

TOWN OF READING, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Reading, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Reading, Massachusetts, as of and for the year ended June 30, 2008, which collectively comprises the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Reading's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Reading as of June 30, 2008, 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 on page 63, are not a required part of the basic financial statements but are supplementary information required

by accounting principles generally accepted in the United States of America. 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 February 17, 2009 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
February 17, 2009

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, 2008. Unless otherwise noted, **all amounts reported in this analysis are expressed in thousands.**

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of net assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include water supply and distribution, sewer disposal, landfill, 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. Water and electricity are considered to be major funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 212,901 (i.e., net assets), a change of \$ 11,805 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 29,605, a change of \$ 6,241 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 6,451, a change of \$ 663 in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 69,227, a change of \$ 3,640 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.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 36,683	\$ 55,227	\$ 47,314	\$ 57,346	\$ 83,997	\$ 112,573
Capital assets	134,684	134,586	82,947	72,245	217,631	206,831
Total assets	<u>171,367</u>	<u>189,813</u>	<u>130,261</u>	<u>129,591</u>	<u>301,628</u>	<u>319,404</u>
Long-term liabilities outstanding	55,239	59,210	18,687	20,024	73,926	79,234
Other liabilities	6,485	31,380	8,316	7,694	14,801	39,074
Total liabilities	<u>61,724</u>	<u>90,590</u>	<u>27,003</u>	<u>27,718</u>	<u>88,727</u>	<u>118,308</u>
Net assets:						
Invested in capital assets, net	82,245	80,484	68,369	64,248	150,614	144,732
Restricted	17,939	13,364	2,938	2,365	20,877	15,729
Unrestricted	9,459	5,375	31,951	35,260	41,410	40,635
Total net assets	<u>\$ 109,643</u>	<u>\$ 99,223</u>	<u>\$ 103,258</u>	<u>\$ 101,873</u>	<u>\$ 212,901</u>	<u>\$ 201,096</u>

CHANGES IN NET ASSETS

	Governmental <u>Activities</u>		Business-Type <u>Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:						
Program revenues:						
Charges for services	\$ 5,211	\$ 4,815	\$ 95,738	\$ 74,817	\$ 100,949	\$ 79,632
Operating grants and contributions	19,710	18,012	1,464	1,041	21,174	19,053
Capital grants and contributions	765	921	516	-	1,281	921
General revenues:						
Property taxes	47,398	45,651	-	-	47,398	45,651
Excises	2,897	2,766	-	-	2,897	2,766
Penalties and interest and other taxes	693	541	-	-	693	541
Grants and contributions not restricted to specific programs	11,958	13,398	-	-	11,958	13,398
Investment income	1,821	2,829	761	911	2,582	3,740
Other	33	272	-	-	33	272
Total revenues	<u>90,486</u>	<u>89,205</u>	<u>98,479</u>	<u>76,769</u>	<u>188,965</u>	<u>165,974</u>
Expenses:						
General government	3,635	3,701	-	-	3,635	3,701
Public safety	9,792	9,520	-	-	9,792	9,520
Education	54,903	52,025	-	-	54,903	52,025
Public works	7,913	6,046	-	-	7,913	6,046
Human services	681	891	-	-	681	891
Culture and recreation	2,301	1,868	-	-	2,301	1,868
Interest on long-term debt	2,422	2,750	-	-	2,422	2,750
Intergovernmental	583	550	-	-	583	550
Electric	-	-	84,673	63,979	84,673	63,979
Water	-	-	5,367	4,904	5,367	4,904
Other	-	-	4,981	4,343	4,981	4,343
Total expenses	<u>82,230</u>	<u>77,351</u>	<u>95,021</u>	<u>73,226</u>	<u>177,251</u>	<u>150,577</u>
Excess of revenues over expenses	8,256	11,854	3,458	3,543	11,714	15,397
Permanent fund contributions	91	96	-	-	91	96
Special item - asset impairment	-	-	-	(1,920)	-	(1,920)
Transfers in (out)	<u>2,073</u>	<u>2,011</u>	<u>(2,073)</u>	<u>(2,011)</u>	<u>-</u>	<u>-</u>
Change in net assets	10,420	13,961	1,385	(388)	11,805	13,573
Net assets - beginning 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>
Net assets - end of year	<u>\$ 109,643</u>	<u>\$ 99,223</u>	<u>\$ 103,258</u>	<u>\$ 101,873</u>	<u>\$ 212,901</u>	<u>\$ 201,096</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 \$ 212,901, a change of \$ 11,805 from the prior year.

The largest portion of net assets \$ 150,614 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 \$ 20,877 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 41,410 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 \$ 10,420. Key elements of this change are as follows:

General fund revenue exceeding expenditures	\$ 479
Special revenue fund revenues exceeding expenditures	593
Current year revenue used for the acquisition of capital assets	1,820
MSBA grants	4,797
PILOT from RMLD	2,073
Other	<u>658</u>
Total	<u>\$ 10,420</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 1,385. Key elements of this change are as follows:

The electric operations had revenues of \$ 88,379 and expenses and transfers of \$ 86,746, resulting in a change in net assets of \$ 1,633.

The water operations had revenues of \$ 5,002 and expenses of \$ 5,367, resulting in a change in net assets of \$ (365).

The sewer operations had revenues of \$ 4,654 and expenses of \$ 4,806, resulting in a change in net assets of \$ (152).

The landfill operations did not report any revenues or expenditures.

The storm water management operations had revenues of \$ 444 and expenses of \$ 176, resulting in a change in net assets of \$ 268.

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 \$ 29,605, a change of \$ 6,241 in comparison with the prior year. Key elements of this change are as follows:

General fund revenues and bond proceeds exceeding expenditures	\$ 2,929
Memorial School building project expenditures	(149)
Special revenue fund revenues exceeding expenditures	594
Capital project fund revenues and bond proceeds exceeding expenditures	703
Permanent fund revenues	91
Pilot from RMLD	<u>2,073</u>
Total	<u>\$ 6,241</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 \$ 6,451, while total fund balance was \$ 14,091. 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 7.9 percent of total general fund expenditures, while total fund balance represents 17.2 percent of that same amount.

The fund balance of the general fund changed by \$ 5,708 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (2,078)
Revenues in excess of budget	1,697
Expenditures less than budget	697
MSBA revenue	4,797
Other	<u>595</u>
Total	<u>\$ 5,708</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>Debt Service</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
2008	1,597	227	1,454	6,451	4,362	14,091

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 \$ 103,258, a change of \$ 1,385 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 \$ 819. Major reasons for these amendments include:

- \$ 592 to fund additional snow and ice removal costs;
- \$ 115 to replace firefighter turnout gear;
- \$ 40 for email backup and phone redundancy;
- \$ 25 in Facilities Maintenance costs due to flood damage;
- \$ 47 in various other line items.

These increases were funded through the use of free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 217,631 (net of accumulated depreciation), a change of \$ 10,800 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

Governmental additions:

- \$ 1,161 for a new ladder truck and engine
- \$ 901 in roadway improvements
- \$ 715 in Memorial High School additions
- \$ 380 in tennis court improvements

Business-type additions:

- \$ 6,577 in electric improvements
- \$ 8,451 in water improvements
- \$ 395 in sewer improvements

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

Change in credit rating. During the fiscal year, the Moody's credit rating improved from A1 to Aa3.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 69,227, 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.

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, 2008

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 21,391,511	\$ 28,429,540	\$ 49,821,051
Investments	14,117,239	4,400,000	18,517,239
Receivables, net of allowance for uncollectibles:			
Property taxes	395,270	-	395,270
Excises	125,212	-	125,212
User fees	-	11,848,753	11,848,753
Departmental and other	210,770	-	210,770
Inventory	-	2,338,664	2,338,664
Prepaid assets	-	152,718	152,718
Unamortized discount on bonds	9,909	297	10,206
Other assets	1,378	-	1,378
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	321,978	-	321,978
Investments in joint ventures	-	122,391	122,391
Deferred charges	109,902	21,577	131,479
Capital assets being depreciated, net	130,744,630	79,661,254	210,405,884
Capital assets not being depreciated	<u>3,939,374</u>	<u>3,286,026</u>	<u>7,225,400</u>
TOTAL ASSETS	171,367,173	130,261,220	301,628,393
LIABILITIES			
Current:			
Warrants payable	886,805	6,609,347	7,496,152
Accrued liabilities	2,780,119	420,731	3,200,850
Customer advances for construction	-	710,537	710,537
Customer deposits	-	481,328	481,328
Retainage payable	1,104,105	-	1,104,105
Notes payable	1,250,000	-	1,250,000
Other current liabilities	463,581	94,489	558,070
Current portion of long-term liabilities:			
Bonds and loans payable	4,180,000	1,864,708	6,044,708
Accrued employee benefits	57,212	78,470	135,682
Unamortized premiums on notes and bonds	24,762	777	25,539
Noncurrent:			
Bonds and notes payable, net of current portion	49,125,000	14,057,100	63,182,100
Accrued employee benefits, net of current portion	1,577,416	2,680,508	4,257,924
Unamortized premiums on notes and bonds	<u>274,705</u>	<u>5,435</u>	<u>280,140</u>
TOTAL LIABILITIES	61,723,705	27,003,430	88,727,135
NET ASSETS			
Invested in capital assets, net of related debt	82,245,506	68,369,226	150,614,732
Restricted for:			
Grants and other statutory restrictions	9,851,941	2,937,735	12,789,676
Permanent funds:			
Nonexpendable	2,372,514	-	2,372,514
Expendable	5,714,348	-	5,714,348
Unrestricted	<u>9,459,159</u>	<u>31,950,829</u>	<u>41,409,988</u>
TOTAL NET ASSETS	\$ <u>109,643,468</u>	\$ <u>103,257,790</u>	\$ <u>212,901,258</u>

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

	<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	\$ 3,634,973	\$ 436,234	\$ 516,059	\$ -	\$ (2,682,680)	\$ -	\$ (2,682,680)
Public safety	9,792,488	1,855,153	508,783	-	(7,428,552)	-	(7,428,552)
Education	54,903,350	2,194,019	18,436,438	-	(34,272,893)	-	(34,272,893)
Public works	7,913,158	92,160	-	689,713	(7,131,285)	-	(7,131,285)
Health and human services	680,999	83,705	208,652	-	(388,642)	-	(388,642)
Culture and recreation	2,300,727	549,626	39,737	75,000	(1,636,364)	-	(1,636,364)
Debt service interest	2,421,896	-	-	-	(2,421,896)	-	(2,421,896)
Intergovernmental	583,408	-	-	-	(583,408)	-	(583,408)
Total Governmental Activities	82,230,999	5,210,897	19,709,669	764,713	(56,545,720)	-	(56,545,720)
Business-Type Activities:							
Electric services	84,673,283	86,243,927	1,388,528	151,992	-	3,111,164	3,111,164
Water services	5,366,707	4,647,703	76,301	200,000	-	(442,703)	(442,703)
Other Services	4,980,858	4,846,705	-	163,730	-	29,577	29,577
Total Business-Type Activities	95,020,848	95,738,335	1,464,829	515,722	-	2,698,038	2,698,038
Total	\$ <u>177,251,847</u>	\$ <u>100,949,232</u>	\$ <u>21,174,498</u>	\$ <u>1,280,435</u>	(56,545,720)	2,698,038	(53,847,682)
General Revenues, Contributions, and Transfers:							
General Revenues							
Property taxes					47,398,216	-	47,398,216
Excises					2,896,685	-	2,896,685
Penalties, interest and other taxes					693,241	-	693,241
Grants and contributions not restricted to specific programs					11,958,446	-	11,958,446
Investment income					1,821,589	760,528	2,582,117
Other					33,057	-	33,057
Permanent fund contributions					91,422	-	91,422
Transfers, net					2,073,332	(2,073,332)	-
Total general revenues, contributions, and transfers					66,965,988	(1,312,804)	65,653,184
Change in Net Assets					10,420,268	1,385,234	11,805,502
Net Assets:							
Beginning of year					99,223,200	101,872,556	201,095,756
End of year					\$ <u>109,643,468</u>	\$ <u>103,257,790</u>	\$ <u>212,901,258</u>

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2008

ASSETS	<u>General</u>	<u>Memorial High School Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 11,122,961	\$ 2,486,917	\$ 7,781,633	\$ 21,391,511
Investments	6,483,603	-	7,633,636	14,117,239
Receivables:				
Property taxes	793,731	-	-	793,731
Excises	176,819	-	-	176,819
Departmental and other	210,104	-	666	210,770
Other	<u>1,378</u>	<u>-</u>	<u>-</u>	<u>1,378</u>
TOTAL ASSETS	<u>\$ 18,788,596</u>	<u>\$ 2,486,917</u>	<u>\$ 15,415,935</u>	<u>\$ 36,691,448</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 850,823	\$ -	\$ 34,650	\$ 885,473
Accrued liabilities	2,201,006	-	-	2,201,006
Deferred revenue	1,182,034	-	666	1,182,700
Retainage payable	-	1,104,105	-	1,104,105
Notes payable	-	-	1,250,000	1,250,000
Other liabilities	<u>463,581</u>	<u>-</u>	<u>-</u>	<u>463,581</u>
TOTAL LIABILITIES	4,697,444	1,104,105	1,285,316	7,086,865
Fund Balances:				
Reserved for:				
Encumbrances	1,597,001	-	-	1,597,001
Expenditures	226,668	-	-	226,668
Debt service	4,362,144	-	-	4,362,144
Stabilization	1,453,989	-	-	1,453,989
Perpetual (nonexpendable) permanent funds	-	-	2,372,514	2,372,514
Unreserved:				
Undesignated, reported in:				
General fund	6,451,350	-	-	6,451,350
Special revenue funds	-	-	5,177,255	5,177,255
Capital project funds	-	1,382,812	866,502	2,249,314
Permanent funds	<u>-</u>	<u>-</u>	<u>5,714,348</u>	<u>5,714,348</u>
TOTAL FUND BALANCES	<u>14,091,152</u>	<u>1,382,812</u>	<u>14,130,619</u>	<u>29,604,583</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 18,788,596</u>	<u>\$ 2,486,917</u>	<u>\$ 15,415,935</u>	<u>\$ 36,691,448</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, 2008

Total governmental fund balances	\$ 29,604,583
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	134,684,004
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,173,089
<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.	(579,113)
<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>(55,239,095)</u>
Net assets of governmental activities	<u>\$ 109,643,468</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, 2008

	<u>General</u>	<u>Memorial High School Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 47,558,693	\$ -	\$ -	\$ 47,558,693
Excise taxes	2,829,582	-	-	2,829,582
Penalties, interest and other taxes	693,241	-	-	693,241
Departmental	1,551,406	-	3,401,241	4,952,647
Licenses and permits	87,910	-	-	87,910
Fines and forfeitures	159,594	-	-	159,594
Intergovernmental	27,689,903	-	4,339,045	32,028,948
Investment income	1,623,333	-	173,494	1,796,827
Contributions	-	-	495,301	495,301
Other	12,811	-	83,166	95,977
Total Revenues	<u>82,206,473</u>	<u>-</u>	<u>8,492,247</u>	<u>90,698,720</u>
Expenditures:				
Current:				
General government	3,093,631	-	40,355	3,133,986
Public safety	7,273,605	-	848,216	8,121,821
Education	40,945,725	-	5,418,869	46,364,594
Public works	6,291,114	-	89,989	6,381,103
Health and human services	492,418	-	79,853	572,271
Culture and recreation	1,317,234	-	566,165	1,883,399
Employee benefits	9,968,302	-	-	9,968,302
Debt service	11,761,874	-	-	11,761,874
Capital outlay	-	149,019	2,781,558	2,930,577
Intergovernmental	583,408	-	-	583,408
Total Expenditures	<u>81,727,311</u>	<u>149,019</u>	<u>9,825,005</u>	<u>91,701,335</u>
Excess (Deficiency) of revenues over expenditures	479,162	(149,019)	(1,332,758)	(1,002,615)
Other Financing Sources (Uses):				
Issuance of bonds	2,450,000	-	2,720,000	5,170,000
Transfers in	2,865,519	-	86,350	2,951,869
Transfers out	(86,350)	-	(792,187)	(878,537)
Total Other Financing Sources (Uses)	<u>5,229,169</u>	<u>-</u>	<u>2,014,163</u>	<u>7,243,332</u>
Changes in fund balances	5,708,331	(149,019)	681,405	6,240,717
Fund Balances, at Beginning of Year	<u>8,382,821</u>	<u>1,531,831</u>	<u>13,449,214</u>	<u>23,363,866</u>
Fund Balances, at End of Year	<u>\$ 14,091,152</u>	<u>\$ 1,382,812</u>	<u>\$ 14,130,619</u>	<u>\$ 29,604,583</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, 2008

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 6,240,717														
<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;">4,750,777</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(4,652,686)</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;">(149,363)</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;">(5,170,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">9,084,000</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;">265,888</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; border-top: 1px solid black;">50,935</td> </tr> </table> 		Capital outlay purchases	4,750,777	Depreciation	(4,652,686)		(149,363)	Issuance of debt	(5,170,000)	Repayments of debt	9,084,000		265,888		50,935
Capital outlay purchases	4,750,777														
Depreciation	(4,652,686)														
	(149,363)														
Issuance of debt	(5,170,000)														
Repayments of debt	9,084,000														
	265,888														
	50,935														
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>10,420,268</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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers:				
Taxes	\$ 46,934,944	\$ 46,934,944	\$ 47,263,621	\$ 328,677
Excise taxes	3,045,000	3,045,000	2,966,745	(78,255)
Penalties, interest and other taxes	409,500	409,500	472,112	62,612
Departmental	1,598,000	1,598,000	1,478,783	(119,217)
Licenses and permits	118,750	118,750	137,957	19,207
Fines and forfeitures	162,750	162,750	164,022	1,272
Intergovernmental	14,474,791	14,474,791	14,751,717	276,926
Investment income	766,179	766,179	1,774,125	1,007,946
Other	8,044	8,044	206,218	198,174
Transfers in	<u>2,747,545</u>	<u>2,747,545</u>	<u>2,747,545</u>	<u>-</u>
Total Revenues and Transfers	70,265,503	70,265,503	71,962,845	1,697,342
Expenditures:				
General government	3,327,610	3,352,610	3,205,448	147,162
Public safety	7,513,020	7,592,320	7,429,878	162,442
Education	35,238,935	35,355,035	35,255,890	99,145
Public works	5,875,067	6,467,082	6,329,278	137,804
Health and human services	485,627	510,127	491,771	18,356
Culture and leisure	1,265,411	1,312,011	1,304,677	7,334
Intergovernmental	582,451	582,451	582,451	-
Employee benefits	10,121,440	10,103,440	9,978,302	125,138
Debt service	6,614,958	6,567,958	6,567,958	-
Transfers out	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Total Expenditures	<u>71,524,519</u>	<u>72,343,034</u>	<u>71,645,653</u>	<u>697,381</u>
Excess (deficiency) of revenues and other sources over expenditures	(1,259,016)	(2,077,531)	317,192	2,394,723
Other Financing Sources:				
Use of free cash	<u>1,259,016</u>	<u>2,077,531</u>	<u>2,077,531</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,394,723</u>	\$ <u>2,394,723</u>

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Other Funds</u>	
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 11,859,292	\$ 3,188,637	\$ 2,369,832	\$ 17,417,761
User fees, net of allowance for uncollectibles	9,143,636	1,317,825	1,387,292	11,848,753
Inventory	1,662,582	673,643	2,439	2,338,664
Prepaid assets	152,718	-	-	152,718
Deferred charges	-	297	-	297
Total current assets	22,818,228	5,180,402	3,759,563	31,758,193
Noncurrent:				
Restricted cash and cash equivalents	11,011,779	-	-	11,011,779
Restricted investments	4,400,000	-	-	4,400,000
Investments in associated companies	122,391	-	-	122,391
Deferred Charges	19,504	2,073	-	21,577
Capital assets being depreciated, net	57,876,740	16,014,534	5,769,980	79,661,254
Capital assets not being depreciated	3,102,442	121,823	61,761	3,286,026
Total noncurrent assets	76,532,856	16,138,430	5,831,741	98,503,027
TOTAL ASSETS	99,351,084	21,318,832	9,591,304	130,261,220
<u>LIABILITIES</u>				
Current:				
Warrants payable	6,450,130	56,132	103,085	6,609,347
Accrued liabilities	303,842	116,889	-	420,731
Customer advances for construction	710,537	-	-	710,537
Customer deposits	481,328	-	-	481,328
Other current liabilities	-	-	94,489	94,489
Current portion of long-term liabilities:				
Bonds and loans payable	550,000	1,146,000	168,708	1,864,708
Accrued employee benefits	78,470	-	-	78,470
Unamortized premium on bonds	-	777	-	777
Total current liabilities	8,574,307	1,319,798	366,282	10,260,387
Noncurrent:				
Bonds and notes payable, net of current portion	550,000	13,149,000	358,100	14,057,100
Accrued employee benefits, net of current portion	2,603,748	56,045	20,715	2,680,508
Unamortized premium on bonds	-	5,435	-	5,435
Total noncurrent liabilities	3,153,748	13,210,480	378,815	16,743,043
TOTAL LIABILITIES	11,728,055	14,530,278	745,097	27,003,430
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	59,879,183	2,823,925	5,666,118	68,369,226
Restricted	2,937,735	-	-	2,937,735
Unrestricted	24,806,111	3,964,629	3,180,089	31,950,829
TOTAL NET ASSETS	\$ 87,623,029	\$ 6,788,554	\$ 8,846,207	\$ 103,257,790

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, 2008

	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	\$ 86,243,927	\$ 4,647,703	\$ 4,846,705	\$ 95,738,335
Other	<u>702,306</u>	<u>-</u>	<u>-</u>	<u>702,306</u>
Total Operating Revenues	86,946,233	4,647,703	4,846,705	96,440,641
Operating Expenses:				
Energy purchases	69,641,773	51,946	25,155	69,718,874
Intergovernmental	1,146,094	1,536,924	3,410,217	6,093,235
Depreciation	3,023,536	1,357,107	314,618	4,695,261
Other	<u>10,751,240</u>	<u>1,900,660</u>	<u>1,220,858</u>	<u>13,872,758</u>
Total Operating Expenses	<u>84,562,643</u>	<u>4,846,637</u>	<u>4,970,848</u>	<u>94,380,128</u>
Operating Income (Loss)	2,383,590	(198,934)	(124,143)	2,060,513
Nonoperating Revenues (Expenses):				
Investment income	595,433	78,189	86,906	760,528
Interest expense	(85,843)	(520,070)	(9,949)	(615,862)
Loss on disposal of capital assets	(24,797)	-	-	(24,797)
Other	<u>686,222</u>	<u>76,301</u>	<u>(61)</u>	<u>762,462</u>
Total Nonoperating Revenues (Expenses), Net	<u>1,171,015</u>	<u>(365,580)</u>	<u>76,896</u>	<u>882,331</u>
Income (Loss) Before Transfers and Contributions	3,554,605	(564,514)	(47,247)	2,942,844
Capital contributions	151,992	200,000	163,730	515,722
Transfers out	<u>(2,073,332)</u>	<u>-</u>	<u>-</u>	<u>(2,073,332)</u>
Change in Net Assets	1,633,265	(364,514)	116,483	1,385,234
Net Assets at Beginning of Year	<u>85,989,764</u>	<u>7,153,068</u>	<u>8,729,724</u>	<u>101,872,556</u>
Net Assets at End of Year	<u>\$ 87,623,029</u>	<u>\$ 6,788,554</u>	<u>\$ 8,846,207</u>	<u>\$ 103,257,790</u>

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2008

	Business-Type Activities Enterprise Funds			Total
	Electric Fund	Water Fund	Other Funds	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 83,764,632	\$ 4,586,177	\$ 4,755,849	\$ 93,106,658
Payments to vendors and employees	(80,289,046)	(2,512,917)	(1,146,992)	(83,948,955)
Customer refund, purchase power, and fuel charge adjustments	702,306	-	-	702,306
Payments to other governments	-	(1,536,912)	(3,435,372)	(4,972,284)
Net Cash Provided By Operating Activities	4,177,892	536,348	173,485	4,887,725
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfers out	(2,073,332)	-	-	(2,073,332)
MWEC refund	383,202	-	-	383,202
Other	303,020	-	-	303,020
Net Cash (Used for) Noncapital Financing Activities	(1,387,110)	-	-	(1,387,110)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Proceeds from issuance of bonds and notes	-	8,600,000	344,330	8,944,330
Acquisition of capital assets	(6,576,513)	(8,450,966)	(394,899)	(15,422,378)
Capital contributions and customer advances	151,992	200,000	163,730	515,722
Principal payments on bonds and notes	(550,000)	(756,000)	(84,842)	(1,390,842)
Interest expense	(85,843)	(520,070)	(9,949)	(615,862)
Net Cash Provided By (Used For) Capital and Related Financing Activities	(7,060,364)	(927,036)	18,370	(7,969,030)
<u>Cash Flows From Investing Activities:</u>				
Increase in restricted cash and investments	1,154,973	-	-	1,154,973
Interest income	595,433	154,490	86,906	836,829
Net Cash Provided By Investing Activities	1,750,406	154,490	86,906	1,991,802
Net Change in Cash and Short-Term Investments	(2,519,176)	(236,198)	278,761	(2,476,613)
Cash and Short-Term Investments, Beginning of Year	14,378,468	3,424,835	2,091,071	19,894,374
Cash and Short-Term Investments, End of Year	\$ 11,859,292	\$ 3,188,637	\$ 2,369,832	\$ 17,417,761
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>				
Operating income (loss)	\$ 2,383,590	\$ (198,934)	\$ (124,143)	\$ 2,060,513
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	3,023,536	1,357,107	314,618	4,695,261
Changes in assets and liabilities:				
User fees receivables	(2,479,966)	(61,526)	(93,080)	(2,634,572)
Restricted cash - Calpine liability	(9,108,765)	-	-	(9,108,765)
Inventory and prepayments	304,475	(377,918)	-	(73,443)
Other assets	-	303	(1,059)	(756)
Warrants and accounts payable	583,732	(224,911)	71,578	430,399
Accrued liabilities	246,740	41,051	-	287,791
Other liabilities	115,785	1,176	5,571	122,532
Calpine liability	9,108,765	-	-	9,108,765
Net Cash Provided By Operating Activities	\$ 4,177,892	\$ 536,348	\$ 173,485	\$ 4,887,725

See notes to financial statements.

TOWN OF READING, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	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	\$ 268,116	\$ 2,136,712	\$ 344,395
Investments	93,562,005	4,799,998	-
Accounts receivable	35,317	-	-
Other assets	-	-	1,306
	<u> </u>	<u> </u>	<u> </u>
Total Assets	93,865,438	6,936,710	345,701
 <u>LIABILITIES AND NET ASSETS</u>			
Other liabilities	<u>191,080</u>	<u>-</u>	<u>345,701</u>
Total Liabilities	<u>191,080</u>	<u>-</u>	<u>345,701</u>
 <u>NET ASSETS</u>			
Total net assets held in trust for pension benefits and other purposes	<u>\$ 93,674,358</u>	<u>\$ 6,936,710</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, 2008

	<u>Employee Pension Trust Fund</u>	<u>Municipal Light Pension Trust Fund</u>
Additions:		
Contributions:		
Employers	\$ 3,785,501	\$ -
Intergovernmental	324,591	-
Plan members	<u>1,972,813</u>	-
Total contributions	6,082,905	-
Investment Gain (Loss):		
Decrease in fair value of investments	(1,659,533)	-
Less: management fees	(479,714)	-
Increase in fair value of investments	-	285,674
Net investment gain (loss)	<u>(2,139,247)</u>	<u>285,674</u>
Total additions	3,943,658	285,674
Deductions:		
Benefit payments to plan members and beneficiaries	6,819,382	-
Refunds and transfers to other systems	161,951	-
Administrative expenses	62,784	-
Contribution to employee's pension plan	-	1,055,758
Total deductions	<u>7,044,117</u>	<u>1,055,758</u>
Net increase	(3,100,459)	(770,084)
Net assets:		
Beginning of year	<u>96,774,817</u>	<u>7,706,794</u>
End of year	<u>\$ 93,674,358</u>	<u>\$ 6,936,710</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 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 are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

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

The government reports the following major governmental funds:

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

- 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 nonoperating revenues and expenses.

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

The government reports the following major proprietary funds:

- Electric Enterprise Fund
- Water Enterprise Fund

The government reports the following fiduciary funds:

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *municipal light pension trust fund* accounts for the activities of the Municipal Light Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *agency fund* is used to account for student activity funds.

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 ½" 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 2008 tax levy reflected an excess capacity of \$ 15,848.

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 and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison 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)	\$ 82,206,473	\$ 81,727,311
Other financing sources/uses (GAAP basis)	<u>2,865,519</u>	<u>86,350</u>
Subtotal (GAAP basis) (excluding bond issue)	85,071,992	81,813,661
To record use of free cash	2,077,531	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,435,365)
Add end of year appropriation carryforwards to expenditures	-	1,597,001
Other	589,419	649,112
To reverse the effects of non- budgeted MSBA contributions and related refunding.	(9,989,365)	(5,192,024)
To reverse the effects of non- budgeted State contributions for teacher retirements	<u>(5,786,732)</u>	<u>(5,786,732)</u>
Budgetary basis	<u>\$ 71,962,845</u>	<u>\$ 71,645,653</u>

D. Deficit Fund Equity

The Town reflects a deficit in the Computer Equipment capital project fund from financing the accounting software implementation project with bond anticipation notes.

The deficit will be eliminated when the permanent debt is issued.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess. Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company. The Town and System do not have a deposit policy for custodial credit risk.

As of June 30, 2008, \$ 1,504,965 of the Town's and none of the System's bank balance(s) of \$ 51,772,764 and \$ 318,975, 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 (in thousands) is the actual rating as of year end for each investment of the Town:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>			
			<u>Aaa</u>	<u>Aa1</u>	<u>Aa3</u>	<u>A2</u>
Corporate bonds	\$ 568	\$ -	\$ 206	\$ 162	\$ 99	\$ 101
Corporate equities	351	351	-	-	-	-
Mutual funds	947	947	-	-	-	-
Certificates of deposit	6,484	6,484	-	-	-	-
Federal agency securities	<u>14,967</u>	<u>-</u>	<u>14,967</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 23,317</u>	<u>\$ 7,782</u>	<u>\$ 15,173</u>	<u>\$ 162</u>	<u>\$ 99</u>	<u>\$ 101</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the

Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

At June 30, 2008, the Contributory Retirement System maintained its investments in the State Investment Pool* with a fair value of \$ 93,562,005. 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.

Of the investment in Corporate bonds of \$ 568,064, the government has a custodial credit risk exposure of \$ 568,064 because the related securities are uninsured, unregistered and held by the Town's brokerage firm, which is also the Counterparty to these securities.

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	\$ 2,289
Federal National Mortgage Association	\$ 1,948
Federal Home Loan Mortgage Corp.	\$ 10,733
Certificates of Deposit	\$ 5,541

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	\$ 568	\$ 101	\$ 467	\$ -
Certificates of Deposit	6,484	6,484	-	-
Federal agency securities	<u>14,967</u>	<u>-</u>	<u>7,332</u>	<u>7,635</u>
Total	<u>\$ 22,019</u>	<u>\$ 6,585</u>	<u>\$ 7,799</u>	<u>\$ 7,635</u>

E. Foreign Currency Risk

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

5. Taxes Receivable

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

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2008 consist of the following (in thousands):

Real Estate		
2008	\$ <u>369</u>	369
Personal Property		
2008	\$ 18	
2007	2	
2006	2	
2005	2	
2004	<u>2</u>	
		26
Tax Liens		322
Deferred Taxes		<u>77</u>
Total		\$ <u><u>794</u></u>

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>
Property taxes	\$ 77
Excises	52

7. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 1,274	\$ 404	\$ -	\$ 1,678
Buildings and improvements	70,922	56,928	-	127,850
Machinery, equipment, and furnishings	4,846	1,942	-	6,788
Infrastructure	<u>39,307</u>	<u>1,502</u>	<u>-</u>	<u>40,809</u>
Total capital assets, being depreciated	116,349	60,776	-	177,125
Less accumulated depreciation for:				
Land improvements	(376)	(53)	-	(429)
Buildings and improvements	(17,974)	(2,642)	-	(20,616)
Machinery, equipment, and furnishings	(2,313)	(443)	-	(2,756)
Infrastructure	<u>(21,064)</u>	<u>(1,515)</u>	<u>-</u>	<u>(22,579)</u>
Total accumulated depreciation	<u>(41,727)</u>	<u>(4,653)</u>	<u>-</u>	<u>(46,380)</u>
Total capital assets, being depreciated, net	74,622	56,123	-	130,745
Capital assets, not being depreciated:				
Land	3,939	-	-	3,939
Construction in progress	<u>56,025</u>	<u>-</u>	<u>(56,025)</u>	<u>-</u>
Total capital assets, being depreciated, net	<u>59,964</u>	<u>-</u>	<u>(56,025)</u>	<u>3,939</u>
Governmental activities capital assets, net	<u>\$ 134,586</u>	<u>\$ 56,123</u>	<u>\$ (56,025)</u>	<u>\$ 134,684</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 84	\$ -	\$ -	\$ 84
Buildings and improvements	19,754	107	-	19,861
Machinery, equipment, and furnishings	23,670	1,016	(89)	24,597
Infrastructure	<u>85,202</u>	<u>12,462</u>	<u>(917)</u>	<u>96,747</u>
Total capital assets, being depreciated	128,710	13,585	(1,006)	141,289
Less accumulated depreciation for:				
Land improvements	(36)	(2)	-	(38)
Buildings and improvements	(10,833)	(657)	-	(11,490)
Machinery, equipment, and furnishings	(15,779)	(862)	89	(16,552)
Infrastructure	<u>(31,266)</u>	<u>(3,174)</u>	<u>892</u>	<u>(33,548)</u>
Total accumulated depreciation	<u>(57,914)</u>	<u>(4,695)</u>	<u>981</u>	<u>(61,628)</u>
Total capital assets, being depreciated, net	70,796	8,890	(25)	79,661
Capital assets, not being depreciated:				
Land	1,449	-	-	1,449
Construction in progress	<u>-</u>	<u>1,837</u>	<u>-</u>	<u>1,837</u>
Total capital assets, being depreciated, net	<u>1,449</u>	<u>1,837</u>	<u>-</u>	<u>3,286</u>
Business-type activities capital assets, net	<u>\$ 72,245</u>	<u>\$ 10,727</u>	<u>\$ (25)</u>	<u>\$ 82,947</u>

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

Governmental Activities:	
General government	\$ 99
Public safety	397
Education	2,273
Public works	1,751
Culture and recreation	102
Other	<u>31</u>
Total depreciation expense - governmental activities	<u>\$ 4,653</u>
Business-Type Activities:	
Electric	\$ 3,024
Water	1,357
Other - Sewer	<u>314</u>
Total depreciation expense - business-type activities	<u>\$ 4,695</u>

8. Warrants Payable

Warrants payable represent 2008 expenditures paid by July 15, 2008.

9. 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, 2008 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

10. Anticipation Notes Payable

The following summarizes activity in notes payable during fiscal year 2008 (in thousands):

	Balance <u>7/1/07</u>	New <u>Issues</u>	<u>Repayments</u>	Balance <u>6/30/08</u>
Computer equipment	\$ -	\$ 1,250	\$ -	\$ 1,250
Total	<u>\$ -</u>	<u>\$ 1,250</u>	<u>\$ -</u>	<u>\$ 1,250</u>

11. Long-Term Debt

A. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2008 are as follows:

<u>Purpose</u>	<u>Amount</u>
High School	\$ 187,000
MWRA loan program	299,400
Technology upgrade	1,250,000 ^(a)
Birch meadow tennis courts	140,000
Turf field improvements	275,000
Sunnyside/Fairview sewer mains	65,000
Fire ladder truck	50,000
Water treatment plan demolition	<u>450,000</u>
Total	<u>\$ 2,716,400</u>

^(a) \$ 1,250,000 ban outstanding at June 30, 2008.

B. 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:

<u>Governmental Activities:</u>	<u>Serial</u>	<u>Interest</u>	<u>Amount</u>
	<u>Maturities</u>	<u>Rate(s)%</u>	<u>Outstanding</u>
	<u>Through</u>		<u>as of</u>
			<u>June 30, 2008</u>
Police station	02/01/12	4.12%	\$ 1,610,000
High School remodeling	07/01/08	4.31%	185,000
School remodeling	07/01/08	4.31%	70,000
Birch Meadow School remodeling	07/01/08	4.31%	60,000
Joshua Eaton School remodeling	07/01/16	4.31%	170,000
Parker Middle School	07/01/17	4.62%	4,055,000
Coolidge Middle School	02/01/21	4.75%	6,150,000
Memorial High School	03/15/24	4.22%	30,025,000
Barrow Elementary School	06/30/24	3.96%	2,025,000
Wood End Elementary School	06/30/24	3.96%	2,400,000
Wood End Elementary School	06/30/24	3.92%	165,000
Wood End Elementary School	04/15/24	3.94%	485,000

(continued)

(continued)

	Serial	Interest	Amount
	Maturities	Rate(s)%	Outstanding
	Through		as of
<u>Governmental Activities:</u>			<u>June 30, 2008</u>
Wood End Elementary School	04/15/24	3.94%	735,000
Downtown Improvement projects	11/01/17	3.45%	650,000
Fire Engine	11/01/12	3.45%	410,000
Turf Field improvements	11/01/12	3.45%	375,000
Joshua Eaton refunding	07/01/13	3.05%	270,000
Birch Meadow refunding	07/01/12	3.05%	100,000
Parker School refunding	07/01/17	3.05%	2,080,000
Ladder Truck	07/01/17	3.05%	800,000
Tennis Courts	07/01/12	3.05%	485,000
Total Governmental Activities:			<u>\$ 53,305,000</u>

	Serial	Interest	Amount
	Maturities	Rate(s)%	Outstanding
	Through		as of
<u>Business-Type Activities:</u>			<u>June 30, 2008</u>
Water treatment plant	06/30/15	3.38%	\$ 700,000
MWRA Buy-in	04/15/27	4.00%	3,020,000
Water Mains	04/15/12	3.66%	1,975,000
MWRA Buy-in	11/01/17	3.05%	7,800,000
Water demo	07/01/17	3.05%	800,000
MWRA Inflow	05/15/10	0.00%	167,354
MWPAT Septic	02/01/17	0.00%	15,124
MWRA Sewer	08/15/12	0.00%	44,330
Fairview and Sunnyside Sewer	11/01/11	3.05%	300,000
Light plant enlargement	09/01/09	4.61%	1,100,000
Total Business-Type Activities:			<u>\$ 15,921,808</u>

C. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2008 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 4,180,000	\$ 2,201,467	\$ 6,381,467
2010	3,870,000	2,090,900	5,960,900
2011	3,875,000	1,956,713	5,831,713
2012	3,895,000	1,813,556	5,708,556
2013	3,520,000	1,663,494	5,183,494
2014-2018	16,925,000	6,162,658	23,087,658
2019-2023	14,185,000	2,635,493	16,820,493
2024	2,855,000	130,649	2,985,649
Total	\$ <u>53,305,000</u>	\$ <u>18,654,930</u>	\$ <u>71,959,930</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation debt outstanding as of June 30, 2008:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,864,708	\$ 607,596	\$ 2,472,304
2010	2,002,646	526,097	2,528,743
2011	1,300,000	461,638	1,761,638
2012	1,295,000	413,116	1,708,116
2013	730,000	366,670	1,096,670
2014-2018	3,350,000	1,422,356	4,772,356
2019-2023	2,750,000	807,875	3,557,875
2024-2028	2,629,454	257,913	2,887,367
Total	\$ <u>15,921,808</u>	\$ <u>4,863,261</u>	\$ <u>20,785,069</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2008, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/07</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/08</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/08</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 57,219	\$ 5,170	\$ (9,084)	\$ 53,305	\$ (4,180)	\$ 49,125
Other:						
Accrued employee benefits	1,667	58	(90)	1,635	(57)	1,578
Other	324	-	(25)	299	(25)	274
Totals	\$ <u>59,210</u>	\$ <u>5,228</u>	\$ <u>(9,199)</u>	\$ <u>55,239</u>	\$ <u>(4,262)</u>	\$ <u>50,977</u>

	Total Balance <u>7/1/07</u>	Additions	Reductions	Total Balance <u>6/30/08</u>	Less Current Portion	Long-Term Portion <u>6/30/08</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 8,368	\$ 8,945	\$ (1,391)	\$ 15,922	\$ (1,865)	\$ 14,057
Other:						
Accrued employee benefits	2,540	329	(110)	2,759	(78)	2,681
Unamortized premium on bonds	7	-	(1)	6	(1)	5
Calpine contract termination	<u>9,109</u>	<u>-</u>	<u>(9,109)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 20,024</u>	<u>\$ 9,274</u>	<u>\$ (10,611)</u>	<u>\$ 18,687</u>	<u>\$ (1,944)</u>	<u>\$ 16,743</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, 2008:

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

A. Investments

During September through December, 2008, the stock market suffered significant losses. As a result, there may be a substantial depreciation in the value of the organization's investments.

B. Debt

Subsequent to June 30, 2008, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Water treatment plant demolition BAN	\$ 450,000	2.34%	09/03/08	02/04/09

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

In addition to the pension benefits described in a subsequent note, the Town provides post-employment health care and life insurance benefits, in accordance with Chapter 32B of Massachusetts General Laws, to participating retirees. Presently the Town finances these benefits on the pay-as-you-go *Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*. The number of participants currently eligible to receive benefits and costs of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2008 was not available.

GASB Statement No. 45, Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions is effective June 30, 2009.

The Town plans to fully implement GASB 45 in fiscal 2009.

17. Contributory Retirement System

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

A. Plan Description and Contribution Information

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

Membership of each plan consisted of the following at December 31, 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).

Schedule of Employer Contributions:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
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%
2008	3,785,501	100%

B. Summary of Significant Accounting Policies

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

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

C. Funded Status and Funding Progress

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent- age of Covered Payroll [(b-a)/c]</u>
06/30/07	\$ 84,784	\$ 112,012	\$ 27,228	75.7%	\$ 19,313	141.0%

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

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 27.2 million was calculated. The actuarial assumptions included (a) 7.75% investment rate of return and (b) a projected salary increase of 5.00% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (7.75%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of the unfunded actuarially accrued liability is being amortized over 16 years using 1.5% increase in payments method.

E. Teachers

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

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

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

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

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

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

In fiscal year 2008, the Commonwealth of Massachusetts contributed \$ 5,786,732 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 Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

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 U.S. government bonds 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 is stated at average cost. Meters and transformers are capitalized when purchased.
- I. Capital Assets and Depreciation - Capital assets, which include property, plant, equipment, and utility plant infrastructure, are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

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

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

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

- J. 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, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Unrestricted cash and short-term investments	\$ 11,859,292
Restricted cash and short-term investments	11,011,779
Restricted investments	4,400,000
Fiduciary funds:	
Cash and short-term investments	2,136,712
Investments	<u>4,800,000</u>
Total cash and investments	\$ <u>34,207,783</u>

Cash and investments at June 30, 2008 consist of the following:

Cash on hand	\$ 3,000
Deposits with financial institutions	25,004,783
Investments	<u>9,200,000</u>
Total cash and investments	\$ <u>34,207,783</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, 2008, the Department (including the Pension Trust) had the following investments:

	<u>Restricted Investments</u>	<u>Pension Trust</u>	<u>Maturity Date</u>	<u>Moody's Rating</u>
<u>Government Bonds</u>				
Federal Home Loan Mtg. Corp.	\$ 1,500,000	-	12/15/12	AAA
Federal Home Loan Mtg. Corp.	500,000	-	07/15/13	AAA
Federal Home Loan Mtg. Corp.	1,400,000	-	11/15/13	AAA
Federal Home Loan Mtg. Corp.	500,000	-	01/15/15	AAA
Federal National Mtg. Assn.	500,000	-	11/13/17	AAA
Federal Home Loan Bank	-	1,200,000	06/25/13	AAA
Federal Home Loan Mtg. Corp.	-	1,800,000	11/15/13	AAA
Federal Home Loan Mtg. Corp.	<u>-</u>	<u>1,800,000</u>	03/15/15	AAA
Total	\$ <u>4,400,000</u>	\$ <u>4,800,000</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>9,200,000</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>	Minimum Legal <u>Rating</u>	<u>Rating as of Year End</u> <u>AAA</u>
Federal agency securities	\$ <u>9,200,000</u>	N/A	\$ <u>9,200,000</u>
Total	\$ <u>9,200,000</u>		\$ <u>9,200,000</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	\$ 7,500,000
Federal Home Loan Bank	Federal agency securities	1,200,000
Federal National Mtg. Assn.	Federal agency securities	500,000

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, 2008. As of June 30, 2008, 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	\$ <u>9,200,000</u>
Total	\$ <u>9,200,000</u>

3. Restricted Cash and Investments

Restricted cash and investments consist of the following at June 30, 2008:

	<u>Cash</u>	<u>Investments</u>
Depreciation fund	\$ 2,937,735	\$ -
Construction fund	2,112,401	-
Deferred fuel reserve	905,308	-
Rate stabilization	3,178,549	2,900,000
Reserve for uncollectible accounts	28,988	-
Sick leave benefits	1,182,218	1,500,000
Insurance reserve	35,252	-
Hazardous waste fund	150,000	-
Customer deposits	<u>481,328</u>	<u>-</u>
Total	\$ <u>11,011,779</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, 2008 was \$ 4,435,984.

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.
- 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, 2008:

Customer Accounts:		
Billed	\$ 3,987,055	
Less allowances:		
Uncollectible accounts	(200,000)	
Sales discounts	(214,497)	
Total billed		\$ 3,572,558
Unbilled, net		<u>4,762,362</u>
Total customer accounts		8,334,920

(continued)

(continued)

Other Accounts:

Merchandise sales	269,026	
MMWEC Flush	383,202	
Liens and other	<u>156,488</u>	
Total other accounts		<u>808,716</u>

Total net receivables \$ 9,143,636

5. Prepaid Expenses

Prepaid expenses consist of the following:

Insurances	\$ 240,107
Purchase power	(282,401)
PASNY prepayment fund	<u>195,012</u>
Total	\$ <u>152,718</u>

6. Inventory

Inventory is comprised of supplies and materials at June 30, 2008, 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, 2008:

New England Hydro-Transmission Electric Company, Inc.	\$ 46,153
New England Hydro-Transmission Corporation	<u>76,238</u>
Total	\$ <u>122,391</u>

8. Capital Assets

The following is a summary of fiscal year 2008 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	\$ 13,286	\$ 107	\$ -	\$ 13,393
Equipment and furnishings	22,153	556	(89)	22,620
Infrastructure	<u>65,305</u>	<u>4,077</u>	<u>(917)</u>	<u>68,465</u>
Total capital assets, being depreciated	100,744	4,740	(1,006)	104,478
Less accumulated depreciation for:				
Structures and improvements	(5,753)	(379)	-	(6,132)
Equipment and furnishings	(15,374)	(727)	89	(16,012)
Infrastructure	<u>(23,432)</u>	<u>(1,917)</u>	<u>892</u>	<u>(24,457)</u>
Total accumulated depreciation	<u>(44,559)</u>	<u>(3,023)</u>	<u>981</u>	<u>(46,601)</u>
Total capital assets, being depreciated, net	56,185	1,717	(25)	57,877
Capital assets, not being depreciated:				
Land	1,266	-	-	1,266
Construction in progress	<u>-</u>	<u>1,836</u>	<u>-</u>	<u>1,836</u>
Total capital assets, not being depreciated	<u>1,266</u>	<u>1,836</u>	<u>-</u>	<u>3,102</u>
Capital assets, net	\$ <u>57,451</u>	\$ <u>3,553</u>	\$ <u>(25)</u>	\$ <u>60,979</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 2008 expenses that were paid after June 30, 2008.

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, 2008:

Accrued interest	\$ 27,762
Accrued payroll	159,758
Other	<u>116,322</u>
Total	\$ <u>303,842</u>

14. Bonds Payable

Bonds payable consist of the following at June 30, 2008:

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 550,000	\$ 39,738	\$ 589,738
2010	<u>550,000</u>	<u>13,337</u>	<u>563,337</u>
Total	\$ <u>1,100,000</u>	\$ <u>53,075</u>	\$ <u>1,153,075</u>

The following summarizes activity in bonds payable for the year ended June 30, 2008:

<u>Balance</u> <u>07/01/07</u>	<u>Maturities</u>	<u>Balance</u> <u>06/30/08</u>	<u>Less</u> <u>Current</u>	<u>Long-Term</u> <u>Portion</u>
\$ <u>1,650,000</u>	\$ <u>(550,000)</u>	\$ <u>1,100,000</u>	\$ <u>(550,000)</u>	\$ <u>550,000</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, 2008. 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 were applied to reduce customer charges over the 15 months of the original PSA.

In 2008, the Division reduced its power supply expense and its corresponding customer Purchase Power Fuel Charge Adjustment (PPFCA) by \$ 9,108,765 (the remaining amount of its Calpine liability).

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

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 2008, and the Department plans to fully implement GASB 45 in fiscal 2009.

19. Pension Plan

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

A. Plan Description

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

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Department is required to pay into the System its share of the remaining system wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Department are governed by Chapter 32 of the Massachusetts General Laws. The Department’s contributions to the System for the years ended June 30, 2008 and 2007 were \$ 1,055,758 and \$ 1,029,537, respectively, which were equal to its annual required contributions for each of these years.

20. Participation in Massachusetts Municipal Wholesale Electric Company

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

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

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

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

After the July 1, 2008 principal payment, total capital expenditures for MMWEC's Projects amounted to \$ 1,538,666,000, of which \$ 110,468,000 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 \$ 641,630,000, of which \$ 35,104,000 is associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. After the July 1, 2008 principal payment, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$ 711,316,000, of which \$ 37,152,000 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, 2008 and estimated for future years is shown below.

	<u>Annual Costs</u>
For years ended June 30, 2009	\$ 5,457,000
2010	4,867,000
2011	4,674,000
2012	4,657,000
2013	4,702,000
2014 - 2018	<u>12,795,000</u>
Total	<u>\$ 37,152,000</u>

In addition, under the PSA's, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs were \$ 15,726,000 and \$ 17,049,000 for the years ended June 30, 2008 and 2007, respectively.

21. 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.

22. 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:

2009	\$ <u>3,630</u>
Total	\$ <u>3,630</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
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2008

(Unaudited)

(Amounts Expressed in thousands)

Employees' Retirement System

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
06/30/00	\$ 54,076	\$ 78,486	\$ 24,410	68.9%	\$ 15,798	154.5%
06/30/01	\$ 58,286	\$ 82,550	\$ 24,264	70.6%	\$ 16,129	150.4%
06/30/02	\$ 60,933	\$ 86,888	\$ 25,955	70.1%	\$ 16,855	154.0%
06/30/03	\$ 62,897	\$ 91,302	\$ 28,405	68.9%	\$ 16,734	169.7%
06/30/04	\$ 66,850	\$ 95,961	\$ 29,111	69.7%	\$ 17,487	166.5%
06/30/05	\$ 71,468	\$ 102,153	\$ 30,685	70.0%	\$ 18,048	170.0%
06/30/06	\$ 77,151	\$ 106,238	\$ 29,087	72.6%	\$ 18,860	154.2%
06/30/07	\$ 84,784	\$ 112,012	\$ 27,228	75.7%	\$ 19,313	141.0%

See Independent Auditors' Report.

Town of Reading, Massachusetts

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2008

	<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>		Permanent Funds	Total
	School	Other	Barrows Elementary School	Other		
ASSETS						
Cash and short-term investments	\$ 1,634,994	\$ 3,720,387	\$ 22,214	\$ 2,098,419	\$ 305,619	\$ 7,781,633
Investments	-	5,566,741	-	-	2,066,895	7,633,636
Receivables:						
Departmental and other	-	666	-	-	-	666
TOTAL ASSETS	\$ 1,634,994	\$ 9,287,794	\$ 22,214	\$ 2,098,419	\$ 2,372,514	\$ 15,415,935
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants payable	\$ -	\$ 30,519	\$ -	\$ 4,131	\$ -	\$ 34,650
Deferred revenue	-	666	-	-	-	666
Notes payable	-	-	-	1,250,000	-	1,250,000
TOTAL LIABILITIES	-	31,185	-	1,254,131	-	1,285,316
Fund Balances:						
Reserved for:						
Perpetual (nonexpendable) permanent funds	-	-	-	-	2,372,514	2,372,514
Unreserved						
Special revenue funds	1,634,994	3,542,261	-	-	-	5,177,255
Capital project funds	-	-	22,214	844,288	-	866,502
Permanent funds	-	5,714,348	-	-	-	5,714,348
TOTAL FUND BALANCES	1,634,994	9,256,609	22,214	844,288	2,372,514	14,130,619
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,634,994	\$ 9,287,794	\$ 22,214	\$ 2,098,419	\$ 2,372,514	\$ 15,415,935

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, 2008

	<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>		<u>Permanent Funds</u>	<u>Total</u>
	<u>School</u>	<u>Other</u>	<u>Barrows Elementary School</u>	<u>Other</u>		
Revenues:						
Departmental	\$ 2,186,819	\$ 1,214,422	\$ -	\$ -	\$ -	\$ 3,401,241
Intergovernmental	3,266,544	382,790	-	689,711	-	4,339,045
Investment income	-	173,494	-	-	-	173,494
Contributions	120,030	208,849	-	75,000	91,422	495,301
Other	-	83,166	-	-	-	83,166
Total Revenues	5,573,393	2,062,721	-	764,711	91,422	8,492,247
Expenditures:						
Current:						
General government	-	40,355	-	-	-	40,355
Public safety	-	848,216	-	-	-	848,216
Education	5,418,869	-	-	-	-	5,418,869
Public works	-	89,989	-	-	-	89,989
Health and human services	-	79,853	-	-	-	79,853
Culture and recreation	-	566,165	-	-	-	566,165
Capital outlay	-	-	30,666	2,750,892	-	2,781,558
Total Expenditures	5,418,869	1,624,578	30,666	2,750,892	-	9,825,005
Excess of revenues over expenditures	154,524	438,143	(30,666)	(1,986,181)	91,422	(1,332,758)
Other Financing Sources (Uses):						
Issuance of Bonds	-	-	-	2,720,000	-	2,720,000
Transfers in	-	-	-	86,350	-	86,350
Transfers out	-	(784,345)	-	(7,842)	-	(792,187)
Total Other Financing Sources (Uses)	-	(784,345)	-	2,798,508	-	2,014,163
Change in fund balances	154,524	(346,202)	(30,666)	812,327	91,422	681,405
Fund Balances, at Beginning of Year	1,480,470	9,602,811	52,880	31,961	2,281,092	13,449,214
Fund Balances, at End of Year	\$ 1,634,994	\$ 9,256,609	\$ 22,214	\$ 844,288	\$ 2,372,514	\$ 14,130,619

See notes to financial statements.

Town of Reading, Massachusetts
Combining Schedule of Net Assets

Nonmajor Proprietary Funds

June 30, 2008

	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	\$ 1,663,990	\$ 94,489	\$ 611,353	\$ 2,369,832
User fees, net of allowance of uncollectibles	1,301,576	-	85,716	1,387,292
Inventory	2,439	-	-	2,439
Total current assets	2,968,005	94,489	697,069	3,759,563
Noncurrent:				
Capital assets being depreciated, net	5,769,980	-	-	5,769,980
Capital assets not being depreciated	61,761	-	-	61,761
Total noncurrent assets	5,831,741	-	-	5,831,741
TOTAL ASSETS	8,799,746	94,489	697,069	9,591,304
<u>LIABILITIES</u>				
Current:				
Warrants payable	3,313	-	99,772	103,085
Other current liabilities	-	94,489	-	94,489
Current portion of long-term liabilities:				
Loans payable	168,708	-	-	168,708
Total current liabilities	172,021	94,489	99,772	366,282
Noncurrent:				
Loans payable, net of current portion	358,100	-	-	358,100
Accrued employee benefits, net of current portion	6,193	-	14,522	20,715
Total noncurrent liabilities	364,293	-	14,522	378,815
TOTAL LIABILITIES	536,314	94,489	114,294	745,097
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	5,666,118	-	-	5,666,118
Unrestricted	2,597,314	-	582,775	3,180,089
TOTAL NET ASSETS	\$ 8,263,432	\$ -	\$ 582,775	\$ 8,846,207

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, 2008

	Business-type Activities - Enterprise Funds			<u>Total</u>
	<u>Sewer</u>	<u>Landfill Closure and Postclosure</u>	<u>Stormwater Management</u>	
Operating revenues:				
Charges for services	\$ 4,402,608	\$ -	\$ 444,097	\$ 4,846,705
Total Operating Revenues	4,402,608	-	444,097	4,846,705
Operating expenses:				
Energy purchases	25,155	-	-	25,155
Intergovernmental	3,410,217	-	-	3,410,217
Depreciation	314,618	-	-	314,618
Other	1,044,875	-	175,983	1,220,858
Total Operating Expenses	4,794,865	-	175,983	4,970,848
Operating Income	(392,257)	-	268,114	(124,143)
Nonoperating Revenues (Expenses):				
Investment income	86,906	-	-	86,906
Interest Expense	(9,949)	-	-	(9,949)
Other	(61)	-	-	(61)
Total Nonoperating Revenues (Expenses), Net	76,896	-	-	76,896
Income (Loss) Before Capital Contributions	(315,361)	-	268,114	(47,247)
Capital Contributions	163,730	-	-	163,730
Change in Net Assets	(151,631)	-	268,114	116,483
Net Assets at Beginning of Year	8,415,063	-	314,661	8,729,724
Net Assets at End of Year	\$ 8,263,432	\$ -	\$ 582,775	\$ 8,846,207

See notes to financial statements.

Town of Reading, Massachusetts
Combining Schedule of Cash Flows
Nonmajor Proprietary Funds
For The Year Ended June 30, 2008

	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	\$ 4,314,088	\$ -	\$ 441,761	\$ 4,755,849
Payments to vendors and employees	(1,059,580)	(11,201)	(76,211)	(1,146,992)
Payments to other governments	<u>(3,435,372)</u>	<u>-</u>	<u>-</u>	<u>(3,435,372)</u>
Net Cash Provided (Used) by Operating Activities	(180,864)	(11,201)	365,550	173,485
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Proceeds from issuance of bonds and notes	344,330	-	-	344,330
Acquisition of capital assets, net	(394,899)	-	-	(394,899)
Capital contributions and customer advances	163,730	-	-	163,730
Principal payments on bonds and notes	(84,842)	-	-	(84,842)
Interest expense	<u>(9,949)</u>	<u>-</u>	<u>-</u>	<u>(9,949)</u>
Net Cash (Used For) Capital and Related Financing Activities	18,370	-	-	18,370
<u>Cash Flows From Investing Activities:</u>				
Interest income	<u>86,906</u>	<u>-</u>	<u>-</u>	<u>86,906</u>
Net Change in Cash and Short-Term Investments	(75,588)	(11,201)	365,550	278,761
Cash and Short-Term Investments, Beginning of Year	<u>1,739,578</u>	<u>105,690</u>	<u>245,803</u>	<u>2,091,071</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,663,990</u>	<u>\$ 94,489</u>	<u>\$ 611,353</u>	<u>\$ 2,369,832</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>				
Operating income (loss)	\$ (392,257)	\$ -	\$ 268,114	\$ (124,143)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	314,618	-	-	314,618
Changes in net assets and liabilities:				
User fees receivables	(89,116)	-	(3,964)	(93,080)
Other assets	(1,059)	-	-	(1,059)
Warrants and accounts payable	(13,646)	(14,548)	99,772	71,578
Accrued liabilities	<u>596</u>	<u>3,347</u>	<u>1,628</u>	<u>5,571</u>
Net Cash Provided By Operating Activities	<u>\$ (180,864)</u>	<u>\$ (11,201)</u>	<u>\$ 365,550</u>	<u>\$ 173,485</u>

See notes to financial statements.