

TOWN OF READING, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2005

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, 2005, 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, 2005, 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 August 30, 2005 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
August 30, 2005

Town of Reading, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
For the Fiscal Year Ended June 30, 2005

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 93.4% 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 68.5% of the resources available to fund the fiscal year 2005 general fund budget. In addition to property taxes, state aid plays a significant role in funding the Town's operating budget. State aid represented 19.2% of the resources available to fund the fiscal year 2005 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

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 2004 was based upon the projected state aid distribution proposed by the Governor in January 2004. Notwithstanding the anticipated level funding in state aid and the increases in group health insurance and pension costs, the fiscal year 2005 budget adopted by Town Meeting maintained services at the fiscal year 2004 levels. The Town also added \$100,000 to the Town's stabilization fund.

On September 21, 2004, the of the Commonwealth of Massachusetts' Department of Revenue (DOR) issued an opinion that stated that 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 did not agree with the DOR opinion, the prior year financial statements were prepared to comply with the DOR's directive. In effect, payments originally charged to the operating budget were charged to the capital projects. On November 8, 2004, Town Meeting appropriated \$650,000 from unreserved fund balance ("certified free cash") to provide additional funding for school building projects, which accomplish the School Committee's original intent.

In April 2005, Town Meeting approved the transfer of \$850,000 from the School Department's operating budget to provide additional funding for school-building projects. Town Meeting also funded various budget deficits, including a \$619,930 overrun in the snow and ice control budget and a \$275,000 shortfall in the group health insurance budget. These deficits were offset through reductions in existing appropriations and the use of \$1,019,038 of unreserved fund balance ("certified free cash").

The operating budget, as amended, anticipated that appropriations would exceed estimated revenues by \$2,216,712. During the year, however, revenues on a cash basis exceeded budgetary estimates by \$1,725,910 and charges to appropriations were less than budgetary estimates by \$488,443, thus increasing the Town's reserves.

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. The Town retains contingent liability for the closure of the landfill. In accordance with an Administrative Consent Order agreement between the Town, Dickinson and the Massachusetts Department of Environmental Protection (MADEP) the Town was required to establish an enterprise

fund with the proceeds from the sale of the property to ensure funding for the closure of the property. Dickinson in turn provided the Town with a \$3,000,000 letter of credit in the event of 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 \$40,000 for the costs incurred to monitor and maintain the landfill site for up to thirty years after the landfill cover is installed.

Subject to the MADEP's approval, the proceeds from the sale of the property will be transferred from the enterprise fund to the Town's sale of real estate fund as Dickinson reaches certain benchmarks. In April 2004 the Town received authorization from the MADEP to transfer \$750,000 from the landfill closure and postclosure enterprise fund to the Town's sale of real estate fund. The \$3,000,000 letter of credit from Dickinson was reduced by a like amount.

The certificates of occupancy for the second and final phase of construction of the former landfill site are currently being issued, with the last one expected by September 1, 2005. As-built drawings for the entire site have been prepared and are being reviewed. Once the as-built drawings are finalized, application will be made to the MADEP for the final release of the remaining \$2,250,000, and following that approval, the Town will release the final amount of Dickinson's letter of credit. It is expected that this final release will be approved by MADEP by the end of calendar year, 2005.

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, 2005 are prepared and presented using the guidelines established by the GASB.

The elected Reading Municipal Light Board governs the Reading Municipal Light Department and issues a separate financial report. The Reading Municipal Light Department changed its fiscal year from December 31 to June 30 to coincide with the fiscal year of the Town. As this is the transition year, the Reading Municipal Light Department has issued financial statements encompassing the period from January 1, 2005 to June 30, 2005. Therefore, comparative analysis with prior year information is not presented for the electric enterprise fund.

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, Barrows 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 statements of the governmental funds 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 those used in the government-wide financial statements. However, these statements provide more detail and additional information on the Town's water, sewer, electric and landfill closure and postclosure 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. Assets held in which the Town acts solely as a trustee or agent for the benefit of others are also reported here.

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 with the exception of the electric enterprise fund.

Net Assets
June 30, 2005 and 2004
(In Millions)

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|------------------------------------|--------------|-------------------------------------|-------------|---------------|--------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Current and other assets | \$ 59.6 | 75.8 | 11.4 | 11.2 | 71.0 | 87.0 |
| Capital assets | 103.1 | 77.4 | 12.6 | 10.4 | 115.7 | 87.8 |
| Total assets | <u>162.7</u> | <u>153.2</u> | <u>24.0</u> | <u>21.6</u> | <u>186.7</u> | <u>174.8</u> |
| Other liabilities | 37.2 | 44.4 | 3.4 | 2.4 | 40.6 | 46.8 |
| Long-term liabilities | 66.0 | 60.2 | 1.3 | — | 67.3 | 60.2 |
| Total liabilities | <u>103.2</u> | <u>104.6</u> | <u>4.7</u> | <u>2.4</u> | <u>107.9</u> | <u>107.0</u> |
| Net assets: | | | | | | |
| Invested in capital assets, Net of related debt | 45.4 | 36.6 | 9.9 | 9.7 | 55.3 | 46.3 |
| Restricted | 9.6 | 8.4 | 6.2 | 6.6 | 15.8 | 15.0 |
| Unrestricted (deficit) | 4.5 | 3.6 | 3.2 | 2.9 | 7.7 | 6.5 |
| Total net assets | <u>\$ 59.5</u> | <u>48.6</u> | <u>19.3</u> | <u>19.2</u> | <u>78.8</u> | <u>67.8</u> |

The above table shows that the total net assets of the Town increased by \$11.0 million or 16.2%. The net assets of the governmental activities increased by \$10.9 million or 22.4% and business-type activities increased by \$.1 million or .5%.

- **Governmental Activities** – The Town's unrestricted net assets increased by \$0.9 million during the current fiscal year.
- **Business-type Activities** - The net assets of the water fund increased by .4 million or 4.9% while the net assets of the sewer fund decreased by \$.5 million or 5.5% during the current year.

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, 2005 and 2004 (In Millions)

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|----------------------------|-------------|-----------------------------|------------|-------------|-------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues | \$ | | | | | |
| Program revenues: | | | | | | |
| Charges for services | 5.3 | 4.5 | 7.1 | 6.5 | 12.4 | 11.0 |
| State grants and entitlements | 18.0 | 12.0 | — | — | 18.0 | 12.0 |
| Other | 1.1 | .7 | .1 | .1 | 1.2 | .8 |
| General revenues: | | | | | | |
| Property taxes | 42.1 | 37.9 | — | — | 42.1 | 37.9 |
| Motor vehicle excise taxes | 2.9 | 2.8 | — | — | 2.9 | 2.8 |
| State entitlements | 3.7 | 3.5 | — | — | 3.7 | 3.5 |
| Other | 1.7 | 1.1 | — | — | 1.7 | 1.1 |
| Total revenues | <u>74.8</u> | <u>62.5</u> | <u>7.2</u> | <u>6.6</u> | <u>82.0</u> | <u>69.1</u> |
| Expenses | | | | | | |
| General government | 3.6 | 3.4 | — | — | 3.6 | 3.4 |
| Public safety | 10.1 | 9.5 | — | — | 10.1 | 9.5 |
| Education | 40.1 | 36.8 | — | — | 40.1 | 36.8 |
| Public works and facilities | 6.9 | 6.2 | — | — | 6.9 | 6.2 |
| Human services | .7 | .6 | — | — | .7 | .6 |
| Culture and recreation | 1.8 | 1.7 | — | — | 1.8 | 1.7 |
| Interest on debt service | 2.7 | 2.2 | — | — | 2.7 | 2.2 |
| Water | — | — | 3.2 | 2.8 | 3.2 | 2.8 |
| Sewer | — | — | 4.0 | 3.8 | 4.0 | 3.8 |
| Total expenses | <u>65.9</u> | <u>60.4</u> | <u>7.2</u> | <u>6.6</u> | <u>73.1</u> | <u>67.0</u> |
| Excess (deficiency) of revenues over (under) expenses | 8.9 | 2.1 | — | — | 8.9 | 2.1 |
| Contributions to permanent funds | .1 | .1 | — | — | .1 | .1 |
| Transfers | 1.9 | 2.6 | — | .8 | 1.9 | 3.4 |
| Increase (decrease) in net assets | <u>\$ 10.9</u> | <u>4.8</u> | <u>—</u> | <u>.8</u> | <u>10.9</u> | <u>5.6</u> |

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

- **Governmental Activities** – In fiscal year 2005 property taxes accounted for 56.3% of revenues. State grants and entitlements represented 29.0% 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.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – Notwithstanding the significant draw-down of fund balance to offset the snow and ice control budget deficit and provide additional funding for school building projects, the Town's year-end fund balance of the general fund was \$96,904 more than the prior year fund balance.

On November 10, 2003 Town Meeting voted to establish a stabilization fund for \$700,000 with an additional \$100,000 added to the stabilization fund by Town Meeting in April 2004. As the stabilization fund is not earmarked, the original authorizations 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. 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> |
|--------------------------|--------------------------------------|---|--|-------------------------------|-------------------------------------|-------------------------------|
| 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 |
| 2005 | 678,639 | 706,332 | 878,675 | 819,656 | 2,634,251 | 5,717,553 |

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.

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 increased by \$7.4 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) or the Town receives school building assistance from the Commonwealth of Massachusetts.

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 \$2,030,600, an increase from the prior year of \$248,632. The net assets available to fund subsequent years' expenses in the sewer fund were \$1,140,267, an increase from the prior year of \$63,018.

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. The PRIT Fund posted a 13.41% return (gross of fees) for the year ended June 30, 2005. The Town's one-year investment return, net of related expenses, was 12.84%. Net assets for the year increased \$7.5

million from the prior year. Based upon the actuarial valuation dated June 30, 2005, the actuarial value of assets of the employee pension plan represent approximately 69.7% of the current actuarial accrued liability.

The net assets of the municipal light pension trust increased by \$89,419 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 \$103.1 million invested in a broad range of capital assets, net of depreciation, on June 30, 2005. This amount represents an increase (including additions and deductions) of \$25.7 million, or 33.2%, over last year.

In the following schedule, infrastructure assets include roads, water and sewer lines.

Capital Assets at June 30, 2005 and 2004 (Net of Depreciation, in Millions)

| | Governmental Activities | | Business-type Activities | | Totals | |
|---------------------------|----------------------------|-------------|-----------------------------|-------------|--------------|-------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | Land and improvements | \$ 3.8 | 3.8 | .2 | .2 | 4.0 |
| Building and improvements | 79.3 | 53.4 | 3.7 | 2.5 | 83.0 | 55.9 |
| Equipment | 2.0 | 1.7 | .9 | .9 | 2.9 | 2.6 |
| Infrastructures | 18.0 | 18.5 | 7.7 | 6.8 | 25.7 | 25.3 |
| Total net assets | \$ 103.1 | 77.4 | 12.5 | 10.4 | 115.6 | 87.8 |

This year's major capital asset events included:

- The construction and renovation of the Reading Memorial High School building project at \$20,096,920 with construction in progress at the end of the year reaching \$24,848,583.
- The renovation of the Barrows Elementary School at \$6,221,374 with construction in progress at the end of the year reaching \$7,154,640.
- The final phase of the Wood End Elementary School at \$1,220,297 with total project costs at the end of the year reaching \$10,607,364 at the end of the year. The Wood End School opened in September 2005.
- The design work related to the construction of a water treatment plant at 1,498,638.
- Infrastructure improvements for roadway, sidewalk, and curbs at \$952,634, water main construction at \$910,443 and sewer manhole and line rehabilitation at \$354,251.

Debt

Excluding the debt of the Light Department, the Town had \$75.2 million in bonds, notes and loans outstanding on June 30, 2005. This represents a \$1.4 million decrease or 1.8% from the previous year.

Outstanding Debt at June 30, 2005 and 2004 (In Millions)

| | <u>2005</u> | <u>2004</u> |
|---------------------------------------|----------------|-------------|
| Governmental activities: | | |
| General obligation notes payable | \$ 7.7 | 12.8 |
| General obligation bonds payable | 63.7 | 61.6 |
| Total governmental activities | <u>71.4</u> | <u>74.4</u> |
| Business-type activities: | | |
| Water: | | |
| General obligation notes payable | 2.4 | 2.2 |
| General obligation bonds payable | 1.0 | — |
| Sewer: | | |
| Loans payable | .4 | — |
| Total business-type activities | <u>3.8</u> | <u>2.2</u> |
| Total debt | <u>\$ 75.2</u> | <u>76.6</u> |

The Town issues short-term debt in anticipation of issuing long-term debt or receiving school building assistance from the Commonwealth of Massachusetts at a future date. The Town received school building assistance in the amount of \$6,180,131 for the Wood End Elementary School and the Barrows Elementary School under this program. Therefore, the Town did not have to borrow and was able to retire anticipation notes previously issued. At year-end, the Town had \$10.1 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 over ten years.

Fiscal Year 2006 Budget

Notwithstanding the anticipated modest increase in state aid and the significant increase in group health insurance costs, the fiscal year 2006 budget adopted by Town Meeting in May 2005 maintained services at the fiscal year 2005 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, 2005

| | Governmental | Business-type | Total |
|---|----------------------|----------------------|--------------------|
| | <u>Activities</u> | <u>Activities</u> | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 19,377,448 | 31,222,603 | 50,600,051 |
| Investments | 15,622,328 | 4,400,000 | 20,022,328 |
| Receivables, net of allowance for uncollectibles | 22,363,815 | 9,295,529 | 31,659,344 |
| Inventories | — | 1,364,502 | 1,364,502 |
| Prepayments | — | 559,267 | 559,267 |
| Unamortized discounts on bonds | 166,885 | 34,365 | 201,250 |
| Investments in joint ventures | — | 175,282 | 175,282 |
| Investments, permanently restricted | 2,066,895 | — | 2,066,895 |
| Capital assets: | | | |
| Assets not being depreciated | 35,139,447 | 3,100,187 | 38,239,634 |
| Assets being depreciated, net of accumulated depreciation | <u>68,002,837</u> | <u>62,924,846</u> | <u>130,927,683</u> |
| Total assets | <u>162,739,655</u> | <u>113,076,581</u> | <u>275,816,236</u> |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | 7,019,005 | 4,447,313 | 11,466,318 |
| Accrued interest payable | 1,025,232 | 38,298 | 1,063,530 |
| Unearned revenue | 21,538,612 | 800,791 | 22,339,403 |
| Notes payable | 7,689,000 | 2,397,000 | 10,086,000 |
| Deposits | — | 628,273 | 628,273 |
| Long-term liabilities: | | | |
| Due within one year: | | | |
| Compensated absences | 62,070 | 102,054 | 164,124 |
| Loan payable | — | 83,677 | 83,677 |
| Bonds payable | 3,575,000 | 955,000 | 4,530,000 |
| Unamortized premiums on notes and bonds | 99,925 | 17,721 | 117,646 |
| Due in more than one year: | | | |
| Compensated absences | 1,720,494 | 2,218,659 | 3,939,153 |
| Loan payable | — | 334,708 | 334,708 |
| Bonds payable | 60,130,000 | 3,405,000 | 63,535,000 |
| Unamortized premiums on bonds | <u>389,758</u> | <u>6,989</u> | <u>396,747</u> |
| Total liabilities | <u>103,249,096</u> | <u>15,435,483</u> | <u>118,684,579</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 45,418,089 | 60,022,295 | 105,440,384 |
| Restricted for: | | | |
| Medical assistance for needy citizens | 3,652,352 | — | 3,652,352 |
| Cemetery purposes | 1,197,344 | — | 1,197,344 |
| Other purposes: | | | |
| Expendable | 2,709,073 | 9,459,834 | 12,168,907 |
| Nonexpendable | 2,066,895 | — | 2,066,895 |
| Unrestricted | <u>4,446,806</u> | <u>28,158,969</u> | <u>32,605,775</u> |
| Total net assets | <u>\$ 59,490,559</u> | <u>97,641,098</u> | <u>157,131,657</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, 2005
(except for the Electric Business Activity, which is for January 1 to June 30, 2005)

| <u>Functions / Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Assets</u> | | |
|--------------------------------|-----------------------|---|--------------------------------|---------------------------------|--|----------------------|---------------------|
| | | <u>Charges for Operating Grants, Services, Fees</u> | | <u>Capital</u> | <u>Governmental</u> | <u>Business-type</u> | <u>Total</u> |
| | | <u>Forfeitures</u> | <u>And Restricted Interest</u> | <u>Grants and Contributions</u> | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 3,621,076 | 322,187 | 105,794 | — | (3,193,095) | — | (3,193,095) |
| Public safety | 10,071,857 | 2,564,290 | 483,762 | — | (7,023,805) | — | (7,023,805) |
| Education | 40,073,075 | 1,663,194 | 9,173,726 | 7,215,787 | (22,020,368) | — | (22,020,368) |
| Public works and facilities | 6,921,690 | 260,743 | 325,200 | 736,922 | (5,598,825) | — | (5,598,825) |
| Human services | 677,345 | 46,052 | 245,510 | — | (385,783) | — | (385,783) |
| Culture and recreation | 1,789,007 | 492,003 | 112,583 | — | (1,184,421) | — | (1,184,421) |
| Interest on debt service | 2,712,499 | — | 642,878 | — | (2,069,621) | — | (2,069,621) |
| Total government activities | <u>65,866,549</u> | <u>5,348,469</u> | <u>11,089,453</u> | <u>7,952,709</u> | <u>(41,475,918)</u> | <u>—</u> | <u>(41,475,918)</u> |
| Business-type activities: | | | | | | | |
| Electric | 30,329,372 | 32,365,201 | 212,937 | 1,091,669 | — | 3,340,435 | 3,340,435 |
| Water | 3,181,444 | 3,544,813 | 60,156 | — | — | 423,525 | 423,525 |
| Sewer | 4,037,797 | 3,554,354 | 28,536 | — | — | (454,907) | (454,907) |
| Landfill closure | — | — | 50,682 | — | — | 50,682 | 50,682 |
| Total business-type activities | <u>37,548,613</u> | <u>39,464,368</u> | <u>352,311</u> | <u>1,091,669</u> | <u>—</u> | <u>3,359,735</u> | <u>3,359,735</u> |
| Total government | \$ <u>103,415,162</u> | <u>44,812,837</u> | <u>11,441,764</u> | <u>9,044,378</u> | <u>(41,475,918)</u> | <u>3,359,735</u> | <u>(38,116,183)</u> |
| General revenues: | | | | | | | |
| | | | | | 42,143,736 | — | 42,143,736 |
| | | | | | 2,932,185 | — | 2,932,185 |
| | | | | | 161,635 | — | 161,635 |
| | | | | | 351,934 | — | 351,934 |
| | | | | | 3,668,543 | — | 3,668,543 |
| | | | | | 1,150,471 | — | 1,150,471 |
| | | | | | 83,529 | — | 83,529 |
| | | | | | 1,894,829 | — | 1,894,829 |
| | | | | | <u>52,386,862</u> | <u>—</u> | <u>52,386,862</u> |
| | | | | | 10,910,944 | 3,359,735 | 14,270,679 |
| | | | | | <u>48,579,615</u> | <u>94,281,363</u> | <u>142,860,978</u> |
| | | | | | \$ <u>59,490,559</u> | <u>97,641,098</u> | <u>157,131,657</u> |

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

Town of Reading, Massachusetts

Balance Sheet

Governmental Funds

June 30, 2005

| | | General Fund | Memorial High School Capital Project Fund | Barrows Elementary Capital Project Fund | Other Governmental Funds | Total |
|--------------------------------------|----|-------------------------|--|--|---|-------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ | 11,015 | 14,069,162 | 1,716,207 | 3,581,064 | 19,377,448 |
| Investments | | 9,911,957 | — | — | 7,777,266 | 17,689,223 |
| Receivables: | | | | | | |
| Property taxes: | | | | | | |
| Delinquent | | 338,296 | — | — | — | 338,296 |
| Subsequent year's levy | | 21,133,236 | — | — | — | 21,133,236 |
| Liens | | 266,946 | — | — | 1,200 | 268,146 |
| Deferrals | | 82,662 | — | — | — | 82,662 |
| Motor vehicle excise | | 174,320 | — | — | — | 174,320 |
| Special assessments | | 3,189 | — | — | 2,932 | 6,121 |
| Accrued interest | | 36,356 | — | — | — | 36,356 |
| Other governments | | 5,422 | — | — | 292,502 | 297,924 |
| Other | | 200,995 | — | — | 9,273 | 210,268 |
| Due from other funds | | — | 345,000 | — | — | 345,000 |
| | | <u>32,164,394</u> | <u>14,414,162</u> | <u>1,716,207</u> | <u>11,664,237</u> | <u>59,959,000</u> |
| Total assets | \$ | | | | | |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Warrants and accounts payable | \$ | 1,668,386 | 2,312,745 | 587,716 | 556,266 | 5,125,113 |
| Accrued liabilities: | | | | | | |
| Payroll | | 1,781,908 | — | — | 111,984 | 1,893,892 |
| Interest on bond anticipation notes | | 119,127 | — | — | — | 119,127 |
| Due to other funds | | 300,000 | — | — | 45,000 | 345,000 |
| Deferred revenue | | 22,577,420 | — | — | 4,132 | 22,581,552 |
| Notes payable | | — | 650,000 | 3,700,981 | 3,338,019 | 7,689,000 |
| | | <u>26,446,841</u> | <u>2,962,745</u> | <u>4,288,697</u> | <u>4,055,401</u> | <u>37,753,684</u> |
| Total liabilities | | | | | | |
| Fund balances: | | | | | | |
| Reserved by state statute | | 878,675 | — | — | — | 878,675 |
| Reserved for: | | | | | | |
| Encumbrances | | 678,639 | — | — | — | 678,639 |
| Subsequent year's expenditure | | 706,332 | — | — | 543,000 | 1,249,332 |
| Unreserved | | 3,453,907 | — | — | — | 3,453,907 |
| Unreserved, (deficit) reported in: | | | | | | |
| Special revenue funds | | — | — | — | 7,897,062 | 7,897,062 |
| Capital projects funds | | — | 11,451,417 | (2,572,490) | (2,898,121) | 5,980,806 |
| Permanent funds | | — | — | — | 2,066,895 | 2,066,895 |
| | | <u>5,717,553</u> | <u>11,451,417</u> | <u>(2,572,490)</u> | <u>7,608,836</u> | <u>22,205,316</u> |
| Total fund balances | | | | | | |
| Total liabilities and fund balances | \$ | <u>32,164,394</u> | <u>14,414,162</u> | <u>1,716,207</u> | <u>11,664,237</u> | <u>59,959,000</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, 2005

| | General Fund | Memorial High School Capital Project Fund | Barrows Elementary Capital Project Fund | Other Governmental Funds | Total |
|--|-------------------------|--|--|---|-------------------|
| Revenues: | | | | | |
| Property taxes | \$ 42,177,348 | — | — | — | 42,177,348 |
| Excise taxes | 2,937,456 | — | — | — | 2,937,456 |
| Penalties and interest on taxes | 161,635 | — | — | — | 161,635 |
| Payments in lieu of taxes | 231,934 | — | — | 120,000 | 351,934 |
| Charges for services | 1,517,501 | — | — | 3,459,654 | 4,977,155 |
| Licenses and permits | 75,980 | — | — | — | 75,980 |
| Intergovernmental | 12,001,809 | — | 1,617,150 | 8,056,986 | 21,675,945 |
| Special assessments | 4,965 | — | — | 3,282 | 8,247 |
| Fines | 154,753 | — | — | 350 | 155,103 |
| Investment income | 1,138,869 | — | — | 369,097 | 1,507,966 |
| Contributions and bequests | — | — | — | 483,619 | 483,619 |
| Miscellaneous | 3,874 | — | — | 288,464 | 292,338 |
| Total revenues | 60,406,124 | — | 1,617,150 | 12,781,452 | 74,804,726 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 2,598,954 | — | — | 18,265 | 2,617,219 |
| Public safety | 6,824,454 | — | — | 1,124,745 | 7,949,199 |
| Education | 31,612,268 | — | — | 4,257,244 | 35,869,512 |
| Public works and facilities | 4,843,953 | — | — | 113,280 | 4,957,233 |
| Human services | 291,490 | — | — | 247,540 | 539,030 |
| Culture and recreation | 1,042,914 | — | — | 463,707 | 1,506,621 |
| Employee benefits | 8,196,519 | — | — | — | 8,196,519 |
| Intergovernmental | 542,871 | — | — | — | 542,871 |
| Debt service | 6,555,849 | — | — | — | 6,555,849 |
| Capital outlay | — | 19,246,920 | 5,671,374 | 1,878,216 | 26,796,510 |
| Total expenditures | 62,509,272 | 19,246,920 | 5,671,374 | 8,102,997 | 95,530,563 |
| Excess (deficiency) of revenues over expenditures | (2,103,148) | (19,246,920) | (4,054,224) | 4,678,455 | (20,725,837) |
| Other financing sources (uses): | | | | | |
| Bonds issued | — | — | 2,415,000 | 3,065,000 | 5,480,000 |
| Premiums on bonds and notes issued | 117,730 | — | — | — | 117,730 |
| Transfers from other funds | 2,349,822 | 150,000 | — | 202,593 | 2,702,415 |
| Transfers to other funds | (267,500) | — | — | (540,086) | (807,586) |
| Total other financing sources (uses) | 2,200,052 | 150,000 | 2,415,000 | 2,727,507 | 7,492,559 |
| Net change in fund balances | 96,904 | (19,096,920) | (1,639,224) | 7,405,962 | (13,233,278) |
| Fund balances - beginning | 5,620,649 | 30,548,337 | (933,266) | 202,874 | 35,438,594 |
| Fund balances - ending | \$ 5,717,553 | 11,451,417 | (2,572,490) | 7,608,836 | 22,205,316 |

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, 2005**

| | | |
|---|---------------------|--------------------------|
| Total fund balances – governmental funds (page 13) | \$ | 22,205,316 |
| <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 | 38,307,174 | |
| Buildings and building improvements | 93,646,148 | |
| Other capital assets | 4,389,988 | |
| Accumulated depreciation | <u>(37,283,105)</u> | |
| Total capital assets | | 103,142,284 |
| <p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.</p> | | |
| | | 859,426 |
| <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 | (63,705,000) | |
| Accrued interest on bonds | (906,105) | |
| Compensated absences | <u>(1,782,564)</u> | |
| Total long-term liabilities | | (66,393,669) |
| <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>(322,798)</u> |
| | \$ | |
| Net assets of governmental activities (page 11) | | <u><u>59,490,559</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, 2005**

| | |
|---|-------------------------|
| Net change in fund balances – governmental funds (page 14) | \$ (13,233,278) |
| 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. | 77,938 |
| 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 liabilities in the statement of net assets and does not affect the statement of activities. | (5,480,000) |
| 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 (\$29,303,167) exceeded depreciation (\$3,576,677) in the current period. | 25,726,490 |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 3,339,000 |
| 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. | 58,881 |
| 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. | 327,739 |
| 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). | 94,174 |
| Change in net assets of governmental activities (page 12) | \$ <u>10,910,944</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, 2005

Business-type Activities - Enterprise Funds

| | <u>Electric</u> | <u>Water</u> | <u>Other</u> | <u>Total</u> |
|---|----------------------|--------------------|--------------------|---------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 10,677,046 | 4,828,765 | 4,626,465 | 20,132,276 |
| Receivables, net of allowance for uncollectibles: | | | | |
| User charges | 7,475,182 | 837,191 | 917,892 | 9,230,265 |
| Liens | — | 9,710 | 10,762 | 20,472 |
| Deferrals | — | 1,201 | 1,853 | 3,054 |
| Special assessments | — | — | 41,738 | 41,738 |
| Prepaid expenses | 559,267 | — | — | 559,267 |
| Inventories | 1,241,881 | 120,803 | 1,818 | 1,364,502 |
| Deferred charges | — | 15,282 | — | 15,282 |
| | <u>19,953,376</u> | <u>5,812,952</u> | <u>5,600,528</u> | <u>31,366,856</u> |
| Total current assets | | | | |
| Noncurrent assets: | | | | |
| Restricted cash and cash equivalents | 11,090,327 | — | — | 11,090,327 |
| Investments | 4,400,000 | — | — | 4,400,000 |
| Investments in joint ventures | 175,282 | — | — | 175,282 |
| Deferred charges | 16,416 | 2,667 | — | 19,083 |
| Capital assets | 94,277,376 | 12,705,402 | 10,921,467 | 117,904,245 |
| Less accumulated depreciation | <u>(40,793,292)</u> | <u>(5,652,761)</u> | <u>(5,433,159)</u> | <u>(51,879,212)</u> |
| | <u>69,166,109</u> | <u>7,055,308</u> | <u>5,488,308</u> | <u>81,709,725</u> |
| Total noncurrent assets | | | | |
| | <u>89,119,485</u> | <u>12,868,260</u> | <u>11,088,836</u> | <u>113,076,581</u> |
| Total assets | | | | |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Warrants and accounts payable | 3,591,809 | 225,802 | 168,725 | 3,986,336 |
| Deferred revenue | — | — | 342,315 | 342,315 |
| Interest on bonds and notes payable | — | 38,298 | — | 38,298 |
| Customer advances for construction | 458,476 | — | — | 458,476 |
| Other liabilities | 460,977 | — | — | 460,977 |
| Deposits | 554,273 | — | 74,000 | 628,273 |
| Notes payable | — | 2,397,000 | — | 2,397,000 |
| Compensated absences | 102,054 | — | — | 102,054 |
| Loan payable | — | — | 83,677 | 83,677 |
| Bonds payable | 855,000 | 100,000 | — | 955,000 |
| Unamortized premium on notes and bonds payable | — | 17,721 | — | 17,721 |
| | <u>6,022,589</u> | <u>2,778,821</u> | <u>668,717</u> | <u>9,470,127</u> |
| Total current liabilities | | | | |
| Noncurrent liabilities: | | | | |
| Compensated absences | 2,153,862 | 58,584 | 6,213 | 2,218,659 |
| Loan payable | — | — | 334,708 | 334,708 |
| Bonds payable | 2,505,000 | 900,000 | — | 3,405,000 |
| Unamortized premium on bonds payable | — | 6,989 | — | 6,989 |
| | <u>4,658,862</u> | <u>965,573</u> | <u>340,921</u> | <u>5,965,356</u> |
| Total noncurrent liabilities | | | | |
| | <u>10,681,451</u> | <u>3,744,394</u> | <u>1,009,638</u> | <u>15,435,483</u> |
| Total liabilities | | | | |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 50,124,084 | 4,520,085 | 5,378,126 | 60,022,295 |
| Restricted | 3,325,848 | 2,573,181 | 3,560,805 | 9,459,834 |
| Unreserved | <u>24,988,102</u> | <u>2,030,600</u> | <u>1,140,267</u> | <u>28,158,969</u> |
| | <u>\$ 78,438,034</u> | <u>9,123,866</u> | <u>10,079,198</u> | <u>97,641,098</u> |
| Total net assets | | | | |

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, 2005
(except for the Electric Fund, which is for January 1 to June 30, 2005)

Business-type Activities - Enterprise Funds

| | <u>Electric</u> | <u>Water</u> | <u>Other</u> | <u>Total</u> |
|--|-----------------|--------------|--------------|--------------|
| Operating revenues: | | | | |
| Charges for services | \$ 32,311,089 | 3,155,813 | 3,431,566 | 38,898,468 |
| Special assessments | — | — | 27,428 | 27,428 |
| Contributions from developers | — | 389,000 | 95,360 | 484,360 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total operating revenues | 32,311,089 | 3,544,813 | 3,554,354 | 39,410,256 |
| Operating expenses: | | | | |
| Energy purchases | 23,177,649 | 173,808 | 22,892 | 23,374,349 |
| Intergovernmental | 517,412 | 119,958 | 2,943,779 | 3,581,149 |
| Depreciation | 1,352,369 | 486,153 | 259,893 | 2,098,415 |
| Other operating costs | 5,184,851 | 2,360,771 | 811,233 | 8,356,855 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total operating expenses | 30,232,281 | 3,140,690 | 4,037,797 | 37,410,768 |
| Operating income (loss) | <hr/> | <hr/> | <hr/> | <hr/> |
| | 2,078,808 | 404,123 | (483,443) | 1,999,488 |
| Nonoperating revenues (expenses): | | | | |
| Investment income | 212,937 | 60,156 | 79,218 | 352,311 |
| Interest expense | (89,911) | (40,754) | — | (130,665) |
| Other revenues | 54,112 | — | — | 54,112 |
| Loss on disposal of capital assets | (7,180) | — | — | (7,180) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total nonoperating revenues (expenses) | 169,958 | 19,402 | 79,218 | 268,578 |
| Income (loss) before contributions | <hr/> | <hr/> | <hr/> | <hr/> |
| | 2,248,766 | 423,525 | (404,225) | 2,268,066 |
| Contributions from customers | <hr/> | <hr/> | <hr/> | <hr/> |
| | 1,091,669 | — | — | 1,091,669 |
| Changes in net assets | <hr/> | <hr/> | <hr/> | <hr/> |
| | 3,340,435 | 423,525 | (404,225) | 3,359,735 |
| Net assets - beginning | <hr/> | <hr/> | <hr/> | <hr/> |
| | 75,097,599 | 8,700,341 | 10,483,423 | 94,281,363 |
| Net assets - ending | <hr/> | <hr/> | <hr/> | <hr/> |
| | \$ 78,438,034 | 9,123,866 | 10,079,198 | 97,641,098 |

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, 2005
(except for the Electric Fund, which is for January 1 to June 30, 2005)

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 | \$ 29,865,797 | 3,481,273 | 3,587,509 | 36,934,579 |
| Payments to vendors and employees | (27,641,157) | (2,385,013) | (677,440) | (30,703,610) |
| Payments to other governments | (517,412) | (119,958) | (2,943,779) | (3,581,149) |
| Net cash provided (used) by operating activities | <u>1,707,228</u> | <u>976,302</u> | <u>(33,710)</u> | <u>2,649,820</u> |
| Cash flows from noncapital financing activities: | | | | |
| Other revenues | <u>54,112</u> | <u>—</u> | <u>—</u> | <u>54,112</u> |
| Cash flows from capital and related financing activities: | | | | |
| Proceeds from bond issue | — | 1,000,000 | — | 1,000,000 |
| Proceeds from bond anticipation notes (net) | — | 400,000 | — | 400,000 |
| Premium from sale of bonds and notes | — | 24,710 | — | 24,710 |
| Bond and note issue costs | — | (14,985) | — | (14,985) |
| Proceeds from loan | — | — | 418,385 | 418,385 |
| Proceeds from grant | — | — | 342,315 | 342,315 |
| Acquisition of capital assets | (3,095,289) | (2,511,560) | (354,251) | (5,961,100) |
| Loss on disposal of capital assets | (7,180) | — | — | (7,180) |
| Capital contributions and customer advances | 1,091,669 | — | — | 1,091,669 |
| Principal paid on capital debt | — | (170,000) | — | (170,000) |
| Interest paid on capital debt | (89,911) | (48,623) | — | (138,534) |
| Net cash provided (used) by capital and related financing activities | <u>(2,100,711)</u> | <u>(1,320,458)</u> | <u>406,449</u> | <u>(3,014,720)</u> |
| Cash flows from investing activities: | | | | |
| Investments (purchases net of sales) | 506,000 | — | — | 506,000 |
| Interest on investments | 212,937 | 60,156 | 79,218 | 352,311 |
| Net cash provided by investing activities | <u>718,937</u> | <u>60,156</u> | <u>79,218</u> | <u>858,311</u> |
| Net increase (decrease) in cash and cash equivalents | 379,566 | (284,000) | 451,957 | 547,523 |
| Balances - beginning | <u>21,387,807</u> | <u>5,112,765</u> | <u>4,174,508</u> | <u>30,675,080</u> |
| Balances - ending (including \$11,090,327 reported as restricted cash) | <u>\$ 21,767,373</u> | <u>4,828,765</u> | <u>4,626,465</u> | <u>31,222,603</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Operating income (loss) | \$ 2,078,808 | 404,123 | (483,443) | 1,999,488 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | 1,352,369 | 486,153 | 259,893 | 2,098,415 |
| Changes in net assets and liabilities: | | | | |
| Receivables (net) | (2,382,365) | (63,540) | 33,156 | (2,412,749) |
| Inventories and prepayments | 970,457 | 3,290 | (124) | 973,623 |
| Warrants and accounts payable | 178,550 | 136,042 | 155,797 | 470,389 |
| Compensated absences payable | 140,437 | 10,234 | 1,011 | 151,682 |
| Accrued liabilities | 308,091 | — | — | 308,091 |
| Customer deposits | (62,927) | — | — | (62,927) |
| Deferred revenue | (876,192) | — | — | (876,192) |
| Net cash provided (used) by operating activities | <u>\$ 1,707,228</u> | <u>976,302</u> | <u>(33,710)</u> | <u>2,649,820</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, 2005

| | | Other Employee Benefits | |
|--|--------------------------------------|--|-------------------------|
| | Employee Pension Plan | Municipal Light Pension Trust | Agency Funds |
| ASSETS | | | |
| Cash and cash equivalents | \$ 3,616 | 1,740,214 | 272,113 |
| Investments | 72,400,659 | 6,559,734 | — |
| Receivables: | | | |
| Liens | — | — | 2,192 |
| User charges | — | — | 1,337 |
| Due from other governments | 3 | — | — |
| Total assets | <u>72,404,278</u> | <u>8,299,948</u> | <u>275,642</u> |
| LIABILITIES | | | |
| Warrants and accounts payable | — | — | 74,910 |
| Other liabilities | 115,104 | — | 200,732 |
| Total liabilities | <u>115,104</u> | <u>—</u> | <u>275,642</u> |
| NET ASSETS | | | |
| Held in trust for employees' pension benefits and other employee benefits | \$ <u>72,289,174</u> | <u>8,299,948</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, 2005

| | Employee Pension Plan | Other Employee Benefits Municipal Light Pension Trust |
|--|--------------------------------------|--|
| Additions: | | |
| Contributions: | | |
| Employers | \$ 3,498,354 | 607,735 |
| Plan members | 1,571,326 | — |
| Intergovernmental | 274,097 | — |
| Total contributions | 5,343,777 | 607,735 |
| Investment income (loss): | | |
| Net increase (decrease) in fair value of investments | 2,816,356 | 24,969 |
| Interest, dividends, and other | 5,893,559 | 320,900 |
| Total investment income (loss) | 8,709,915 | 345,869 |
| Less: investment expenses | 337,172 | — |
| Net investment income (loss) | 8,372,743 | 345,869 |
| Total additions | 13,716,520 | 953,604 |
| Deductions: | | |
| Benefits paid to participants or beneficiaries | 5,847,010 | — |
| Refunds and transfers to other systems | 345,838 | — |
| Administrative expenses | 50,278 | — |
| Contribution to employees' pension plan | — | 864,185 |
| Total deductions | 6,243,126 | 864,185 |
| Changes in net assets held in trust for employees' pension benefits | 7,473,394 | 89,419 |
| Net assets - beginning | 64,815,780 | 8,210,529 |
| Net assets - ending | \$ 72,289,174 | 8,299,948 |

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

TOWN OF READING, MASSACHUSETTS

Notes to the Financial Statements

June 30, 2005

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, 2005. The accounting policies of the Town conform to GAAP. The Light Department issues a stand-alone financial report. The Light Department changed its fiscal year from December 31 to June 30 to coincide with the Town's fiscal year. As this is the transition year, the Town's electric enterprise fund (Light Department) is presented for the six-months ended June 30, 2005.

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. 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 capital projects fund, Barrows 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 account for the renovation and construction of the Memorial High School.

Barrows Elementary School Capital Projects Fund - This fund is used to account for the renovation and construction of the Barrows 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, 2005, the Town has billed for the first two quarterly installments of the fiscal year 2006 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 2006, 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 combined 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 sick leave balances. The liability has been calculated using the vesting method, which includes leave amounts for both employees who are currently eligible to receive termination payments and employees who are expected to become eligible in the future to receive termination payments.

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. 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 2006 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 2006 appropriations.

Unreserved Fund Balances (Undesignated) – In the general fund, this represents the \$2,634,251 available for appropriation as certified by the DOR and the \$819,656 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.

h. 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 which are in excess of invested in capital assets and which are not available for appropriation.

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.

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 and the electric fund, are prepared under the direction of the Town Manager. The School Department budget is prepared under the direction of the School Committee and the Light Department's budget is prepared under the direction of the Municipal Light Board. 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, 2005, \$13,953,044 of the Town's bank balance of \$14,453,623 was insured by the Federal Deposit Insurance Corporation or by the Share Insurance Fund of the Co-operative Central Bank. The remaining balance of \$500,579 was uninsured and uncollateralized.

Investments

Investments as of June 30, 2005 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 | 15,504,778 |
| Domestic corporate fixed-income securities | 2,623,127 |
| Domestic equities | 689,217 |
| Certificates of deposit | 9,111,957 |
| Pooled investments: | |
| Money market funds | 11,671,837 |
| Equity fund – closed end | 700,183 |
| MMDT fund | <u>25,883,096</u> |
| Total Town of Reading | 66,184,195 |
| Reading Contributory Retirement Board | |
| PRIT fund | <u>72,400,659</u> |
| | \$ |
| Totals | <u><u>138,584,854</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 5.30 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 \$9,111,957 are insured in full, with \$100,000 insured by the Federal Deposit Insurance Corporation and \$9,011,957 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, 2005 is as follows:

| <u>Moody's Investors Service</u> | | <u>Weighted Average</u> | <u>Standard and Poor's</u> | | <u>Weighted Average</u> |
|----------------------------------|---------------|-------------------------|----------------------------|---------------|-------------------------|
| <u>Amount</u> | <u>Rating</u> | <u>Maturity (Years)</u> | <u>Amount</u> | <u>Rating</u> | <u>Maturity (Years)</u> |
| \$ 873,138 | Aaa | 1.19 | \$ 373,138 | AAA | 1.19 |
| 880,569 | Aa | 0.51 | 572,232 | AA | 0.29 |
| 669,032 | A | .044 | 872,542 | A | 0.55 |
| 200,388 | Baa | <u>0.01</u> | 305,215 | BBB | <u>0.12</u> |
| \$ <u>2,623,127</u> | | <u>2.15</u> | \$ <u>2,623,127</u> | | <u>2.15</u> |

As previously noted, the Retirement Board holds shares in the PRIT fund. PRIT holds investments in derivative securities. Therefore the Retirement Board's investment in PRIT 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 exists with its derivative investments in PRIT's investment funds.

Note 4. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2005 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|---|------------------------------|----------------------|-----------------------|---------------------------|
| | \$ | \$ | \$ | \$ |
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land and improvements | 3,136,224 | — | — | 3,136,224 |
| Construction in progress | 15,071,996 | 26,318,294 | (9,387,067) | 32,003,223 |
| Total capital assets not being depreciated | <u>18,208,220</u> | <u>26,318,294</u> | <u>(9,387,067)</u> | <u>35,139,447</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 945,855 | — | — | 945,855 |
| Buildings and improvements | 50,864,215 | 10,778,710 | — | 61,642,925 |
| Equipment | 3,996,414 | 640,586 | (247,012) | 4,389,988 |
| Infrastructures | 38,006,216 | 952,634 | (651,676) | 38,307,174 |
| Total capital assets being depreciated | <u>93,812,700</u> | <u>12,371,930</u> | <u>(898,688)</u> | <u>105,285,942</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (275,161) | (31,674) | — | (306,835) |
| Buildings and improvements | (12,566,845) | (1,704,219) | — | (14,271,064) |
| Equipment | (2,303,275) | (345,913) | 247,012 | (2,402,176) |
| Infrastructures | (19,459,842) | (1,494,864) | 651,676 | (20,303,030) |
| Total accumulated depreciation | <u>(34,605,123)</u> | <u>(3,576,670)</u> | <u>898,688</u> | <u>(37,283,105)</u> |
| Capital assets being depreciated, net | <u>59,207,577</u> | <u>8,795,260</u> | <u>—</u> | <u>68,002,837</u> |
| Governmental activities capital assets, net | <u>\$ 77,415,797</u> | <u>\$ 35,113,554</u> | <u>\$ (9,387,067)</u> | <u>\$ 103,142,284</u> |

Depreciation expense was charged to functions as follows:

| | |
|--|------------------|
| Government activities: | \$ |
| General government | 67,506 |
| Public safety | 325,237 |
| Education | 1,351,749 |
| Public works and facilities | 1,723,202 |
| Human services | 31,196 |
| Culture and recreation | 77,780 |
| | <u>\$</u> |
| Total governmental activities depreciation expense | <u>3,576,670</u> |

Capital asset activity for business-type activities without the electric fund for the year ended June 30, 2005 was as follows:

| | <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 | 152,123 | 1,498,638 | — | 1,650,761 |
| Total capital assets not being depreciated | <u>335,707</u> | <u>1,498,638</u> | <u>—</u> | <u>1,834,345</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 83,916 | — | — | 83,916 |
| Buildings and improvements | 6,493,516 | 20,394 | — | 6,513,910 |
| Equipment | 1,290,271 | 82,085 | (70,443) | 1,301,913 |
| Infrastructures | 12,628,091 | 1,264,694 | — | 13,892,785 |
| Total capital assets being depreciated | <u>20,495,794</u> | <u>1,367,173</u> | <u>(70,443)</u> | <u>21,792,524</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (29,538) | (2,420) | — | (31,958) |
| Buildings and improvements | (4,128,315) | (339,729) | — | (4,468,044) |
| Equipment | (359,866) | (103,789) | 70,443 | (393,212) |
| Infrastructures | (5,892,598) | (300,108) | — | (6,192,706) |
| Total accumulated depreciation | <u>(10,410,317)</u> | <u>(746,046)</u> | <u>70,443</u> | <u>(11,085,920)</u> |
| Capital assets being depreciated, net | <u>10,085,477</u> | <u>621,127</u> | <u>—</u> | <u>10,706,604</u> |
| | \$ | \$ | \$ | \$ |
| Business-type activities capital assets, net | <u>10,421,184</u> | <u>2,119,765</u> | <u>—</u> | <u>12,540,949</u> |

Depreciation expense was charged to functions as follows:

| | |
|---|----------------|
| | \$ |
| Business-type activities: | |
| Water | 486,153 |
| Sewer | 259,893 |
| | \$ |
| Total business-type activities depreciation expense | <u>746,046</u> |

Capital asset activity for the electric fund for the six-month period ended June 30, 2005 was as follows:

| | <u>Balance January 1, 2005</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|--|------------------------------------|--------------------|-------------------|---------------------------|
| | \$ | \$ | \$ | \$ |
| Capital assets not being depreciated: | | | | |
| Land | 1,265,842 | — | — | 1,265,842 |
| Capital assets being depreciated: | | | | |
| Structures and improvements | 11,583,881 | 630,614 | — | 12,214,495 |
| Equipment and furnishings | 21,456,240 | 393,071 | (1,200) | 21,848,111 |
| Infrastructure | 57,117,071 | 2,078,784 | (246,927) | 58,948,928 |
| Total capital assets being depreciated | <u>90,157,192</u> | <u>3,102,469</u> | <u>(248,127)</u> | <u>93,011,534</u> |
| Less accumulated depreciation for: | | | | |
| Structures and improvements | (4,936,646) | (95,819) | — | (5,032,465) |
| Equipment and furnishings | (13,474,210) | (421,956) | 1,200 | (13,894,966) |
| Infrastructure | (21,271,014) | (834,594) | 239,747 | (21,865,861) |
| Total accumulated depreciation | <u>(39,681,870)</u> | <u>(1,352,369)</u> | <u>240,947</u> | <u>(40,793,292)</u> |
| Capital assets being depreciated, net | <u>50,475,322</u> | <u>1,750,100</u> | <u>(7,180)</u> | <u>52,218,242</u> |
| | \$ | \$ | \$ | \$ |
| Business-type activities capital assets, net | <u>51,741,164</u> | <u>1,750,100</u> | <u>(7,180)</u> | <u>53,484,084</u> |

Depreciation expense for the electric fund for the six-month period ended June 30, 2005 was \$1,352,369.

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, 2005 excluding the electric fund:

| | <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 | 1,876,738 | 132,528 | 226,702 | 1,782,564 | 62,070 |
| General obligation bonds payable | 61,564,000 | 5,480,000 | 3,339,000 | 63,705,000 | 3,575,000 |
| Unamortized premiums on bonds | 531,019 | 117,730 | 159,066 | 489,683 | 99,925 |
| | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| | <u>63,971,757</u> | <u>5,730,258</u> | <u>3,724,768</u> | <u>65,977,247</u> | <u>3,736,995</u> |
| | \$ | \$ | \$ | \$ | \$ |
| Business-type activities: | | | | | |
| Water and sewer funds: | | | | | |
| Compensated absences payable | 53,552 | 11,245 | — | 64,797 | — |
| Loan payable | — | 418,385 | — | 418,385 | 83,677 |
| General obligation bonds payable | — | 1,000,000 | — | 1,000,000 | 100,000 |
| Unamortized premiums on bonds | — | 24,710 | — | 24,710 | 17,721 |
| | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| | <u>53,552</u> | <u>1,454,340</u> | <u>—</u> | <u>1,507,892</u> | <u>201,398</u> |

The following is a summary of the changes in the electric fund's long-term obligation for the six-month period ended June 30, 2005:

| | <u>Balance January 1, 2005</u> | <u>Incurred Or Issued</u> | <u>Satisfied Or Matured</u> | <u>Balance End Of Year</u> | <u>Amounts Due Within One Year</u> |
|----------------------------------|--|-----------------------------------|-------------------------------------|------------------------------------|--|
| | \$ | \$ | \$ | \$ | \$ |
| Electric fund: | | | | | |
| Compensated absences payable | 2,115,479 | 207,994 | 67,557 | 2,255,916 | 102,054 |
| General obligation bonds payable | 3,360,000 | — | — | 3,360,000 | 855,000 |
| | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| | <u>5,475,479</u> | <u>207,994</u> | <u>67,557</u> | <u>5,615,916</u> | <u>957,054</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 has not issued any TANs since 1974.

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 or paid down with funds received through the Commonwealth of Massachusetts’ school building assistance program.

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 2005.

Short-term debt activity for the year ended June 30, 2005, was as follows:

| <u>Bond Anticipation Notes</u> | Balance | <u>Issued</u> | <u>Redeemed</u> | Balance |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Beginning | | | End |
| | <u>Of Year</u> | | | <u>Of Year</u> |
| | \$ | \$ | \$ | \$ |
| Governmental activities: | | | | |
| New Elementary School | 10,900,000 | 3,338,019 | 10,900,000 | 3,338,019 |
| Barrows Elementary School | 1,015,500 | 4,400,981 | 1,715,500 | 3,700,981 |
| High School | 800,000 | 650,000 | 800,000 | 650,000 |
| Acquisition of land | 117,500 | — | 117,500 | — |
| Business-type activities: | | | | |
| Water plant and mains | 2,167,000 | 2,397,000 | 2,167,000 | 2,397,000 |
| | \$ | \$ | \$ | \$ |
| | <u>15,000,000</u> | <u>10,786,000</u> | <u>15,700,000</u> | <u>10,086,000</u> |

Note 7. 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 3.9% to 5.3% and are due in annual installments ranging from \$3,960,000 to \$2,570,000 through June 30, 2024.

The outstanding business-type activities bonds were issued for the design of a water treatment plant and electric plant purposes. The bonds bear interest from 3.4% to 5.3% and are due in annual installments ranging from \$955,000 to \$100,000 through June 30, 2015.

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2005, including interest, are as follows:

| <u>Year Ending</u> <u>June 30,</u> | <u>Governmental</u> <u>Activities</u> | | <u>Business-type</u> <u>Activities</u> | | <u>Total</u> | |
|---------------------------------------|--|-------------------|---|-----------------|-------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| 2006 | 3,885,000 | 2,763,005 | 955,000 | 189,543 | 4,840,000 | 2,952,548 |
| 2007 | 3,910,000 | 2,564,188 | 955,000 | 132,963 | 4,865,000 | 2,697,151 |
| 2008 | 3,945,000 | 2,428,504 | 650,000 | 94,963 | 4,595,000 | 2,523,467 |
| 2009 | 3,960,000 | 2,282,010 | 650,000 | 65,838 | 4,610,000 | 2,347,848 |
| 2010 | 3,690,000 | 2,139,493 | 650,000 | 36,438 | 4,340,000 | 2,175,931 |
| 2011 – 2015 | 17,810,000 | 8,430,977 | 500,000 | 62,300 | 18,310,000 | 8,493,277 |
| 2016 – 2020 | 15,540,000 | 4,615,881 | — | — | 15,540,000 | 4,615,881 |
| 2021 – 2024 | 10,965,000 | 1,266,107 | — | — | 10,965,000 | 1,266,107 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| | <u>63,705,000</u> | <u>26,490,165</u> | <u>4,360,000</u> | <u>582,045</u> | <u>68,065,000</u> | <u>27,072,210</u> |

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, 2005, is as follows:

| | |
|-------------------------------|-------------------|
| | \$ |
| Barrows Elementary School | 3,701,850 |
| Wood End Elementary School | 3,338,019 |
| High School | 19,305,000 |
| Water supply, plant and mains | 5,577,000 |
| Sewer system | 835 |
| | <u>31,922,704</u> |
| | \$ |
| | <u>31,922,704</u> |

As of June 30, 2005, the Town may issue approximately \$119,201,205 of additional general obligation debt under the normal debt limit. The Town has approximately \$16,800,000 of debt exempt from the debt limit.

The Town pays assessments, which include debt service payments to other governmental units providing services within the Town's boundaries (commonly referred to as overlapping debt). The following summary sets forth the long-term debt at June 30, 2005, 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 | \$ <u>3,529,647,000</u> | 1.0513% | \$ <u>37,107,194</u> |

Note 8. Loans Payable

In 2005 the Town received a \$418,385 interest free loan from the MWRA to fund a sewer construction project. The loan is payable in equal installments through fiscal year 2010.

Note 9. School Building Assistance

In July 2004, legislation adopted by the Commonwealth of Massachusetts restructured the school building assistance program. This legislation prohibits the State from providing reimbursement for permanent financing issued after July 1, 2005 and moves the program away from multi-year reimbursement schedules to up-front cash payments.

The Town will continue to receive annual reimbursement of principal and interest for school building projects funded under the multi-year reimbursement schedule program. During 2005, the Town received \$1,678,534 of such assistance. In addition, the Town received \$4,562,981 for the Wood End Elementary School construction project and \$1,617,150 for the Barrows Elementary School construction project under the up-front cash payments program. These funds allowed the Town to pay off previously issued BANs, and to reduce its debt going forward.

Note 10. Inter-fund Receivables and Payables

On June 30, 2005 an inter-fund receivable for \$345,000 is reported in the Memorial High School project fund. This receivable is offset by a \$300,000 payable in the general fund and a \$45,000 payable in the other governmental funds.

Note 11. 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, 2005.

| <u>Source / Purpose of Transfer</u> | <u>General</u> | <u>Memorial High School Project</u> | <u>Non-major Governmental</u> | <u>Electric</u> |
|---|---------------------|-------------------------------------|-------------------------------|-----------------------|
| Sale of lots fund / cemetery operations | \$ 47,737 | \$ — | \$ (47,737) | \$ — |
| Reading Ice Arena Authority / public works operations | 107,256 | — | (107,256) | — |
| Sale of real estate / debt service | 300,000 | — | (300,000) | — |
| Earnings distribution / operations | 1,894,829 | — | — | (1,894,829) |
| Appropriation / retire notes payable | (267,500) | 150,000 | 117,500 | — |
| | <u>\$ 2,082,322</u> | <u>\$ 150,000</u> | <u>\$ (337,493)</u> | <u>\$ (1,894,829)</u> |

Note 12. 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, 2005 is as follows:

| | |
|---|---------------------|
| Barrows Elementary School renovations | \$ 2,572,490 |
| Wood End Elementary School construction | 2,900,380 |
| | <u>\$ 5,472,870</u> |

Note 13. 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 \$42,900 were made during the year ended June 30, 2005. 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 14. 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 who work over 1,690 hours per year. 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, 2005:

| | |
|---|------------|
| Retired participants and beneficiaries receiving benefits | 328 |
| Terminated participants entitled to, but not yet receiving benefits | 22 |
| Active participants | <u>352</u> |
| Totals | <u>702</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, 2005, 2004 and 2003 were \$3,385,464, \$3,106,800 and \$3,033,800, 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, 2005 are as follows:

| <u>Description</u> | <u>Amount</u> | <u>Purpose</u> |
|-------------------------|-------------------|---|
| Annuity Savings Fund | \$ 16,001,164 | Active members' contribution balance |
| Annuity Reserve Fund | 6,144,332 | Retired members' contribution account |
| Military Service Credit | 19,645 | Members' contribution account while on military leave |
| Pension Reserve Fund | <u>50,124,033</u> | Amount accumulated to fund future retirement benefits |
| | \$ | |
| | <u>72,289,174</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 15. Post-employment Health Benefits

In addition to the pension benefits described in Note 13, the Town provides post-employment health care benefits to employees who retire from the Town. This is done in accordance with State statutes and within the limits provided in Town policy. 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, 2005, 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, 2005, was approximately \$1,990,478.

Note 16. 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, 2004, the NMRVSD had a total enrollment of 1,168 pupils of which 26 pupils were from the Town. The Town's fiscal year 2005 assessment was \$208,208. Additional information can be obtained from the NMRVSD at 100 Hemlock Road, Wakefield, MA 01880.

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

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

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, a subsidiary of FPL Energy, Inc., and a 4.8% ownership interest in the Millstone Unit 3 nuclear Unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and a subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2. DNCI requested and received an exemption from the NRC enabling it to submit an application to renew the operating license for Unit 3 earlier than 20 years before the expiration of the operating license for Unit 3, thereby enabling DNCI to submit an application to renew the operating licenses for both Unit 2 and Unit 3 simultaneously. In January 2004, DNCI filed the application to renew the operating licenses. The Unit 3 license currently will expire in 2025.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by FPL Energy Seabrook, LLC (FPLE Seabrook), the majority owner and an indirect subsidiary of FPL Group, Inc. FPLE Seabrook has filed an application with the NRC to recapture the period 1986 to 1990 during which time Seabrook had an operating license, but did not operate. Also, FPLE Seabrook intends 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 costs are being funded through monthly Project billings. Also the Project Participants are also liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act. In February 2003 Congress extended the Price-Anderson Act through the end of 2003. Congress, as part of comprehensive energy legislation, has considered extension of the Price-Anderson Act.

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

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

As of June 30, 2005, total capital expenditures for MMWEC's Projects amounted to \$ 1,557,321,000 of which \$ 111,238,000 represents the amount associated with the Department's share of Project Capability of the Projects in which it participates. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds totaling \$ 856,295,000, of which \$51,492,000 is associated with the Department's share of Project Capability of the Projects in which it participates. As of June 30, 2005, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$ 1,033,198,000, of which \$ 58,505,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of Reading Municipal Light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at June 30, 2005 and estimated for future years is shown below.

| | |
|----------------------|-------------------|
| Year ending June 30, | \$ |
| 2006 | 7,499,000 |
| 2007 | 7,359,000 |
| 2008 | 6,495,000 |
| 2009 | 5,458,000 |
| 2010 | 4,866,000 |
| 2011 to 2015 | 21,377,000 |
| 2016 to 2019 | 5,451,000 |
| | <u>\$</u> |
| Total | <u>58,505,000</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 \$15,090,000 and \$17,146,000 for the years ended June 30, 2005 and 2004, 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:

| | |
|------------|--------------------------|
| | \$ |
| 2006 | 15,213,530 |
| 2007 | 14,643,998 |
| Thereafter | <u>5,909,394</u> |
| | \$ |
| Total | <u><u>35,766,922</u></u> |

Purchase power expense under these agreements was \$16,455,338 in fiscal year 2005 and \$16,518,068 in fiscal year 2004.

Note 18. Landfill Closure and Postclosure Care Costs

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 (MADEP), as the Town retained contingent liability for the closure of the landfill, the Town was required to establish an enterprise fund with the proceeds from the sale of the property to ensure funding for the closure of the property. Dickinson in turn 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 \$40,000 for the costs incurred to monitor and maintain the landfill site for up to thirty years after the landfill cover is installed.

Subject to the MADEP’s approval, the proceeds from the sale of the property will be transferred from the enterprise fund to the Town’s sale of real estate fund as Dickinson reaches certain benchmarks. In April 2004 the Town received authorization from the MADEP to transfer \$750,000 from the landfill closure and postclosure enterprise fund to the Town’s sale of real estate fund. The \$3,000,000 letter of credit from Dickinson was also reduced by a like amount.

The certificates of occupancy for the second and final phase of construction of the former landfill site are currently being issued, with the last one expected by September 1, 2005. As-built drawings for the entire site have been prepared and are being reviewed. Once the as-built drawings are finalized, application will be made to the MADEP for the final release of the remaining \$2,250,000, and following that approval, the Town will release the final amount of Dickinson’s letter of credit. It is expected that this final release will be approved by MADEP by the end of this calendar year.

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 \$23.9 million. Town Meeting also approved a bond authorization 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.

Town of Reading, Massachusetts
Budgetary Comparison Schedule - General Fund
Required Supplementary Information
For the Year Ended June 30, 2005

| | <u>Budgeted Amount</u> | | <u>Actual</u> | <u>Variance with</u> |
|---|------------------------|-------------------|--|---|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u> | <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u> |
| Resources (inflows): | | | | |
| Property taxes | \$ 41,859,706 | 41,859,706 | 42,175,348 | 315,642 |
| Excise taxes | 2,700,000 | 2,700,000 | 2,917,456 | 217,456 |
| Penalties and interest on taxes | 160,000 | 160,000 | 161,635 | 1,635 |
| Payments in lieu of taxes | 230,000 | 230,000 | 231,934 | 1,934 |
| Charges for services | 1,360,000 | 1,360,000 | 1,517,501 | 157,501 |
| Licenses and permits | 60,000 | 60,000 | 75,980 | 15,980 |
| Intergovernmental | 11,692,950 | 11,692,950 | 12,001,809 | 308,859 |
| Special assessments | 5,000 | 5,000 | 4,965 | (35) |
| Fines | 130,000 | 130,000 | 154,753 | 24,753 |
| Investment income | 525,000 | 525,000 | 1,128,780 | 603,780 |
| Other | — | — | 3,874 | 3,874 |
| Premiums on bonds and notes issued, net of issue costs | — | — | 74,531 | 74,531 |
| Transfers from other funds | 2,349,822 | 2,349,822 | 2,349,822 | — |
| Total resources | 61,072,478 | 61,072,478 | 62,798,388 | 1,725,910 |
| Charges to appropriation (outflows): | | | | |
| General government | 2,675,521 | 2,687,406 | 2,598,827 | 88,579 |
| Public safety | 6,978,099 | 7,015,790 | 6,852,874 | 162,916 |
| Education | 31,016,848 | 31,678,821 | 31,647,463 | 31,358 |
| Public works and facilities | 4,191,396 | 4,856,226 | 4,837,410 | 18,816 |
| Human services | 321,781 | 313,681 | 291,490 | 22,191 |
| Culture and recreation | 1,026,667 | 1,049,167 | 1,035,414 | 13,753 |
| Employee benefits | 8,008,049 | 8,371,558 | 8,196,519 | 175,039 |
| Intergovernmental | 518,651 | 518,651 | 542,871 | (24,220) |
| Debt service | 6,522,640 | 6,530,390 | 6,530,379 | 11 |
| Transfers to other funds | 267,500 | 267,500 | 267,500 | — |
| Total charges to appropriations | 61,527,152 | 63,289,190 | 62,800,747 | 488,443 |
| Excess of resources over charges to appropriations | (454,674) | (2,216,712) | (2,359) | 2,214,353 |
| Fund balance allocation | 454,674 | 2,216,712 | — | — |
| Excess of resources over charges to appropriations | \$ <u>—</u> | <u>—</u> | <u>(2,359)</u> | <u>2,214,353</u> |

The notes to the required supplementary information are an integral part of this schedule.
See accompanying independent auditors' report

TOWN OF READING, MASSACHUSETTS

Notes to the Required Supplementary Information

June 30, 2005

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) | 62,798,388 |
| Differences – budget to GAAP: | |
| Property taxes are reported as a budgetary resource on the cash basis, rather than on the modified accrual basis. | 2,000 |
| 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. | 10,089 |
| Premiums on bonds and notes issued, net of issue costs are not revenues for financial reporting purposes. | (74,531) |
| Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes. | (2,349,822) |
| Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance (page 14) | <u>\$ 60,406,124</u> |

Budgetary outflows and GAAP expenditures

| | |
|--|----------------------|
| | \$ |
| Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule (page 39) | 62,800,747 |
| Differences – budget to GAAP: | |
| Interest on bond anticipation notes is budgeted on the cash basis, rather than on the accrual basis. | (17,729) |
| Costs related to the issuance of bonds and notes are net of premiums on the budgetary basis, rather than reported gross. | 43,198 |
| 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 2005 | 616,846 |
| Current year encumbrances reported as charges to appropriations for budget purposes | (666,290) |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes. | (267,500) |
| Total expenditures as reported on the statements of revenues, expenditures and changes in fund balance (page 14) | <u>\$ 62,509,272</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-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 |
| 30-Jun-05 | 71,468 | 102,153 | 30,685 | 69.7 | 18,048 | 170.0 |

Notes to Schedule

Additional information as of the latest actuarial valuation follows:

| | |
|-------------------------------|--|
| Valuation date: | June 30, 2005 |
| Actuarial cost method: | Entry age normal cost |
| Amortization method: | Payments calculated to increase at 1.5% per year |
| Remaining amortization period | 21 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 | 7.75% |
| Projected salary increases | 5.00% |
| 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> | % |
|--|--|--|----------|
| 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 | |
| 2005 | 3,405,725 | 100.0 | |

Town of Reading, Massachusetts
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

| | <u>Special Revenue Funds</u> | | <u>Capital Projects Funds</u> | | <u>Permanent Funds</u> | <u>Total</u> |
|--------------------------------------|------------------------------|------------------|-----------------------------------|----------------|------------------------|-------------------|
| | <u>School</u> | <u>Other</u> | <u>Wood End Elementary School</u> | <u>Other</u> | | |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 816,358 | 2,164,587 | 527,624 | 72,495 | — | 3,581,064 |
| Investments | — | 5,710,371 | — | — | 2,066,895 | 7,777,266 |
| Receivables: | | | | | | |
| Liens | — | 1,200 | — | — | — | 1,200 |
| Special assessment | — | 2,932 | — | — | — | 2,932 |
| Other governments | 58,063 | 4,000 | — | 230,439 | — | 292,502 |
| Other | — | — | — | 9,273 | — | 9,273 |
| Total assets | <u>\$ 874,421</u> | <u>7,883,090</u> | <u>527,624</u> | <u>312,207</u> | <u>2,066,895</u> | <u>11,664,237</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Warrants and accounts payable | \$ 54,304 | 102,029 | 89,985 | 309,948 | — | 556,266 |
| Accrued payroll payable | 111,984 | — | — | — | — | 111,984 |
| Deferred revenue | — | 4,132 | — | — | — | 4,132 |
| Due to other funds | — | 45,000 | — | — | — | 45,000 |
| Notes payable | — | — | 3,338,019 | — | — | 3,338,019 |
| Total liabilities | <u>166,288</u> | <u>151,161</u> | <u>3,428,004</u> | <u>309,948</u> | <u>—</u> | <u>4,055,401</u> |
| Fund balances: | | | | | | |
| Reserved for: | | | | | | |
| Subsequent year's expenditures | — | 543,000 | — | — | — | 543,000 |
| Other purposes | — | — | — | — | 2,066,895 | 2,066,895 |
| Unreserved | <u>708,133</u> | <u>7,188,929</u> | <u>(2,900,380)</u> | <u>2,259</u> | <u>—</u> | <u>4,998,941</u> |
| Total fund balances (deficit) | <u>708,133</u> | <u>7,731,929</u> | <u>(2,900,380)</u> | <u>2,259</u> | <u>2,066,895</u> | <u>7,608,836</u> |
| Total liabilities and fund balances | <u>\$ 874,421</u> | <u>7,883,090</u> | <u>527,624</u> | <u>312,207</u> | <u>2,066,895</u> | <u>11,664,237</u> |

Town of Reading, Massachusetts
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For The Year Ended June 30, 2005

| | <u>Special Revenue Funds</u> | | <u>Capital Projects Funds</u> | | <u>Permanent Funds</u> | <u>Total</u> |
|--|------------------------------|------------------|-----------------------------------|----------------|------------------------|-------------------|
| | <u>School</u> | <u>Other</u> | <u>Wood End Elementary School</u> | <u>Other</u> | | |
| Revenues: | | | | | | |
| Payments in lieu of taxes | \$ — | 120,000 | — | — | — | 120,000 |
| Charges for services | 1,663,194 | 1,796,460 | — | — | — | 3,459,654 |
| Intergovernmental | 2,708,572 | 375,178 | 4,562,981 | 410,255 | — | 8,056,986 |
| Special assessments | — | 3,282 | — | — | — | 3,282 |
| Fines | — | 350 | — | — | — | 350 |
| Investment income | — | 285,951 | — | — | 83,146 | 369,097 |
| Contributions and bequests | 4,264 | 69,159 | — | 326,667 | 83,529 | 483,619 |
| Miscellaneous | — | 288,464 | — | — | — | 288,464 |
| Total revenues | 4,376,030 | 2,938,844 | 4,562,981 | 736,922 | 166,675 | 12,781,452 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | — | 18,265 | — | — | — | 18,265 |
| Public safety | — | 1,124,745 | — | — | — | 1,124,745 |
| Education | 4,248,019 | 8,625 | — | — | 600 | 4,257,244 |
| Public works and facilities | — | 113,280 | — | — | — | 113,280 |
| Human services | — | 247,540 | — | — | — | 247,540 |
| Culture and recreation | — | 463,707 | — | — | — | 463,707 |
| Capital outlay | — | — | 1,141,294 | 736,922 | — | 1,878,216 |
| Total expenditures | 4,248,019 | 1,976,162 | 1,141,294 | 736,922 | 600 | 8,102,997 |
| Excess (deficiency) of revenues over expenditures | 128,011 | 962,682 | 3,421,687 | — | 166,075 | 4,678,455 |
| Other financing sources (uses): | | | | | | |
| Bonds issued | — | — | 3,065,000 | — | — | 3,065,000 |
| Transfers from other funds | — | 85,093 | — | 117,500 | — | 202,593 |
| Transfers to other funds | — | (454,993) | — | — | (85,093) | (540,086) |
| Total other financing sources and (uses) | — | (369,900) | 3,065,000 | 117,500 | (85,093) | 2,727,507 |
| Excess (deficiency) of revenues over expenditures and other financing sources and (uses) | 128,011 | 592,782 | 6,486,687 | 117,500 | 80,982 | 7,405,962 |
| Fund balances (deficit) - beginning | 580,122 | 7,139,147 | (9,387,067) | (115,241) | 1,985,913 | 202,874 |
| Fund balances (deficit) - ending | \$ 708,133 | 7,731,929 | (2,900,380) | 2,259 | 2,066,895 | 7,608,836 |

Town of Reading, Massachusetts
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2005

| | <u>Business-type Activities - Enterprise Funds</u> | | |
|---|--|---|--------------------|
| | <u>Sewer</u> | <u>Landfill Closure and Postclosure</u> | <u>Total</u> |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 2,210,761 | 2,415,704 | 4,626,465 |
| Receivables, net of allowance for uncollectibles: | | | |
| User charges | 917,892 | — | 917,892 |
| Liens | 10,762 | — | 10,762 |
| Deferrals | 1,853 | — | 1,853 |
| Special assessments | 41,738 | — | 41,738 |
| Inventories | 1,818 | — | 1,818 |
| Total current assets | <u>3,184,824</u> | <u>2,415,704</u> | <u>5,600,528</u> |
| Noncurrent assets: | | | |
| Capital assets | 10,921,467 | — | 10,921,467 |
| Less accumulated depreciation | <u>(5,433,159)</u> | <u>—</u> | <u>(5,433,159)</u> |
| Total noncurrent assets | <u>5,488,308</u> | <u>—</u> | <u>5,488,308</u> |
| Total assets | <u>8,673,132</u> | <u>2,415,704</u> | <u>11,088,836</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Warrants and accounts payable | 168,725 | — | 168,725 |
| Deferred revenue - unearned | 342,315 | — | 342,315 |
| Performance deposit | — | 74,000 | 74,000 |
| Loan payable | 83,677 | — | 83,677 |
| Total current liabilities | <u>594,717</u> | <u>74,000</u> | <u>668,717</u> |
| Noncurrent liabilities: | | | |
| Compensated absences | 6,213 | — | 6,213 |
| Loan payable | 334,708 | — | 334,708 |
| Total noncurrent liabilities | <u>340,921</u> | <u>—</u> | <u>340,921</u> |
| Total liabilities | <u>935,638</u> | <u>74,000</u> | <u>1,009,638</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 5,378,126 | — | 5,378,126 |
| Restricted by state statute | 1,219,101 | 2,341,704 | 3,560,805 |
| Unreserved | 1,140,267 | — | 1,140,267 |
| Total net assets | <u>\$ 7,737,494</u> | <u>2,341,704</u> | <u>10,079,198</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, 2005

| | Business-type Activities - Enterprise Funds | | |
|-------------------------------|--|---|--------------|
| | Sewer | Landfill Closure and Postclosure | Total |
| Operating revenues: | | | |
| Charges for services | \$ 3,431,566 | — | 3,431,566 |
| Special assessments | 27,428 | — | 27,428 |
| Contributions from developers | 95,360 | — | 95,360 |
| Total operating revenues | 3,554,354 | — | 3,554,354 |
| Operating expenses: | | | |
| Energy purchases | 22,892 | — | 22,892 |
| Intergovernmental | 2,943,779 | — | 2,943,779 |
| Depreciation | 259,893 | — | 259,893 |
| Other operating costs | 811,233 | — | 811,233 |
| Total operating expenses | 4,037,797 | — | 4,037,797 |
| Operating (loss) | (483,443) | — | (483,443) |
| Nonoperating revenues: | | | |
| Investment income | 28,536 | 50,682 | 79,218 |
| Changes in net assets | (454,907) | 50,682 | (404,225) |
| Net assets - beginning | 8,192,401 | 2,291,022 | 10,483,423 |
| Net assets - ending | \$ 7,737,494 | 2,341,704 | 10,079,198 |

Town of Reading, Massachusetts
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For The Year Ended June 30, 2005

| | <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 | \$ 3,587,509 | — | 3,587,509 |
| Payments to employees | (217,231) | — | (217,231) |
| Payments for employee benefits | (97,088) | — | (97,088) |
| Payments for supplies and services | (363,121) | — | (363,121) |
| Payments to other governments | (2,943,779) | — | (2,943,779) |
| Net cash (used) by operating activities | <u>(33,710)</u> | <u>—</u> | <u>(33,710)</u> |
| Cash flows from capital and related financing activities: | | | |
| Acquisition of capital assets | (354,251) | — | (354,251) |
| Proceeds from loan | 418,385 | — | 418,385 |
| Proceeds from grant | 342,315 | — | 342,315 |
| Net cash (used) by capital and related financing activities | <u>406,449</u> | <u>—</u> | <u>406,449</u> |
| Cash flows from investing activities: | | | |
| Interest on investments | 28,536 | 50,682 | 79,218 |
| Net (decrease) in cash and cash equivalents | 401,275 | 50,682 | 451,957 |
| Balances - beginning | 1,809,486 | 2,365,022 | 4,174,508 |
| Balances - ending | <u>\$ 2,210,761</u> | <u>2,415,704</u> | <u>4,626,465</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | | | |
| Operating (loss) | \$ (483,443) | — | (483,443) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation expense | 259,893 | — | 259,893 |
| Changes in net assets and liabilities: | | | |
| Receivables (net) | 33,156 | — | 33,156 |
| Inventories and prepayments | (124) | — | (124) |
| Warrants and accounts payable | 155,797 | — | 155,797 |
| Compensated absences payable | 1,011 | — | 1,011 |
| Net cash (used) by operating activities | <u>\$ (33,710)</u> | <u>—</u> | <u>(33,710)</u> |