

TOWN OF NORTH READING, MASSACHUSETTS

Financial Statements

June 30, 2008

(With Accountants' Report Thereon)

Town of North Reading, Massachusetts
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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS – TOWN
OF NORTH READING, MASSACHUSETTS

Board of Selectmen
Town of North Reading
Town Hall
235 North Street
North Reading, MA 01864

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 North Reading, Massachusetts as of and for the year ended June 30, 2008, 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 North Reading, Massachusetts' 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 opinion.

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 North Reading, Massachusetts as of June 30, 2008 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.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 20, 2009 on our consideration of the Town of North Reading, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town of North Reading taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purpose of additional analysis and is 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.

Giusti, Hingston and Company

Giusti, Hingston and Company

Certified Public Accountants

February 20, 2009

**Town of North Reading, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2008**

As management of the Town of North Reading, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town of North Reading, Massachusetts for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the Town of North Reading, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$50,069,485 (*net assets*).
- The governmental activities total net assets increased by \$5,413,758. The Golf and Water enterprise funds had increases in net assets of \$377,793 and \$625,549, respectively.
- At the end of the current fiscal year, unreserved-undesignated fund balance for the general fund was \$2,811,440, or 5.7 percent of total general fund expenditures.
- The Town of North Reading, Massachusetts' total long term debt increased by \$1,182,131 or 3 percent during the current year. The change relates to an increase in the Governmental Activities (\$1,825,151 or 6%) and a net decrease in the Business-type Activities (\$643,020 or 10%).

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction of the Town of North Reading, Massachusetts' basic financial statements. The Town of North Reading, Massachusetts' basic financial statements consists of the following: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of North Reading, Massachusetts' finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the Town of North Reading, Massachusetts' assets and liabilities, with the differences 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 of North Reading, Massachusetts is improving or deteriorating.

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

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 are for water supply distribution and golf course and other recreational operations. User fees charged to the customers receiving services finance these activities.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of North Reading, Massachusetts, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of North Reading, Massachusetts can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

Proprietary funds. The Town of North Reading, Massachusetts maintains two enterprise funds as proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of North Reading, Massachusetts uses enterprise funds to account for its water and golf/recreational operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and golf operations and both are considered to be major funds of the Town of North Reading, Massachusetts.

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

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 are included 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. We have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.

- Reconciliation of the statement of revenues and expenditures and changes in fund balance of governmental funds to the statement of activities.

The reconciliation of government-wide financial statements to enterprise 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.

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 Enterprise Fund and the Golf Enterprise Fund. The following table reflects the condensed net assets. The 2007 amounts have been adjusted in order to reflect prior period adjustments.

Net Assets
June 30, 2008

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Current and Other Assets	\$ 24,517,704	\$ 28,590,453	\$ 1,110,662	\$ 1,701,603	\$ 25,628,366	\$ 30,292,056
Capital Assets	59,361,044	61,262,948	16,028,333	15,534,400	75,389,377	76,797,348
Total Assets	<u>83,878,748</u>	<u>89,853,401</u>	<u>17,138,995</u>	<u>17,236,003</u>	<u>101,017,743</u>	<u>107,089,404</u>
Other Liabilities	17,962,198	17,318,703	1,742,321	1,274,709	19,704,519	18,593,412
Long Term Liabilities	32,371,355	33,575,745	5,289,484	4,850,762	37,660,839	38,426,507
Total Liabilities	<u>50,333,553</u>	<u>50,894,448</u>	<u>7,031,805</u>	<u>6,125,471</u>	<u>57,365,358</u>	<u>57,019,919</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	26,493,154	25,849,306	9,785,458	10,362,545	36,278,612	36,211,851
Restricted	5,307,956	10,545,200	-	-	5,307,956	10,545,200
Unrestricted	1,744,085	2,564,447	321,732	747,987	2,065,817	3,312,434
Total Net Assets	<u>\$ 33,545,195</u>	<u>\$ 38,958,953</u>	<u>\$ 10,107,190</u>	<u>\$ 11,110,532</u>	<u>\$ 43,652,385</u>	<u>\$ 50,069,485</u>

The net assets of the Town increased by \$6,417,100 or 15%. The net assets of the governmental activities increased by \$5,413,758 or 16% and the net assets of the business-type activities increased by \$1,003,342 or 10%.

Changes in Net Assets

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net assets have changed during the fiscal year.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 4,757,004	\$ 3,857,159	\$ 4,495,827	\$ 5,043,721	\$ 9,252,831	\$ 8,900,880
Operating Grants and Contributions	12,156,000	11,311,017	42,358	35,123	12,198,358	11,346,140

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
General Revenues:						
Property Taxes	29,040,160	30,899,127	-	-	29,040,160	30,899,127
Motor Vehicle and Other Excises	2,174,460	2,275,977	-	-	2,174,460	2,275,977
Intergovernmental Not Restricted to a Specific Program	2,296,126	4,098,121	-	-	2,296,126	4,098,121
Other	773,976	680,379	-	-	773,976	680,379
Total Revenues	<u>51,197,726</u>	<u>58,121,780</u>	<u>4,538,185</u>	<u>5,078,844</u>	<u>55,735,911</u>	<u>63,200,624</u>
Expenses						
General Government	2,356,195	2,457,091	-	-	2,356,195	2,457,091
Public Safety	6,004,788	6,564,920	-	-	6,004,788	6,564,920
Education	27,462,594	28,725,927	-	-	27,462,594	28,725,927
Highways and Public Works	4,641,280	5,237,326	-	-	4,641,280	5,237,326
Human Services	476,126	523,976	-	-	476,126	523,976
Culture and Recreation	1,035,576	987,963	-	-	1,035,576	987,963
Fringe Benefits and Insurance	6,275,220	6,934,737	-	-	6,275,220	6,934,737
Interest on Debt Service	1,691,681	1,693,591	-	-	1,691,681	1,693,591
Water Expenses	-	-	2,768,176	2,566,492	2,768,176	2,566,492
Golf Expenses	-	-	1,360,059	1,195,854	1,360,059	1,195,854
Total Expenses	<u>49,943,460</u>	<u>53,125,531</u>	<u>4,128,235</u>	<u>3,762,346</u>	<u>54,071,695</u>	<u>56,887,877</u>
Increase (Decrease) in Net Assets						
Before Special Items and Transfers:	1,254,266	4,996,249	409,950	1,316,498	1,664,216	6,312,747
Special Items	142,578	104,353	-	-	142,578	104,353
Transfers	214,990	313,156	(210,000)	(313,156)	4,990	-
Increase (Decrease) in Net Assets	<u>\$ 1,611,834</u>	<u>\$ 5,413,758</u>	<u>\$ 199,950</u>	<u>\$ 1,003,342</u>	<u>\$ 1,811,784</u>	<u>\$ 6,417,100</u>

Governmental Activities

In fiscal year 2008, property taxes accounted for approximately 57% of the revenues. During fiscal year 2007, property taxes accounted for 59% of the revenues.

Business-type Activities

Water rates are structured to cover all costs related to the activity. The Water fund had a gain of \$625,549 in 2008. It had a loss in fiscal year 2007 of \$148,528. The cost per gallon during the summer months was increased in fiscal year 2007, the results of which were felt in fiscal year 2008. The Golf enterprise fund generated a net income of \$377,793 in fiscal year 2008. It had a gain in fiscal year 2007 of \$348,208.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – The year-end fund balances of the general fund were \$632,316 more than the prior year's fund balances.

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts' Department of Revenue (DOR) determines the amount of general fund - 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 following table reflects the trend in all the components of fund balance and details the certified free cash for the previous seven fiscal years.

**Changes in Fund Balance
Last Seven Fiscal Years
General Fund**

<u>Fiscal Year</u>	<u>Reserved for Encumbrances</u>	<u>Reserved for Special Purposes</u>	<u>Designated Subsequent Year's Expenditure</u>	<u>Designated for Legal Deficits</u>	<u>Unreserved</u>	<u>Total Fund Balance</u>
2002	\$ 585,085	\$ 133,195	\$ 769,750	\$ (175,027)	\$ 1,169,455	\$ 2,482,458
2003	499,671	113,981	426,711	(304,303)	2,110,791	2,846,851
2004	365,982	-	529,131	(144,950)	915,994	1,666,157
2005	476,730	-	-	(453,709)	1,603,041	1,626,062
2006	417,098	-	105,398	(207,155)	2,271,633	2,586,974
2007	1,017,871	-	376,907	(158,133)	1,436,096	2,672,741
2008	960,394	-	-	(466,777)	2,811,440	3,305,057

<u>Fiscal Year</u>	<u>Free Cash</u>
2002	\$ 203,177
2003	1,381,502
2004	(15,553)
2005	1,153,625
2006	1,717,033
2007	1,008,723
2008	1,946,045

Proprietary Funds

Water and Golf Enterprise Funds. The Town of North Reading, Massachusetts' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Enterprise Fund at year end was (\$372,644). The total increase in net assets was \$625,549. Unrestricted net assets of the Hillview Enterprise Fund at the end of the year was \$375,343. The total increase in net assets was \$377,793.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget relate to special town meetings and reserve fund transfers made after June 30, 2007.

Capital Asset and Debt Administration

Capital assets. The Town of North Reading, Massachusetts' investments in capital assets for its governmental and business type activities as of June 30, 2008, amounts to \$76,797,348 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

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

- Eisenhower Park Land Acquisitions (\$1,314,478)

- Police Station (\$1,663,380)
- Fire Pumper (\$202,275)
- Modular Classrooms (\$667,749)

Capital Assets at June 30, 2008
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Assets not Being Depreciated	\$ 23,483,559	\$ 17,977,782	\$ 4,311,766	\$ 4,311,766	\$ 27,795,325	\$ 22,289,548
Assets Being Depreciated:						
Buildings	31,527,108	39,160,957	1,317,057	1,248,010	32,844,165	40,408,967
Improvements Other Than Buildings	611,157	564,332	1,060,107	992,597	1,671,264	1,556,929
Infrastructure	1,750,287	1,471,436	9,055,589	8,744,346	10,805,876	10,215,782
Equipment	637,406	589,373	163,094	134,586	800,500	723,959
Vehicles	1,351,527	1,499,068	120,720	103,095	1,472,247	1,602,163
Total	\$ 59,361,044	\$ 61,262,948	\$ 16,028,333	\$ 15,534,400	\$ 75,389,377	\$ 76,797,348

Debt

The Town had \$38,187,049 in bonds, outstanding on June 30, 2008. This represents a \$1,825,151 increase or 6% increase from the previous year.

The Town's bond rating by Moody's Investor Services is A1.

Outstanding Debt at June 30, 2008

	<u>2007</u>	<u>2008</u>
Governmental Activities		
General Obligation Bonds Payable	\$ 30,762,043	\$32,587,194
Business-type Activities		
General Obligation Bonds Payable	<u>6,242,875</u>	<u>5,599,855</u>
Total Debt	<u>\$ 37,004,918</u>	<u>\$38,187,049</u>

Fiscal Year 2009 Budget

An initiative state statute, commonly known as "Proposition 2 ½", limits the amount of property taxes that Town can assess in any one 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 developments 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.

A minimal increase in state aid and increased fixed costs (i.e. health insurance premiums) put pressure to hold other costs down. The Town utilized approximately \$3,051,556 of its reserves in the governmental funds to fund the 2008 budget. The Town does not plan to utilize the stabilization fund for the 2009 budget.

Any 2009 budget problems will be addressed by interdepartmental or free cash transfers at the April Town Meeting. Additionally, funds are available in the Town's Reserve Fund for fiscal year 2009 departmental budgets.

Town of North Reading, Massachusetts
Statement of Net Assets
June 30, 2008
(Continued on Page 11)

	<u>Governmental</u> <u>Activities</u>	<u>Business - Type</u> <u>Activities</u>	<u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 19,243,948	\$ 1,350,854	\$ 20,594,802
Petty Cash	585	-	585
Accounts Receivable:			
Property Taxes	596,063	-	596,063
Tax Liens	619,082	17,790	636,872
Excises	309,646	-	309,646
User Charges	420,283	312,862	733,145
Liens	8,606	20,097	28,703
Intergovernmental	1,461,456	-	1,461,456
Noncurrent:			
Accounts Receivable:			
Intergovernmental	5,792,542	-	5,792,542
Deferred Property Taxes	82,929	-	82,929
Deferred Special Assessments	55,313	-	55,313
Capital Assets:			
Assets Not Being Depreciated	17,977,782	4,311,766	22,289,548
Assets Being Depreciated, Net	<u>43,285,166</u>	<u>11,222,634</u>	<u>54,507,800</u>
 Total Assets	 <u>89,853,401</u>	 <u>17,236,003</u>	 <u>107,089,404</u>
 Liabilities			
Current:			
Warrants Payable	666,325	48,536	714,861
Accrued Salaries Payable	1,550,832	-	1,550,832
Employees' Withholding Payable	343,825	-	343,825
Due to Individuals	(25,293)	-	(25,293)
Due to Other Governments	4,063	-	4,063
Unclaimed Checks	84,037	-	84,037
Guarantee Deposits	248,651	29,134	277,785
Accrued Interest Payable	320,820	52,033	372,853
Other Liabilities	128,531	-	128,531
Bonds Payable	2,508,363	875,006	3,383,369
Bond Anticipation Notes Payable	11,488,549	270,000	11,758,549
Noncurrent:			
Bonds Payable	30,078,831	4,724,849	34,803,680
Compensated Absences	<u>3,496,914</u>	<u>125,913</u>	<u>3,622,827</u>
 Total Liabilities	 <u>50,894,448</u>	 <u>6,125,471</u>	 <u>57,019,919</u>

Town of North Reading, Massachusetts
Statement of Net Assets
June 30, 2008
(Continued from Page 10)

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	25,849,306	10,362,545	36,211,851
Restricted for:			
Debt Service	5,035,763	-	5,035,763
Special Revenue	4,645,602	-	4,645,602
Perpetual Funds:			
Expendable	243,693	-	243,693
Nonexpendable	620,142	-	620,142
Unrestricted	2,564,447	747,987	3,312,434
Total Net Assets	<u>\$ 38,958,953</u>	<u>\$ 11,110,532</u>	<u>\$ 50,069,485</u>

Town of North Reading, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business - Type Activities	Total
Primary Government:							
<i>Governmental Activities:</i>							
General Government	\$ 2,457,091	\$ 362,415	\$ 91,946	\$ -	\$ (2,002,730)	\$ -	\$ (2,002,730)
Public Safety	6,564,920	732,093	258,981	-	(5,573,846)	-	(5,573,846)
Education	28,725,927	1,625,615	10,165,389	5,000,000	(11,934,923)	-	(11,934,923)
Highways and Public Works	5,237,326	844,720	684,505	-	(3,708,101)	-	(3,708,101)
Human Services	523,976	42,113	43,333	-	(438,530)	-	(438,530)
Culture and Recreation	987,963	250,203	66,863	-	(670,897)	-	(670,897)
Fringe Benefits and Insurance	6,934,737	-	-	-	(6,934,737)	-	(6,934,737)
Interest on Debt Service	1,693,591	-	-	-	(1,693,591)	-	(1,693,591)
Total Governmental Activities	<u>53,125,531</u>	<u>3,857,159</u>	<u>11,311,017</u>	<u>5,000,000</u>	<u>(32,957,355)</u>	<u>-</u>	<u>(32,957,355)</u>
<i>Business-Type Activities:</i>							
Golf	1,195,854	1,664,565	12,238	-	-	480,949	480,949
Water Services	2,566,492	3,379,156	22,885	-	-	835,549	835,549
Total Business-Type Activities	<u>3,762,346</u>	<u>5,043,721</u>	<u>35,123</u>	<u>-</u>	<u>-</u>	<u>1,316,498</u>	<u>1,316,498</u>
Total Primary Government	<u>\$ 56,887,877</u>	<u>\$ 8,900,880</u>	<u>\$ 11,346,140</u>	<u>\$ 5,000,000</u>	<u>(32,957,355)</u>	<u>1,316,498</u>	<u>(31,640,857)</u>
<i>General Revenues:</i>							
					30,899,127	-	30,899,127
					2,275,977	-	2,275,977
					166,465	-	166,465
					239,624	-	239,624
					4,098,121	-	4,098,121
					241,625	-	241,625
					1,565	-	1,565
					31,100	-	31,100
<i>Special Items:</i>							
					110,238	-	110,238
					(5,885)	-	(5,885)
					313,156	(313,156)	-
<i>Total General Revenues, Special Items and</i>							
					38,371,113	(313,156)	38,057,957
					5,413,758	1,003,342	6,417,100
<i>Net Assets:</i>							
					33,437,796	10,107,190	43,544,986
					107,399	-	107,399
					33,545,195	10,107,190	43,652,385
					<u>\$ 38,958,953</u>	<u>\$ 11,110,532</u>	<u>\$ 50,069,485</u>

Town of North Reading, Massachusetts
Balance Sheet
Governmental Funds
June 30, 2008
(Continued on Page 14)

	<u>General</u>	<u>Batchelder School Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash/Investments	\$ 5,635,647	\$ 2,832,782	\$ 10,775,519	\$ 19,243,948
Petty Cash	585	-	-	585
Receivables:				
Property Taxes	596,063	-	-	596,063
Tax Liens	619,082	-	-	619,082
Excises	309,646	-	-	309,646
User Charges	41,529	-	378,754	420,283
Deferred Property Taxes	82,929	-	-	82,929
Other Liens	8,606	-	-	8,606
Intergovernmental	6,505,291	-	748,707	7,253,998
Special Assessments	-	-	55,313	55,313
Tax Foreclosures	268,931	-	-	268,931
Total Assets	<u>\$14,068,309</u>	<u>\$ 2,832,782</u>	<u>\$ 11,958,293</u>	<u>\$ 28,859,384</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Warrants Payable	\$ 543,414	\$ -	\$ 122,911	\$ 666,325
Accrued Salaries Payable	1,550,832	-	-	1,550,832
Employees' Withholding Payable	343,825	-	-	343,825
Due to Individuals	(25,293)	-	-	(25,293)
Due to Other Governments	4,063	-	-	4,063
Unclaimed Checks	51,537	-	32,500	84,037
Guarantee Deposits	248,651	-	-	248,651
Other Liabilities	-	-	128,531	128,531
Bonds Anticipation Notes Payable	-	7,686,000	3,802,549	11,488,549
Deferred Revenue:				
Property Taxes	465,124	-	-	465,124
Taxes and User Charges Paid in Advance	45,224	-	-	45,224
Deferred Property Taxes	82,929	-	-	82,929
Liens	627,688	-	-	627,688
Excises	9,507	-	-	9,507
Special Assessments	-	-	55,313	55,313
Tax Foreclosures	268,931	-	-	268,931
User Charges	41,529	-	378,754	420,283
Intergovernmental	6,505,291	-	694,255	7,199,546
Total Liabilities	<u>10,763,252</u>	<u>7,686,000</u>	<u>5,214,813</u>	<u>23,664,065</u>

Town of North Reading, Massachusetts
Balance Sheet
Governmental Funds
June 30, 2008
(Continued from Page 13)

	<u>General</u>	<u>Batchelder School Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Equity:				
Fund Balances:				
Reserved for Encumbrances	960,394	70,757	1,279,108	2,310,259
Reserved for Debt Service	-	-	5,000,000	5,000,000
Reserved For Excluded Debt Premium	-	-	35,763	35,763
Reserved for Perpetual Permanent Funds	-	-	620,142	620,142
Unreserved:				
Designated for:				
Subsequent Year's Expenditures	-	-	482,365	482,365
Appropriation Deficits	(466,777)	-	-	(466,777)
Undesignated, Reported in:				
General Fund	2,811,440	-	-	2,811,440
Special Revenue Fund	-	-	5,642,497	5,642,497
Capital Projects Fund	-	(4,923,975)	(6,560,088)	(11,484,063)
Permanent Fund	-	-	243,693	243,693
Total Fund Balances	<u>3,305,057</u>	<u>(4,853,218)</u>	<u>6,743,480</u>	<u>5,195,319</u>
 Total Liabilities and Fund Balances	 <u>\$14,068,309</u>	 <u>\$ 2,832,782</u>	 <u>\$ 11,958,293</u>	 <u>\$ 28,859,384</u>

Town of North Reading, Massachusetts
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2008

	<u>General</u>	<u>Batchelder School Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 30,462,995	\$ -	\$ -	\$ 30,462,995
Tax Liens	164,069	-	-	164,069
Excises	2,217,402	-	-	2,217,402
Penalties and Interest	166,465	-	-	166,465
Licenses and Permits	505,120	-	-	505,120
Fees and Other Departmental	919,286	-	-	919,286
Intergovernmental	14,208,351	-	6,567,765	20,776,116
Charges for Services	23,400	-	2,346,907	2,370,307
Fines and Forfeits	15,423	-	-	15,423
Earnings on Investments	241,625	-	76,736	318,361
In Lieu of Taxes	239,624	-	-	239,624
Contributions	-	-	205,608	205,608
Miscellaneous	132,834	-	164,564	297,398
Total Revenues	<u>49,296,594</u>	<u>-</u>	<u>9,361,580</u>	<u>58,658,174</u>
<u>Expenditures:</u>				
General Government	2,322,813	-	1,747,374	4,070,187
Public Safety	5,927,860	-	2,100,067	8,027,927
Education	24,999,241	55,490	3,549,778	28,604,509
Intergovernmental	156,102	-	-	156,102
Highways and Public Works	3,637,625	-	1,212,564	4,850,189
Human Services	459,576	-	57,354	516,930
Culture and Recreation	628,378	-	259,017	887,395
Employee Benefits and Insurance	6,934,737	-	-	6,934,737
Debt Service	4,263,125	-	-	4,263,125
Total Expenditures	<u>49,329,457</u>	<u>55,490</u>	<u>8,926,154</u>	<u>58,311,101</u>
Excess of Revenues Over (Under) Expenditures	<u>(32,863)</u>	<u>(55,490)</u>	<u>435,426</u>	<u>347,073</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	1,095,597	-	430,418	1,526,015
Operating Transfers (Out)	(430,418)	-	(782,441)	(1,212,859)
Proceeds from Bonds	-	-	4,421,000	4,421,000
Total Other Financing Sources (Uses)	<u>665,179</u>	<u>-</u>	<u>4,068,977</u>	<u>4,734,156</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>632,316</u>	<u>(55,490)</u>	<u>4,504,403</u>	<u>5,081,229</u>
Fund Balance, Beginning	<u>2,672,741</u>	<u>(4,797,728)</u>	<u>2,239,077</u>	<u>114,090</u>
Fund Balance, Ending	<u>\$ 3,305,057</u>	<u>\$ (4,853,218)</u>	<u>\$ 6,743,480</u>	<u>\$ 5,195,319</u>

Town of North Reading, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Assets
 Fiscal Year Ended June 30, 2008

Total Governmental Fund Balances	\$ 5,195,319
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	61,262,948
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	8,905,614
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(32,587,194)
Accrued Interest on Bonds	(320,820)
Compensated Absences	<u>(3,496,914)</u>
Net Assets of Governmental Activities	<u><u>\$ 38,958,953</u></u>

Town of North Reading, Massachusetts
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Fiscal Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ 5,081,229
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 and the contribution of assets exceeded depreciation in the current period.	1,907,789
In the statement of activities, the gain (loss) on the trade in of capital assets is reported, whereas in the governmental funds, the gain (loss) is not reported.	(5,885)
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(426,156)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,825,151)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, interest is not reported until due. This amount represents the change from the prior year's accrual.	(26,315)
In the statement of activities long term liabilities are accrued, where in governmental funds they are not reported until due. This amount represents the change from the prior year's accrual.	314,000
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the change from the prior year's accrual.	<u>394,247</u>
Change in net assets of governmental activities	<u><u>\$ 5,413,758</u></u>

Town of North Reading, Massachusetts
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business-Type Activities	
	<u>Enterprise Funds</u>	
	<u>Water</u>	<u>Golf</u>
Assets		
Current:		
Cash and Cash Investments	\$ 788,101	\$ 562,753
Receivables, Net of Allowance for Uncollectibles:		
User Charges	312,862	-
Tax Liens	17,790	-
Liens	20,097	-
Noncurrent:		
Accounts Receivable:		
Assets Not Being Depreciated	477,376	3,834,390
Assets Being Depreciated, Net	8,833,091	2,389,543
	<u>10,449,317</u>	<u>6,786,686</u>
Total Assets		
Liabilities		
Current:		
Warrants Payable	14,299	34,237
Guarantee Deposits	-	29,134
Accrued Interest Payable	31,799	20,234
Bond Anticipation Notes Payable	270,000	-
Bonds Payable	395,006	480,000
Noncurrent:		
Bonds Payable	2,619,849	2,105,000
Compensated Absences	122,108	3,805
	<u>3,453,061</u>	<u>2,672,410</u>
Total Liabilities		
Net Assets		
Invested in Capital Assets, Net of Related Debt	6,623,612	3,738,933
Unrestricted	372,644	375,343
	<u>\$ 6,996,256</u>	<u>\$ 4,114,276</u>
Total Net Assets		

Town of North Reading, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Fiscal Year Ended June 30, 2008

	<u>Enterprise Funds</u>	
	<u>Water</u> <u>Enterprise</u>	<u>Golf</u> <u>Enterprise</u>
Operating Revenues:		
Charges for Services	\$ 3,379,156	\$ 1,559,677
Departmental	-	104,888
Gifts	-	2,145
Total Operating Revenues	<u>3,379,156</u>	<u>1,666,710</u>
Operating Expenditures:		
Personal Services	634,610	23,708
Nonpersonal Services	1,476,343	882,029
Depreciation	326,719	167,214
Total Operating Expenditures	<u>2,437,672</u>	<u>1,072,951</u>
Operating Income	<u>941,484</u>	<u>593,759</u>
Nonoperating Revenues (Expenses):		
Intergovernmental	8,583	-
Earnings on Investments	14,302	10,093
Interest on Debt	(128,820)	(122,903)
Total Nonoperating Revenues (Expenses)	<u>(105,935)</u>	<u>(112,810)</u>
Income Before Operating Transfers	<u>835,549</u>	<u>480,949</u>
Operating Transfers Out	<u>(210,000)</u>	<u>(103,156)</u>
Total Transfers	<u>(210,000)</u>	<u>(103,156)</u>
Change in Net Assets	<u>625,549</u>	<u>377,793</u>
Net Assets, July 1, 2007	<u>6,370,707</u>	<u>3,736,483</u>
Net Assets June 30, 2008	<u>\$ 6,996,256</u>	<u>\$ 4,114,276</u>

Town of North Reading, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2008

	<u>Water</u>	<u>Hillview</u>
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 3,322,098	\$ 1,666,710
Payments to Employees	(627,041)	(22,993)
Payments to Vendors	(1,616,684)	(858,783)
Net Cash Flows Provided (Used) by Operating Activities	1,078,373	784,934
Cash Flows from Non Capital Related Financing Activities:		
Transfers from (to) Other Funds (Net)	(210,000)	(103,156)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	(210,000)	(103,156)
Cash Flows from Capital and Related Financing Activities:		
Payments on Bond Anticipation Notes	(323,700)	(100,000)
Proceeds from Bonds	328,000	100,000
Proceeds from Bond Anticipation Notes	270,000	-
Principal Payments on Bonds	(468,148)	(609,133)
Interest Payments	(110,592)	(121,081)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	(304,440)	(730,214)
Cash Flows from Investing Activities:		
Earnings on Investments	8,293	10,093
Net Cash Flows Provided (Used) by Investing Activities	8,293	10,093
Net Increase (Decrease) in Cash and Cash Equivalents	572,226	(38,343)
Cash and Cash Equivalents, July 1, 2007	215,875	601,096
Cash and Cash Equivalents, June 30, 2008	\$ 788,101	\$ 562,753
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 941,484	\$ 593,759
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	326,719	167,214
Assets Acquired	-	-
(Increase) Decrease in Accounts Receivable	(57,058)	-
Increase (Decrease) in Compensated Absences	7,569	715
Increase (Decrease) in Other Payables	(140,341)	23,246
Net Cash Provided by Operating Activities	\$ 1,078,373	\$ 784,934

Town of North Reading, Massachusetts
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Private-Purpose <u>Trust</u>
Assets	
Cash and Cash Investments	\$ 274,145
	<hr/>
Total Assets	274,145
	<hr/>
Liabilities	
Total Liabilities	-
	<hr/>
Net Assets	
Held in Trust for Scholarships	274,145
	<hr/>
Total Net Assets	\$ 274,145
	<hr/> <hr/>

Town of North Reading, Massachusetts
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Fiscal Year Ended June 30, 2008

Additions:	
Contributions	\$ 30,083
Interest, Dividends, and Other	<u>12,525</u>
Total Additions	<u>42,608</u>
Deductions:	
Scholarships Awarded	<u>4,750</u>
Income Before Operating Transfers	<u>37,858</u>
Change in Net Assets	<u>37,858</u>
Net Assets:	
Beginning of the Year	<u>236,287</u>
End of the Year	<u><u>\$274,145</u></u>

I. Summary of Significant Accounting Policies

The accounting policies of the Town of North Reading, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2008, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter. In accounting and reporting on its enterprise fund, the Town has elected to apply all Governmental Accounting Standards Board (“GASB”) pronouncements as well as Financial Accounting Standards Board pronouncements issued prior to November 30, 1989, unless those pronouncements contradict GASB pronouncements, in which case, GASB prevails.

The more significant accounting policies of the Town are summarized below.

(A) Reporting Entity

The Town's basic financial statements include the operations of all organizations for which the Board of Selectmen exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Based on the aforementioned oversight criteria, the Town was the only entity included in the accompanying basic financial statements.

(B) Government-wide and fund financial statements

The **government-wide financial statements** (i.e., the **statement of net assets** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available as net current assets. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax and amounts due under grants. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

The Town reports the following major governmental funds:

General Fund – This is the Town’s general operating fund. It accounts for all financial resources of the general government except those required to be accounting for in another fund.

Batchelder School Capital Project Fund - This fund captures the activity related to the Batchelder School’s renovation project.

The Town reports the following major proprietary funds:

Water Fund – This fund is used to account for the activities related to the water distribution system.

Hillview Golf Fund – This fund is used to account for the Town’s golf course and certain other recreational facilities.

(D) Assets, Liabilities and Net Assets or Equity

i Deposits and Investments

The Town’s cash and cash equivalents are considered to be demand deposits and certificates of deposits.

State and local 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 prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government (or its agencies) that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust (“MMDT”).

Certain governmental funds (primarily trust funds) have broader investment powers which allow investments in common stocks, corporate bonds and other types of investments.

ii Property Taxes

The Town’s fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. The Town bills property taxes on a quarterly basis. Quarterly payments are due on August 1, November 1, February 1 and May 1. Property taxes attach as enforceable liens on property as of July 1 of the next fiscal year.

The Town is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the Town’s property. In addition, the law limits the amount by which the total property tax levy can be increased to 2.5% of the preceding year’s levy plus any new growth.

iii Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The statement of net assets for the enterprise funds also reports capital assets. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Equipment	5-15
Improvements	20-40
Infrastructure	40-50
Vehicles	5-15

iv Compensated Absences

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

v Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

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

vi Fund Equity

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

In the fund financial statements fund equity is comprised of the following:

Fund Balances

(a) Reserved for Encumbrances

Appropriations for certain projects and specific items not fully expended at year end are carried forward as reserved for encumbrances to the next year. At year end, reserved for encumbrances is reported as a component of fund balance.

(b) Reserved for Debt Service

The balance in this account represents a payment from the Massachusetts School Building Authority. The balance will be used in fiscal year 2009 to pay down a bond anticipation note.

(c) Reserved for Excluded Debt Premium

By statute, any premium on a debt instrument issued in relation to a Proposition 2 ½ debt exclusion must be reserved and used to reduce future Proposition 2 ½ levy limit exclusions.

(d) Reserved for Perpetual Permanent Funds

This account represents the principal portion of cash invested in the nonexpendable trust funds. Only the income earned from investing these funds can be expended for purposes specified in the trust instrument.

(e) Designated for Subsequent Year's Expenditures

This account represents amounts transferred (by Town meeting votes) from other fund balance accounts to fund the subsequent year's budget.

(f) Designated for Appropriation Deficits

This account reflects a legal deficit in the snow and ice appropriation account. The deficit was raised on the 2009 recap sheet.

vii Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

viii Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1, 2008 and July 15, 2008. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2008 and the corresponding credit is to the account entitled warrants payable.

II Stewardship, Compliance and Accountability

(A) Budgetary Information

i General Budget Policies

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January, February and March of each year. The Selectmen and Finance Committee have until April, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances still open at year end are reported as a reservation of fund balance or retained earnings. Encumbrances do not constitute expenditures or liabilities.

ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the Town's annual recap sheet and includes those amounts which pertain to fiscal 2008 adjusted for any special Town meeting votes applicable to fiscal 2008 and reserve fund transfers authorized by the Finance Committee.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles (GAAP) basis (in the fund financial statements) for the year ended June 30, 2008.

	<u>Revenues</u>
As Reported Budget Basis	\$ 45,429,335
Adjustments:	
Sixty Day Revenue Accrual - Net	115,329
In Lieu of Tax from Golf Reclassified as a Transfer	(103,155)
On Behalf Payments Included in Intergovernmental	3,855,085
As Reported GAAP Statement	<u>\$ 49,296,594</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 45,416,895
Adjustments:	
July 1, 2007 Encumbrances	1,017,871
June 30, 2008 Encumbrances	(960,394)
On Behalf Payments Included in Employee Benefits	3,855,085
As Reported GAAP Statement	<u>\$ 49,329,457</u>

III Detailed Notes on All Funds

Deposits

Custodial Credit Risk - 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 does not have a formal deposit policy for custodial credit risk. As of June 30, 2008, \$18,481,936 of the Town's bank balance of \$19,678,997 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 18,481,936

Investments

As of June 30, 2008, the Town had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>5-10</u>
U. S. Government Obligations	\$ 900,342		\$ 767,620	\$ 132,722
Corporate Bonds	227,154	-	227,154	-
Total	<u>\$ 1,127,496</u>	<u>\$ -</u>	<u>\$ 994,774</u>	<u>\$ 132,722</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth of Massachusetts has an investment "legal list" that the Town follows.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town does not have a formal policy that limits the amount it may invest in a single issuer.

B. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Government Activities:				
Assets not Being Depreciated				
Land	\$ 16,550,172	\$ 1,314,478	\$ -	\$ 17,864,650
Work In Process	6,933,387	113,132	(6,933,387)	113,132
Total Capital Assets Not Being Depreciated	<u>23,483,559</u>	<u>1,427,610</u>	<u>(6,933,387)</u>	<u>17,977,782</u>
Assets Being Depreciated:				
Buildings	47,853,247	9,096,791	-	56,950,038
Improvements Other Than Buildings	1,244,072	-	(164,264)	1,079,808
Infrastructure	11,318,452	-	-	11,318,452
Equipment	1,378,559	51,148	(38,407)	1,391,300
Vehicles	3,572,813	469,597	(116,646)	3,925,764
Total Capital Assets Being Depreciated	<u>65,367,143</u>	<u>9,617,536</u>	<u>(319,317)</u>	<u>74,665,362</u>
Less Accumulated Depreciation for:				
Buildings	(16,326,139)	(1,462,942)	-	(17,789,081)
Improvements Other Than Buildings	(632,915)	(46,825)	164,264	(515,476)
Infrastructure	(9,568,165)	(278,851)	-	(9,847,016)
Equipment	(741,153)	(99,181)	38,407	(801,927)
Vehicles	(2,221,286)	(316,171)	110,761	(2,426,696)
Total Accumulated Depreciation	<u>(29,489,658)</u>	<u>(2,203,970)</u>	<u>313,432</u>	<u>(31,380,196)</u>
Capital Assets Being Depreciated, Net	<u>35,877,485</u>	<u>7,413,566</u>	<u>(5,885)</u>	<u>43,285,166</u>
Governmental Activities Capital Assets, Net	<u>\$ 59,361,044</u>	<u>\$ 8,841,176</u>	<u>\$ (6,939,272)</u>	<u>\$ 61,262,948</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General government	\$ 3,400
Public safety	410,707
Education	1,250,471
Highways and Public works	431,248
Culture and Recreation	108,144
Total Governmental Activities Depreciation Expense	<u>\$ 2,203,970</u>

B. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-Type Activities:				
Assets Not Being Depreciated				
Land	\$ 4,311,766	\$ -	\$ -	\$ 4,311,766
	<u>4,311,766</u>	<u>-</u>	<u>-</u>	<u>4,311,766</u>
Assets Being Depreciated:				
Buildings	2,211,876	-	-	2,211,876
Improvements Other Than Buildings	1,769,665	-	-	1,769,665
Infrastructure	15,054,731	-	-	15,054,731
Equipment	519,473	-	-	519,473
Vehicles	261,557	-	-	261,557
Total Capital Assets Being Depreciated	<u>19,817,302</u>	<u>-</u>	<u>-</u>	<u>19,817,302</u>
Less Accumulated Depreciation for:				
Buildings	(894,819)	(69,047)	-	(963,866)
Improvements Other Than Buildings	(709,558)	(67,510)	-	(777,068)
Infrastructure	(5,999,142)	(311,243)	-	(6,310,385)
Equipment	(356,379)	(28,508)	-	(384,887)
Vehicles	(140,837)	(17,625)	-	(158,462)
Total Accumulated Depreciation	<u>(8,100,735)</u>	<u>(493,933)</u>	<u>-</u>	<u>(8,594,668)</u>
Capital Assets Being Depreciated, Net	<u>11,716,567</u>	<u>(493,933)</u>	<u>-</u>	<u>11,222,634</u>
Business Type Activities Capital Assets, Net	<u>\$ 16,028,333</u>	<u>\$ (493,933)</u>	<u>\$ -</u>	<u>\$ 15,534,400</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Water	\$ 326,719
Hillview Golf	167,214
Total Business-Type Activities Depreciation Expense	<u>\$ 493,933</u>

C. Accounts Receivable

The accounts receivable on the Statement of Net Assets are listed below by levy.

Governmental Activities

Property Taxes Receivable:

Real Estate Taxes	
2008	\$ 564,193
2007	(125)
2006	3,930
2005	3,667

C. Accounts Receivable (Continued)

2004	147	
2002	3,300	
2001	<u>349</u>	
Total Real Estate Taxes		<u>\$ 575,461</u>
Personal Property Taxes		
2008	13,351	
2007	4,071	
2006	<u>3,180</u>	
Total Personal Property Taxes		<u>20,602</u>
Total Property Taxes Receivable		<u>\$ 596,063</u>
Tax Liens		<u>\$ 619,082</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Tax		
2008	\$ 245,778	
2007	42,398	
2006	<u>21,470</u>	
Total Motor Vehicle Excise		<u>\$ 309,646</u>
Tax Excise Receivable		
User Charges:		
Trash Fees	\$ 41,529	
Ambulance	<u>378,754</u>	
Total User Charges		<u>\$ 420,283</u>
Light Liens		
2008	\$ 1,436	
2002	751	
2001	1,344	
2000	<u>906</u>	
Total Light Liens		<u>\$ 4,437</u>

C. Accounts Receivable (Continued)

Trash Liens		
2008	4,169	
	<hr/>	
Total Trash Liens:		4,169
		<hr/>
Total Liens		\$ 8,606
		<hr/> <hr/>
<u>Intergovernmental:</u>		
Current:		
Due from Commonwealth of Massachusetts:		
Highways and Other Public Works Grants	\$ 561,138	
Various State Grants	234	
School Building Assistance Bureau Grant	712,749	
Martin Pond Shoreline	187,335	
	<hr/>	
Total Current		\$ 1,461,456
		<hr/>
Noncurrent:		
School Building Assistance Bureau Grant	5,792,542	
	<hr/>	
Total Intergovernmental		\$ 7,253,998
		<hr/> <hr/>
Deferred Property Taxes		
Clause 41 A		\$ 82,929
		<hr/> <hr/>
Special Assessments:		
Septic Betterments		\$ 55,313
		<hr/> <hr/>
<u>Business Type Activities</u>		
Current:		
User Charges:		
Water		\$ 312,862
		<hr/> <hr/>
Water Liens:		
2008	\$ 18,953	
2006	1,006	
2002	138	
	<hr/>	
Total Water Liens		\$ 20,097
		<hr/> <hr/>
Water Tax Liens:		
2008	\$ 17,790	
	<hr/>	
Total Water Tax Liens		\$ 17,790
		<hr/> <hr/>

D. Debt

i Short Term Debt

Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2008 as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>	<u>Maturity Date</u>
<u>Governmental Activities:</u>						
School Construction	3.59%	\$ 6,916,000	\$ 7,686,000	\$ 6,916,000	\$ 7,686,000	9/18/2008
School Construction		1,670,000	-	1,670,000	-	
Eisehaures Pond Park	2.34%	-	1,095,334	-	1,095,334	9/18/2008
Public Work - Six Wheel Dump Truck		130,000	-	130,000	-	
Public Work - Road Program		250,000	-	250,000	-	
Public Work - Cemetery Upgrade		60,000	-	60,000	-	
Fire Pumper		18,000	-	18,000	-	
Land Acquisition	2.93%	-	1,361,775	-	1,361,775	9/18/2008
Roads	2.93%	-	250,000	-	250,000	9/18/2008
Park Street Bridge	2.93%	-	100,440	-	100,440	9/18/2008
Town Hall Roof	2.93%	-	650,000	-	650,000	9/18/2008
Technology	2.93%	-	100,000	-	100,000	9/18/2008
Town Hall Generator	2.93%	-	40,000	-	40,000	9/18/2008
School Building Alarm	2.93%	-	150,000	-	150,000	9/18/2008
DPW Hydraulic Lift	2.93%	-	55,000	-	55,000	9/18/2008
Police Station		2,300,300	-	2,300,300	-	
Total		<u>\$ 11,344,300</u>	<u>\$ 11,488,549</u>	<u>\$ 11,344,300</u>	<u>\$ 11,488,549</u>	
<u>Business-type Activities:</u>						
Hillview Capital		\$ 100,000	\$ -	\$ 100,000	\$ -	
Water	2.34%	-	180,000	-	180,000	9/18/2008
Well	2.34%	-	50,000	-	50,000	9/18/2008
Water System		132,000	-	132,000	-	
Water Capital		102,000	-	102,000	-	
Water Filters	2.93%	-	40,000	-	40,000	9/18/2008
Water Equipment		89,700	-	89,700	-	
Total		<u>\$ 423,700</u>	<u>\$ 270,000</u>	<u>\$ 423,700</u>	<u>\$ 270,000</u>	

D. Debt (Continued)

ii Long Term Debt

General obligation bonds outstanding at June 30, 2008, bear interest at various rates.

- (a) Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2008

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Balance 7/01/07	\$ 30,762,043	\$ 6,242,875	\$ 37,004,918
Add: New Issues	4,421,000	428,000	4,849,000
Less: Maturities	(2,595,849)	(1,081,792)	(3,677,641)
Deferred Debit from Refunding	<u>-</u>	<u>10,772</u>	<u>10,772</u>
Balance 6/30/08	<u>\$ 32,587,194</u>	<u>\$ 5,599,855</u>	<u>\$ 38,187,049</u>

- (b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$2,508,363	\$1,259,156	\$839,006	\$211,461
2010	2,446,763	1,154,168	757,598	175,444
2011	2,387,327	1,060,022	753,326	142,975
2012	2,357,749	973,302	544,077	115,978
2013	2,208,187	886,913	464,848	96,101
2014 - 2017	9,807,937	3,259,677	1,516,000	279,388
2018 - 2022	8,285,868	1,338,088	575,000	80,900
2023 - 2027	<u>2,585,000</u>	<u>118,979</u>	<u>150,000</u>	<u>6,000</u>
	<u>\$32,587,194</u>	<u>\$10,050,305</u>	<u>\$5,599,855</u>	<u>\$1,108,247</u>

- (c) Subsidies through the Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust (the Trust) was created by Chapter 275 of the Acts of 1989 to implement the State Revolving Fund Program (SRF) contemplated by the Title VI of the Federal Clean Water Act.

The Trust administers a SRF program which includes both a federal and state capitalized revolving funds. Loans are made from the fund to local governmental units to finance the costs of eligible water pollution abatement programs.

D. Debt (Continued)

Local governments obtain financing through the SRF and receive subsidies, but are obligated for the entire amount of the debt. The Town has borrowed four issues through the program. Subsidies which will be utilized to offset the principal and interest debt service costs disclosed in the summary above are noted below:

	<u>SRF Subsidies</u>	
	General	
	<u>Government</u>	<u>Enterprise</u>
2009	\$6,190	\$14,124
2010	5,998	13,595
2011	5,799	13,078
2012	5,595	12,544
2013	5,167	12,085
2014 - 2017	23,411	39,210
2018 - 2022	16,812	8,515
2023 - 2027	<u>4,096</u>	<u>0</u>
Total Subsidies	<u>\$73,068</u>	<u>\$113,151</u>

(c) Bond Authorizations

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

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
October 6, 2003	School Renovations	\$5,138,810
October 4, 2004	School Renovation	2,777,000
October 16, 2006	Modular Classroom	13,183
April 30, 2007	Technology and Communications	260
October 1, 2007	Eisenhaures Pond Park	1,361,775
October 1, 2007	Town Roof	650,000
October 1, 2007	Road Improvement Program	250,000
October 1, 2007	School Building Security	150,000
October 1, 2007	Park Street Bridge	100,440
October 1, 2007	Town Technology	100,000
October 1, 2007	DPW Hydraulic Lift	55,000
October 1, 2007	Water Departmental Equipment	40,000
October 1, 2007	Town Hall Generator Preparation	40,000
April 7, 2008	Eisenhaures Pond Park	1,095,334
April 7, 2008	Water Department Capital	180,000
April 7, 2008	Well	<u>50,000</u>
	Total	<u>\$12,001,802</u>

Subsequent to the balance sheet date, the Town approved a loan authorization in the amount of \$1,207,475.

D. Debt (Continued)

(d) Refunding of Long Term Debt

On September 15, 2002, the Town issued \$2,380,000 of General Obligations Refunding bonds with an average interest rate of 2.40% to advance refund \$2,335,000 of outstanding debt with an average interest rate of 6.35%. The net proceeds (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased.

<u>Fiscal Year</u>	Existing Debt Principal & Interest	Refunding Bonds Principal & Interest
2008	<u>\$480,938</u>	<u>\$475,875</u>
	<u>\$480,938</u>	<u>\$475,875</u>

On December 15, 2003, the Town issued \$720,000 of General Obligations Refunding bonds with an average interest rate of 2.36% to advance refund \$690,000 of outstanding debt with an average interest rate of 5.7%. The net proceeds (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased:

<u>Fiscal Year</u>	Existing Debt Principal & Interest	Refunding Bonds Principal & Interest
2008	<u>\$169,785</u>	<u>\$167,228</u>
	<u>\$169,785</u>	<u>\$167,228</u>

Economic Gain from Refunding Issue

The net present value benefit as a result of the September 2002, and the December 2003 refunding issues is \$303,021, and \$35,338, respectively.

E. Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds. Operating transfers made during the year were as follows:

	Transfer <u>In (Out)</u>	Transfer <u>In (Out)</u>	<u>Total</u>
General	\$ 1,095,597	\$ (430,418)	\$ 665,179
Non-Major Governmental	430,418	(782,441)	(352,023)
Golf - Business Type	-	(103,156)	(103,156)
Water - Business Type	-	(210,000)	(210,000)
Total	<u>\$ 1,526,015</u>	<u>\$ (1,526,015)</u>	<u>\$ -</u>

F. Fund Balance Deficits

The Town had fund balance deficits (\$10,134,198) in the capital projects fund at June 30, 2008. The deficits will be eliminated when the Town issues the related bonds.

IV Other Information

A. Pension Plans

(a) Plan Description

The Town provides pension benefits to employees by contributing to Middlesex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex Retirement System issues a publicly available financial report that includes financial statements and the required supplementary information. That report may be obtained by writing to the Middlesex Retirement System, 40 Thorndike Street, New Superior Court House – 3rd Level, Cambridge Massachusetts, 02141.

(b) Funding Plan

Active members of the Middlesex Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members is determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contributions for the years ending June 30, 2008, 2007 and 2006 were \$1,954,596, \$1,773,999 and \$1,569,774, respectively, equal to 100% of the required contribution each year.

B. On Behalf Payments

In accordance with Governmental Accounting Standards Board Statement Number 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance," the Town is required to recognize, as income, certain payments made on behalf of the Town by the Commonwealth of Massachusetts. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the Town's teaching employees. The Town is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2008, the Commonwealth paid \$3,855,085 to the State Plan on behalf of employees of the Town. Accordingly, the accompanying fund financial statements include the required adjustments, which have increased both Intergovernmental revenues and the Education expenditures by the same amount in the fund financial

statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2008, or fund balances at June 30, 2008.

C. Subsequent Year Authorizations

On April 7, 2008 and October 6, 2008, the Town adopted a fiscal 2009 operating and capital budget of \$53,116,362. Fiscal 2009 budgetary amounts which are not reflected (except for designated for subsequent year's expenditures) in the accompanying financial statements will be financed by the following sources:

2009 Property Taxes, State Aid and Non-Property Tax Revenue	\$ 47,075,993
Enterprise Fund Revenues	4,297,285
Enterprise Fund Retained Earnings	50,000
Other Available Funds	1,210,719
Designated for Subsequent Year's Expenditures: (Reflected on Balance Sheet)	
Non-Major Funds	482,365
	<u><u>\$ 53,116,362</u></u>

D. Contingent Liabilities

1. Prior to fiscal year 2004, the Town had questioned costs (\$155,239) relating to their federal Copsfast grant. The questioned costs appear to be the result of an error in the amount of funds drawn down per officer and the timing of the draw downs. If the Department of Justice requires the Town to reimburse the federal government, the net assets and fund balances of the Town's governmental funds would be negatively impacted.

E. Prior Period Adjustment

A prior period adjustment (\$107,399) was made to the governmental activities in the government wide financial statements. Assets acquired in prior years, were not reflected in the fiscal year 2007 financial statements.

Town of North Reading, Massachusetts
Required Supplementary Information
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$ 30,649,617	30,682,408	\$ 30,380,795	\$ (301,613)
Tax Liens	-	-	164,069	164,069
Excises	2,099,937	2,099,937	2,184,271	84,334
Penalties and Interest	130,614	130,614	166,465	35,851
Licenses and Permits	630,000	630,000	505,120	(124,880)
Fees and Other Departmental	201,000	201,000	181,710	(19,290)
Intergovernmental	8,531,840	8,531,840	8,564,903	33,063
Charges for Services	720,000	720,000	760,976	40,976
Fines and Forfeits	20,500	20,500	15,423	(5,077)
Earnings on Investments	176,000	176,000	241,625	65,625
In Lieu of Taxes	236,000	236,000	342,780	106,780
Miscellaneous	360,000	360,000	1,921,198	1,561,198
Total Revenues	<u>43,755,508</u>	<u>43,788,299</u>	<u>45,429,335</u>	<u>1,641,036</u>
<u>Expenditures:</u>				
Current:				
General Government	2,596,490	2,372,817	2,200,346	172,471
Public Safety	5,375,851	5,773,204	5,770,800	2,404
Education	20,872,503	21,339,903	21,325,398	14,505
Highway and Public Works	3,143,327	3,366,486	3,699,729	(333,243)
Health and Human Services	442,022	467,125	460,576	6,549
Culture and Recreation	575,138	620,000	619,797	203
Intergovernmental	158,914	158,914	156,102	2,812
Employee Benefits	6,991,047	6,996,047	6,921,022	75,025
Debt Service	4,408,227	4,408,227	4,263,125	145,102
Total Expenditures	<u>44,563,519</u>	<u>45,502,723</u>	<u>45,416,895</u>	<u>85,828</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(808,011)</u>	<u>(1,714,424)</u>	<u>12,440</u>	<u>1,726,864</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	724,470	988,631	992,441	3,810
Transfers Out		(429,250)	(430,418)	(1,168)
Budgetary Fund Balance - Sources	93,607	1,335,204	1,335,204	-
Budgetary Fund Balance - Uses	(10,066)	(180,161)	(180,161)	-
Total Other Financing Sources (Uses)	<u>808,011</u>	<u>1,714,424</u>	<u>1,717,066</u>	<u>2,642</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>\$ -</u>	<u>-</u>	<u>\$ 1,729,506</u>	<u>\$ 1,729,506</u>

Town of North Reading, Massachusetts
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2008

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
National School Lunch Program	10.555	\$ 69,366
Total U.S. Department of Agriculture		<u>69,366</u>
<u>U.S. Department of Justice</u>		
Community Policing	16.710	89,676
Total U.S. Department of Justice		<u>89,676</u>
<u>U.S. Department of Education</u>		
SPED PL 94-142 Allocation	84.027	486,831
SPED Program Improvement	84.027	13,959
Subtotal # 84.027		<u>500,790</u>
Title V	84.151	1,680
SPED Early Childhood	84.173	15,999
Safe and Drug-Free Schools	84.186	8,898
Teacher Quality	84.367	36,114
Total U.S. Department of Education		<u>563,481</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 722,523</u>

Town of North Reading, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2008

(1) Scope of Audit

The Town of North Reading, Massachusetts (the Town) is a governmental agency established by the laws of the Commonwealth of Massachusetts.

All federal grant operations of the Town are included in the scope of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The single audit was performed in accordance with the provisions of OMB's Circular A-133, *Compliance Supplement*.

(2) Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes all of the federal grant transactions of the Town.

Federal grant revenues are recognized in the Town's financial statements on the accrual basis for proprietary fund grants. Grant receipts in governmental funds are recorded on the modified accrual basis whereby revenue is recognized when it becomes available and measurable.

Disbursements of federal grant funds are recorded on the modified accrual basis.

(3) Findings of Noncompliance

No findings of noncompliance were reported in connection with the 2008 single audit.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Selectmen
Town of North Reading, Massachusetts
Town Hall
235 North Street
North Reading, MA 01864

We have audited the basic financial statements of the Town of North Reading, Massachusetts as of and for the year ended June 30, 2008, and have issued our report thereon dated February 20, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of North Reading, Massachusetts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of North Reading, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of North Reading, Massachusetts' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of North Reading, Massachusetts' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of North Reading, Massachusetts' financial statements that is more than inconsequential will not be prevented or detected by the Town of North Reading, Massachusetts' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of North Reading, Massachusetts' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of North Reading, Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town of North Reading, Massachusetts in a separate letter dated March 16, 2009.

The report is intended solely for the information and use of management, the Board of Selectmen and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
February 20, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133

Board of Selectmen
Murphy Center
235 North Street
North Reading, MA 01864

Compliance

We have audited the compliance of the Town of North Reading, Massachusetts with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Town of North Reading, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of North Reading's management. Our responsibility is to express an opinion on the Town of North Reading's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of North Reading's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of North Reading's compliance with those requirements.

In our opinion, the Town of North Reading, Massachusetts' complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Town of North Reading is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of North Reading's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of North Reading, Massachusetts' internal control over compliance.

A *control deficiency* in the Town of North Reading, Massachusetts' internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Town of North Reading, Massachusetts' ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Town of North Reading, Massachusetts' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Town of North Reading, Massachusetts' internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Selectmen, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
February 20, 2009

Town of North Reading, Massachusetts
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2008

(I) Summary of Auditors' Results

- 1 The opinion of the financial statements was unqualified.
- 2 No significant deficiencies in internal control were reported in the audit of the financial statements.
- 3 No instances of noncompliance which were material to the financial statements were reported.
- 4 No significant deficiencies in internal control relating to major programs were reported.
- 5 The opinion on compliance with requirements applicable to major programs was unqualified.
- 6 No audit findings relative to the major federal award programs were reported.
- 7 The major program identified was:

<u>Funding Source</u>	<u>Program</u>	<u>CFDA Number</u>
Department of Education	SPED IDEA Allocation	84.027
Department of Education	SPED IDEA Preschool	84.173

- 8 The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- 9 The Town did qualify as low risk.

(II) Findings - Financial Statement Audit

No findings were reported related to the financial statements.

(III) Findings and Questioned Costs for Federal Awards

No findings or questioned costs were reported.