

TOWN OF READING, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2007

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www.melansonheath.comINDEPENDENT AUDITORS' REPORTTo 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, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of 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, 2007, 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.

The management's discussion and analysis, appearing on the following pages, and the supplementary information, appearing in the back of this report, are not a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the

methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Reading's basic financial statements. The combining financial statements as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 2, 2008 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.

Melanson, Heath + Company P.C.

Andover, Massachusetts
January 2, 2008

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, 2007. 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, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water supply and distribution, sewer disposal, landfill, electricity, and storm water activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be

divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, sewer, landfill, 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, electricity, and storm water operations, all of which 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 the *Governmental Accounting Standards Board*.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 201,096 (i.e., net assets), a change of \$ 13,573 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 23,364, a change of \$ 1,949 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 5,788, a change of \$ 1,567 in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 65,587, a change of \$ 2,010 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. All amounts are presented in thousands.

| | Governmental <u>Activities</u> | | Business-Type <u>Activities</u> | | Totals | |
|-----------------------------------|-----------------------------------|------------------|------------------------------------|-------------------|-------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Current and other assets | \$ 55,227 | \$ 57,547 | \$ 57,346 | \$ 83,521 | \$ 112,573 | \$ 141,068 |
| Capital assets | <u>134,586</u> | <u>125,672</u> | <u>72,245</u> | <u>72,153</u> | <u>206,831</u> | <u>197,825</u> |
| Total assets | <u>189,813</u> | <u>183,219</u> | <u>129,591</u> | <u>155,674</u> | <u>319,404</u> | <u>338,893</u> |
| Long-term liabilities outstanding | 59,210 | 61,957 | 20,024 | 39,552 | 79,234 | 101,509 |
| Other liabilities | <u>31,380</u> | <u>36,000</u> | <u>7,694</u> | <u>13,861</u> | <u>39,074</u> | <u>49,861</u> |
| Total liabilities | <u>90,590</u> | <u>97,957</u> | <u>27,718</u> | <u>53,413</u> | <u>118,308</u> | <u>151,370</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net | 80,484 | 67,563 | 64,248 | 61,528 | 144,732 | 129,091 |
| Restricted | 13,364 | 13,359 | 2,365 | 3,182 | 15,729 | 16,541 |
| Unrestricted | <u>5,375</u> | <u>4,340</u> | <u>35,260</u> | <u>37,551</u> | <u>40,635</u> | <u>41,891</u> |
| Total net assets | <u>\$ 99,223</u> | <u>\$ 85,262</u> | <u>\$ 101,873</u> | <u>\$ 102,261</u> | <u>\$ 201,096</u> | <u>\$ 187,523</u> |

CHANGES IN NET ASSETS

| | <u>Activities</u> | | <u>Activities</u> | | <u>Totals</u> | |
|--|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 4,815 | \$ 5,502 | \$ 74,817 | \$ 83,219 | \$ 79,632 | \$ 88,721 |
| Operating grants and contributions | 18,012 | 15,815 | 1,041 | 2,720 | 19,053 | 18,535 |
| Capital grants and contributions | 921 | 1,542 | - | - | 921 | 1,542 |
| General revenues: | | | | | | |
| Property Taxes | 45,651 | 43,058 | - | - | 45,651 | 43,058 |
| Excises | 2,766 | 2,787 | - | - | 2,766 | 2,787 |
| Penalties, interest and other taxes | 541 | 560 | - | - | 541 | 560 |
| Grants and contributions not restricted to specific programs | 13,398 | 24,903 | - | - | 13,398 | 24,903 |
| Investment income | 2,829 | 2,154 | 911 | 852 | 3,740 | 3,006 |
| Other | 272 | 585 | - | - | 272 | 585 |
| Total revenues | <u>89,205</u> | <u>96,906</u> | <u>76,769</u> | <u>86,791</u> | <u>165,974</u> | <u>183,697</u> |
| Expenses: | | | | | | |
| General government | 3,701 | 3,550 | - | - | 3,701 | 3,550 |
| Public safety | 9,520 | 9,313 | - | - | 9,520 | 9,313 |
| Education | 52,025 | 49,382 | - | - | 52,025 | 49,382 |
| Public works | 6,046 | 7,069 | - | - | 6,046 | 7,069 |
| Human services | 891 | 840 | - | - | 891 | 840 |
| Culture and recreation | 1,868 | 1,859 | - | - | 1,868 | 1,859 |
| Interest on long-term debt | 2,750 | 2,960 | - | - | 2,750 | 2,960 |
| Intergovernmental | 550 | 524 | - | - | 550 | 524 |
| Electric | - | - | 63,979 | 69,954 | 63,979 | 69,954 |
| Water | - | - | 4,904 | 3,847 | 4,904 | 3,847 |
| Sewer | - | - | 4,343 | 4,002 | 4,343 | 4,002 |
| Total expenses | <u>77,351</u> | <u>75,497</u> | <u>73,226</u> | <u>77,803</u> | <u>150,577</u> | <u>153,300</u> |
| Excess of revenues over expenses | 11,854 | 21,409 | 3,543 | 8,988 | 15,397 | 30,397 |
| Permanent fund contributions | 96 | - | - | - | 96 | - |
| Special item - asset impairment | - | - | (1,920) | - | (1,920) | - |
| Transfer in (out) | 2,011 | 4,362 | (2,011) | (4,362) | - | - |
| Change in net assets | <u>13,961</u> | <u>25,771</u> | <u>(388)</u> | <u>4,626</u> | <u>13,573</u> | <u>30,397</u> |
| Net assets - beginning of year | <u>85,262</u> | <u>59,491</u> | <u>102,261</u> | <u>97,635</u> | <u>187,523</u> | <u>157,126</u> |
| Net assets - end of year | <u>\$ 99,223</u> | <u>\$ 85,262</u> | <u>\$ 101,873</u> | <u>\$ 102,261</u> | <u>\$ 201,096</u> | <u>\$ 187,523</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 \$ 201,096, a change of \$ 13,573 from the prior year.

The largest portion of net assets \$ 144,732 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 \$ 15,729 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 40,635 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 \$ 13,961. Key elements of this change are as follows:

| | |
|---|------------------|
| General fund expenditures exceeding revenues | \$ (1,284) |
| Special revenue fund revenues exceeding expenditures | 795 |
| MSBA grants and other current year revenue used for the acquisition of capital assets | 12,797 |
| PILOT from RMLD | 2,011 |
| Other | <u>(358)</u> |
| Total | <u>\$ 13,961</u> |

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ (388). Key elements of this change are as follows:

The electric operations had revenues of \$ 67,902 and expenses of \$ 65,991, resulting in a change in net assets of \$ 1,911.

The water operations had revenues of \$ 4,423 and expenses of \$ 6,825 (a), resulting in a change in net assets of \$ (2,402).

The sewer operations had revenues of \$ 4,032 and expenses of \$ 4,244, resulting in a change in net assets of \$ (211).

The landfill operations did not report any revenues or expenditures.

The storm water management operations had revenues of \$ 413 and expenses of \$ 99, resulting in a change in net assets of \$ 314.

(a) Includes a special, one-time asset impairment charge of \$ (1,920) relating to the abandonment of the water filtration design costs.

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, unreserved 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 \$ 23,364, a change of \$ 1,949 in comparison with the prior year. Key elements of this change are as follows:

| | |
|--|-----------------|
| General fund expenditures exceeding revenues | \$ (1,284) |
| Memorial School building project expenditures exceeding revenues | (5,100) |
| Special revenue fund revenues exceeding expenditures | 795 |
| Non-major capital project fund revenues and bond proceeds exceeding expenditures | 5,431 |
| Permanent fund revenues | 96 |
| Pilot from RMLD | <u>2,011</u> |
| Total | <u>\$ 1,949</u> |

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 5,788, while total fund balance was \$ 8,382. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 9.1 percent of total general fund expenditures, while total fund balance represents 11.5 percent of that same amount.

The fund balance of the general fund changed by \$ 1,768 during the current fiscal year. Key factors in this change are as follows:

| | |
|--------------------------------------|-----------------|
| Use of free cash as a funding source | \$ (1,823) |
| Revenues in excess of budget | 2,833 |
| Expenditures less than budget | 317 |
| Other | 441 |
| Total | <u>\$ 1,768</u> |

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

**General Fund Balances
Last Five Fiscal Years**

| <u>As of 30-Jun</u> | <u>Reserved for Encumbrances</u> | <u>Subsequent Year's Expenditures</u> | <u>Stabilization Fund</u> | <u>Unreserved</u> | <u>Total Fund Balance</u> |
|-------------------------|--------------------------------------|---|-------------------------------|-------------------|-------------------------------|
| 2003 | \$ 348 | \$ 352 | \$ - | \$ 2,340 | \$ 3,040 |
| 2004 | 641 | 555 | 704 | 3,721 | 5,621 |
| 2005 | 679 | 706 | 820 | 3,513 | 5,718 |
| 2006 | 881 | 662 | 851 | 4,221 | 6,615 |
| 2007 | 1,435 | 264 | 896 | 5,788 | 8,383 |

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 \$ 101,873, a change of \$ (388) in comparison with the prior year. Factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 1,394. Major reasons for these amendments include:

- \$ 425 to fund Capital Improvement Program for Equipment and building improvements;
- \$ 360 in additional employee benefits, mostly Health Insurance due to increased enrollment;
- \$ 150 in additional Snow and Ice Removal costs;
- \$ 136 in Facilities Maintenance costs due to flood damage;
- \$ 80 in the Highway Department for vehicle and road maintenance;
- \$ 243 in various other line items.

These increases were funded through free cash and 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 \$ 206,831 (net of accumulated depreciation), a change of \$ 9,006 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:

- \$ 8,805 in Memorial High School additions
- \$ 930 in roadway improvements
- \$ 803 in conservation land
- \$ 203 in school land

Business-type additions:

- \$ 5,044 in electric improvements
- \$ 1,016 in water improvements
- \$ (1,920) in water plant design write down
- \$ 388 in sewer improvements

Additional information on capital assets can be found in the footnotes to the financial statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 65,587, 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 footnotes to the financial statements.

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

The adopted FY08 General Fund budget of \$ 71,525 is a 4.9% increase over the prior year. The FY08 budget is balanced. The estimated revenues included an increase in State Aid of \$ 992. This general fund budget includes an allocation from the unreserved fund balance of \$ 1,259. We voted to use unreserved fund balance in the November subsequent town meeting for purchases that are within our Capital Improvement Program, and to transfer \$ 500,000 to our stabilization fund. The tax levy for FY08 of \$ 47,440 represents a 3.8% increase over the prior year, and the FY08 tax rate is \$ 12.60 per thousand compared to \$ 12.07 in the prior year. Overall, property values declined less than 1/2 of 1% to \$ 3,765,000.

At a special Town Meeting in June 2006, a 2/3 majority of members voted to pursue an application to join the MWRA as a full-time member. This application was approved by the MWRA in October 2007.

For many years, the Town had drawn 100% of its water supply from the Ipswich River basin, and processed the water for distribution at the Louanis Water Treatment Plant. The Ipswich River is acknowledged to be one of the most endangered water sources in the Commonwealth. Six years ago, the Town applied to the MWRA to purchase a portion of water during the summer months, at a time when the river basin is under the most stress. After a lengthy five-year review process involving many state agencies, part-time 'supplemental' water purchase from the MWRA was finally approved, and implemented in April 2006.

Town Meeting, upon reviewing extensive financial and environmental evidence, decided in June of 2006 to request that the MWRA membership become full-time, as the next best alternative was to build a new \$ 25 million treatment plant. In addition, the Town had special legislation filed to speed up the potentially lengthy review process. Meanwhile, the Louanis Treatment plant was closed in the fall of 2006, and the Town received 100% MWRA water under a special administrative consent order negotiated with MA DEP until final approval is granted.

The water reserve fund had been increased for several years as it was recognized that future rate increases were expected under either scenario. Full-time MWRA membership is expected to be a cheaper solution for the first 20 years, and the reserves will be utilized to buffer the first few years of rate increases. The two significant new items associated with this decision are the annual purchase of MWRA water (budgeted at \$ 1.6 million in FY08), and debt associated with a buy-in to the MWRA system. An initial \$ 3 million was borrowed for the summer supplemental water purchase rights in FY06, and an additional \$ 8 million was borrowed in the fall of FY07.

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, 2007

| | Governmental <u>Activities</u> | Business-Type <u>Activities</u> | <u>Total</u> |
|---|-----------------------------------|------------------------------------|-----------------------|
| ASSETS | | | |
| Current: | | | |
| Cash and short-term investments | \$ 15,667,640 | \$ 41,150,472 | \$ 56,818,112 |
| Investments | 14,790,627 | 4,400,000 | 19,190,627 |
| Receivables, net of allowance for uncollectibles: | | | |
| Property taxes | 23,367,415 | - | 23,367,415 |
| Excises | 195,272 | - | 195,272 |
| User fees | - | 9,214,181 | 9,214,181 |
| Departmental and other | 256,221 | - | 256,221 |
| Intergovernmental | 464,402 | - | 464,402 |
| Inventory | - | 1,878,991 | 1,878,991 |
| Prepaid assets | - | 534,431 | 534,431 |
| Unamortized discount on bonds | 129,721 | - | 129,721 |
| Other assets | 1,982 | 297 | 2,279 |
| Noncurrent: | | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Property taxes | 353,995 | - | 353,995 |
| Investments in joint ventures | - | 141,810 | 141,810 |
| Deferred charges | - | 25,389 | 25,389 |
| Capital assets being depreciated, net | 74,622,242 | 70,795,544 | 145,417,786 |
| Capital assets not being depreciated | 59,963,671 | 1,449,426 | 61,413,097 |
| TOTAL ASSETS | 189,813,188 | 129,590,541 | 319,403,729 |
| LIABILITIES | | | |
| Current: | | | |
| Warrants payable | 2,890,255 | 6,178,948 | 9,069,203 |
| Accrued liabilities | 3,196,828 | 75,838 | 3,272,666 |
| Customer advances for construction | - | 595,423 | 595,423 |
| Customer deposits | - | 480,657 | 480,657 |
| Retainage payable | 1,666,586 | - | 1,666,586 |
| Unearned revenue | 22,976,059 | - | 22,976,059 |
| Other current liabilities | 650,136 | 363,298 | 1,013,434 |
| Current portion of long-term liabilities: | | | |
| Bonds and loans payable | 4,034,000 | 1,390,842 | 5,424,842 |
| Accrued employee benefits | 58,341 | 109,852 | 168,193 |
| Unamortized premiums on notes and bonds | 24,762 | 777 | 25,539 |
| Calpine contract termination | - | 9,108,765 | 9,108,765 |
| Noncurrent: | | | |
| Bonds and notes payable, net of current portion | 53,185,000 | 6,977,478 | 60,162,478 |
| Accrued employee benefits, net of current portion | 1,608,554 | 2,429,895 | 4,038,449 |
| Unamortized premiums on notes and bonds | 299,467 | 6,212 | 305,679 |
| TOTAL LIABILITIES | 90,589,988 | 27,717,985 | 118,307,973 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 80,483,585 | 64,248,330 | 144,731,915 |
| Restricted for: | | | |
| Grants and other statutory restrictions | 5,335,276 | 2,364,103 | 7,699,379 |
| Permanent funds: | | | |
| Expendable | 5,748,005 | - | 5,748,005 |
| Nonexpendable | 2,281,092 | - | 2,281,092 |
| Unrestricted | 5,375,242 | 35,260,123 | 40,635,365 |
| TOTAL NET ASSETS | \$ 99,223,200 | \$ 101,872,556 | \$ 201,095,756 |

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

| | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expenses) Revenues and Changes in Net Assets</u> | | |
|--|-----------------------|-----------------------------|---|---|--|---------------------------------|-----------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| Governmental Activities: | | | | | | | |
| General government | \$ 3,701,715 | \$ 491,415 | \$ 1,076,573 | \$ - | \$ (2,133,727) | \$ - | \$ (2,133,727) |
| Public safety | 9,520,101 | 1,761,488 | 630,348 | 7,800 | (7,120,465) | - | (7,120,465) |
| Education | 52,024,975 | 1,942,131 | 16,052,863 | - | (34,029,981) | - | (34,029,981) |
| Public works | 6,046,291 | 96,150 | 1,750 | 913,230 | (5,035,161) | - | (5,035,161) |
| Health and human services | 890,130 | 34,752 | 96,209 | - | (759,169) | - | (759,169) |
| Culture and recreation | 1,867,993 | 489,095 | 153,738 | - | (1,225,160) | - | (1,225,160) |
| Debt service interest | 2,750,067 | - | - | - | (2,750,067) | - | (2,750,067) |
| Intergovernmental | 550,222 | - | - | - | (550,222) | - | (550,222) |
| Total Governmental Activities | 77,351,494 | 4,815,031 | 18,011,481 | 921,030 | (53,603,952) | - | (53,603,952) |
| Business-Type Activities: | | | | | | | |
| Electric services | 63,979,391 | 66,224,643 | 975,935 | - | - | 3,221,187 | 3,221,187 |
| Water services | 4,904,499 | 4,243,374 | 28,564 | - | - | (632,561) | (632,561) |
| Other Services | 4,342,646 | 4,348,773 | 36,996 | - | - | 43,123 | 43,123 |
| Total Business-Type Activities | 73,226,536 | 74,816,790 | 1,041,495 | - | - | 2,631,749 | 2,631,749 |
| Total | \$ <u>150,578,030</u> | \$ <u>79,631,821</u> | \$ <u>19,052,976</u> | \$ <u>921,030</u> | (53,603,952) | 2,631,749 | (50,972,203) |
| General Revenues, Contributions, Special Items and Transfers: | | | | | | | |
| General Revenues | | | | | | | |
| | | | | | | | |
| Property taxes | | | | | 45,651,369 | - | 45,651,369 |
| Excises | | | | | 2,765,811 | - | 2,765,811 |
| Penalties, interest and other taxes | | | | | 540,603 | - | 540,603 |
| Grants and contributions not restricted to specific programs | | | | | 13,398,297 | - | 13,398,297 |
| Investment income | | | | | 2,829,478 | 911,186 | 3,740,664 |
| Other | | | | | 271,823 | - | 271,823 |
| Permanent fund contributions | | | | | 96,308 | - | 96,308 |
| Special item - capital asset impairment | | | | | - | (1,920,039) | (1,920,039) |
| Transfers, net | | | | | 2,010,991 | (2,010,991) | - |
| Total general revenues, special items, and transfers | | | | | 67,564,680 | (3,019,844) | 64,544,836 |
| Change in Net Assets | | | | | 13,960,728 | (388,095) | 13,572,633 |
| Net Assets: | | | | | | | |
| Beginning of year | | | | | 85,262,472 | 102,260,651 | 187,523,123 |
| End of year | | | | | \$ <u>99,223,200</u> | \$ <u>101,872,556</u> | \$ <u>201,095,756</u> |

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

| ASSETS | <u>General</u> | Memorial High School Capital Project <u>Fund</u> | Nonmajor Governmental <u>Funds</u> | Total Governmental <u>Funds</u> |
|--|-----------------------------|---|--|---------------------------------------|
| Cash and short-term investments | \$ 4,758,400 | \$ 3,998,366 | \$ 6,910,874 | \$ 15,667,640 |
| Investments | 8,345,475 | - | 6,445,152 | 14,790,627 |
| Receivables: | | | | |
| Property taxes: | | | | |
| Current | 819,545 | - | - | 819,545 |
| Subsequent year's levy | 22,976,059 | - | - | 22,976,059 |
| Excises | 246,879 | - | - | 246,879 |
| Departmental and other | 255,333 | - | 888 | 256,221 |
| Intergovernmental | - | - | 464,402 | 464,402 |
| Other | 1,982 | - | - | 1,982 |
| TOTAL ASSETS | \$ <u>37,403,673</u> | \$ <u>3,998,366</u> | \$ <u>13,821,316</u> | \$ <u>55,223,355</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Warrants payable | \$ 1,916,062 | \$ 799,949 | \$ 174,244 | \$ 2,890,255 |
| Accrued liabilities | 2,154,857 | - | 196,970 | 2,351,827 |
| Deferred revenue | 24,299,797 | - | 888 | 24,300,685 |
| Retainage payable | - | 1,666,586 | - | 1,666,586 |
| Other liabilities | 650,136 | - | - | 650,136 |
| TOTAL LIABILITIES | 29,020,852 | 2,466,535 | 372,102 | 31,859,489 |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Encumbrances | 1,435,365 | - | - | 1,435,365 |
| Expenditures | 263,497 | - | - | 263,497 |
| Stabilization | 895,865 | - | - | 895,865 |
| Perpetual (nonexpendable) permanent funds | - | - | 2,281,092 | 2,281,092 |
| Unreserved: | | | | |
| Undesignated, reported in: | | | | |
| General fund | 5,788,094 | - | - | 5,788,094 |
| Special revenue funds | - | - | 5,335,276 | 5,335,276 |
| Capital project funds | - | 1,531,831 | 84,841 | 1,616,672 |
| Permanent funds | - | - | 5,748,005 | 5,748,005 |
| TOTAL FUND BALANCES | <u>8,382,821</u> | <u>1,531,831</u> | <u>13,449,214</u> | <u>23,363,866</u> |
| TOTAL LIABILITIES AND FUND BALANCES | \$ <u>37,403,673</u> | \$ <u>3,998,366</u> | \$ <u>13,821,316</u> | \$ <u>55,223,355</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, 2007

| | |
|---|----------------------|
| Total governmental fund balances | \$ 23,363,866 |
| <ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 134,585,913 |
| <ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection. | 1,328,546 |
| <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. | (845,001) |
| <ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(59,210,124)</u> |
| Net assets of governmental activities | <u>\$ 99,223,200</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, 2007

| | <u>General</u> | Memorial High School Capital Project <u>Fund</u> | Nonmajor Governmental <u>Funds</u> | Total Governmental <u>Funds</u> |
|--|---------------------|---|--|---------------------------------------|
| Revenues: | | | | |
| Property taxes | \$ 45,187,228 | \$ - | \$ - | \$ 45,187,228 |
| Excise taxes | 2,756,671 | - | - | 2,756,671 |
| Penalties, interest and other taxes | 540,603 | - | - | 540,603 |
| Departmental | 1,766,469 | - | 2,951,585 | 4,718,054 |
| Licenses and permits | 71,141 | - | - | 71,141 |
| Fines and forfeitures | 144,009 | - | - | 144,009 |
| Intergovernmental | 19,289,524 | 3,705,000 | 8,585,507 | 31,580,031 |
| Investment income | 2,084,429 | - | 679,520 | 2,763,949 |
| Contributions | - | - | 845,335 | 845,335 |
| Other | 82,640 | - | 189,184 | 271,824 |
| Total Revenues | <u>71,922,714</u> | <u>3,705,000</u> | <u>13,251,131</u> | <u>88,878,845</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 3,214,177 | - | 837,749 | 4,051,926 |
| Public safety | 7,269,911 | - | 810,114 | 8,080,025 |
| Education | 39,444,531 | - | 5,133,566 | 44,578,097 |
| Public works | 4,719,622 | - | 29,486 | 4,749,108 |
| Health and human services | 462,560 | - | 278,734 | 741,294 |
| Culture and recreation | 1,202,670 | - | 515,355 | 1,718,025 |
| Employee benefits | 9,689,253 | - | - | 9,689,253 |
| Debt service | 6,654,129 | - | - | 6,654,129 |
| Capital outlay | - | 8,805,291 | 632,541 | 9,437,832 |
| Intergovernmental | 550,222 | - | - | 550,222 |
| Total Expenditures | <u>73,207,075</u> | <u>8,805,291</u> | <u>8,237,545</u> | <u>90,249,911</u> |
| Excess (Deficiency) of revenues over expenditures | (1,284,361) | (5,100,291) | 5,013,586 | (1,371,066) |
| Other Financing Sources (Uses): | | | | |
| Issuance of bonds | - | - | 1,309,000 | 1,309,000 |
| Transfers in | 3,052,476 | - | - | 3,052,476 |
| Transfers out | - | - | (1,041,485) | (1,041,485) |
| Total Other Financing Sources (Uses) | <u>3,052,476</u> | <u>-</u> | <u>267,515</u> | <u>3,319,991</u> |
| Changes in fund balances | 1,768,115 | (5,100,291) | 5,281,101 | 1,948,925 |
| Fund Balances, at Beginning of Year | <u>6,614,706</u> | <u>6,632,122</u> | <u>8,168,113</u> | <u>21,414,941</u> |
| Fund Balances, at End of Year | <u>\$ 8,382,821</u> | <u>\$ 1,531,831</u> | <u>\$ 13,449,214</u> | <u>\$ 23,363,866</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, 2007

| | | | | | | | | | | | | | | | |
|--|------------------------------------|--------------------------|------------|--------------|-------------|--|---------|------------------|-------------|--------------------|-----------|--|--------|--|----------------|
| NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ 1,948,925 | | | | | | | | | | | | | | |
| <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="width: 150px;">Capital outlay purchases</td> <td style="text-align: right;">12,790,794</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(3,877,110)</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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">356,858</td> </tr> </table> • The issuance of long-term debt 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="width: 150px;">Issuance of debt</td> <td style="text-align: right;">(1,309,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">3,910,000</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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">12,664</td> </tr> </table> • 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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>127,597</u></td> </tr> </table> | | Capital outlay purchases | 12,790,794 | Depreciation | (3,877,110) | | 356,858 | Issuance of debt | (1,309,000) | Repayments of debt | 3,910,000 | | 12,664 | | <u>127,597</u> |
| Capital outlay purchases | 12,790,794 | | | | | | | | | | | | | | |
| Depreciation | (3,877,110) | | | | | | | | | | | | | | |
| | 356,858 | | | | | | | | | | | | | | |
| Issuance of debt | (1,309,000) | | | | | | | | | | | | | | |
| Repayments of debt | 3,910,000 | | | | | | | | | | | | | | |
| | 12,664 | | | | | | | | | | | | | | |
| | <u>127,597</u> | | | | | | | | | | | | | | |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ <u><u>13,960,728</u></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, 2007

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|--------------------|-------------------|---------------------|---|
| | Original Budget | Final Budget | | |
| Revenues and Transfers: | | | | |
| Taxes | \$ 45,128,863 | \$ 45,128,863 | \$ 45,580,881 | \$ 452,018 |
| Excise taxes | 2,800,000 | 2,800,000 | 2,756,670 | (43,330) |
| Penalties, interest and other taxes | 400,000 | 400,000 | 430,135 | 30,135 |
| Departmental | 1,403,000 | 1,403,000 | 1,707,705 | 304,705 |
| Licenses and permits | 120,000 | 120,000 | 117,782 | (2,218) |
| Fines and forfeitures | 100,000 | 100,000 | 90,819 | (9,181) |
| Intergovernmental | 13,354,705 | 13,354,705 | 14,062,361 | 707,656 |
| Investment income | 750,000 | 750,000 | 2,058,008 | 1,308,008 |
| Other | - | - | 73,284 | 73,284 |
| Transfers in | <u>2,684,975</u> | <u>3,040,476</u> | <u>3,052,476</u> | <u>12,000</u> |
| Total Revenues and Transfers | 66,741,543 | 67,097,044 | 69,930,121 | 2,833,077 |
| Expenditures: | | | | |
| General government | 2,186,723 | 3,382,040 | 3,335,471 | 46,569 |
| Public safety | 7,254,647 | 7,387,922 | 7,319,404 | 68,518 |
| Education | 34,634,052 | 34,098,701 | 34,051,817 | 46,884 |
| Public works | 5,063,663 | 5,326,873 | 5,226,756 | 100,117 |
| Health and human services | 439,978 | 460,808 | 462,757 | (1,949) |
| Culture and leisure | 1,058,670 | 1,243,571 | 1,236,218 | 7,353 |
| Intergovernmental | 555,698 | 555,698 | 550,222 | 5,476 |
| Employee benefits | 9,670,099 | 9,731,976 | 9,689,253 | 42,723 |
| Debt service | <u>6,662,158</u> | <u>6,732,554</u> | <u>6,731,679</u> | <u>875</u> |
| Total Expenditures | <u>67,525,688</u> | <u>68,920,143</u> | <u>68,603,577</u> | <u>316,566</u> |
| Excess (deficiency) of revenues and other sources over expenditures | (784,145) | (1,823,099) | 1,326,544 | 3,149,643 |
| Other Financing Sources and (Uses): | | | | |
| Use of free cash | <u>784,145</u> | <u>1,823,099</u> | <u>-</u> | <u>(1,823,099)</u> |
| Excess of revenues and other sources over expenditures and other uses | \$ <u>-</u> | \$ <u>-</u> | \$ <u>1,326,544</u> | \$ <u>1,326,544</u> |

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2007

| | Business-Type Activities Enterprise Funds | | | Total |
|---|--|---------------------|---------------------|-----------------------|
| | Electric Fund | Water Fund | Other Funds | |
| <u>ASSETS</u> | | | | |
| Current: | | | | |
| Cash and short-term investments | \$ 14,378,468 | \$ 3,424,835 | \$ 2,091,071 | \$ 19,894,374 |
| User fees, net of allowance for uncollectibles | 6,663,670 | 1,256,299 | 1,294,212 | 9,214,181 |
| Inventory | 1,581,828 | 295,725 | 1,438 | 1,878,991 |
| Prepaid assets | 534,431 | - | - | 534,431 |
| Deferred charges | - | 297 | - | 297 |
| Total current assets | 23,158,397 | 4,977,156 | 3,386,721 | 31,522,274 |
| Noncurrent: | | | | |
| Restricted cash and cash equivalents | 21,256,098 | - | - | 21,256,098 |
| Restricted investments | 4,400,000 | - | - | 4,400,000 |
| Investments in joint ventures | 141,810 | - | - | 141,810 |
| Deferred Charges | 23,019 | 2,370 | - | 25,389 |
| Capital assets being depreciated, net | 56,185,161 | 8,935,252 | 5,675,131 | 70,795,544 |
| Capital assets not being depreciated | 1,265,842 | 107,252 | 76,332 | 1,449,426 |
| Total noncurrent assets | 83,271,930 | 9,044,874 | 5,751,463 | 98,068,267 |
| TOTAL ASSETS | 106,430,327 | 14,022,030 | 9,138,184 | 129,590,541 |
| <u>LIABILITIES</u> | | | | |
| Current: | | | | |
| Warrants payable | 5,866,398 | 281,043 | 31,507 | 6,178,948 |
| Accrued liabilities | - | 75,838 | - | 75,838 |
| Customer advances for construction | 595,423 | - | - | 595,423 |
| Customer deposits | 480,657 | - | - | 480,657 |
| Other current liabilities | 272,156 | - | 91,142 | 363,298 |
| Current portion of long-term liabilities: | | | | |
| Bonds and loans payable | 550,000 | 756,000 | 84,842 | 1,390,842 |
| Accrued employee benefits | 109,852 | - | - | 109,852 |
| Unamortized premium on bonds | - | 777 | - | 777 |
| Calpine contract termination | 9,108,765 | - | - | 9,108,765 |
| Total current liabilities | 16,983,251 | 1,113,658 | 207,491 | 18,304,400 |
| Noncurrent: | | | | |
| Bonds and notes payable, net of current portion | 1,100,000 | 5,695,000 | 182,478 | 6,977,478 |
| Accrued employee benefits, net of current portion | 2,357,312 | 54,092 | 18,491 | 2,429,895 |
| Unamortized premium on bonds | - | 6,212 | - | 6,212 |
| Total noncurrent liabilities | 3,457,312 | 5,755,304 | 200,969 | 9,413,585 |
| TOTAL LIABILITIES | 20,440,563 | 6,868,962 | 408,460 | 27,717,985 |
| <u>NET ASSETS</u> | | | | |
| Invested in capital assets, net of related debt | 55,801,003 | 2,963,184 | 5,484,143 | 64,248,330 |
| Restricted | 2,364,103 | - | - | 2,364,103 |
| Unrestricted | 27,824,658 | 4,189,884 | 3,245,581 | 35,260,123 |
| TOTAL NET ASSETS | \$ 85,989,764 | \$ 7,153,068 | \$ 8,729,724 | \$ 101,872,556 |

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, 2007

| | Business-Type Activities Enterprise Funds | | | <u>Total</u> |
|---|--|-----------------------|------------------------|-----------------------|
| | <u>Electric Fund</u> | <u>Water Fund</u> | <u>Other Funds</u> | |
| Operating Revenues: | | | | |
| Charges for services | \$ 66,224,643 | \$ 4,243,374 | \$ 4,348,773 | \$ 74,816,790 |
| Other | <u>-</u> | <u>28,564</u> | <u>36,996</u> | <u>65,560</u> |
| Total Operating Revenues | 66,224,643 | 4,271,938 | 4,385,769 | 74,882,350 |
| Operating Expenses: | | | | |
| Energy purchases | 49,725,228 | 62,601 | 23,467 | 49,811,296 |
| Intergovernmental | 1,108,159 | 1,138,225 | 3,171,403 | 5,417,787 |
| Depreciation | 2,907,259 | 1,175,383 | 297,305 | 4,379,947 |
| Other | <u>10,078,287</u> | <u>2,201,740</u> | <u>850,471</u> | <u>13,130,498</u> |
| Total Operating Expenses | <u>63,818,933</u> | <u>4,577,949</u> | <u>4,342,646</u> | <u>72,739,528</u> |
| Operating Income (Loss) | 2,405,710 | (306,011) | 43,123 | 2,142,822 |
| Nonoperating Revenues (Expenses): | | | | |
| Investment income | 700,829 | 150,582 | 59,775 | 911,186 |
| Interest expense | (104,677) | (326,550) | - | (431,227) |
| Loss on disposal of capital assets | (55,781) | - | - | (55,781) |
| Other | <u>975,935</u> | <u>-</u> | <u>-</u> | <u>975,935</u> |
| Total Nonoperating Revenues (Expenses), Net | <u>1,516,306</u> | <u>(175,968)</u> | <u>59,775</u> | <u>1,400,113</u> |
| Income (Loss) Before Transfers and Capital Impairment | 3,922,016 | (481,979) | 102,898 | 3,542,935 |
| Transfers out | (2,010,991) | - | - | (2,010,991) |
| Capital asset impairment | <u>-</u> | <u>(1,920,039)</u> | <u>-</u> | <u>(1,920,039)</u> |
| Change in Net Assets | 1,911,025 | (2,402,018) | 102,898 | (388,095) |
| Net Assets at Beginning of Year | <u>84,078,739</u> | <u>9,555,086</u> | <u>8,626,826</u> | <u>102,260,651</u> |
| Net Assets at End of Year | <u>\$ 85,989,764</u> | <u>\$ 7,153,068</u> | <u>\$ 8,729,724</u> | <u>\$ 101,872,556</u> |

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

| | Business-Type Activities Enterprise Funds | | | Total |
|--|--|---------------|----------------|---------------|
| | Electric Fund | Water Fund | Other Funds | |
| <u>Cash Flows From Operating Activities:</u> | | | | |
| Receipts from customers and users | \$ 67,193,484 | \$ 3,992,707 | \$ 4,267,521 | \$ 75,453,712 |
| Payments to vendors and employees | (61,700,902) | (2,074,058) | (875,945) | (64,650,905) |
| Customer refund, purchase power, and fuel charge adjustments | (2,044,750) | - | - | (2,044,750) |
| Payments to other governments | - | (1,138,225) | (3,171,403) | (4,309,628) |
| Net Cash Provided By Operating Activities | 3,447,832 | 780,424 | 220,173 | 4,448,429 |
| <u>Cash Flows From Noncapital Financing Activities:</u> | | | | |
| Transfers out | (2,010,991) | - | - | (2,010,991) |
| MWEC refund | 615,727 | - | - | 615,727 |
| Other | 169,123 | - | - | 169,123 |
| Net Cash (Used for) Noncapital Financing Activities | (1,226,141) | - | - | (1,226,141) |
| <u>Cash Flows From Capital and Related Financing Activities:</u> | | | | |
| Proceeds from issuance of bonds and notes | - | 5,651,000 | - | 5,651,000 |
| Acquisition of capital assets, net | (5,044,077) | (1,015,901) | (387,476) | (6,447,454) |
| Capital contributions and customer advances | 191,085 | - | - | 191,085 |
| Principal payments on bonds and notes | (855,000) | (6,177,000) | (84,842) | (7,116,842) |
| Interest expense | (104,677) | (326,550) | - | (431,227) |
| Net Cash (Used For) Capital and Related Financing Activities | (5,812,669) | (1,868,451) | (472,318) | (8,153,438) |
| <u>Cash Flows From Investing Activities:</u> | | | | |
| Increase in restricted cash and investments | 1,597,758 | - | - | 1,597,758 |
| Interest income | 700,829 | 150,582 | 59,775 | 911,186 |
| Net Cash Provided By Investing Activities | 2,298,587 | 150,582 | 59,775 | 2,508,944 |
| Net Change in Cash and Short-Term Investments | (1,292,391) | (937,445) | (192,370) | (2,422,206) |
| Cash and Short-Term Investments, Beginning of Year | 15,670,859 | 4,362,280 | 2,283,441 | 22,316,580 |
| Cash and Short-Term Investments, End of Year | \$ 14,378,468 | \$ 3,424,835 | \$ 2,091,071 | \$ 19,894,374 |
| <u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u> | | | | |
| Operating income (loss) | \$ 2,405,710 | \$ (306,011) | \$ 43,123 | \$ 2,142,822 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 2,907,259 | 1,175,383 | 297,305 | 4,379,947 |
| Changes in assets and liabilities: | | | | |
| User fees receivables | (1,052,073) | (279,231) | (118,248) | (1,449,552) |
| Restricted cash - Calpine liability | (24,316,095) | - | - | (24,316,095) |
| Inventory and prepayments | (766,006) | 44,260 | 324 | (721,422) |
| Other assets | - | 9,740 | - | 9,740 |
| Warrants and accounts payable | (295,782) | 178,334 | (21,817) | (139,265) |
| Accrued liabilities | 165,442 | (7,453) | - | 157,989 |
| Other liabilities | 83,282 | (34,598) | 19,486 | 68,170 |
| Calpine liability | 24,316,095 | - | - | 24,316,095 |
| Net Cash Provided By Operating Activities | \$ 3,447,832 | \$ 780,424 | \$ 220,173 | \$ 4,448,429 |

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

| | Employee Pension <u>Trust Fund</u> | Municipal Light Pension <u>Trust Fund</u> | Agency <u>Funds</u> |
|---|--|--|------------------------|
| <u>ASSETS</u> | | | |
| Cash and short-term investments | \$ 194,470 | \$ 1,753,722 | \$ 312,295 |
| Investments | 96,759,349 | 5,953,072 | - |
| Accounts receivable | 57,573 | - | - |
| Other assets | <u>-</u> | <u>-</u> | <u>1,808</u> |
| Total Assets | 97,011,392 | 7,706,794 | 314,103 |
| <u>LIABILITIES AND NET ASSETS</u> | | | |
| Other liabilities | <u>236,575</u> | <u>-</u> | <u>314,103</u> |
| Total Liabilities | <u>236,575</u> | <u>-</u> | <u>314,103</u> |
| <u>NET ASSETS</u> | | | |
| Total net assets held in trust for pension benefits and other purposes | <u>\$ 96,774,817</u> | <u>\$ 7,706,794</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, 2007

| | <u>Employee Pension Trust Fund</u> | <u>Municipal Light Pension Trust Fund</u> |
|--|--|---|
| Additions: | | |
| Contributions: | | |
| Employers | \$ 3,696,695 | \$ 353,804 |
| Intergovernmental | 329,812 | - |
| Plan members | 1,902,064 | - |
| Total contributions | <u>5,928,571</u> | <u>353,804</u> |
| Investment Gain: | | |
| Increase in fair value of investments | 3,275,911 | - |
| Interest, dividends, and other | 13,296,196 | 333,146 |
| Less: management fees | (489,180) | - |
| Net investment gain | <u>16,082,927</u> | <u>333,146</u> |
| Total additions | 22,011,498 | 686,950 |
| Deductions: | | |
| Benefit payments to plan members and beneficiaries | 6,635,824 | - |
| Refunds and transfers to other systems | 590,351 | - |
| Administrative expenses | 42,639 | - |
| Contribution to employee's pension plan | - | 1,029,537 |
| Total deductions | <u>7,268,814</u> | <u>1,029,537</u> |
| Net increase | 14,742,684 | (342,587) |
| Net assets: | | |
| Beginning of year | <u>82,032,133</u> | <u>8,049,381</u> |
| End of year | <u>\$ 96,774,817</u> | <u>\$ 7,706,794</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. The Reading Contributory Retirement System which 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.

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 are 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.

- The Memorial High School Capital Project fund accounts for the construction costs related to the new high school.

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 non-operating 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:

- Water Enterprise Fund
- Electric 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 *agency fund* is used to account for student activity funds and employee details.

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 2 1/2" 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 2007 tax levy reflected an excess capacity of \$ 32,761.

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 is 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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. **Stewardship, Compliance and Accountability**

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with 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) | \$ 71,922,714 | \$ 73,207,075 |
| Other financing sources/uses (GAAP basis) | <u>3,052,476</u> | <u>-</u> |
| Subtotal (GAAP basis) | 74,975,190 | 73,207,075 |
| Reverse beginning of year appropriation carryforwards from expenditures | - | (888,356) |
| Add end of year appropriation carryforwards to expenditures | - | 1,435,365 |
| Other | 258,773 | 153,335 |
| To reverse the effects of non-budgeted state contributions for teacher retirements | <u>(5,303,842)</u> | <u>(5,303,842)</u> |
| Budgetary basis | \$ <u><u>69,930,121</u></u> | \$ <u><u>68,603,577</u></u> |

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

| | |
|-------------------|------------|
| Health department | \$ (3,387) |
|-------------------|------------|

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2007:

The Town reflects several special revenue and capital project fund deficits, primarily caused by grant expenses occurring in advance of grant reimbursements and the use of bond anticipation notes to finance construction activities.

The deficits in these funds will be eliminated through future intergovernmental revenues, transfers from other funds, and issuance of debt.

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." The Town and System do not have deposit policies for custodial credit risk.

As of June 30, 2007, \$ 399,583 and \$ 0 of the Town's and System's bank balances of \$ 59,172,764 and \$ 194,612, respectively, was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's and System's name.

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).

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

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Exempt From Disclosure</u> | <u>Rating as of Year End</u> | | | |
|---------------------------|-------------------|-------------------------------|------------------------------|---------------|---------------|---------------|
| | | | <u>AAA</u> | <u>Aa</u> | <u>A</u> | <u>BAA</u> |
| Corporate bonds | \$ 771 | \$ - | \$ 308 | \$ 262 | \$ 101 | \$ 100 |
| Corporate equities | 482 | 482 | - | - | - | - |
| Mutual funds | 602 | 602 | - | - | - | - |
| Certificates of deposit | 6,836 | 6,336 | - | - | - | - |
| Federal agency securities | <u>16,453</u> | <u>-</u> | <u>16,453</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total investments | <u>\$ 25,144</u> | <u>\$ 7,420</u> | <u>\$ 16,761</u> | <u>\$ 262</u> | <u>\$ 101</u> | <u>\$ 100</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, 2007, the Contributory Retirement System maintained its investments in the State Investment Pool* with a fair value of \$ 96,759,349. 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.

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):

| | |
|---------------------------------------|----------|
| Federal Home Loan Bank | \$ 5,983 |
| Federal National Mortgage Association | \$ 3,367 |
| Federal Home Loan Mortgage Corp. | \$ 7,102 |
| Certificates of deposit | \$ 6,810 |

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.

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 | \$ 771 | \$ 201 | \$ 570 | \$ - |
| Federal agency securities | <u>16,453</u> | <u>2,927</u> | <u>7,882</u> | <u>5,644</u> |
| Total | <u>\$ 17,224</u> | <u>\$ 3,128</u> | <u>\$ 8,452</u> | <u>\$ 5,644</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 receivables (net) at June 30, 2007 consist of the following (in thousands):

| | | | |
|-------------------|----|---------------|------------|
| Real Estate | | | |
| 2008 | \$ | 22,976 | |
| 2007 | | <u>347</u> | |
| | | | 23,323 |
| Personal Property | | | |
| 2007 | | 4 | |
| 2006 | | 2 | |
| 2005 | | 2 | |
| 2004 | | <u>2</u> | |
| | | | 10 |
| Tax liens | | | 354 |
| Deferred Taxes | | | <u>109</u> |
| TOTAL | \$ | <u>23,796</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 | \$ 74 |
| Excises | 52 |

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2007.

8. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

| | Beginning <u>Balance</u> | <u>Increases</u> | <u>Decreases</u> | Ending <u>Balance</u> |
|--|-----------------------------|------------------|-------------------------------|--------------------------|
| Governmental Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Land Improvements | \$ 946 | \$ 328 | \$ - | \$ 1,274 |
| Buildings and improvements | 70,746 | 341 | (165) | 70,922 |
| Machinery, equipment and furnishings | 4,534 | 650 | (338) | 4,846 |
| Infrastructure | <u>39,865</u> | <u>930</u> | <u>(1,488)</u> | <u>39,307</u> |
| Total capital assets, being depreciated | 116,091 | 2,249 | (1,991) | 116,349 |
| Less accumulated depreciation for: | | | | |
| Land Improvements | (338) | (38) | - | (376) |
| Buildings and improvements | (16,207) | (1,932) | 165 | (17,974) |
| Machinery, equipment and furnishings | (2,266) | (385) | 338 | (2,313) |
| Infrastructure | <u>(21,030)</u> | <u>(1,522)</u> | <u>1,488</u> | <u>(21,064)</u> |
| Total accumulated depreciation | <u>(39,841)</u> | <u>(3,877)</u> | <u>1,991</u> | <u>(41,727)</u> |
| Total capital assets, being depreciated, net | 76,250 | (1,628) | - | 74,622 |
| Capital assets, not being depreciated: | | | | |
| Land | 3,136 | 803 | - | 3,939 |
| Construction in progress | <u>46,286</u> | <u>9,739</u> | <u>-</u> | <u>56,025</u> |
| Total capital assets, not being depreciated | <u>49,422</u> | <u>10,542</u> | <u>-</u> | <u>59,964</u> |
| Governmental activities capital assets, net | <u>\$ 125,672</u> | <u>\$ 8,914</u> | <u>\$ -</u> | <u>\$ 134,586</u> |
| | Beginning <u>Balance</u> | <u>Increases</u> | <u>Decreases</u> | Ending <u>Balance</u> |
| Business-Type Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Land Improvements | \$ 84 | \$ - | \$ - | \$ 84 |
| Buildings and improvements | 19,353 | 403 | (2) | 19,754 |
| Machinery, equipment and furnishings | 23,365 | 624 | (319) | 23,670 |
| Infrastructure | <u>80,764</u> | <u>5,421</u> | <u>(983)</u> | <u>85,202</u> |
| Total capital assets, being depreciated | 123,566 | 6,448 | (1,304) | 128,710 |
| Less accumulated depreciation for: | | | | |
| Land Improvements | (34) | (2) | - | (36) |
| Buildings and improvements | (10,145) | (690) | 2 | (10,833) |
| Machinery, equipment and furnishings | (15,112) | (985) | 318 | (15,779) |
| Infrastructure | <u>(29,491)</u> | <u>(2,703)</u> | <u>928</u> | <u>(31,266)</u> |
| Total accumulated depreciation | <u>(54,782)</u> | <u>(4,380)</u> | <u>1,248</u> | <u>(57,914)</u> |
| Total capital assets, being depreciated, net | 68,784 | 2,068 | (56) | 70,796 |
| Capital assets, not being depreciated: | | | | |
| Land | 1,449 | - | - | 1,449 |
| Construction in progress | <u>1,920</u> | <u>-</u> | <u>(1,920)</u> | <u>-</u> |
| Total capital assets, not being depreciated | <u>3,369</u> | <u>-</u> | <u>(1,920)</u> ⁽¹⁾ | <u>1,449</u> |
| Business-Type activities capital assets, net | <u>\$ 72,153</u> | <u>\$ 2,068</u> | <u>\$ (1,976)</u> | <u>\$ 72,245</u> |

(1) One-time asset impairment charge of \$ (1,920) relating to the abandonment of the filtration design costs.

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

| | |
|---|-----------------|
| Governmental Activities: | |
| General government | \$ 79 |
| Public safety | 369 |
| Education | 1,574 |
| Public works | 1,736 |
| Culture and recreation | 88 |
| Other | <u>31</u> |
| Total depreciation expense - governmental activities | <u>\$ 3,877</u> |
| Business-Type Activities: | |
| Electric | \$ 2,907 |
| Water | 1,175 |
| Other - Sewer | <u>298</u> |
| Total depreciation expense - business-type activities | <u>\$ 4,380</u> |

9. Warrants Payable

Warrants payable represent 2007 expenditures paid by July 15, 2007 as permitted by law.

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, 2007 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 | Interest | Amount |
|---------------------------------|------------|----------|----------------------|
| | Maturities | Rate(s)% | Outstanding |
| | Through | | as of |
| <u>Governmental Activities:</u> | | | <u>June 30, 2007</u> |
| Land acquisition | 08/15/07 | 4.68 | \$ 25,000 |
| Police station | 02/01/12 | 4.12 | 2,015,000 |
| Elementary school renovations | 07/01/14 | 5.26 | 2,680,000 |
| Parker Middle School | 08/15/17 | 4.89 | 3,000,000 |
| High School remodeling | 07/01/08 | 4.31 | 370,000 |
| School remodeling | 07/01/08 | 4.31 | 140,000 |
| Birch Meadow School remodeling | 07/01/08 | 4.31 | 120,000 |
| Joshua Eaton School remodeling | 07/01/16 | 4.31 | 190,000 |
| Parker Middle School | 07/01/17 | 4.62 | 4,460,000 |
| Coolidge Middle School | 02/01/21 | 4.75 | 6,625,000 |
| Memorial High School | 03/15/24 | 4.22 | 31,400,000 |
| Barrow Elementary School | 06/30/24 | 3.96 | 2,155,000 |
| Wood End Elementary School | 06/30/24 | 3.96 | 2,550,000 |
| Wood End Elementary School | 06/30/24 | 3.92 | 180,000 |
| Wood End Elementary School | 04/15/24 | 3.94 | 522,000 |
| Wood End Elementary School | 04/15/24 | 3.94 | 787,000 |
| Total Governmental Activities: | | | <u>\$ 57,219,000</u> |

| | Serial | Interest | Amount |
|----------------------------------|------------|----------|----------------------|
| | Maturities | Rate(s)% | Outstanding |
| | Through | | as of |
| <u>Business-Type Activities:</u> | | | <u>June 30, 2007</u> |
| Water treatment plant | 06/30/15 | 3.38 | \$ 800,000 |
| MWRA Buy-in | 04/15/27 | 4.00 | 3,180,000 |
| Water Mains | 04/15/12 | 3.66 | 2,471,000 |
| MWRA Inflow | 05/15/10 | 0.00 | 251,031 |
| MWPAT Septic | 02/01/17 | 0.00 | 16,289 |
| Light plant enlargement | 02/01/17 | 4.61 | 1,650,000 |
| Total Business-Type Activities: | | | <u>\$ 8,368,320</u> |

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2007 are as follows:

| <u>Governmental</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|----------------------|----------------------|----------------------|
| 2008 | \$ 4,034,000 | \$ 2,480,357 | \$ 6,514,357 |
| 2009 | 4,045,000 | 2,332,638 | 6,377,638 |
| 2010 | 3,770,000 | 2,185,443 | 5,955,443 |
| 2011 | 3,810,000 | 2,039,684 | 5,849,684 |
| 2012 | 3,855,000 | 1,882,905 | 5,737,905 |
| 2013-2017 | 17,240,000 | 7,015,199 | 24,255,199 |
| 2018-2022 | 14,865,000 | 3,313,570 | 18,178,570 |
| 2023-2027 | 5,600,000 | 383,736 | 5,983,736 |
| Total | \$ <u>57,219,000</u> | \$ <u>21,633,532</u> | \$ <u>78,852,532</u> |

The general fund has been designated as the sole source to repay the government-type obligation debt outstanding as of June 30, 2007.

| <u>Business-Type</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|---------------------|----------------------|
| 2008 | \$ 1,390,842 | \$ 400,924 | \$ 1,791,766 |
| 2009 | 1,389,842 | 314,514 | 1,704,356 |
| 2010 | 1,389,842 | 222,689 | 1,612,531 |
| 2011 | 767,794 | 166,513 | 934,307 |
| 2012 | 750,000 | 120,075 | 870,075 |
| 2013-2017 | 1,100,000 | 453,075 | 1,553,075 |
| 2018-2022 | 800,000 | 254,875 | 1,054,875 |
| 2023-2027 | 780,000 | 94,688 | 874,688 |
| Total | \$ <u>8,368,320</u> | \$ <u>2,027,353</u> | \$ <u>10,395,673</u> |

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2007, the following changes occurred in long-term liabilities (in thousands):

| | Total Balance <u>7/1/06</u> | <u>Additions</u> | <u>Reductions</u> | Total Balance <u>6/30/07</u> | Less Current Portion | Equals Long-Term Portion <u>6/30/07</u> |
|---------------------------------------|-----------------------------------|------------------|-------------------|------------------------------------|----------------------------|--|
| <u>Governmental Activities</u> | | | | | | |
| Bonds payable | \$ 59,820 | \$ 1,309 | \$ (3,910) | \$ 57,219 | \$ 4,034 | \$ 53,185 |
| Other: | | | | | | |
| Accrued employee benefits | 1,748 | 63 | (144) | 1,667 | 58 | 1,609 |
| Other | 390 | - | (66) | 324 | 25 | 299 |
| Totals | <u>\$ 61,958</u> | <u>\$ 1,372</u> | <u>\$ (4,120)</u> | <u>\$ 59,210</u> | <u>\$ 4,117</u> | <u>\$ 55,093</u> |

| | Total Balance <u>7/1/06</u> | <u>Additions</u> | <u>Reductions</u> | Total Balance <u>6/30/07</u> | Less Current Portion | Equals Long-Term Portion <u>6/30/07</u> |
|--|-----------------------------------|------------------|--------------------|------------------------------------|----------------------------|--|
| <u>Business-Type Activities</u> | | | | | | |
| Bonds payable | \$ 3,757 | \$ 5,651 | \$ (1,040) | \$ 8,368 | \$ 1,391 | \$ 6,977 |
| Other: | | | | | | |
| Accrued employee benefits | 2,333 | 276 | (69) | 2,540 | 110 | 2,430 |
| Unamortized premium on bonds | 37 | - | (30) | 7 | 1 | 6 |
| Calpine contract termination | 33,425 | - | (24,316) | 9,109 | 9,109 | - |
| Totals | <u>\$ 39,552</u> | <u>\$ 5,927</u> | <u>\$ (25,455)</u> | <u>\$ 20,024</u> | <u>\$ 10,611</u> | <u>\$ 9,413</u> |

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. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2007:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

14. Subsequent Events

Debt

Subsequent to June 30, 2007, the Town has incurred the following additional debt:

| | <u>Amount</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> |
|-------------------------|---------------|----------------------|-------------------|----------------------|
| MWRA note | \$ 44,330 | NA | 08/30/07 | 08/15/12 |
| General obligation bond | 9,535,000 | 4.00-5.00 % | 11/01/07 | 11/01/27 |

15. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits 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.

16. Post-Employment Health Care and Life Insurance Benefits

The Town has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The costs of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2007 was not available.

17. Contributory Retirement System

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 (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 June 30, 2007, the date of the latest actuarial valuation:

| | |
|--|------------|
| Retirees and beneficiaries receiving benefits | 327 |
| Terminated plan members entitled to but not yet receiving benefits | 22 |
| Active plan members | <u>352</u> |
| Total | <u>701</u> |
| Number of participating employers | 3 |

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).

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 in accordance with PERAC requirements.

C. 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.

In fiscal year 2007, the Commonwealth of Massachusetts contributed \$ 5,303,842 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

18. Risk Management

The government 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.

Town of Reading 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 and may be changed not less than once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Department, the Department's rates are not subject to DPU approval. The Department's policy is to prepare its financial statements in conformity with generally accepted accounting principles.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the 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 provided 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 marketable securities, corporate bonds, and bank certificates of deposit that are being held to maturity. Investments are carried at cost.
- H. Inventory - Inventory consists of parts and accessories purchased for use in the utility business for construction, operation and maintenance purposes and are 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. Amortization - Costs related to the issuance of bonds have been capitalized and are being amortized over the life of the bonds.
- K. Accrued Compensated Absences - Employee vacation leave is vested annually but may only be carried forward to the succeeding year with supervisor approval and, if appropriate, within the terms of the applicable Department policy or union contract. Generally, sick leave may accumulate according to union and Department contracts and policy, and is paid upon normal termination at the current rate of pay. The Department's policy is to recognize vacation costs at the time payments are made. The Department records accumulated, unused, vested sick pay as a liability. The amount recorded is the amount to be paid at termination at the current rate of pay.
- L. Long-Term Obligations - The proprietary fund financial statements report long-term debt and other long-term obligations as liabilities in the proprietary fund statement of net assets.
- M. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.
- N. Rate of Return - The Department's rates must be set such that earnings attributable to electric operations do not exceed eight percent of the net

cost of plant. The audited financial statements are prepared in accordance with auditing standards generally accepted in the United States of America. To determine the net income subject to the rate of return, the Department performs the following calculation. Using the net income per the audited financials, the return on investment to the Town of Reading is added back, the fuel charge adjustment is added or deducted, and miscellaneous debits/credits (i.e. gain/loss on disposal of fixed assets, etc.) are added or deducted, leaving an adjusted net income figure for rate of return purposes. Investment interest income and bond principal payments are then deducted from this figure to determine the net income subject to the rate of return. The net income subject to the rate of return is then subtracted from the allowable eight percent rate of return, which is calculated by adding the book value of net plant and the investment in associated companies less the contributions in aid of construction multiplied by eight percent. From this calculation, the Municipal Light Board will determine what cash transfers need to be made at year end.

2. Cash and Investments

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

| | |
|--|----------------------|
| Statement of net assets: | |
| Unrestricted cash and short-term investments | \$ 14,378,468 |
| Restricted cash and short-term investments | 21,256,098 |
| Restricted investments | 4,400,000 |
| Fiduciary funds: | |
| Cash and short-term investments | 1,753,722 |
| Investments | <u>5,900,642</u> |
| Total cash and investments | <u>\$ 47,688,930</u> |

Cash and investments at June 30, 2007 consist of the following:

| | |
|--------------------------------------|----------------------|
| Cash on hand | \$ 3,000 |
| Deposits with financial institutions | 37,385,288 |
| Investments | <u>10,300,642</u> |
| Total cash and investments | <u>\$ 47,688,930</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. One of the ways that the Department manages its exposure to interest rate risk is 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, 2007, the Department (including the Pension Trust) had the following investments:

| | <u>Amount</u> | <u>Maturity Date</u> |
|------------------------------|----------------------|----------------------|
| Certificate of Deposit | \$ 600,000 | September 23, 2007 |
| Federal National Mtg Assn | 500,000 | April 1, 2008 |
| Federal Home Loan Mtg Corp | 199,750 | October 15, 2008 |
| Government National Mtg Assn | 892 | October 15, 2008 |
| Federal Home Loan Mtg Corp | 300,000 | December 8, 2008 |
| Federal Home Loan Bank | 1,800,000 | December 18, 2008 |
| Federal Home Loan Mtg Corp | 2,900,000 | December 15, 2009 |
| Federal National Mtg Assn | 700,000 | December 30, 2009 |
| Federal Home Loan Bank | 1,800,000 | June 19, 2013 |
| Federal Home Loan Mtg Corp | 500,000 | December 15, 2013 |
| Federal Home Loan Mtg Corp | 500,000 | March 10, 2014 |
| Federal Home Loan Mtg Corp | <u>500,000</u> | August 26, 2014 |
| Total | \$ <u>10,300,642</u> | |

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Department's investments (including investments held in the Pension Trust) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

| <u>Highly Sensitive Investments</u> | <u>Fair Value at Year End</u> |
|--|-----------------------------------|
| Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair value of these securities highly sensitive to changes in interest rates. | \$ <u>9,700,642</u> |

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. Presented below is the actual rating as of year end for each of the Department's (including the Pension Trust) investment types:

| <u>Investment Type</u> | <u>Amount</u> | <u>Minimum Legal Rating</u> | <u>Rating as of Year End</u> | |
|---------------------------|----------------------|-------------------------------------|------------------------------|----------------------|
| | | | <u>AAA</u> | <u>Not Rated</u> |
| Federal agency securities | \$ 9,700,642 | N/A | \$ 9,700,642 | \$ - |
| Certificates of deposit | <u>600,000</u> | N/A | <u>-</u> | <u>600,000</u> |
| Total | \$ <u>10,300,642</u> | | \$ <u>9,700,642</u> | \$ <u>600,000</u> |

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. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent more than 5% of the Department's total investments (including the Pension Trust investments) are as follows:

| <u>Issuer</u> | <u>Investment Type</u> | <u>Reported Amount</u> |
|-----------------------------|---------------------------|----------------------------|
| Federal Home Loan Mtg Corp. | Federal agency securities | \$ 4,899,750 |
| Federal Home Loan Bank | Federal agency securities | 3,600,000 |
| Federal National Mtg Assn. | Federal agency securities | 1,200,000 |
| Danvers Savings Bank | Certificates of deposit | 600,000 |

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 per cent 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, 2007. As of June 30, 2007, Department investments (including the Pension Trust) in the following investment types were held by the same broker-dealer (counterparty) that was used by the Department to buy the securities:

| <u>Investment Type</u> | <u>Reported Amount</u> |
|---------------------------|------------------------|
| Federal agency securities | \$ 9,700,642 |
| Certificates of deposit | <u>600,000</u> |
| Total | \$ <u>10,300,642</u> |

3. Restricted Cash and Investments

Restricted cash and investments consist of the following at June 30, 2007:

| | <u>Cash</u> | <u>Investments</u> |
|------------------------------------|----------------------|---------------------|
| Depreciation fund | \$ 2,364,103 | \$ - |
| Construction fund | 2,053,128 | - |
| Deferred fuel reserve | 2,555,278 | - |
| Calpine reserve | 9,108,765 | - |
| Rate stabilization | 3,315,866 | 2,900,000 |
| Reserve for uncollectible accounts | 28,988 | - |
| Sick leave benefits | 967,164 | 1,500,000 |
| Insurance reserve | 35,252 | - |
| Hazardous waste fund | 346,897 | - |
| Customer deposits | <u>480,657</u> | <u>-</u> |
| Total | \$ <u>21,256,098</u> | \$ <u>4,400,000</u> |

Restricted investments are invested in U.S. Government bonds, which will be held to maturity, and are reported at book value of \$ 4,400,000. The fair market value of the investments at June 30, 2007 was \$ 4,387,998.

The Department maintains the following restricted cash accounts:

- Depreciation fund - The Department is required to reserve 3.0% of capital assets each year to fund capital improvements.
- Construction fund - This account reflects a balance set aside by the Board of Commissioners to fund capital asset purchases.
- 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.
- Calpine Reserve - This represents settlement proceeds from Calpine Corporation for early termination of a power supply contract. These funds are offset by a liability account and are being amortized over the original contract period.
- Rate stabilization - The Department transfers funds in excess of 8% of capital assets into this account to be used to stabilize customer rates.
- 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.
- Insurance reserve - This account reflects a balance set aside by the Board of Commissioners as an insurance deductible reserve.
- 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 - This represents customer deposits that are held in escrow.

4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2007:

| | | |
|-------------------------|--------------------|---------------------|
| Customer Accounts: | | |
| Billed | \$ 3,475,409 | |
| Less allowances: | | |
| Uncollectible accounts | (200,000) | |
| Sales discounts | (<u>259,063</u>) | |
| Total billed | | \$ 3,016,346 |
| Unbilled, net | | <u>2,714,176</u> |
| Total customer accounts | | 5,730,522 |
| Other Accounts: | | |
| Merchandise sales | 156,132 | |
| MMWEC Flush | 600,445 | |
| Liens and other | <u>176,571</u> | |
| Total other accounts | | <u>933,148</u> |
| Total net receivables | | \$ <u>6,663,670</u> |

5. Prepaid Expenses

Prepaid expenses consist of the following:

| | |
|-----------------------|-------------------|
| Insurances | \$ 226,336 |
| Purchase power | 113,924 |
| PASNY prepayment fund | <u>194,171</u> |
| Total | \$ <u>534,431</u> |

6. Inventory

Inventory is comprised of supplies and materials at June 30, 2007, 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, 2007:

| | |
|--|-------------------|
| New England Hydro-Transmission Electric Company, Inc. | \$ 57,277 |
| New England Hydro-Transmission Corporation | <u>84,533</u> |
| Total | <u>\$ 141,810</u> |

8. Capital Assets

The following is a summary of fiscal year 2007 activity in capital assets (in thousands):

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Capital assets, being depreciated: | | | | |
| Structures and improvements | \$ 12,884 | \$ 402 | \$ - | \$ 13,286 |
| Equipment and furnishings | 22,178 | 261 | (286) | 22,153 |
| Infrastructure | <u>61,846</u> | <u>4,381</u> | <u>(882)</u> | <u>65,345</u> |
| Total capital assets, being depreciated | 96,908 | 5,044 | (1,168) | 100,784 |
| Less accumulated depreciation for: | | | | |
| Structures and improvements | (5,385) | (368) | - | (5,753) |
| Equipment and furnishings | (14,784) | (874) | 284 | (15,374) |
| Infrastructure | <u>(22,635)</u> | <u>(1,665)</u> | <u>828</u> | <u>(23,472)</u> |
| Total accumulated depreciation | <u>(42,804)</u> | <u>(2,907)</u> | <u>1,112</u> | <u>(44,599)</u> |
| Total capital assets, being depreciated, net | 54,104 | 2,137 | (56) | 56,185 |
| Capital assets, not being depreciated: | | | | |
| Land | <u>1,266</u> | <u>-</u> | <u>-</u> | <u>1,266</u> |
| Total capital assets, not being depreciated | <u>1,266</u> | <u>-</u> | <u>-</u> | <u>1,266</u> |
| Capital assets, net | <u>\$ 55,370</u> | <u>\$ 2,137</u> | <u>\$ (56)</u> | <u>\$ 57,451</u> |

9. Other Assets

This balance consists primarily of costs associated with the Department's bonding, which are being amortized over the life of the bonds.

10. Accounts Payable

Accounts payable represent fiscal 2007 expenses that were paid after June 30, 2007.

11. Customer Deposits

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

12. Customer Advances for Construction

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

13. Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2007:

| | |
|------------------|-------------------|
| Accrued interest | \$ 34,741 |
| Accrued payroll | 149,131 |
| Other | <u>88,284</u> |
| Total | \$ <u>272,156</u> |

14. Bonds Payable

Bonds payable consist of the following at June 30, 2007:

Bonds issued December 1, 1999, in the amount of \$ 5,500,000. Principal is payable annually on September 1 commencing 2000 and continuing to September 1, 2009. Interest is payable semiannually on September 1 and March 1 at 4.5% for five years with rates thereafter ranging from 4.55% to 4.85%.

| | |
|---|---------------------|
| | \$ <u>1,650,000</u> |
| Total Bonds Payable | 1,650,000 |
| Less: Current installments of bonds payable | (<u>550,000</u>) |
| Total Long-Term Bonds Payable | \$ <u>1,100,000</u> |

The future payments required on the long-term debt are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------|---------------------|-------------------|---------------------|
| 2008 | \$ 550,000 | \$ 65,862 | \$ 615,862 |
| 2009 | 550,000 | 39,738 | 589,738 |
| 2010 | <u>550,000</u> | <u>13,337</u> | <u>563,337</u> |
| Total | \$ <u>1,650,000</u> | \$ <u>118,937</u> | \$ <u>1,768,937</u> |

The following summarizes activity in bonds payable for the year ended June 30, 2007:

| <u>Balance 07/01/06</u> | <u>Maturities</u> | <u>Balance 06/30/07</u> | <u>Less Current</u> | <u>Long-Term Portion</u> |
|-----------------------------|---------------------|-----------------------------|-------------------------|------------------------------|
| \$ 305,000 | \$ (305,000) | \$ - | \$ - | \$ - |
| <u>2,200,000</u> | <u>(550,000)</u> | <u>1,650,000</u> | <u>(550,000)</u> | <u>1,100,000</u> |
| \$ <u>2,505,000</u> | \$ <u>(855,000)</u> | \$ <u>1,650,000</u> | \$ <u>(550,000)</u> | \$ <u>1,100,000</u> |

15. 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.

16. Calpine Contract Termination

In October 2001, the Department entered into a Power Supply Agreement (PSA) with Calpine Energy Services, L.P. (Calpine). Under the terms of the PSA, Calpine agreed to supply the Department with energy at contracted rates during the period June 1, 2002 through October 31, 2007. The PSA was guaranteed by Calpine Corporation, the parent corporation of Calpine. In order to protect the Department from Calpine's inability to deliver on the terms of the contract, the PSA contained a provision that required Calpine to deposit funds into an escrow account if Calpine Corporation's long-term unsecured debt rating dropped below investment grade. In May 2003, the Department entered into an Escrow Agreement with Calpine, and funds were deposited into this escrow account in accordance with the terms of this agreement.

In December 2005, Calpine filed for bankruptcy and the Department terminated its PSA with Calpine. In exchange for its agreement to release all further claims against Calpine, the Department received a settlement payment of

\$ 42,549,683. In accordance with the provisions of Statements of Accounting Standards No. 71, these proceeds, including interest earnings, were recorded as a liability, and will be applied to reduce future customer charges over the remaining 15 months of the original PSA.

In 2007, the Division reduced its power supply expense and its corresponding customer Purchase Power Fuel Charge Adjustment (PPFCA) by \$ 24,316,095 (the amount of its 2007 amortization). The remaining balance of \$ 9,108,765 (including interest earned to date) will be amortized as follows:

| | |
|-------|---------------------|
| 2008 | \$ <u>9,108,765</u> |
| Total | \$ <u>9,108,765</u> |

17. 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 asset purchases.

18. Post-Employment Health Care and Life Insurance Benefits

The Department's employee contracts provide for health care and life insurance benefits to retirees, their dependent, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2007 was 70 and \$ 291,907 respectively.

19. Other Post-Employment Benefits (OPEB) Liability

In July 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45, "*Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*" (GASB45). This Statement requires governments to recognize and account for the actuarially determined cost of providing postemployment benefits other than pensions to current and future retirees and their spouses and dependents. The Town of Reading is required to implement the requirements of GASB 45 in fiscal year 2009. The Department and the Town are in the process of contracting for an actuarial study to determine the extent of their future OPEB liability. This study is expected to be completed in the fall of 2007.

20. Pension Plan

The Department follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds.

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, to the State legislature. 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.

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, 2007 and 2006 were \$ 1,029,537 and \$ 886,726, respectively, which was equal to its annual required contribution.

21. 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, a subsidiary of FPL Energy, Inc., and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and a subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. In November 2005, the Nuclear Regulatory Commission (NRC) renewed the operating licenses for the Millstone Unit 2 and Unit 3 nuclear units for an additional twenty years. The license for Unit 2 was extended to July 31, 2035 and the license for Unit 3 was extended 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 FPL Energy Seabrook, LLC (FPLE Seabrook), the majority owner and an indirect subsidiary of FPL Group, Inc. In December 2005, the NRC issued an amendment to the operating license that extends the expiration date from October 2026 to March 2030, to recapture the period from 1986 to 1990 during which time Seabrook Station had an operating license, but did not operate. FPLE Seabrook has stated its intention to request an extension of the Seabrook Station operating license beyond March 2030.

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.

As of June 30, 2007, total capital expenditures for MMWEC's Projects amounted to \$ 1,531,945,000, of which \$ 109,862,000 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 System Revenue Bonds totaling \$ 714,635,000, of which \$ 40,447,000 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. As of June 30, 2007, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$ 814,765,000, of which \$ 43,648,000 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, 2007 and estimated for future years is shown below.

| | <u>Annual Costs</u> |
|-------------------------------|----------------------|
| For years ended June 30, 2008 | \$ 6,495,000 |
| 2009 | 5,458,000 |
| 2010 | 4,866,000 |
| 2011 | 4,674,000 |
| 2012 | 4,658,000 |
| 2013 - 2017 | 17,212,000 |
| 2018 - 2019 | <u>285,000</u> |
| Total | \$ <u>43,648,000</u> |

In addition, the Department is required to pay to MMWEC, through PSA's, 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 \$ 17,049,000 and \$ 15,929,000 for the years ended June 30, 2007 and 2006, respectively.

22. Risk Management

The government 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 four fiscal years.

23. Leases

Related Party Transaction - Property Sub-Lease

The Department is sub-leasing facilities to the Reading Massachusetts Town Employees Federal Credit Union. The original sub-lease agreement commenced in December 2000 and ended in November 2005. A new agreement, which extends the lease through November 30, 2008, was signed on December 1, 2005. The following is the future minimum rental income for the years ending June 30:

| | |
|-------|------------------|
| 2008 | \$ 8,407 |
| 2009 | <u>3,630</u> |
| Total | \$ <u>12,037</u> |

Other Income - Property Sub-Lease

The Department is sub-leasing facilities to Reading Community Television Inc. The sub-lease agreement commenced in March 2000 and ends in November 2008. The Department, as lessor, has waived the rent for the term of the lease.

**TOWN OF READING MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION**

Schedules of Funding Progress and Employer Contributions

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25.

Schedule of Funding Progress:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b - a)/c] |
|--------------------------|-------------------------------|---|-----------------------------|--------------------|---------------------|---|
| 06/30/00 | \$ 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 | 153.4% |
| 06/30/03 | \$ 62,897 | \$ 91,302 | \$ 28,405 | 68.9% | \$ 16,734 | 167.7% |
| 06/30/04 | \$ 66,850 | \$ 95,961 | \$ 29,111 | 69.7% | \$ 17,487 | 166.5% |
| 06/30/05 | \$ 71,468 | \$ 102,153 | \$ 30,685 | 69.7% | \$ 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% |

Schedule of Employer Contributions:

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|--------------------|------------------------------|------------------------|
| 2000 | \$ 2,293,800 | 100% |
| 2001 | 2,910,900 | 100% |
| 2002 | 2,980,400 | 100% |
| 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% |

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

| | |
|-------------------------------|---|
| Valuation date | June 30, 2007 |
| Actuarial cost method | Entry age normal cost |
| Amortization method | Payments calculated to increase at 1.5% |
| Remaining amortization period | 17 years |

Asset valuation method

Sum of the actuarial value at beginning of year, contributions and investment earnings based on the actuarial interest assumptions less benefit payments plus 20% of market value at end of year in excess of that sum, plus additional adjustments toward market value as necessary to that final actuarial value is within 20% of market value.

Actuarial assumptions:

Investment rate of return
Projected salary increase
Cost-of-Living adjustment

7.75%

5.00%

Cost of living adjustments granted after July 1, 1998 are the responsibility of the Reading Contributory Retirement Board. Adjustments granted from July 1, 1981 to June 30, 1998 are funded by Commonwealth of Massachusetts.

See Independent Auditors' Report.

Town of Reading, Massachusetts

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2007

| | Special Revenue Funds | | Capital Projects Funds | | | Permanent Funds | Total |
|--|-----------------------|---------------------|----------------------------|---------------------------|-------------------|---------------------|----------------------|
| | School | Other | Wood End Elementary School | Barrows Elementary School | Other | | |
| ASSETS | | | | | | | |
| Cash and short-term investments | \$ 1,519,711 | \$ 5,275,118 | \$ - | \$ 57,182 | \$ (155,334) | \$ 214,197 | \$ 6,910,874 |
| Investments | - | 4,378,257 | - | - | - | 2,066,895 | 6,445,152 |
| Receivables: | | | | | | | |
| Departmental and other | - | 888 | - | - | - | - | 888 |
| Intergovernmental | 80,137 | - | - | - | 384,265 | - | 464,402 |
| TOTAL ASSETS | \$ 1,599,848 | \$ 9,654,263 | \$ - | \$ 57,182 | \$ 228,931 | \$ 2,281,092 | \$ 13,821,316 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Warrants payable | \$ 119,378 | \$ 50,564 | \$ - | \$ 4,302 | \$ - | \$ - | \$ 174,244 |
| Accrued liabilities | - | - | - | - | 196,970 | - | 196,970 |
| Deferred revenue | - | 888 | - | - | - | - | 888 |
| TOTAL LIABILITIES | 119,378 | 51,452 | - | 4,302 | 196,970 | - | 372,102 |
| Fund Balances: | | | | | | | |
| Reserved for: | | | | | | | |
| Perpetual (nonexpendable) permanent funds | - | - | - | - | - | 2,281,092 | 2,281,092 |
| Unreserved 11/20/2007 | | | | | | | |
| Special revenue funds | 1,480,470 | 3,854,806 | - | - | - | - | 5,335,276 |
| Capital project funds | - | - | - | 52,880 | 31,961 | - | 84,841 |
| Permanent funds | - | 5,748,005 | - | - | - | - | 5,748,005 |
| TOTAL FUND BALANCES | 1,480,470 | 9,602,811 | - | 52,880 | 31,961 | 2,281,092 | 13,449,214 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,599,848 | \$ 9,654,263 | \$ - | \$ 57,182 | \$ 228,931 | \$ 2,281,092 | \$ 13,821,316 |

See notes to financial statements.

Town of Reading, Massachusetts

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For The Year Ended June 30, 2007

| | Special Revenue Funds | | Capital Projects Funds | | | Permanent Funds | Total |
|---|-----------------------|------------------|----------------------------|---------------------------|------------------|-----------------|-------------------|
| | School | Other | Wood End Elementary School | Barrows Elementary School | Other | | |
| Revenues: | | | | | | | |
| Departmental | \$ 1,942,131 | \$ 1,009,454 | \$ - | \$ - | \$ - | \$ - | \$ 2,951,585 |
| Intergovernmental | 3,377,107 | 593,572 | - | 3,701,599 | 913,229 | - | 8,585,507 |
| Investment income | - | 679,520 | - | - | - | - | 679,520 |
| Contributions | 225,771 | 523,281 | - | - | - | 96,283 | 845,335 |
| Other | - | 49,470 | 401 | 139,313 | - | - | 189,184 |
| Total Revenues | 5,545,009 | 2,855,297 | 401 | 3,840,912 | 913,229 | 96,283 | 13,251,131 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| General government | - | 837,749 | - | - | - | - | 837,749 |
| Public safety | - | 810,114 | - | - | - | - | 810,114 |
| Education | 5,126,526 | 7,040 | - | - | - | - | 5,133,566 |
| Public works | - | 29,486 | - | - | - | - | 29,486 |
| Health and human services | - | 278,734 | - | - | - | - | 278,734 |
| Culture and recreation | - | 515,355 | - | - | - | - | 515,355 |
| Capital outlay | - | - | - | - | 632,541 | - | 632,541 |
| Total Expenditures | 5,126,526 | 2,478,478 | - | - | 632,541 | - | 8,237,545 |
| Excess of revenues over expenditures | 418,483 | 376,819 | 401 | 3,840,912 | 280,688 | 96,283 | 5,013,586 |
| Other Financing Sources (Uses): | | | | | | | |
| Issuance of Bonds | - | - | 1,309,000 | - | - | - | 1,309,000 |
| Transfers out | - | (886,371) | - | - | (155,114) | - | (1,041,485) |
| Total Other Financing Sources (Uses) | - | (886,371) | 1,309,000 | - | (155,114) | - | 267,515 |
| Change in fund balances | 418,483 | (509,552) | 1,309,401 | 3,840,912 | 125,574 | 96,283 | 5,281,101 |
| Fund Balances, at Beginning of Year | 1,061,987 | 10,112,363 | (1,309,401) | (3,788,032) | (93,613) | 2,184,809 | 8,168,113 |
| Fund Balances, at End of Year | \$ 1,480,470 | \$ 9,602,811 | \$ - | \$ 52,880 | \$ 31,961 | \$ 2,281,092 | \$ 13,449,214 |

See notes to financial statements.

Town of Reading, Massachusetts
Combining Schedule of Net Assets
Nonmajor Proprietary Funds
June 30, 2007

| | Business-type Activities - Enterprise Funds | | | |
|---|--|---|----------------------------------|--------------|
| | <u>Sewer</u> | <u>Landfill Closure and Postclosure</u> | <u>Stormwater Management</u> | <u>Total</u> |
| <u>ASSETS</u> | | | | |
| Current: | | | | |
| Cash and short-term investments | \$ 1,739,578 | \$ 105,690 | \$ 245,803 | \$ 2,091,071 |
| User fees, net of allowance of uncollectibles | 1,212,460 | - | 81,752 | 1,294,212 |
| Inventory | 1,438 | - | - | 1,438 |
| Total current assets | 2,953,476 | 105,690 | 327,555 | 3,386,721 |
| Noncurrent: | | | | |
| Capital assets being depreciated, net | 5,675,131 | - | - | 5,675,131 |
| Capital assets not being depreciated | 76,332 | - | - | 76,332 |
| Total noncurrent assets | 5,751,463 | - | - | 5,751,463 |
| TOTAL ASSETS | 8,704,939 | 105,690 | 327,555 | 9,138,184 |
| <u>LIABILITIES</u> | | | | |
| Current: | | | | |
| Warrants payable | 16,959 | 14,548 | - | 31,507 |
| Other current liabilities | - | 91,142 | - | 91,142 |
| Current portion of long-term liabilities: | | | | |
| Loans payable | 84,842 | - | - | 84,842 |
| Total current liabilities | 101,801 | 105,690 | - | 207,491 |
| Noncurrent: | | | | |
| Loans payable, net of current portion | 182,478 | - | - | 182,478 |
| Accrued employee benefits, net of current portion | 5,597 | - | 12,894 | 18,491 |
| Total noncurrent liabilities | 188,075 | - | 12,894 | 200,969 |
| TOTAL LIABILITIES | 289,876 | 105,690 | 12,894 | 408,460 |
| <u>NET ASSETS</u> | | | | |
| Invested in capital assets, net of related debt | 5,484,143 | - | - | 5,484,143 |
| Unrestricted | 2,930,920 | - | 314,661 | 3,245,581 |
| TOTAL NET ASSETS | \$ 8,415,063 | \$ - | \$ 314,661 | \$ 8,729,724 |

See notes to financial statements.

Town of Reading, Massachusetts

Combining Schedule of Revenues, Expenditures and Changes in Fund Net Assets

Nonmajor Proprietary Funds

For The Year Ended June 30, 2007

| | Business-type Activities - Enterprise Funds | | | |
|---------------------------------|--|---|----------------------------------|---------------------|
| | <u>Sewer</u> | <u>Landfill Closure and Postclosure</u> | <u>Stormwater Management</u> | <u>Total</u> |
| Operating revenues: | | | | |
| Charges for services | \$ 3,935,470 | \$ - | \$ 413,303 | \$ 4,348,773 |
| Other | <u>36,996</u> | <u>-</u> | <u>-</u> | <u>36,996</u> |
| Total Operating Revenues | 3,972,466 | - | 413,303 | 4,385,769 |
| Operating expenses: | | | | |
| Energy purchases | 23,467 | - | - | 23,467 |
| Intergovernmental | 3,171,403 | - | - | 3,171,403 |
| Depreciation | 297,305 | - | - | 297,305 |
| Other | <u>751,829</u> | <u>-</u> | <u>98,642</u> | <u>850,471</u> |
| Total Operating Expenses | <u>4,244,004</u> | <u>-</u> | <u>98,642</u> | <u>4,342,646</u> |
| Operating Income | (271,538) | - | 314,661 | 43,123 |
| Nonoperating Revenues: | | | | |
| Investment income | <u>59,775</u> | <u>-</u> | <u>-</u> | <u>59,775</u> |
| Total Nonoperating Revenues | <u>59,775</u> | <u>-</u> | <u>-</u> | <u>59,775</u> |
| Changes in Net Assets | (211,763) | - | 314,661 | 102,898 |
| Net Assets at Beginning of Year | <u>8,626,826</u> | <u>-</u> | <u>-</u> | <u>8,626,826</u> |
| Net Assets at End of Year | <u>\$ 8,415,063</u> | <u>\$ -</u> | <u>\$ 314,661</u> | <u>\$ 8,729,724</u> |

See notes to financial statements.

Town of Reading, Massachusetts
Combining Schedule of Cash Flows
Nonmajor Proprietary Funds
For The Year Ended June 30, 2007

| | Business-type Activities Enterprise Funds | | | |
|--|--|----------------------------|--------------------------|---------------------|
| | Landfill | | | Total |
| | Sewer | Closure and Postclosure | Stormwater Management | |
| <u>Cash Flows From Operating Activities:</u> | | | | |
| Receipts from customers and users | \$ 3,935,970 | \$ - | \$ 331,551 | \$ 4,267,521 |
| Payments to vendors and employees | (807,426) | 17,229 | (85,748) | (875,945) |
| Payments to other governments | <u>(3,171,403)</u> | <u>-</u> | <u>-</u> | <u>(3,171,403)</u> |
| Net Cash Provided (Used) by Operating Activities | (42,859) | 17,229 | 245,803 | 220,173 |
| <u>Cash Flows From Capital and Related Financing Activities:</u> | | | | |
| Acquisition of capital assets, net | (387,476) | - | - | (387,476) |
| Principal payments on bonds and notes | <u>(84,842)</u> | <u>-</u> | <u>-</u> | <u>(84,842)</u> |
| Net Cash (Used For) Capital and Related Financing Activities | (472,318) | - | - | (472,318) |
| <u>Cash Flows From Investing Activities:</u> | | | | |
| Interest income | <u>59,775</u> | <u>-</u> | <u>-</u> | <u>59,775</u> |
| Net Change in Cash and Short-Term Investments | (455,402) | 17,229 | 245,803 | (192,370) |
| Cash and Short-Term Investments, Beginning of Year | <u>2,194,980</u> | <u>88,461</u> | <u>-</u> | <u>2,283,441</u> |
| Cash and Short-Term Investments, End of Year | <u>\$ 1,739,578</u> | <u>\$ 105,690</u> | <u>\$ 245,803</u> | <u>\$ 2,091,071</u> |
| <u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u> | | | | |
| Operating income (loss) | \$ (271,538) | \$ - | \$ 314,661 | \$ 43,123 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 297,305 | - | - | 297,305 |
| Changes in net assets and liabilities: | | | | |
| User fees receivables | (36,496) | - | (81,752) | (118,248) |
| Inventory and prepayments | 324 | - | - | 324 |
| Warrants and accounts payable | (31,184) | 9,367 | - | (21,817) |
| Accrued liabilities | <u>(1,270)</u> | <u>7,862</u> | <u>12,894</u> | <u>19,486</u> |
| Net Cash Provided By Operating Activities | <u>\$ (42,859)</u> | <u>\$ 17,229</u> | <u>\$ 245,803</u> | <u>\$ 220,173</u> |

See notes to financial statements.