ -	\$ 5,442,694
Intergovernmental	-	850,484	850,484	5,284,556
Investment income	-	-	-	397,964
Other	-	-	-	343,253
	-	850,484	850,484	11,468,467
Total Revenues				
Expenditures:				
Current:				
General government	132,699	-	132,699	191,715
Public safety	-	-	-	1,095,369
Education	5,242	1,881,474	1,886,716	8,416,097
Public works	1,632	-	1,632	734,100
Health and human services	-	-	-	497,466
Culture and recreation	-	-	-	565,185
	139,573	1,881,474	2,021,047	11,499,932
Total Expenditures				
Excess (deficiency) of revenues over (under) expenditures	(139,573)	(1,030,990)	(1,170,563)	(31,465)
Other Financing Sources (Uses):				
Issuance of bonds	-	1,000,000	1,000,000	1,000,000
Transfers out	(55,471)	-	(55,471)	(627,219)
	(55,471)	1,000,000	944,529	372,781
Total Other Financing Sources (Uses)				
Change in fund balances	(195,044)	(30,990)	(226,034)	341,316
Fund Balances, beginning of year	377,644	313,140	690,784	14,908,534
Fund Balances, end of year	\$ 182,600	\$ 282,150	\$ 464,750	\$ 15,249,850

TOWN OF READING, MASSACHUSETTS
NONMAJOR PROPRIETARY FUNDS
COMBINING SCHEDULE OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	Total
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 1,730,681	\$ 73,611	\$ 971,286	\$ 2,775,578
User fees, net of allowance for uncollectibles	1,514,951	-	114,928	1,629,879
Inventory	2,957	-	-	2,957
Total current assets	3,248,589	73,611	1,086,214	4,408,414
Noncurrent:				
Capital assets being depreciated, net	6,178,718	-	364,302	6,543,020
Capital assets not being depreciated	116,682	-	170,227	286,909
Total noncurrent assets	6,295,400	-	534,529	6,829,929
TOTAL ASSETS	9,543,989	73,611	1,620,743	11,238,343
<u>LIABILITIES</u>				
Current:				
Warrants payable	4,359	-	37,138	41,497
Accrued liabilities	61,778	-	2,758	64,536
Other current liabilities	-	73,611	-	73,611
Current portion of long-term liabilities:				
Bonds payable	174,810	-	-	174,810
Total current liabilities	240,947	73,611	39,896	354,454
Noncurrent:				
Bonds payable, net of current portion	165,522	-	-	165,522
Accrued employee benefits	11,321	-	16,360	27,681
Net OPEB obligation	107,573	-	22,871	130,444
Total noncurrent liabilities	284,416	-	39,231	323,647
TOTAL LIABILITIES	525,363	73,611	79,127	678,101
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	6,124,299	-	534,529	6,658,828
Unrestricted	2,894,327	-	1,007,087	3,901,414
TOTAL NET ASSETS	\$ 9,018,626	\$ -	\$ 1,541,616	\$ 10,560,242

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

NONMAJOR PROPRIETARY FUNDS

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

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	
Operating Revenues:				
Charges for services	\$ 5,291,490	\$ -	\$ 394,810	\$ 5,686,300
Total Operating Revenues	5,291,490	-	394,810	5,686,300
Operating Expenses:				
Personnel expenses	385,072	-	154,807	539,879
Non personnel expenses	121,943	-	80,773	202,716
Intergovernmental	4,128,058	-	-	4,128,058
Depreciation	369,216	-	27,331	396,547
Energy purchases	26,964	-	-	26,964
Total Operating Expenses	5,031,253	-	262,911	5,294,164
Operating Income	260,237	-	131,899	392,136
Nonoperating Revenues (Expenses):				
Investment income	2,923	-	696	3,619
Interest expense	(2,742)	-	-	(2,742)
Total Nonoperating Revenues (Expenses)	181	-	696	877
Income Before Transfers	260,418	-	132,595	393,013
Capital contributions	181,800	-	-	181,800
Transfers out	(259,004)	-	-	(259,004)
Change in Net Assets	183,214	-	132,595	315,809
Net Assets at Beginning of Year	8,835,412	-	1,409,021	10,244,433
Net Assets at End of Year	\$ 9,018,626	\$ -	\$ 1,541,616	\$ 10,560,242

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS
NONMAJOR PROPRIETARY FUNDS
COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Landfill Closure and Postclosure	Stormwater Management	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 5,281,574	\$ 5,469	\$ 395,963	\$ 5,683,006
Payments to vendors and employees	(475,016)	-	(184,700)	(659,716)
Payments to other governments	<u>(4,128,058)</u>	<u>-</u>	<u>-</u>	<u>(4,128,058)</u>
Net Cash Provided By Operating Activities	678,500	5,469	211,263	895,232
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfer out	<u>(259,004)</u>	<u>-</u>	<u>-</u>	<u>(259,004)</u>
Net Cash (Used For) Noncapital Financing Activities	(259,004)	-	-	(259,004)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Proceeds from issuance of bonds and notes	222,200	-	-	222,200
Acquisition of capital assets	(633,675)	-	(170,227)	(803,902)
Capital grants and contributions	181,800	-	-	181,800
Principal payments on bonds and notes	(117,964)	-	-	(117,964)
Interest expense	<u>(2,742)</u>	<u>-</u>	<u>-</u>	<u>(2,742)</u>
Net Cash (Used For) Capital and Related Financing Activities	(350,381)	-	(170,227)	(520,608)
<u>Cash Flows From Investing Activities:</u>				
Investment income	<u>2,923</u>	<u>-</u>	<u>696</u>	<u>3,619</u>
Net Cash Provided By Investing Activities	2,923	-	696	3,619
Net Change in Cash and Short-Term Investments	72,038	5,469	41,732	119,239
Cash and Short Term Investments, Beginning of Year	<u>1,658,643</u>	<u>68,142</u>	<u>929,554</u>	<u>2,656,339</u>
Cash and Short Term Investments, End of Year	<u>\$ 1,730,681</u>	<u>\$ 73,611</u>	<u>\$ 971,286</u>	<u>\$ 2,775,578</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>				
Operating income	\$ 260,237	\$ -	\$ 131,899	\$ 392,136
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	369,216	-	27,330	396,546
Changes in assets and liabilities:				
User fees receivables	(9,916)	-	1,153	(8,763)
Inventory and prepayments	551	-	-	551
Warrants payable	(24,309)	-	35,414	11,105
Other liabilities	63,782	5,469	3,546	72,797
OPEB liability	<u>18,939</u>	<u>-</u>	<u>11,921</u>	<u>30,860</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 678,500</u>	<u>\$ 5,469</u>	<u>\$ 211,263</u>	<u>\$ 895,232</u>

See notes to financial statements.

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