

TOWN OF READING, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2004

TOWN OF READING, MASSACHUSETTS

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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, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Reading's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Reading, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information, on pages 39 through 42, are not a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Reading's basic financial statements. The combining

financial statements as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 3, 2004 on our consideration of the Town's internal control over financial reporting and 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls 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 read in conjunction with this report in considering the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
September 3, 2004

Town of Reading, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
For the Fiscal Year Ended June 30, 2004

The Town of Reading (Town) is located about 12 miles northwest of Boston. The Town occupies a land area of 9.85 square miles and, based on the 2000 Federal Census, has a population of 23,708. Wealth values and housing values exceed those of the Commonwealth of Massachusetts by a significant margin. The Town is predominantly a bedroom community, with 93.7% of its assessed value derived from residential property.

An initiative state statute, commonly known as "Proposition 2 ½", limits the amount of property taxes that the Town can assess in any year. In general, the Town's property tax levy may increase by 2 ½ percent over the prior year's tax levy, plus any additional amount derived by new development or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by "Proposition 2 ½", it is necessary to obtain the approval of a majority of the voters at an election.

Property taxes represented 67.7% of the resources available to fund the fiscal year 2004 general fund budget. In addition to property taxes, state aid plays a significant role in funding the Town's operating budget. State aid represented 20.4% of the resources available to fund the fiscal year 2004 general fund budget. The services funded within the Town's operating budget include education in grades K-12, police and fire protection, solid waste collection and disposal, street maintenance and library services. The Town also provides water, sewer and electric services as self-supported enterprise funds.

General Fund Budgetary Highlights

Due to the Commonwealth of Massachusetts' precarious financial condition, the Town anticipated a substantial reduction in state aid. In order to maintain services at current levels and provide funding for road improvements, the voters were asked to allow the Town to increase property taxes by \$4,500,000 over the limitation imposed by "Proposition 2 ½". On April 8, 2003 the voters passed this proposal by 4,249 to 3,190. Subsequently, the operating budget was balanced to projected revenues and presented to Town Meeting.

The legislative body of the Town is a representative Town Meeting consisting of one hundred and ninety two members elected to represent eight precincts. Town Meeting's function is to deliberate and act on budgetary matters. The budget adopted by Town Meeting in April 2003 was based upon the projected state aid distribution proposed by the Governor in January 2003. The budget enacted by the Commonwealth of Massachusetts in June 2003 increased the Town's state aid allocation by approximately \$825,000. Based upon revised revenue projections, on November 10, 2003 Town Meeting voted to establish a stabilization fund for \$700,000.

In May 2004, Town Meeting funded various budget deficits, including a \$116,000 overrun in the snow and ice control budget. These deficits were offset through reductions in existing appropriations and the use of \$293,615 of unreserved fund balance ("certified free cash").

The operating budget, as amended, anticipated that estimated revenues would exceed appropriations by \$54,565. During the year, however, revenues on a cash basis exceeded budgetary estimates by \$1,307,542 and charges to appropriations were less than budgetary estimates by \$1,046,331, thus increasing the Town's reserves.

However, \$650,000 of the \$1,046,331 was generated through a directive to the Town issued by the Commonwealth of Massachusetts' Department of Revenue (DOR) dated September 21, 2004. In the opinion of the DOR, the School Committee did not have the authority to charge certain capital outlay expenditures to its budget without Town Meeting's approval. Although the Town does not agree with the DOR opinion, the financial statements, as presented, comply with the DOR's directive. In effect, payments originally charged to the operating budget were charged to the capital projects. In November 2004, to accomplish what was originally intended, the School Committee will request additional funding for these projects in the amount of \$650,000.

Redevelopment and Closure of the Landfill Site

When the Town sold its landfill site to Dickinson Development Corporation (Dickinson) of Quincy, Massachusetts for \$3,000,000 in March 2003, Dickinson assumed the financial responsibility for the closure of the landfill in coordination with its development of the property. In accordance with an Administrative Consent Order agreement

between the Town, Dickinson and the Massachusetts Department of Environmental Protection, the Town retains contingent liability for the closure of the landfill. However, Dickinson provided the Town with a \$3,000,000 letter of credit in the event that there is a failure on the part of Dickinson to properly close the landfill. The Administrative Consent Order also requires Dickinson to make an annual contribution of \$37,000 for the costs incurred to monitor and maintain the landfill site for up to thirty years after the landfill cover is installed.

Compliant with the Administrative Consent Order, the Town established an enterprise fund with the proceeds from the sale of the property to ensure funding for the closure of the property. Subject to the Massachusetts Department of Environmental Protection approval, the proceeds from the sale of the property will be transferred to the Town's sale of real estate fund as Dickinson reaches certain benchmarks. In April 2004 the Town received authorization from the Department of Environmental Protection to transfer \$750,000 from the landfill closure and postclosure enterprise fund to the Town's sale of real estate fund.

Overview of the Financial Statements

The Governmental Accounting Standards Board (GASB) establishes accounting principles for state and local governments. The Town's financial statements for the year ended June 30, 2004 are prepared and presented using the guidelines established by the GASB.

The electric enterprise fund is governed by the elected Reading Municipal Light Board and has issued a separate financial report dated December 31, 2003. As the Reading Municipal Light Department is legally a part of the Town, its financial statements have been incorporated with the financial data of the Town and presented in this report. Although legally separate from the Town, the Reading Contributory Retirement Board (Retirement Board) has a significant relationship with the Town and is included in the Town's financial statements.

The Town's financial statements consist of the following four sections:

- **Management's Discussion and Analysis** – An introduction to the basic financial statements that is intended to be an easily read analysis of the Town's financial activities based on currently known facts, decisions or conditions.
- **Basic Financial Statements** – This section of the report includes government-wide financial statements, fund financial statements and notes to the financial statements. The government-wide financial statements present the financial position and activities of the Town as a whole using accounting methods similar to those used by private-sector companies. The fund financial statements present financial information on specific activities of the Town. Funds are classified as major and nonmajor funds. The general fund, Reading Memorial High School capital project fund, Wood End Elementary School capital project fund, electric enterprise fund and the water enterprise fund are major funds and are reported separately in the fund statements. Nonmajor funds are reported in the aggregate in a separate column. The notes to the financial statements provide additional disclosures to the information presented in the financial statements.
- **Required Supplementary Information** – This section of the report includes financial information that is not part of the basic financial statements but is required by accounting principles generally accepted in the United States of America (GAAP). It includes a budgetary comparison schedule for the general fund and schedules related to the funding progress of the Retirement Board.
- **Combining Financial Statements** – This section of the report is not required by GAAP but is presented as supplementary information. Nonmajor governmental funds are presented in more detail and the sewer and landfill closure and postclosure enterprise funds are displayed individually.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances. These statements include all assets and liabilities of the Town, with the exception of assets that cannot be used to fund the Town's programs. The financial effect of transactions and events are recognized when they occur (accrual basis of accounting), regardless of when cash is received or paid. There are two government-wide financial statements:

- **Statement of Net Assets** – The statement on page 11 presents information on all of the Town's 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 of the Town is improving or deteriorating.

- **Statement of Activities** – The statement on page 12 presents information showing how the Town'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 buyback of accumulated sick leave).

The government-wide financial statements have separate columns for governmental activities and business-type activities. The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-type Activities** – Activities reported here include water supply and distribution, sewer disposal and electricity. User fees, charged to the customers receiving these services, finance these activities.

Fund Financial Statements

The fund financial statements present financial information on specific activities of the Town. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for particular purposes. The Town's funds can be divided into three categories:

- **Governmental Funds** – The statements on pages 13-14 cover the same activities that are reported in the governmental activities of the government-wide financial statements. The accounting basis and the measurement focus used in these statements, however, are not the same as the ones used in the government-wide financial statements. The governmental funds statements focus on current year accountability, as well as on the resources available at the end of the fiscal year.
- **Proprietary Funds** – The statements on pages 17-19 cover the same activities that are reported in the business-type of the government-wide financial statements. The accounting basis and the measurement focus used in these statements is the same as the ones used in the government-wide financial statements. However, these statements provide more detail and additional information, such as cash flow, on the Town's water, sewer, electric and landfill closure enterprise funds than the government-wide financial statements.
- **Fiduciary Funds** – The statements on pages 20-21 cover activities that are excluded from the Town's government-wide financial statements because the Town cannot use these assets to finance its operations. Assets accumulated by the Light Department and Retirement Board to fund employee pension benefits are reported in this section of the report, as well as assets held in which the Town acts solely as a trustee or agent for the benefit of others.

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but they are on the statement of net assets. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. There are two schedules on pages 15-16 that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the balance sheet of the governmental funds to the statement of net assets
- Reconciliation of the statement of revenues and expenditures and changes in fund balances of the governmental funds to the statement of activities

The reconciliation of government-wide financial statements to enterprise funds or fiduciary funds of the fund financial statements is not necessary. The business-type activities of the government-wide financial statements and the enterprise funds use the same accounting basis and measurement focus. The fiduciary funds are not included in the government-wide financial statements.

Financial Analysis of the Government-wide Financial Statements

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. However, the net assets of governmental activities should be viewed independently from business-type activities. Resources of the governmental activities are not used to finance costs related to business-type activities. Revenues of the business-type activities are generally used to finance the operations of the water, sewer and electric enterprise funds. The following table reflects the condensed net assets compared to the prior year.

Net Assets
June 30, 2004 and 2003
(Except for the Electric Enterprise Activity, which is December 31, 2003 and 2002)
(In Millions)

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 75.8	41.1	45.5	45.4	121.3	86.5
Capital assets	77.4	66.2	61.7	59.8	139.1	126.0
Total assets	<u>153.2</u>	<u>107.3</u>	<u>107.2</u>	<u>105.2</u>	<u>260.4</u>	<u>212.5</u>
Other liabilities	44.4	32.6	10.0	6.5	54.4	39.1
Long-term liabilities	60.2	30.9	5.3	7.2	65.5	38.1
Total liabilities	<u>104.6</u>	<u>63.5</u>	<u>15.3</u>	<u>13.7</u>	<u>119.9</u>	<u>77.2</u>
Net assets:						
Invested in capital assets, Net of related debt	36.6	34.0	56.8	53.9	93.4	87.9
Restricted	8.4	8.2	8.2	9.1	16.6	17.3
Unrestricted (deficit)	3.6	1.6	26.9	28.5	30.5	30.1
Total net assets	<u>\$ 48.6</u>	<u>43.8</u>	<u>91.9</u>	<u>91.5</u>	<u>140.5</u>	<u>135.3</u>

The above table shows that the total net assets of the Town increased by \$5.2 million or 3.8%. The net assets of the governmental activities increased by \$4.8 million or 11.0% and business-type activities increased by \$.4 million or .4%.

- **Governmental Activities** – The Town's unrestricted net assets increased by \$2.0 million during the current fiscal year.
- **Business-type Activities** - The beginning net assets of the electric enterprise fund were restated in their financial report dated December 31, 2003 as a result of the implementation of GASB Statement 34. The changes are reflected in the 2003 net assets in the table above. The net assets of the electric fund compared to the net assets as restated increased by 1.3 million or 1.8% in the current year. The net assets of the water fund increased by .2 million or 2.3% while the net assets of the sewer fund decreased by \$.3 million or 3.5% during the current year. In April 2004, \$750,000 was transferred to the Town's sale of real estate fund from the landfill closure and postclosure enterprise fund .

Changes in Net Assets

The following condensed financial information was derived from the government-wide statement of activities and reflects how the Town's net assets changed during the fiscal year.

Changes in Net Assets
For the Years Ended June 30, 2004 and 2003
(Except for the Electric Enterprise Activity, which is for years ended December 31, 2003 and 2002)
(In Millions)

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Revenues	\$					
Program revenues:						
Charges for services	4.5	3.7	65.8	69.0	70.3	72.7
State grants and entitlements	12.0	10.1	—	—	12.0	10.1
Other	.7	1.0	.7	1.2	1.4	2.2
General revenues:						
Property taxes	37.9	32.4	—	—	37.9	32.4
Motor vehicle excise taxes	2.8	2.8	—	—	2.8	2.8
State entitlements	3.5	3.7	—	—	3.5	3.7
Other	1.1	.9	—	—	1.1	.9
Total revenues	<u>62.5</u>	<u>54.6</u>	<u>66.5</u>	<u>70.2</u>	<u>129.0</u>	<u>124.8</u>
Expenses						
General government	3.4	3.4	—	—	3.4	3.4
Public safety	9.5	8.7	—	—	9.5	8.7
Education	36.8	34.8	—	—	36.8	34.8
Public works and facilities	6.2	5.8	—	—	6.2	5.8
Human services	.6	.6	—	—	.6	.6
Culture and recreation	1.7	1.8	—	—	1.7	1.8
Interest on debt service	2.2	1.5	—	—	2.2	1.5
Electric	—	—	56.9	55.2	56.9	55.2
Water	—	—	2.8	2.6	2.8	2.6
Sewer	—	—	3.8	3.7	3.8	3.7
Total expenses	<u>60.4</u>	<u>56.6</u>	<u>63.5</u>	<u>61.5</u>	<u>123.9</u>	<u>118.1</u>
Excess (deficiency) of revenues over (under) expenses	2.1	(2.0)	3.0	8.7	5.1	6.7
Contributions to permanent funds	.1	.1	—	—	.1	.1
Special item: sale of landfill site	—	6.0	—	3.0	—	9.0
Transfers	2.6	1.9	(2.6)	(1.8)	—	.1
Increase (decrease) in net assets	<u>\$ 4.8</u>	<u>6.0</u>	<u>.4</u>	<u>9.9</u>	<u>5.2</u>	<u>15.9</u>

As previously noted, governmental activities should be viewed independently from business-type activities.

- **Governmental Activities** – In fiscal year 2004 property taxes accounted for 60.6% of revenues. State grants and entitlements represented 24.8% of revenues.
- **Business-type Activities** – Water, sewer and electric rates are structured to cover all the costs related to each activity. Investment income is the only source of revenue generated by the landfill closure and postclosure fund. As previously noted, the Town received authorization from the Department of Environmental Protection to transfer \$750,000 from the landfill closure and postclosure enterprise fund to the Town's sale of real estate fund in April 2004.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – For the first time in seven years revenues and transfers from other funds exceeded expenditures and transfers to other funds. The year-end fund balance of the general fund was \$2,580,659 more than the prior year fund balance. However, as previously noted, \$650,000 was generated because of the opinion issued by the DOR.

On November 10, 2003 Town Meeting voted to establish a stabilization fund for \$700,000. As the stabilization fund is not earmarked, the original authorization plus any investment income generated can be used to provide funding for any future capital or operating needs.

Based upon the balance sheet as of June 30, the DOR annually determines the amount of general fund balance available for appropriation. In general this amount, commonly known as “free cash”, is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both.

The stabilization fund and “free cash” are reported as the unreserved fund balance of the general fund. Any additional fund balance that is not reserved for encumbrances or reserved for subsequent year's expenditure is reported as reserved by state statute. “Free cash” was certified prior to the opinion issued by the DOR in September 2004. As the Town has not requested the DOR to recalculate “free cash”, the \$650,000 is included in the reserved by state statute component. The following table reflects the trend in all the components of fund balance.

Changes in Fund Balance Last Five Fiscal Years General Fund

<u>As of June 30</u>	<u>Reserved for Encumbrances</u>	<u>Subsequent Year's Expenditures</u>	<u>Reserved By State Statute</u>	<u>Stabilization Fund</u>	<u>Unreserved ("Free Cash")</u>	<u>Total Fund Balance</u>
2000	\$ 965,151	768,695	381,994	—	1,164,025	3,579,865
2001	779,136	654,623	760,320	—	985,699	3,179,778
2002	590,496	688,609	485,900	—	1,288,269	3,053,274
2003	348,070	351,820	636,397	—	1,703,703	3,039,990
2004	641,218	554,674	1,382,325	703,736	2,338,696	5,620,649

Memorial High School Capital Projects Fund – This fund is used to account for the renovation and construction of the Reading Memorial High School for approximately \$54.3 million. On February 25, 2003 the voters approved a debt exclusion for the High School project by a vote of 4,802 to 2,894. The approval of a debt exclusion allows the Town to exclude the annual debt service payments for this project from the property tax levy limitations. The project is in the beginning phase.

Wood End Elementary School Capital Projects Fund – This fund is used to account for the construction of the Wood End Elementary School for approximately \$11.0 million. The school opened in September 2004.

Other Governmental Funds – Because the Town used short-term debt (bond anticipation notes) to provide funding for the construction and renovation of several school buildings, fund balance decreased by \$6.4 million during the fiscal year. As these bond anticipation notes are reported as liabilities (notes payable) on the other governmental funds balance sheet, expenditures related to these projects are not offset by a funding sources on the statement of revenues, expenditures and changes in fund balance. This deficit is temporary and will be eliminated when the bond anticipation notes are refinanced on a long-term basis (bond issue).

Proprietary Funds – As noted previously, proprietary funds report the same activities that are reported in the business-type of the government-wide financial statements, only in more detail. In addition to determining the amount of general fund balance available for appropriation, the DOR also makes a similar calculation for the water and sewer fund. These amounts are reported as unreserved net assets in the water and sewer enterprise funds. The net assets available to fund subsequent years' expenses in the water fund were \$1,781,968, an increase from the prior year of \$154,375. The net assets available to fund subsequent years' expenses in the sewer fund were \$1,077,249, a decrease from the prior year of \$10,403.

Fiduciary Funds – The assets of the employee pension plan are invested in the Pension Reserves Investment Trust (PRIT). The PRIT Fund is a broadly diversified pooled investment fund managed under the direction of a broadly representative board. After posting two consecutive years of negative returns, the PRIT Fund posted a 19.49% return (gross of fees). The Town's one-year investment return, net of related expenses, was 18.93%. Net assets for the year increased \$10.0 million from the prior year. Based upon the actuarial valuation dated June 30, 2003, the actuarial value of assets of the employee pension plan represent approximately 68.9% of the current actuarial accrued liability.

The net assets of the municipal light pension trust decreased by \$231,381 from the prior year. The assets of the light pension trust are invested in fixed income securities and are used to fund the Light Department annual required contribution to the employee pension plan. Contributions to the fund are determined by an actuarial valuation.

Capital Assets

Excluding the business-type activities, the Town had \$77.4 million invested in a broad range of capital assets, net of depreciation, on June 30, 2004. This amount represents an increase (including additions and deductions) of \$11.3 million, or 17.1%, over last year. On December 31, 2003 the Light Department had \$51.3 million invested in capital assets, net of depreciation, which represents a net increase of \$2.2 million, or 4.5%, over last year.

In the following schedule, infrastructure assets include roads, water and sewer lines and electric assets include transmission, distribution and general plant.

Capital Assets at June 30, 2004 and 2003
(Except for the Electric Enterprise Activity, which is December 31, 2003 and 2002)
(Net of Depreciation, in Millions)

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land and improvements	\$ 3.8	3.8	.2	.2	4.0	4.0
Building and improvements	53.4	42.7	2.5	2.8	55.9	45.5
Equipment	1.7	1.8	.9	1.1	2.6	2.9
Infrastructures	18.5	17.8	6.8	6.6	25.3	24.4
Total	<u>77.4</u>	<u>66.1</u>	<u>10.4</u>	<u>10.7</u>	<u>87.8</u>	<u>76.8</u>
Electric	—	—	51.3	49.1	51.3	49.1
Total net assets	<u>\$ 77.4</u>	<u>66.1</u>	<u>61.7</u>	<u>59.8</u>	<u>139.1</u>	<u>125.9</u>

This year's major capital asset events included:

- The preliminary work related to the Reading Memorial High School renovation and construction project at \$3,725,229 with construction in progress at the end of the year reaching \$4,751,663.
- The construction of the Wood End Elementary School at \$7,778,610 with construction in progress at the end of the year reaching \$9,387,067.
- The roadway, sidewalk, curb, drainage and traffic control improvements at the entrance of former landfill site costing \$1,932,731 during the fiscal year, which was funded primarily though a \$1.8 million Commonwealth of Massachusetts economic development grant.
- Water main construction for \$370,127

Debt

Excluding the debt of the Light Department, the Town had \$76.6 million in bonds, notes and loans outstanding on June 30, 2004. This represents a \$37.9 million increase or 97.9% from the previous year. This increase is due to the \$35.0 general obligation bonds issued for the renovation of the Reading Memorial High School. The Light Department had \$4.2 million in bonds outstanding on December 31, 2003. This represents a \$1.1 million decrease or 20.8% reduction from the previous year.

Outstanding Debt at June 30, 2004 and 2003
(Except for the Electric Activity, which is December 31, 2003 and 2002)
(In Millions)

	<u>2004</u>	<u>2003</u>
Governmental activities:		
General obligation notes payable	\$ 12.8	9.1
General obligation bonds payable	61.6	28.9
Total governmental activities	<u>74.4</u>	<u>38.0</u>
Business-type activities:		
Water:		
General obligation notes payable	2.2	.6
Sewer:		
Loans payable	—	.1
Electric:		
General obligation bonds payable	4.2	5.3
Total business-type activities	<u>6.4</u>	<u>6.0</u>
Total debt	<u>\$ 80.8</u>	<u>44.0</u>

The Town issues short-term debt in anticipation of issuing long-term debt at a future date. At year-end, the Town had \$15.0 million outstanding bond anticipations notes.

The Town maintains a "AA" rating from Standard & Poor's and a "A1" from Moody's' for general obligation debt. For the Town's bond anticipations notes, Standard & Poor's assigned a rating of "SP-1+" and Moody's assigned a rating of "MIG1".

The Town's general obligation bond issues for school construction projects for which the Town receives construction grants from the Commonwealth of Massachusetts are amortized over twenty years. In general, all other general obligation bond issues are amortized in ten years.

Fiscal Year 2005 Budget

Property taxes are projected to increase by \$4.2 million or 11% over the property taxes levied in fiscal year 2004. The debt service related to the renovation and replacement of the Reading Memorial High School represents approximately 2.7 million or 7% of this increase.

Notwithstanding the anticipated level funding of state aid, increases in group health insurance and pension costs, the fiscal year 2005 budget adopted by Town Meeting in May 2004 maintained services at the fiscal year 2004 levels.

Requests for Information

This financial report is designed to provide a general overview of the Town'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, 2004

(except for the Electric Enterprise Activity, which is as of December 31, 2003)

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
ASSETS			
Cash and cash equivalents	\$ 20,843,241	29,732,017	50,575,258
Cash with fiscal agent	14,500	—	14,500
Investments	30,002,885	4,900,000	34,902,885
Receivables, net of allowance for uncollectibles	22,794,855	7,967,967	30,762,822
Inventories and prepayments	—	2,601,284	2,601,284
Unamortized discounts on bonds	149,340	41,845	191,185
Investments in joint ventures	—	239,309	239,309
Investments, permanently restricted	1,985,313	—	1,985,313
Capital assets:			
Assets not being depreciated	18,208,220	1,601,549	19,809,769
Assets being depreciated, net of accumulated depreciation	<u>59,207,577</u>	<u>60,101,452</u>	<u>119,309,029</u>
Total assets	<u>153,205,931</u>	<u>107,185,423</u>	<u>260,391,354</u>
LIABILITIES			
Accounts payable and other current liabilities	5,195,444	4,818,126	10,013,570
Accrued interest payable	1,370,700	130,290	1,500,990
Unearned revenue	21,255,415	1,203,990	22,459,405
Notes payable	12,833,000	2,167,000	15,000,000
Deposits	—	744,128	744,128
Long-term liabilities:			
Due within one year:			
Compensated absences	234,704	—	234,704
Bonds payable	3,339,000	846,000	4,185,000
Unamortized premiums on bonds	159,066	23,057	182,123
Due in more than one year:			
Compensated absences	1,642,034	1,980,834	3,622,868
Bonds payable	58,225,000	3,360,000	61,585,000
Unamortized premiums on bonds	<u>371,953</u>	<u>—</u>	<u>371,953</u>
Total liabilities	<u>104,626,316</u>	<u>15,273,425</u>	<u>119,899,741</u>
NET ASSETS			
Invested in capital assets, net of related debt	36,612,301	56,765,296	93,377,597
Restricted for:			
Medical assistance for needy citizens	3,675,703	—	3,675,703
Cemetery purposes	1,161,619	—	1,161,619
Other purposes:			
Expendable	1,503,655	8,227,257	9,730,912
Nonexpendable	1,985,913	—	1,985,913
Unrestricted	<u>3,640,424</u>	<u>26,919,445</u>	<u>30,559,869</u>
Total net assets	<u>\$ 48,579,615</u>	<u>91,911,998</u>	<u>140,491,613</u>

The notes to the financial statements are an integral part of this statement.

Town of Reading, Massachusetts
Statement of Activities
For the Year Ended June 30, 2004
(except for the Electric Enterprise Activity, which is for year ended December 31, 2003)

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services, Fines and Forfeitures</u>	<u>Operating Grants, Contributions And Restricted Interest</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 3,442,099	334,071	53,900	—	(3,054,128)	—	(3,054,128)
Public safety	9,452,220	1,668,865	179,216	—	(7,604,139)	—	(7,604,139)
Education	36,827,141	1,713,280	8,178,046	983,916	(25,951,899)	—	(25,951,899)
Public works and facilities	6,152,940	253,819	644,119	1,781,459	(3,473,543)	—	(3,473,543)
Human services	644,319	47,913	135,631	—	(460,775)	—	(460,775)
Culture and recreation	1,718,504	476,688	86,962	—	(1,154,854)	—	(1,154,854)
Interest on debt service	2,145,299	—	677,861	—	(1,467,438)	—	(1,467,438)
Total government activities	<u>60,382,522</u>	<u>4,494,636</u>	<u>9,955,735</u>	<u>2,765,375</u>	<u>(43,166,776)</u>	<u>—</u>	<u>(43,166,776)</u>
Business-type activities:							
Electric	56,924,450	59,347,979	250,143	417,083	—	3,090,755	3,090,755
Water	2,791,187	2,964,765	23,752	—	—	197,330	197,330
Sewer	3,833,179	3,525,280	9,400	—	—	(298,499)	(298,499)
Landfill closure	—	—	29,993	—	—	29,993	29,993
Total business-type activities	<u>63,548,816</u>	<u>65,838,024</u>	<u>313,288</u>	<u>417,083</u>	<u>—</u>	<u>3,019,579</u>	<u>3,019,579</u>
Total government	\$ <u>123,931,338</u>	<u>70,332,660</u>	<u>10,269,023</u>	<u>3,182,458</u>	<u>(43,166,776)</u>	<u>3,019,579</u>	<u>(40,147,197)</u>
General revenues:							
					37,925,198	—	37,925,198
					2,818,319	—	2,818,319
					167,558	—	167,558
					377,240	—	377,240
					3,469,846	—	3,469,846
					504,599	—	504,599
					29,938	—	29,938
					81,580	—	81,580
					2,576,062	(2,576,062)	—
					<u>47,950,340</u>	<u>(2,576,062)</u>	<u>45,374,278</u>
					4,783,564	443,517	5,227,081
					<u>43,796,051</u>	<u>91,468,481</u>	<u>135,264,532</u>
					\$ <u>48,579,615</u>	<u>91,911,998</u>	<u>140,491,613</u>

The notes to the financial statements are an integral part of this statement.

Town of Reading, Massachusetts
Balance Sheet
Governmental Funds
June 30, 2004

	<u>General Fund</u>	<u>Memorial High School Capital Project Fund</u>	<u>Wood End Elementary Capital Project Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 4,296,777	11,348,337	2,665,201	2,532,926	20,843,241
Cash with fiscal agent	14,500	—	—	—	14,500
Investments	25,000,000	—	—	6,988,198	31,988,198
Receivables:					
Property taxes:					
Delinquent	243,606	—	—	—	243,606
Subsequent year's levy	20,935,796	—	—	—	20,935,796
Liens	213,018	—	—	400	213,418
Deferrals	104,088	—	—	—	104,088
Motor vehicle excise	158,823	—	—	—	158,823
Special assessments	4,082	—	—	6,614	10,696
Accrued interest	26,267	—	—	—	26,267
Other governments	7,446	—	—	1,165,096	1,172,542
Other	—	—	—	184,671	184,671
Due from other funds	—	20,000,000	—	—	20,000,000
Total assets	<u>\$ 51,004,403</u>	<u>31,348,337</u>	<u>2,665,201</u>	<u>10,877,905</u>	<u>95,895,846</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants and accounts payable	\$ 1,407,865	—	1,152,268	973,562	3,533,695
Accrued liabilities:					
Payroll	1,554,095	—	—	107,654	1,661,749
Interest on bond anticipation notes	136,856	—	—	—	136,856
Due to other funds	20,000,000	—	—	—	20,000,000
Deferred revenue	22,284,938	—	—	7,014	22,291,952
Notes payable	—	800,000	10,900,000	1,133,000	12,833,000
Total liabilities	<u>45,383,754</u>	<u>800,000</u>	<u>12,052,268</u>	<u>2,221,230</u>	<u>60,457,252</u>
Fund balances:					
Reserved by state statute	1,382,325	—	—	—	1,382,325
Reserved for:					
Encumbrances	641,218	—	—	—	641,218
Subsequent year's expenditure	554,674	—	—	454,993	1,009,667
Unreserved	3,042,432	—	—	—	3,042,432
Unreserved, (deficit) reported in:					
Special revenue funds	—	—	—	7,264,276	7,264,276
Capital projects funds	—	30,548,337	(9,387,067)	(1,048,507)	20,112,763
Permanent funds	—	—	—	1,985,913	1,985,913
Total fund balances	<u>5,620,649</u>	<u>30,548,337</u>	<u>(9,387,067)</u>	<u>8,656,675</u>	<u>35,438,594</u>
Total liabilities and fund balances	<u>\$ 51,004,403</u>	<u>31,348,337</u>	<u>2,665,201</u>	<u>10,877,905</u>	<u>95,895,846</u>

The notes to the financial statements are an integral part of this statement.

Town of Reading, Massachusetts
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	General Fund	Memorial High School Capital Project Fund	Wood End Elementary Capital Project Fund	Other Governmental Funds	Total
Revenues:					
Property taxes	\$ 37,879,323	—	—	—	37,879,323
Excise taxes	2,803,284	—	—	—	2,803,284
Penalties and interest on taxes	167,558	—	—	—	167,558
Payments in lieu of taxes	269,984	—	—	107,256	377,240
Charges for services	1,431,493	—	—	2,854,954	4,286,447
Licenses and permits	63,360	—	—	—	63,360
Intergovernmental	11,498,777	—	—	3,960,864	15,459,641
Special assessments	6,390	—	—	602	6,992
Fines	138,693	—	—	200	138,893
Investment income	503,012	—	—	231,658	734,670
Contributions and bequests	—	—	—	369,940	369,940
Miscellaneous	50,819	—	—	192,000	242,819
Total revenues	54,812,693	—	—	7,717,474	62,530,167
Expenditures:					
Current:					
General government	2,402,660	—	—	58,236	2,460,896
Public safety	6,390,969	—	—	840,328	7,231,297
Education	28,521,935	—	—	3,493,055	32,014,990
Public works and facilities	3,788,089	—	—	233,459	4,021,548
Human services	304,066	—	—	227,258	531,324
Culture and recreation	893,251	—	—	549,351	1,442,602
Employee benefits	7,355,202	—	—	—	7,355,202
Intergovernmental	566,001	—	—	—	566,001
Debt service	3,985,163	—	—	—	3,985,163
Capital outlay	—	3,725,229	7,878,610	2,311,694	13,915,533
Total expenditures	54,207,336	3,725,229	7,878,610	7,713,381	73,524,556
Excess (deficiency) of revenues over expenditures	605,357	(3,725,229)	(7,878,610)	4,093	(10,994,389)
Other financing sources (uses):					
Bonds issued	—	35,000,000	—	—	35,000,000
Premiums on bonds and notes issued	440,666	—	—	—	440,666
Transfers from other funds	1,952,136	300,000	—	867,500	3,119,636
Transfers to other funds	(417,500)	—	—	(126,074)	(543,574)
Total other financing sources (uses)	1,975,302	35,300,000	—	741,426	38,016,728
Net change in fund balances	2,580,659	31,574,771	(7,878,610)	745,519	27,022,339
Fund balances - beginning	3,039,990	(1,026,434)	(1,508,457)	7,911,156	8,416,255
Fund balances - ending	\$ 5,620,649	30,548,337	(9,387,067)	8,656,675	35,438,594

The notes to the financial statements are an integral part of this statement.

**Town of Reading, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Assets
 For the Year Ended June 30, 2004**

Total fund balances – governmental funds (page 13)		\$ 35,438,594
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:</p>		
Land and land improvements	\$ 4,082,079	
Infrastructure assets	38,006,216	
Buildings and building improvements	65,936,211	
Other capital assets	3,996,414	
Accumulated depreciation	<u>(34,605,123)</u>	
Total capital assets		77,415,797
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.</p>		
		781,485
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:</p>		
Bonds payable	(61,564,000)	
Accrued interest on bonds	(1,233,844)	
Compensated absences	<u>(1,876,738)</u>	
Total long-term liabilities		(64,674,582)
<p>Governmental funds report the effects of the costs related to issuing debt and premiums on debt when the debt is issued. These amounts are deferred and amortized in the statement of activities.</p>		
		<u>(381,679)</u>
		\$
Net assets of governmental activities (page 11)		<u><u>48,579,615</u></u>

The notes to the financial statements are an integral part of this statement.

**Town of Reading, Massachusetts
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances of the Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2004**

Net change in fund balances – governmental funds (page 14)	\$ 27,022,339
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	59,855
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balances. In the government-wide statements, however, issuing debt increases long-term in the statement of net assets and does not affect the statement of activities.	(35,000,000)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$14,510,238) exceeded depreciation (\$3,248,237) in the current period.	11,262,001
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,369,000
Governmental funds report the effects of the costs related to issuing debt and premiums on debt when the debt is issued. These amounts are deferred and amortized in the statement of activities.	(336,433)
Interest on long term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(633,369)
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditure for the items are measured by the amount of financial resources used (essentially, the amounts paid in cash).	40,171
Change in net assets of governmental activities (page 12)	\$ <u>4,783,564</u>

The notes to the financial statements are an integral part of this statement.

Town of Reading, Massachusetts
Statement of Net Assets
Proprietary Funds
June 30, 2004
(except for the Electric Enterprise Fund, which is as of December 31, 2003)

Business-type Activities - Enterprise Funds

	<u>Electric</u>	<u>Water</u>	<u>Other</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 18,852,555	5,112,765	4,174,508	28,139,828
Receivables, net of allowance for uncollectibles:				
User charges	6,178,004	762,117	916,127	7,856,248
Liens	—	21,244	18,535	39,779
Deferrals	—	1,201	1,853	3,054
Special assessments	—	—	68,886	68,886
Prepaid expenses	1,100,093	—	—	1,100,093
Inventories	1,375,404	124,093	1,694	1,501,191
Deferred charges	—	2,964	—	2,964
Total current assets	<u>27,506,056</u>	<u>6,024,384</u>	<u>5,181,603</u>	<u>38,712,043</u>
Noncurrent assets:				
Restricted cash and cash equivalents	1,592,189	—	—	1,592,189
Investments	4,900,000	—	—	4,900,000
Investments in joint ventures	239,309	—	—	239,309
Deferred charges	38,881	—	—	38,881
Capital assets	89,283,536	10,264,285	10,567,216	110,115,037
Less accumulated depreciation	<u>(38,001,719)</u>	<u>(5,237,051)</u>	<u>(5,173,266)</u>	<u>(48,412,036)</u>
Total noncurrent assets	<u>58,052,196</u>	<u>5,027,234</u>	<u>5,393,950</u>	<u>68,473,380</u>
Total assets	<u>85,558,252</u>	<u>11,051,618</u>	<u>10,575,553</u>	<u>107,185,423</u>
LIABILITIES				
Current liabilities:				
Warrants and accounts payable	4,374,710	89,760	12,928	4,477,398
Deferred revenue	1,203,990	—	—	1,203,990
Interest on bonds and notes payable	107,180	23,110	—	130,290
Other liabilities	340,728	—	—	340,728
Deposits	670,128	—	74,000	744,128
Notes payable	—	2,167,000	—	2,167,000
Unamortized premium on notes payable	—	23,057	—	23,057
Bonds payable	846,000	—	—	846,000
Total current liabilities	<u>7,542,736</u>	<u>2,302,927</u>	<u>86,928</u>	<u>9,932,591</u>
Noncurrent liabilities:				
Compensated absences	1,927,282	48,350	5,202	1,980,834
Bonds payable	3,360,000	—	—	3,360,000
Total noncurrent liabilities	<u>5,287,282</u>	<u>48,350</u>	<u>5,202</u>	<u>5,340,834</u>
Total liabilities	<u>12,830,018</u>	<u>2,351,277</u>	<u>92,130</u>	<u>15,273,425</u>
NET ASSETS				
Invested in capital assets, net of related debt	47,075,817	4,295,529	5,393,950	56,765,296
Restricted	1,592,189	2,622,844	4,012,224	8,227,257
Unreserved	24,060,228	1,781,968	1,077,249	26,919,445
Total net assets	<u>\$ 72,728,234</u>	<u>8,700,341</u>	<u>10,483,423</u>	<u>91,911,998</u>

The notes to the financial statements are an integral part of this statement.

Town of Reading, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended June 30, 2004
(except for the Electric Enterprise Fund, which is as of December 31, 2003)

Business-type Activities - Enterprise Funds

	<u>Electric</u>	<u>Water</u>	<u>Other</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 59,347,979	2,964,765	3,508,416	65,821,160
Special assessments	—	—	16,864	16,864
Total operating revenues	<u>59,347,979</u>	<u>2,964,765</u>	<u>3,525,280</u>	<u>65,838,024</u>
Operating expenses:				
Energy purchases	42,383,219	171,061	20,566	42,574,846
Intergovernmental	983,294	110,504	2,937,036	4,030,834
Depreciation	2,528,077	468,588	248,408	3,245,073
Other operating costs	<u>10,413,347</u>	<u>2,014,011</u>	<u>627,169</u>	<u>13,054,527</u>
Total operating expenses	<u>56,307,937</u>	<u>2,764,164</u>	<u>3,833,179</u>	<u>62,905,280</u>
Operating income (loss)	<u>3,040,042</u>	<u>200,601</u>	<u>(307,899)</u>	<u>2,932,744</u>
Nonoperating revenues (expenses):				
Decrease in equity in joint venture	(340,056)	—	—	(340,056)
Investment income	250,143	23,752	39,393	313,288
Interest expense	<u>(276,457)</u>	<u>(27,023)</u>	<u>—</u>	<u>(303,480)</u>
Total nonoperating revenues (expenses)	<u>(366,370)</u>	<u>(3,271)</u>	<u>39,393</u>	<u>(330,248)</u>
Income (loss) before contributions and transfers	<u>2,673,672</u>	<u>197,330</u>	<u>(268,506)</u>	<u>2,602,496</u>
Contributions from customers	417,083	—	—	417,083
Transfers to other funds	<u>(1,826,062)</u>	<u>—</u>	<u>(750,000)</u>	<u>(2,576,062)</u>
Changes in net assets	1,264,693	197,330	(1,018,506)	443,517
Net assets - beginning	<u>71,463,541</u>	<u>8,503,011</u>	<u>11,501,929</u>	<u>91,468,481</u>
Net assets - ending	<u>\$ 72,728,234</u>	<u>8,700,341</u>	<u>10,483,423</u>	<u>91,911,998</u>

The notes to the financial statements are an integral part of this statement.

Town of Reading, Massachusetts
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2004
(except for the Electric Enterprise Fund, which is as of December 31, 2003)

Business-type Activities - Enterprise Funds

	<u>Electric</u>	<u>Water</u>	<u>Other</u>	<u>Total</u>
Cash flows from operating activities:				
Receipts from customers	\$ 58,204,923	2,902,177	3,578,715	64,685,815
Payments to vendors and employees	(52,026,754)	(2,276,917)	(660,921)	(54,964,592)
Payments to other governments	(983,294)	(110,504)	(2,937,036)	(4,030,834)
Net cash provided (used) by operating activities	<u>5,194,875</u>	<u>514,756</u>	<u>(19,242)</u>	<u>5,690,389</u>
Cash flows from noncapital financing activities:				
Transfers to other funds	(1,826,062)	—	(750,000)	(2,576,062)
Cash flows from capital and related financing activities:				
Proceeds from bond anticipation notes	—	1,687,000	—	1,687,000
Premium from sale of bond anticipation notes	—	23,057	—	23,057
Bond anticipation notes issue costs	—	(2,964)	—	(2,964)
Acquisition of capital assets	(4,655,724)	(413,464)	(55,855)	(5,125,043)
Capital contributions and customer advances	417,083	—	—	417,083
Principal paid on capital debt	(1,081,000)	(120,000)	(132,190)	(1,333,190)
Interest paid on capital debt	(276,457)	(7,419)	—	(283,876)
Net cash provided (used) by capital and related financing activities	<u>(5,596,098)</u>	<u>1,166,210</u>	<u>(188,045)</u>	<u>(4,617,933)</u>
Cash flows from investing activities:				
Investments (purchases net of sales)	3,007,586	—	—	3,007,586
Loss on investment in joint venture	(340,056)	—	—	(340,056)
Interest on investments	250,143	23,752	39,393	313,288
Net cash provided by investing activities	<u>2,917,673</u>	<u>23,752</u>	<u>39,393</u>	<u>2,980,818</u>
Net increase (decrease) in cash and cash equivalents	690,388	1,704,718	(917,894)	1,477,212
Balances - beginning	19,754,356	3,408,047	5,092,402	28,254,805
Balances - ending (including \$1,592,189 reported as restricted cash)	<u>\$ 20,444,744</u>	<u>5,112,765</u>	<u>4,174,508</u>	<u>29,732,017</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 3,040,042	200,601	(307,899)	2,932,744
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	2,528,077	468,588	248,408	3,245,073
Changes in net assets and liabilities:				
Receivables (net)	(1,066,218)	(62,589)	53,436	(1,075,371)
Inventories and prepayments	(573,589)	(23,149)	(1,695)	(598,433)
Warrants and accounts payable	1,710,261	(72,790)	(11,984)	1,625,487
Compensated absences payable	199,908	4,095	492	204,495
Accrued liabilities	(594,721)	—	—	(594,721)
Customer deposits	(23,539)	—	—	(23,539)
Deferred revenue	(25,346)	—	—	(25,346)
Net cash provided (used) by operating activities	<u>\$ 5,194,875</u>	<u>514,756</u>	<u>(19,242)</u>	<u>5,690,389</u>

The notes to the financial statements are an integral part of this statement.

Town of Reading, Massachusetts
Statement of Net Assets
Fiduciary Funds
June 30, 2004

	Employee Pension Plan	Other Employee Benefits Municipal Light Pension Trust	Agency Funds
ASSETS			
Cash and cash equivalents	\$ 123,289	890,075	224,459
Investments	64,793,477	7,320,454	—
Receivables:			
Liens	—	—	2,805
User charges	—	—	1,403
Total assets	<u>64,916,766</u>	<u>8,210,529</u>	<u>228,667</u>
LIABILITIES			
Warrants and accounts payable	—	—	43,783
Other liabilities	100,986	—	184,884
Total liabilities	<u>100,986</u>	<u>—</u>	<u>228,667</u>
NET ASSETS			
Held in trust for pension benefits and other employee benefits	<u>\$ 64,815,780</u>	<u>8,210,529</u>	<u>—</u>

The notes to the financial statements are an integral part of this statement.

Town of Reading, Massachusetts
Statement of Changes Net Assets
Fiduciary Funds
For The Year Ended June 30, 2004

	Employee Pension Plan	Other Employee Benefits Municipal Light Pension Trust
Additions:		
Contributions:		
Employers	\$ 3,192,193	631,645
Plan members	1,509,650	—
Intergovernmental	454,517	—
Total contributions	<u>5,156,360</u>	<u>631,645</u>
Investment income (loss):		
Net increase (decrease) in fair value of investments	5,153,453	(304,746)
Interest, dividends, and other	5,598,618	288,320
Total investment income (loss)	10,752,071	(16,426)
Less: investment expenses	253,904	—
Net investment income (loss)	<u>10,498,167</u>	<u>(16,426)</u>
Total additions	<u>15,654,527</u>	<u>615,219</u>
Deductions:		
Benefits paid to participants or beneficiaries	5,477,353	—
Refunds and transfers to other systems	171,457	—
Administrative expenses	55,251	—
Contribution to employees' pension plan	—	846,600
Total deductions	<u>5,704,061</u>	<u>846,600</u>
Changes in net assets held in trust for employees' pension benefits	9,950,466	(231,381)
Net assets - beginning	<u>54,865,314</u>	<u>8,441,910</u>
Net assets - ending	<u>\$ 64,815,780</u>	<u>8,210,529</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF READING, MASSACHUSETTS

Notes to the Financial Statements

June 30, 2004

Note 1. Reporting Entity and Significant Accounting Policies

A. Financial Reporting Entity

The Town of Reading (Town) was incorporated as a town in 1644. A Representative Town Meeting and a five-member Board of Selectmen assisted by a Town Manager govern the Town. The services provided by the Town within its boundaries include education in grades K-12, police and fire protection, solid waste collection and disposal, street maintenance and library services. Water, sewer and electric services are provided on an enterprise basis. The electric service is also provided to customers in the Towns of Lynnfield, North Reading and Wilmington.

Accounting principles generally accepted in the United States of America ("GAAP") require that the accompanying financial statements present the Town (the primary government) and its component units. Component units are included in the Town's reporting entity if their operational and financial relationships with the Town are significant. Pursuant to these criteria, the Reading Contributory Retirement Board (Retirement Board) has been identified as a component unit. The Retirement Board was established under the authority of Chapter 32 of the Massachusetts General Laws, as amended, and is an independent contributory retirement system available to employees of the Town. The powers of the Retirement Board are vested in a five-member Retirement Board. The Retirement Board does not issue separate financial statements and is reported in a separate column in the Town's fiduciary funds.

B. Financial Statement Presentation

The financial condition and results of operations of the Town's funds are presented as of and for the year ended June 30, 2004, except for the Town's electric enterprise fund (Light Department) which is presented as of and for the year ended December 31, 2003. The accounting policies of the Town conform to GAAP.

The Light Department issues a stand-alone financial report. The financial statements of the electric enterprise fund are prepared on the basis of accounting prescribed by the Massachusetts Department of Telecommunications and Energy, which differ in certain respects from GAAP. The primary difference relates to the charging of depreciation expense at a fixed percentage of the Light Department's assets. Accordingly, the stand-alone financial statements of the electric enterprise fund are not intended to present financial position and results of operations in conformity with GAAP.

Certain reclassifications have been made to these financial statements to conform to the Town's presentation. A copy of the Light Department's stand-alone annual financial report may be obtained from the:

Municipal Light Board
Town of Reading Municipal Light Department
230 Ash Street
Reading, MA 01867-0250
(781) 944 - 1340

C. Government-wide and Fund Financial Statements

The Town's basic financial statements include both government-wide (i.e., the statement of net assets and the statement of activities) and fund financial statements. The government-wide financial statements report information on all the non-fiduciary activities of the Town. For the most part, the effect of inter-fund activities 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a certain function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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. GAAP requires that major individual governmental funds and major individual enterprise funds be reported as separate columns in the fund financial statements. The Town's general fund, Memorial High School, Wood End Elementary School, capital projects fund, electric enterprise fund and water enterprise fund are reported as major funds. The Town reports the following fund financial statements:

Governmental Funds

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

Memorial High School Capital Projects Fund - This fund is used to accounts for the renovation and construction of the Memorial High School.

Wood End Elementary School Capital Projects Fund - This fund is used to accounts for the construction of the Wood End Elementary School.

Other Governmental Funds - These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Funds

Electric Fund - This fund is used to account for the Town's electric distribution operations.

Water Fund - This fund is used to account for the Town's water treatment plant and water distribution operations.

Other Funds - These funds are used to account for the Town's sewerage disposal operations and the proceeds from the sale of the landfill.

Fiduciary Funds

Employee Pension Plan - This fund is used to account for the activities of the Retirement Board, which is a component unit of the Town. The Retirement Board accumulates resources for pension benefit payments to qualified employees.

Municipal Light Pension Trust - This fund is used to accumulate resources actuarially for the purpose of funding the Light Department's pension benefit obligation. This fund is used to cover the Light Department's annual contribution to the Retirement Board.

Agency Funds - These funds are used to report resources held by the Town in a purely custodial capacity (assets equal liabilities).

D. Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds 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. The Town considers revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, excise taxes and interest associated with the current fiscal year are considered to be susceptible to accrual. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

All governmental and business-type activities and enterprise funds of the Town follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

E. Assets, Liabilities, and Net Assets or Equity

a. Deposits and Investments

State statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. The Town, with certain restrictions, can also purchase obligations of US Government or its agencies, repurchase agreements, money market funds and units of the Massachusetts Municipal Depository Trust (MMDT). The MMDT is an investment pool established by the State Treasurer that operates in accordance with appropriate state laws and regulations. The investment advisor for the MMDT is Fidelity Investments.

In addition, certain other governmental funds have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

The Town pools cash to facilitate the management of cash. Each fund presents its pro rata share of the combined cash account as cash and cash equivalents in the accompanying basic financial statements. The Town has defined cash and cash equivalents to include cash on hand, demand deposits, cash with fiscal agent and deposits with the MMDT.

Investments are reported at fair value. The Retirement Board invests in the Pension Reserves Investment Trust (PRIT). PRIT is an investment pool established by the State Legislature for the assets of member, state and local retirement boards. PRIT operates in accordance with appropriate state laws and regulations.

b. Property Taxes

The Town is responsible for assessing and collecting property taxes in accordance with enabling state laws. Property taxes are determined, each year, on the full and fair cash value of taxable properties as of January 1. The tax levy is divided into two billings and is payable on a quarterly basis. The first billing (mailed in June) is an estimate of the current year's levy based on the prior year's taxes. 50% is due on August 1st and 50% is due on November 1st. The second billing (mailed in December) reflects adjustments to the current year's actual levy with 50% due on February 1st and 50% due on May 1st. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid.

Property taxes levied are recorded as receivables in the fiscal year billed. As of June 30, 2004, the Town has billed for the first two quarterly installments of the fiscal year 2005 real estate tax bills. The amount of this billing that is outstanding is included in the receivables on the statement of net assets and is shown as subsequent year's levy on the governmental funds balance sheet. As these revenues are not available until fiscal year 2005, the total amount billed is included in deferred revenue on both statements.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2-1/2% of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a Town-wide referendum vote, allowing additional taxes to be levied up to the absolute limit of 2 ½ % of the value of all taxable property.

c. Inventories and Prepayments

Inventories are valued at cost using the first-in/first-out (FIFO) method. The inventories of governmental fund-type funds are not material and are recorded as expenditures when purchased.

Certain payments to vendors of the Light Department reflects costs applicable to future accounting periods and are recorded as prepayments in the proprietary fund.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. General infrastructure assets acquired prior to July 1, 2001 consist of the roadways and curbing assets that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated life in excess of two years. Such assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20 – 25
Vehicles and equipment	3 – 20
Water and sewer lines	50
Roadways and curbing	20

Depreciation on capital assets of the electric enterprise fund is computed based on statutory rates, which may be adjusted upon receiving approval from the Massachusetts Department of Telecommunications and Energy.

e. Compensated Absences

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

f. 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

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

g. Net Assets - Water and Sewer Proprietary Funds

In accordance with Chapter 44, Section 53F1/2 of the Massachusetts General Laws, the Town accounts for its water and sewer funds as enterprise funds. The Commonwealth of Massachusetts' Department of Revenue (DOR) annually certifies the amount available for appropriation in the water and sewer enterprise funds. This amount is reported as unreserved net assets. The portion restricted by State Statute represents the amount of net assets in excess of invested in capital assets that is not available for appropriation.

h. Fund Balances – Governmental Funds

In the fund financial statements, the fund balance of the governmental funds is divided into reserved and unreserved portions. Reservations of fund balance are required if resources are not available for spending or spending is legally restricted. The Town allocates fund balance as follows:

Reserved by State Statute - The DOR annually determines the amount of the general fund available for appropriation. Based upon that calculation, this represents the amount of fund balance that is not available for appropriation.

Reserved for Encumbrances - This portion of fund balance represents the amount of unexpended appropriations carried forward to fiscal year 2005 for contracts that are still outstanding or for projects that have not yet been completed.

Reserved for Subsequent Year's Expenditures - This portion of fund balance represents the amount of fund balance voted at Town Meeting to fund fiscal year 2005 appropriations.

Unreserved Fund Balances (Undesignated) - In the general fund, this represents the \$2,338,696 available for appropriation as certified by the DOR and the \$703,736 available for appropriation in the Town's stabilization fund. In the other governmental funds, this represents the excess or deficit of assets over liabilities and reserved fund balance.

i. Use of Estimates

In preparing the Town's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

j. Changes in Accounting Pronouncements

In fiscal 2004, the Town implemented Governmental Accounting Standards Board (GASB) Statement No.42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". At June 30, 2003 and 2004, there was no effect on fund balances as a result of implementing GASB Statement No. 42.

Note 2. Budgetary Information

Under the Town's charter, the budgets for all departments and operations of the Town, except that of the public schools, are prepared under the direction of the Town Manager. The School Department budget is prepared under the direction of the School Committee. The budget, as proposed by the Town Manager and School Committee, is presented to the Town's Finance Committee for review. The Finance Committee then presents its recommendations on the budget at the Annual Town Meeting in April. Town Meeting adopts a budget for the water and sewer enterprise funds, as well as the general fund operations. The legal level of budgetary control, established by Town Meeting, is the department level.

Within the adopted budget a sum is allocated to provide funding for extraordinary or unforeseen expenditures. The Finance Committee can authorize transfers from this reserve fund. Any other modifications to the budget require action by Town Meeting.

Note 3. Deposit and Investment Risk

Cash Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town Treasurer's investment policy outlines acceptable depositories and limits depositories to minimize custodial credit risk. As of June 30, 2004, \$9,755,943 of the Town's bank balance of \$9,819,669 was insured by the Federal Deposit Insurance Corporation or by the Share Insurance Fund of the Co-operative Central Bank. The remaining balance of \$63,726 was uninsured and uncollateralized.

Investments

Investments as of June 30, 2004 for the Town and the Retirement Board were as follows:

<u>Type of Investment</u>	<u>Fair Value</u>
	\$
Town of Reading	
U.S. government and agency securities	24,922,746
Domestic corporate fixed-income securities	3,199,252
Domestic equities	644,927
Certificates of deposit	10,000,000
Pooled investments:	
Money market funds	507,894
Equity fund – closed end	541,727
MMDT fund	<u>42,957,690</u>
Total Town of Reading	82,774,236
Reading Contributory Retirement Board	
PRIT fund	<u>64,793,477</u>
	\$
Totals	<u><u>147,567,713</u></u>

The U.S. government and agency securities were rated Aaa by Moody's Investors Service and AAA by Standard and Poor's. These investments have a weighted average maturity of 7.02 years. The weighted average maturity measure expresses the time when investments are due and payable in years weighted to reflect the dollar size of individual investments within an investment type.

The certificates of deposit for \$10,000,000 are insured in full, with \$100,000 insured by the Federal Deposit Insurance Corporation and \$9,900,000 insured by the Share Insurance Fund of the Cooperative Central Bank.

The MMDT fund invests in money market instruments of domestic and foreign issuers, U.S. Government securities, and repurchase agreements, as are authorized for investment pursuant to statutory requirements.

The Town limits its purchases of domestic corporate fixed-income securities to the two top ratings issued by nationally recognized statistical rating organizations. Subsequent to the date of purchase, the credit quality of these investments has fluctuated. The credit quality and weighted average maturity of the domestic corporate fixed-income securities held by the Town on June 30, 2004 is as follows:

<u>Moody's Investors Service</u>		<u>Weighed Average Maturity (Years)</u>	<u>Standard and Poor's</u>		<u>Weighed Average Maturity (Years)</u>
<u>Amount</u>	<u>Rating</u>		<u>Amount</u>	<u>Rating</u>	
\$			\$		
386,139	Aaa	.39	386,139	AAA	.39
1,670,973	Aa	.93	778,716	AA	.24
732,767	A	.46	1,519,437	A	1.03
409,373	Baa	<u>.11</u>	514,960	BBB	<u>.23</u>
\$			\$		
<u>3,199,252</u>		<u>1.89</u>	<u>3,199,252</u>		<u>1.89</u>

As previously noted, the Retirement Board holds shares in the PRIT fund. These funds hold investments in derivative securities. As such the Retirement Board's investment in such funds may be exposed to a risk of loss associated with these derivative investments. In accordance with GASB Technical Bulletin 94-1, the Town is required to disclose in the notes to the financial statements that the Retirement Board holds investments in derivative securities and whether the risk of loss associated with such investments is material. The Town does not believe that any risk of material loss associated with derivative investments in PRIT's investment funds exists.

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2004 (electric utility at December 31,2003) was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
	\$	\$	\$	\$
Government activities:				
Capital assets not being depreciated:				
Land and improvements	3,136,224	—	—	3,136,224
Construction in progress	<u>3,123,848</u>	<u>11,948,148</u>	—	<u>15,071,996</u>
Total capital assets not being depreciated	<u>6,260,072</u>	<u>11,948,148</u>	—	<u>18,208,220</u>
Capital assets being depreciated:				
Land improvements	936,845	9,010	—	945,855
Buildings and improvements	51,337,185	187,030	(660,000)	50,864,215
Equipment	4,173,427	181,217	(358,230)	3,996,414
Infrastructures	<u>36,372,588</u>	<u>2,184,833</u>	<u>(551,205)</u>	<u>38,006,216</u>
Total capital assets being depreciated	<u>92,820,045</u>	<u>2,562,090</u>	<u>(1,569,435)</u>	<u>93,812,700</u>
Less accumulated depreciation for:				
Land improvements	(243,669)	(31,492)	—	(275,161)
Buildings and improvements	(11,796,899)	(1,429,946)	660,000	(12,566,845)
Equipment	(2,324,601)	(336,904)	358,230	(2,303,275)
Infrastructures	<u>(18,561,152)</u>	<u>(1,449,895)</u>	<u>551,205</u>	<u>(19,459,842)</u>
Total accumulated depreciation	<u>(32,926,321)</u>	<u>(3,248,237)</u>	<u>1,569,435</u>	<u>(34,605,123)</u>
Capital assets being depreciated, net	<u>59,893,724</u>	<u>(686,147)</u>	—	<u>59,207,577</u>
	\$	\$	\$	\$
Governmental activities capital assets, net	<u>66,153,796</u>	<u>11,262,001</u>	—	<u>77,415,797</u>

Depreciation expense was charged to functions as follows:

	\$
Government activities:	
General government	69,566
Public safety	302,224
Education	1,086,039
Public works and facilities	1,681,005
Human services	33,188
Culture and recreation	<u>76,215</u>
	\$
Total governmental activities depreciation expense	<u>3,248,237</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
	\$	\$	\$	\$
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	183,584	—	—	183,584
Buildings and improvements	136,480	15,643	—	152,123
Electric utility – land and construction in progress	—	—	—	—
	<u>1,265,842</u>	<u>—</u>	<u>—</u>	<u>1,265,842</u>
Total capital assets not being depreciated	<u>1,585,906</u>	<u>15,643</u>	<u>—</u>	<u>1,601,549</u>
Capital assets being depreciated:				
Land improvements	83,916	—	—	83,916
Buildings and improvements	6,547,286	27,694	(81,464)	6,493,516
Equipment	1,294,595	23,813	(28,137)	1,290,271
Infrastructures	12,225,922	402,169	—	12,628,091
Electric utility – other capital assets	84,269,206	4,655,724	(907,236)	88,017,694
Total capital assets being depreciated	<u>104,420,925</u>	<u>5,109,400</u>	<u>(1,016,837)</u>	<u>108,513,488</u>
Less accumulated depreciation for:				
Land improvements	(27,120)	(2,418)	—	(29,538)
Buildings and improvements	(3,868,651)	(341,128)	81,464	(4,128,315)
Equipment	(292,072)	(95,931)	28,137	(359,866)
Infrastructures	(5,615,079)	(277,519)	—	(5,892,598)
Electric utility – other capital assets	(36,370,326)	(2,528,077)	896,684	(38,001,719)
Total accumulated depreciation	<u>(46,173,248)</u>	<u>(3,245,073)</u>	<u>1,006,285</u>	<u>(48,412,036)</u>
Capital assets being depreciated, net	<u>58,247,677</u>	<u>1,864,327</u>	<u>(10,552)</u>	<u>60,101,452</u>
	\$	\$	\$	\$
Business-type activities capital assets, net	<u>59,833,583</u>	<u>1,879,970</u>	<u>(10,552)</u>	<u>61,703,001</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	\$
Water	468,588
Sewer	248,408
Electric	<u>2,528,077</u>
	\$
Total business-type activities depreciation expense	<u>3,245,073</u>

Note 5. Long-term Obligations

The following is a summary of the changes in the Town's long-term obligation for the year ended June 30, 2004 (electric enterprise fund at December 31, 2003):

	<u>Balance Beginning Of Year</u>	<u>Incurred Or Issued</u>	<u>Satisfied Or Matured</u>	<u>Balance End Of Year</u>	<u>Amounts Due Within One Year</u>
	\$	\$	\$	\$	\$
Governmental activities:					
Compensated absences payable	1,916,909	140,552	180,723	1,876,738	234,704
General obligation bonds payable	28,933,000	35,000,000	2,369,000	61,564,000	3,339,000
Unamortized premiums on bonds	97,669	440,666	7,316	531,019	159,066
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
	<u>30,947,578</u>	<u>35,581,218</u>	<u>2,557,039</u>	<u>61,971,757</u>	<u>3,732,770</u>
	\$	\$	\$	\$	\$
Business-type activities:					
Water and sewer funds:					
Compensated absences payable	48,965	4,587	—	53,552	—
Loans payable (Note 7)	132,190	—	132,190	—	—
Electric fund:					
Compensated absences payable	1,727,374	222,933	23,025	1,927,282	—
General obligation bonds payable	5,287,000	—	1,081,000	4,206,000	846,000
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
	<u>7,195,529</u>	<u>227,520</u>	<u>1,236,215</u>	<u>6,186,834</u>	<u>846,000</u>

Note 6. Short-term Debt

Subject to state laws, the Town is authorized to issue general obligation debt on a temporary basis. The following classes of short-term loans can be issued:

Tax anticipation notes (TANs) - This debt is issued to provide funding for operations during lean periods in a fiscal cycle. They are repaid from subsequent collections of taxes or other revenues. The Town did not issue TANs in fiscal year 2004.

Bond anticipation notes (BANs) - This debt is issued to provide initial funding for capital projects. They are generally redeemed from the proceeds of the sale of bonds.

Grant anticipation notes (GANs) - This debt is issued to provide funding for projects in anticipation of reimbursement from federal or state grants. They are repaid from subsequent distributions from the federal or state agency. The Town did not issue GANs in fiscal year 2004.

Short-term debt activity for the year ended June 30, 2004, was as follows:

<u>Bond Anticipation Notes</u>	<u>Balance Beginning Of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End Of Year</u>
	\$	\$	\$	\$
Governmental activities:				
New Elementary School	7,300,000	3,600,000	—	10,900,000
Barrows Elementary School	450,000	565,500	—	1,015,500
High School	1,100,000	—	300,000	800,000
Acquisition of land	235,000	—	117,500	117,500
Business-type activities:				
Water plant and mains	600,000	1,687,000	120,000	2,167,000
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
	<u>9,685,000</u>	<u>5,852,500</u>	<u>537,500</u>	<u>15,000,000</u>

Note 7. Loans Payable

In 1999 the Town received a \$660,950 interest free loan from the MWRA to fund a sewer construction project. The loan was payable in equal installments through fiscal year 2004.

Note 8. General Obligation Bonds Payable

The outstanding governmental activities bonds were issued for the construction and renovation of several school buildings and for the construction of a police station. The bonds bear interest from 4.1% to 5.3% and are due in annual installments ranging from \$3,339,000 to \$2,495,000 through March 15, 2024.

The outstanding business-type activities bonds were issued for electric plant purposes. The bonds bear interest from 4.6% to 5.3% and are due in annual installments ranging from \$846,000 to \$550,000 through September 1, 2009.

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2004, including interest, are as follows:

Year Ending <u>June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	\$	\$	\$	\$	\$	\$
2005	3,339,000	2,893,702	846,000	183,002	4,185,000	3,076,704
2006	3,585,000	2,489,897	855,000	143,014	4,440,000	2,632,911
2007	3,615,000	2,364,293	855,000	100,863	4,470,000	2,465,156
2008	3,650,000	2,237,459	550,000	65,863	4,200,000	2,303,322
2009	3,665,000	2,099,815	550,000	39,738	4,215,000	2,139,553
2010 – 2014	16,670,000	8,425,737	550,000	13,338	17,220,000	8,439,075
2015 – 2019	14,645,000	4,861,805	—	—	14,645,000	4,861,805
2020 – 2024	12,395,000	1,743,520	—	—	12,395,000	1,743,520
	\$	\$	\$	\$	\$	\$
	<u>61,564,000</u>	<u>27,116,228</u>	<u>4,206,000</u>	<u>545,818</u>	<u>65,770,000</u>	<u>27,662,046</u>

The Commonwealth of Massachusetts has approved school construction assistance to the Town. The assistance program provides resources for future debt service of general obligation school bonds outstanding. Historically, these resources have been subject to annual appropriation by the state legislature. During 2004, the Town received \$1,661,777 of such assistance. In July 2004, legislation adopted by the Commonwealth of Massachusetts restructured the school building assistance program. The structure and implementation of this program are being developed.

The Town is subject to a dual level general debt limit; the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Additionally, there are many categories of general obligation debt, which are exempt from the debt limit but are subject to other limitations.

The authorized and unissued debt at June 30, 2004, is as follows:

	\$
Barrows Elementary School	7,734,000
Elementary School	10,966,000
High School	19,455,000
Acquisition of land	117,500
Water supply, plant and mains	6,167,000
Sewer system	209,385
	<u>\$</u>
	<u>44,648,885</u>

As of June 30, 2004, the Town may issue approximately \$165,447,205 of additional general obligation debt under the normal debt limit. The Town has approximately \$60,751,000 of debt exempt from the debt limit.

The Town pays assessments, which include debt service payments to other local governmental units providing services within the Town's boundaries (commonly referred to as overlapping debt). The following summary sets forth the long-term debt of each entity at June 30, 2004, the estimated share of such debt being serviced by the Town and the total of its share of estimated indirect debt.

	Long-term Debt Outstanding (Unaudited)	Town's Estimated Share	Town's Estimated Indirect Debt
Massachusetts Water Resources Authority	\$ 3,550,263,000	1.053%	\$ 37,378,973
Northeast Metropolitan Regional Vocational School District	<u>150,430</u>	1.944%	<u>2,924</u>
	<u>\$ 3,550,413,430</u>		<u>\$ 37,381,897</u>

Note 9. Inter-fund Balances

In January 2004 the Town issued \$35,000,000 general obligation bonds for the construction and renovation of Reading Memorial High School. \$20,000,000 of the proceeds from the sale of bonds was invested. As the interest earned on these investments accrues to the general fund, the investments are reported in the general fund. On June 30, 2004 an inter-fund loan between the Memorial High School project fund and the general fund is reported in the amount of \$20,000,000.

Note 10. Inter-fund Transfers

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The following table summarizes operating transfers to (from) other funds for the year ended June 30, 2004.

<u>Source / Purpose of Transfer</u>	<u>General</u>	<u>Memorial High School Project</u>	<u>Non-major Governmental</u>	<u>Electric</u>	<u>Non-major Enterprise</u>
Sale of lots fund / cemetery operations	\$ 10,000	\$ —	\$ (10,000)	\$ —	\$ —
Reading Ice Arena Authority / public works operations	116,074	—	(116,074)	—	—
Earnings distribution / operations	1,826,062	—	—	(1,826,062)	—
Appropriation / retire notes payable	(417,500)	300,000	117,500	—	—
Landfill proceeds / reduce reserve	—	—	750,000	—	(750,000)
	<u>\$ 1,534,636</u>	<u>\$ 300,000</u>	<u>\$ 741,426</u>	<u>\$ (1,826,062)</u>	<u>\$ (750,000)</u>

Note 11. Capital Projects Funds Deficits

Capital projects have been funded by the issuance of bond anticipation notes. Deficit fund balances arise because the bond anticipation notes are presented as a liability of the fund receiving the proceeds. The Town intends to reduce these deficits by subsequent appropriations and will eliminate the remaining deficits by the issuance of long-term debt. The detail of these deficits on June 30, 2004 is as follows:

	\$
Land acquisition	117,500
Barrows Elementary School renovations	933,266
Wood End Elementary School construction	<u>9,387,067</u>
	\$
	<u>10,437,833</u>

Note 12. Risk Management

The Town is exposed to various risks of loss related to employee health insurance, workers' compensation, unemployment and general liability, property and casualty claims. The liability for threatened or pending claims or lawsuits against the Town with respect to such risk is not material to the financial statements.

The Town is a member of the Massachusetts Interlocal Insurance Association, Inc (MIIA). MIIA is a public-entity risk pool that provides insurance services to cities, towns and other governmental entities of the Commonwealth of Massachusetts. The Town participates in the three insurance programs offered by MIIA. These risk pools are as follows:

MIIA Workers' Compensation Group, Inc - This program provides coverage and risk management services for the Town's workers' compensation. The Workers' Compensation Group program is fully insured for which the Town pays premiums.

MIIA Property and Casualty Group, Inc - This program provides the Town with property and casualty coverage.

MIIA Health Benefits Trust - This program provides health care coverage for the Town's employees and retirees. The Health Benefits Trust assesses premiums which are shared by the Town and its employees and retirees. The Health Benefits Trust is self-sustaining through member premiums and reinsures through commercial companies for stop loss insurance.

The Town is self-insured for unemployment benefits. Payments for claims totaling \$44,727 were made during the year ended June 30, 2004. The liability for claims filed but unpaid is not material.

During the year, expenditures for claims and judgments, excluding health, workers' compensation and unemployment benefits were not material.

Chapter 258 of the Massachusetts General Laws limits general liability to \$100,000 per claim in all matters except actions relating to federal / civil rights, eminent domain and breach of contract.

Note 13. Pension Plan

Plan Description

The Town contributes to the Retirement Board, a cost sharing, multi-employer, public employee retirement system that acts as the investment and administrative agent for the Town and the Reading Housing Authority. The Retirement Board provides retirement, disability, and death benefits to plan members and beneficiaries. The Retirement Board is a member of the Massachusetts Contributory Retirement System.

With the exception of teachers and school nurses, the Retirement Board covers all permanent, full-time employees. The Commonwealth of Massachusetts Teachers Retirement Board, to which the Town does not contribute, covers public school teachers and school nurses.

Membership

Membership in the Retirement Board consisted of the following at June 30, 2004:

Active participants:	
Vested employees	196
Nonvested employees	157
Inactive members	<u>18</u>
	<u>371</u>
Retired participants:	
Pensioners	280
Beneficiaries	<u>49</u>
	<u>329</u>
Totals	<u><u>700</u></u>

Contribution

Plan members are required to contribute to the Retirement Board. Active members must contribute between 5% and 11% of their regular gross compensation depending on the date upon which their membership began. Participating employers are required to pay into the Retirement Board their share of the remaining system-wide actuarially determined contribution and plan administration costs, which are apportioned among the employers based on the actuarial valuation. The Commonwealth of Massachusetts funded the cost-of-living increases granted from July 1, 1981 to June 30, 1998. The retirement Board is responsible for cost-of-living adjustments granted after July 1, 1998. The Town's contributions to the retirement Board for the years ended June 30, 2004, 2003 and 2002 were \$3,106,800, \$3,033,800 and \$2,975,600, respectively, which equaled its required contribution for each year.

Legally Required Reserve Accounts

The balances in the Retirement Board's legally required reserves (on the statutory basis of accounting) at June 30, 2004 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
	\$	
Annuity Savings Fund	15,640,368	Active members' contribution balance
Annuity Reserve Fund	5,752,813	Retired members' contribution account
Military Service Credit	9,276	Members' contribution account while on military leave
Pension Reserve Fund	<u>43,413,323</u>	Amount accumulated to fund future retirement benefits
	\$	
	<u>64,815,780</u>	

All reserve accounts are funded at levels required by state statute.

Investment Concentration

Substantially all the assets of the Retirement Board are invested in PRIT. It consists of two investment funds, the capital fund and the cash fund. The capital fund serves as the long-term asset portfolio and includes domestic and international equity and fixed income securities, real estate, timber and other alternative investments. The cash fund consists of short-term investments, which are used to meet the liquidity requirements of participating retirement boards.

Note 14. Post-employment Health Benefits

In addition to the pension benefits described in Note 13, the Town provides post-employment health care benefits, in accordance with State statutes and within the limits provided in Town policy, to employees who retire from the Town. The following limit pertains: Retiring employees who did not have health insurance through the Town when retiring may not obtain it except that within ten years of retirement, they may opt to join the Town's group plan on March 1st of the even numbered years only. Currently approximately 500 retirees, Medicare eligible spouses and surviving spouses are insured through the Town's health insurance plans. The percentage paid by the Town fluctuates based on collective bargaining agreements. As of June 30, 2004, the Town pays 70% of the premiums for medical and hospitalization insurance incurred by pre-Medicare retirees and their dependents. The Town also pays 70% of the premiums for a Medicare supplement for each retiree eligible for Medicare and 70% of the insurance premiums for said retiree's dependents. The Town's share of the total cost for the year ended June 30, 2004, was approximately \$1,730,000.

Note 15. Jointly Governed Organization

The Northeast Metropolitan Regional Vocational School District (NMRVSD) was created to provide vocational education for students in grades 9-12. The Town is one of twelve municipalities that participate in the NMRVSD. The NMRVSD's School Committee is comprised of one member from each participating municipality. As of October 1, 2003, the NMRVSD had a total enrollment of 1,142 pupils of which 25 pupils were from the Town. The Town's fiscal year 2004 assessment was \$179,198. Additional information can be obtained from the NMRVSD at 100 Hemlock Road, Wakefield, MA 01880.

Note 16. Restatement of Beginning Net Assets – Electric Enterprise Fund

As a result of the implementation of GASB Statement 34, the net assets as of January 1, 2002 in the Light Department's December 31, 2003 financial statements have been restated.

Note 17. Purchase Power Agreements

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 utilities 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 any Project Participant fail to make any payment when due, other Project Participants may be required to increase (step-up) their payments and correspondingly their Participant's share of the Project Capability to an additional amount not to exceed 25% of their original Participant's share of the Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC issued a separate issue of bonds for each of the eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which such issue 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 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 Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, owned and operated by FPL Energy Wyman IV, a subsidiary of FPL Energy, Inc. and a 4.8% ownership interest in the

Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. (DNCI) a subsidiary of Dominion Resources, Inc. In addition to Millstone Unit 3, DNCI also is the owner of Millstone Unit 2. DNCI has requested and received an exemption from the NRC enabling it to submit an application earlier than 20 years before the expiration of the operating license for Unit 3 so that DNCI could submit its application for license renewal for Unit 2 and Unit 3 simultaneously. In January 2004, DNCI filed an application with the NRC to renew its operating license. Unit 3 license currently will expire in 2005.

A substantial portion of MMWEC's plant investment and financing program is a 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by FPL Energy Seabrook, LLC, an indirect subsidiary of FPL Group Inc. FPL Energy Seabrook, LLC plans to file an application with the NRC to recapture the period 1986 to 1990 during which time Seabrook had a license, but did not operate, and to extend the Seabrook Station operating license, which currently will expire in 2026.

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 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-Andersen Act. In February 2003 Congress extended the Price-Andersen Act expired through the end of 2003. Congress, as part of comprehensive energy, has considered extension of the Price-Andersen Act.

The Light Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and the PPAs, the Light Department is required to make certain payments to MMWEC solely from Light Department's revenues. Under the PSAs, each Participant is unconditionally obligated to make 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 management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the company.

As of June 30, 2004, total capital expenditures amounted to \$1,509,295,000, of which \$108,308,000 represents the amount associated with the Light Department's Project Capability. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds totals \$925,265,000, of which \$57,214,000 is associated with the Light Department's share of Project Capability. As of June 30, 2004, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$1,147,136,000, of which \$66,840,000 is anticipated to be billed to the Light Department in the future.

The estimated aggregate amount of the Light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at June 30, 2004 and estimated for future years is shown below.

Year ending June 30,	\$
2005	8,336,000
2006	7,499,000
2007	7,359,000
2008	6,495,000
2009	5,458,000
2010 to 2014	23,056,000
2015 to 2019	<u>8,637,000</u>
	\$
Total	<u>66,840,000</u>

In addition, the Light Department is required to pay its share of the operation and maintenance (O&M) costs of the Projects in which it participates. The Light Department's total O&M costs including debt service under the PSAs were \$17,146,000 and \$19,555,000 for the years ended June 30, 2004 and 2003, respectively.

Other Purchase Power Obligations

In addition to its agreements through MMWEC, the Light Department has entered into agreements to purchase power from Boston Edison Company, Hydro-Quebec, New York Power Authority, Northeast Utilities and Calpine Energy Services LP, under contracts with terms ranging from three to seventeen years. Under these contracts the Light Department is required to make purchases based on an entitlement percentage or contract demand.

The following is a schedule by years of the aggregate amount of such required purchases as of June 30, 2004:

	\$
2005	16,835,402
2006	15,213,530
2007	14,643,998
Thereafter	<u>5,909,394</u>
	\$
Total	<u>52,602,324</u>

Purchase power expense under these agreements was \$16,518,068 in fiscal year 2004 and \$17,765,622 in fiscal year 2003.

Note 18. Landfill Closure and Postclosure Care Costs

On March 7, 2003 the Town sold its landfill site to Dickinson Development Corporation (Dickinson) of Quincy, Massachusetts for \$3,000,000. Under the agreement, Dickinson will assume the financial responsibility for the closure of the landfill in coordination with its development of the property. In accordance with an Administrative Consent Order agreement between the Town, Dickinson and the Massachusetts Department of Environmental Protection the Town retains contingent liability for the closure of the landfill. However, Dickinson provided the Town with a \$3,000,000 letter of credit in the event there is a failure on the part of Dickinson to properly close the landfill. Dickinson is also required to make an annual contribution of \$37,000 for the costs incurred to monitor and maintain the landfill site for up to 30 years after the landfill cover is installed.

Compliant with the Administrative Consent Order, the Town established an enterprise fund with the proceeds from the sale of the property to ensure funding for the closure of the property. Subject to the Massachusetts Department of Environmental Protection approval, the proceeds from the sale of the property will be transferred to the Town's sale of real estate fund as Dickinson reaches certain benchmarks. On April 29, 2004 the Massachusetts Department of Environmental Protection authorized the Town to transfer \$750,000 from the enterprise fund to the sale of real estate fund.

Note 19. Water System Improvements

In November 2003, Town Meeting approved a bond authorization of \$1,500,000 for the design phase of upgrading the Town's water treatment plant in order to meet new regulations and modernize the facility. The total cost of the improvements to the plant is estimated at \$14.3 million. Town Meeting also approved a bond authorized of \$3,180,000 for the purpose of seeking the approval of the Massachusetts Water Resources Authority to provide the Town with a portion of its water supply needs. This will reduce the Town's withdrawals from the Ipswich River Watershed, thereby reducing the stress on the Ipswich River.

The improvements to the water treatment plant and the connection to the Massachusetts Water Resources Authority will be phased in over time and financed through long-term debt. Revenues generated from the ratepayers will be used to retire the debt.

Note 20. Department of Revenue Opinion and General Fund - Fund Balance

On September 21, 2004 the DOR issued a directive to the Town relative to the action of the School Committee. In the opinion of the DOR, the School Committee did not have the authority to charge certain capital outlay expenditures to its budget without Town Meeting's approval. Although the Town does not agree with the DOR opinion, the financial statements, as presented, are consistent with the DOR's directive. Payments that were originally charged to the general fund were subsequently charged to capital project funds.

This change has no effect on the government-wide statements. However, it has an impact on the fund balance of the general fund. The year-end fund balance of the general fund was \$2,580,659 more than the prior year fund balance. However, \$650,000 of this increase was generated as a result of the School Committee budget closing to fund balance at the end of the year. In November 2004, to accomplish what was originally intended, the School Committee will request additional funding for these projects in the amount of \$650,000.

Town of Reading, Massachusetts
Budgetary Comparison Schedule - General Fund
Required Supplementary Information
For the Year Ended June 30, 2004

	<u>Budgeted Amount</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Resources (inflows):				
Property taxes	\$ 37,759,128	37,759,128	37,889,323	130,195
Excise taxes	2,700,000	2,700,000	2,823,284	123,284
Penalties and interest on taxes	150,000	150,000	167,558	17,558
Payments in lieu of taxes	220,000	220,000	269,984	49,984
Charges for services	1,200,000	1,200,000	1,431,493	231,493
Licenses and permits	50,000	50,000	63,360	13,360
Intergovernmental	11,399,578	11,399,578	11,498,777	99,199
Special assessments	5,000	5,000	6,390	1,390
Fines	100,000	100,000	138,693	38,693
Investment income	265,000	265,000	476,745	211,745
Other	—	—	50,819	50,819
Premiums on bonds and notes issued, net of issue costs	—	—	339,822	339,822
Transfers from other funds	1,952,136	1,952,136	1,952,136	—
Total resources	<u>55,800,842</u>	<u>55,800,842</u>	<u>57,108,384</u>	<u>1,307,542</u>
Charges to appropriation (outflows):				
General government	2,419,684	2,495,164	2,445,816	49,348
Public safety	6,484,845	6,583,289	6,445,153	138,136
Education	29,490,650	29,375,512	28,691,799	683,713
Public works and facilities	3,770,194	3,898,683	3,812,080	86,603
Human services	309,733	315,483	304,966	10,517
Culture and recreation	869,974	900,754	900,751	3
Employee benefits	7,428,422	7,428,422	7,355,202	73,220
Intergovernmental	569,770	569,770	566,001	3,769
Debt service	3,605,700	3,761,700	3,760,678	1,022
Transfers to other funds	417,500	417,500	417,500	—
Total charges to appropriations	<u>55,366,472</u>	<u>55,746,277</u>	<u>54,699,946</u>	<u>1,046,331</u>
Excess of resources over charges to appropriations	434,370	54,565	2,408,438	2,353,873
Fund balance allocation	<u>351,820</u>	<u>(54,565)</u>	<u>—</u>	<u>—</u>
Excess of resources over charges to appropriations	<u>\$ 786,190</u>	<u>—</u>	<u>2,408,438</u>	<u>2,353,873</u>

The notes to the required supplementary information are an integral part of this schedule.

TOWN OF READING, MASSACHUSETTS

Notes to the Required Supplementary Information

June 30, 2004

Note A. Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures – General Fund

Budgetary inflows and GAAP revenues

	\$
Actual amounts (budgetary basis) "total resources" from the budgetary comparison schedule (page 39)	57,108,384
Differences – budget to GAAP:	
Property taxes are reported as a budgetary resource on the cash basis, rather than on the modified accrual basis.	(10,000)
Motor vehicle excise taxes are reported as a budgetary resource on the cash basis, rather than on the modified accrual basis.	(20,000)
Investment income is reported as a budgetary resource on the cash basis, rather than on the accrual basis.	26,267
Premiums on bonds and notes issued, net of issue costs are not revenues for financial reporting purposes.	(339,822)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	<u>(1,952,136)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance (page 14)	<u>\$ 54,812,693</u>

Budgetary outflows and GAAP expenditures

	\$
Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule (page 39)	54,699,946
Differences – budget to GAAP:	
Interest on bond anticipation notes is budgeted on the cash basis, rather than on the accrual basis.	123,641
Costs related to the issuance of bonds and notes are net of premiums on the budgetary basis, rather than reported gross.	100,844
Encumbrances for commitments related to unperformed contracts are reported as charges to appropriations for budgetary purposes and are recorded when the contracts are performed for financial statement purposes:	
Prior year encumbrances expended in fiscal year 2004	338,765
Current year encumbrances reported as charges to appropriations for budget purposes	(638,360)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(417,500)</u>
Total expenditures as reported on the statements of revenues, expenditures and changes in fund balance (page 14)	<u>\$ 54,207,336</u>

TOWN OF READING, MASSACHUSETTS

Reading Contributory Retirement Board

Required Supplementary Information

**Schedule of Funding Progress
(dollars in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funding Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
	\$	\$	\$	%	\$	%
30-Jun-99	48,158	74,903	26,745	64.3	15,118	176.9
30-Jun-00	54,076	78,486	24,410	68.9	15,798	154.5
30-Jun-01	58,286	82,550	24,264	70.6	16,129	150.4
30-Jun-02	60,933	86,888	25,955	70.1	16,855	153.4
30-Jun-03	62,897	91,302	28,405	68.9	16,734	167.7
30-Jun-04	66,850	95,961	29,111	69.7	17,487	166.5

Notes to Schedule

Additional information as of the latest actuarial valuation follows:

Valuation date: June 30, 2003 (Updated for funding schedule June 30, 2004)

Actuarial cost method: Entry age normal cost

Amortization method: Payments calculated to increase at 1.5% per year

Remaining amortization period 22 years

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

Actuarial assumptions:
 Investment rate of return 8.00%
 Projected salary increases 6.00%
 Cost-of-living adjustment Cost of living adjustments granted after July 1, 1998 are the responsibility of the Reading Contributory Retirement Board. Adjustments granted from July 1, 1981 to June 30, 1998 are funded by Commonwealth of Massachusetts

TOWN OF READING, MASSACHUSETTS
Reading Contributory Retirement Board
Required Supplementary Information
Schedule of Contributions from Employers

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u> \$	<u>Percentage Contributed</u> %
1999	2,818,400	101.3
2000	2,893,800	100.3
2001	2,910,900	100.0
2002	2,980,400	100.0
2003	3,051,200	100.0
2004	3,124,800	100.0

Town of Reading, Massachusetts
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	<u>Special Revenue</u>		<u>Capital</u>		
	<u>School</u>	<u>Other</u>	<u>Projects</u>	<u>Permanent</u>	<u>Total</u>
	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	
ASSETS					
Cash and cash equivalents	\$ 431,587	2,235,162	(133,823)	—	2,532,926
Investments	—	5,002,885	—	1,985,313	6,988,198
Receivables:					
Liens	—	400	—	—	400
Special assessment	—	6,614	—	—	6,614
Other governments	286,147	1,117	877,832	—	1,165,096
Other	—	—	184,071	600	184,671
Total assets	<u>\$ 717,734</u>	<u>7,246,178</u>	<u>928,080</u>	<u>1,985,913</u>	<u>10,877,905</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants and accounts payable	\$ 29,958	100,017	843,587	—	973,562
Accrued payroll payable	107,654	—	—	—	107,654
Deferred revenue	—	7,014	—	—	7,014
Notes payable	—	—	1,133,000	—	1,133,000
Total liabilities	<u>137,612</u>	<u>107,031</u>	<u>1,976,587</u>	<u>—</u>	<u>2,221,230</u>
Fund balances:					
Reserved for:					
Subsequent year's expenditures	—	454,993	—	—	454,993
Other purposes	—	—	—	1,985,913	1,985,913
Unreserved	<u>580,122</u>	<u>6,684,154</u>	<u>(1,048,507)</u>	<u>—</u>	<u>6,215,769</u>
Total fund balances (deficit)	<u>580,122</u>	<u>7,139,147</u>	<u>(1,048,507)</u>	<u>1,985,913</u>	<u>8,656,675</u>
Total liabilities and fund balances	<u>\$ 717,734</u>	<u>7,246,178</u>	<u>928,080</u>	<u>1,985,913</u>	<u>10,877,905</u>

Town of Reading, Massachusetts
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For The Year Ended June 30, 2004

	<u>Special Revenue</u>				
	<u>School Funds</u>	<u>Other Funds</u>	<u>Capital Projects Funds</u>	<u>Permanent Funds</u>	<u>Total</u>
Revenues:					
Payments in lieu of taxes	\$ —	107,256	—	—	107,256
Charges for services	1,713,280	1,141,674	—	—	2,854,954
Intergovernmental	1,921,747	257,658	1,781,459	—	3,960,864
Special assessments	—	602	—	—	602
Fines	—	200	—	—	200
Investment income	—	135,527	—	96,131	231,658
Contributions and bequests	38,938	65,561	184,071	81,370	369,940
Miscellaneous	—	192,000	—	—	192,000
	<u>3,673,965</u>	<u>1,900,478</u>	<u>1,965,530</u>	<u>177,501</u>	<u>7,717,474</u>
Expenditures:					
Current:					
General government	—	58,236	—	—	58,236
Public safety	—	840,328	—	—	840,328
Education	3,480,439	12,616	—	—	3,493,055
Public works and facilities	—	233,459	—	—	233,459
Human services	—	227,258	—	—	227,258
Culture and recreation	—	549,351	—	—	549,351
Capital outlay	—	—	2,311,694	—	2,311,694
	<u>3,480,439</u>	<u>1,921,248</u>	<u>2,311,694</u>	<u>—</u>	<u>7,713,381</u>
Excess (deficiency) of revenues over expenditures	<u>193,526</u>	<u>(20,770)</u>	<u>(346,164)</u>	<u>177,501</u>	<u>4,093</u>
Other financing sources (uses):					
Transfers from other funds	—	845,293	117,500	—	962,793
Transfers to other funds	—	(126,074)	—	(95,293)	(221,367)
	<u>—</u>	<u>719,219</u>	<u>117,500</u>	<u>(95,293)</u>	<u>741,426</u>
Excess (deficiency) of revenues over expenditures and other financing sources and (uses)	193,526	698,449	(228,664)	82,208	745,519
Fund balances (deficit) - beginning	<u>386,596</u>	<u>6,440,698</u>	<u>(819,843)</u>	<u>1,903,705</u>	<u>7,911,156</u>
Fund balances (deficit) - ending	<u>\$ 580,122</u>	<u>7,139,147</u>	<u>(1,048,507)</u>	<u>1,985,913</u>	<u>8,656,675</u>

Town of Reading, Massachusetts
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2004

	Business-type Activities - Enterprise Funds		
	<u>Sewer</u>	<u>Landfill Closure and Postclosure</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,809,486	2,365,022	4,174,508
Receivables, net of allowance for uncollectibles:			
User charges	916,127	—	916,127
Liens	18,535	—	18,535
Deferrals	1,853	—	1,853
Special assessments	68,886	—	68,886
Inventories	<u>1,694</u>	<u>—</u>	<u>1,694</u>
Total current assets	<u>2,816,581</u>	<u>2,365,022</u>	<u>5,181,603</u>
Noncurrent assets:			
Capital assets	10,567,216	—	10,567,216
Less accumulated depreciation	<u>(5,173,266)</u>	<u>—</u>	<u>(5,173,266)</u>
Total noncurrent assets	<u>5,393,950</u>	<u>—</u>	<u>5,393,950</u>
Total assets	<u>8,210,531</u>	<u>2,365,022</u>	<u>10,575,553</u>
LIABILITIES			
Current liabilities:			
Warrants and accounts payable	12,928	—	12,928
Performance deposit	<u>—</u>	<u>74,000</u>	<u>74,000</u>
Total current liabilities	<u>12,928</u>	<u>74,000</u>	<u>86,928</u>
Noncurrent liabilities:			
Compensated absences	<u>5,202</u>	<u>—</u>	<u>5,202</u>
Total liabilities	<u>18,130</u>	<u>74,000</u>	<u>92,130</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,393,950	—	5,393,950
Restricted by state statute	1,721,202	2,291,022	4,012,224
Unreserved	<u>1,077,249</u>	<u>—</u>	<u>1,077,249</u>
Total net assets	<u>\$ 8,192,401</u>	<u>2,291,022</u>	<u>10,483,423</u>

Town of Reading, Massachusetts
Combining Statement of Revenues, Expenditures and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For The Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	<u>Sewer</u>	<u>Landfill Closure and Postclosure</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 3,508,416	—	3,508,416
Special assessments	<u>16,864</u>	<u>—</u>	<u>16,864</u>
Total operating revenues	<u>3,525,280</u>	<u>—</u>	<u>3,525,280</u>
Operating expenses:			
Energy purchases	20,566	—	20,566
Intergovernmental	2,937,036	—	2,937,036
Depreciation	248,408	—	248,408
Other operating costs	<u>627,169</u>	<u>—</u>	<u>627,169</u>
Total operating expenses	<u>3,833,179</u>	<u>—</u>	<u>3,833,179</u>
Operating (loss)	<u>(307,899)</u>	<u>—</u>	<u>(307,899)</u>
Nonoperating revenues:			
Investment income	<u>9,400</u>	<u>29,993</u>	<u>39,393</u>
Income (loss) before transfers	<u>(298,499)</u>	<u>29,993</u>	<u>(268,506)</u>
Transfers to other funds	<u>—</u>	<u>(750,000)</u>	<u>(750,000)</u>
Changes in net assets	(298,499)	(720,007)	(1,018,506)
Net assets - beginning	<u>8,490,900</u>	<u>3,011,029</u>	<u>11,501,929</u>
Net assets - ending	<u>\$ 8,192,401</u>	<u>2,291,022</u>	<u>10,483,423</u>

Town of Reading, Massachusetts
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For The Year Ended June 30, 2004

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Landfill Closure and Postclosure</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers	\$ 3,578,715	—	3,578,715
Payments to employees	(214,833)	—	(214,833)
Payments for employee benefits	(86,172)	—	(86,172)
Payments for supplies and services	(359,916)	—	(359,916)
Payments to other governments	(2,937,036)	—	(2,937,036)
	<u>(19,242)</u>	<u>—</u>	<u>(19,242)</u>
Net cash (used) by operating activities			
Cash flows from noncapital financing activities:			
Transfers to other funds	—	(750,000)	(750,000)
	<u>—</u>	<u>(750,000)</u>	<u>(750,000)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(55,855)	—	(55,855)
Principal paid on capital debt	(132,190)	—	(132,190)
	<u>(188,045)</u>	<u>—</u>	<u>(188,045)</u>
Net cash (used) by capital and related financing activities			
Cash flows from investing activities:			
Interest on investments	9,400	29,993	39,393
	<u>9,400</u>	<u>29,993</u>	<u>39,393</u>
Net (decrease) in cash and cash equivalents	(197,887)	(720,007)	(917,894)
Balances - beginning	2,007,373	3,085,029	5,092,402
	<u>2,007,373</u>	<u>3,085,029</u>	<u>5,092,402</u>
Balances - ending	\$ 1,809,486	2,365,022	4,174,508
	<u>\$ 1,809,486</u>	<u>2,365,022</u>	<u>4,174,508</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating (loss)	\$ (307,899)	—	(307,899)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	248,408	—	248,408
Changes in net assets and liabilities:			
Receivables (net)	53,436	—	53,436
Inventories and prepayments	(1,695)	—	(1,695)
Warrants and accounts payable	(11,984)	—	(11,984)
Compensated absences payable	492	—	492
	<u>492</u>	<u>—</u>	<u>492</u>
Net cash (used) by operating activities	\$ (19,242)	—	(19,242)
	<u>\$ (19,242)</u>	<u>—</u>	<u>(19,242)</u>