

TOWN OF NORTH READING, MASSACHUSETTS

Financial Statements

June 30, 2005

(With Accountants' Report Thereon)

36 Jackman St., Unit 1 * Giusti, Hingston and Company
* Certified Public Accountants
Georgetown, MA 01833 * (Tel) 978-352-7470

Town of North Reading, Massachusetts
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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

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, 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 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, 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 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.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated November 1, 2005 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. 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.

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
November 1, 2005

**Town of North Reading, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2005**

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, 2005.

Financial Highlights

- The assets of the Town of North Reading, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$38,429,440 (*net assets*).
- The government's total net assets increased by \$2,074,057. The governmental activities increase was primarily the result of \$1,706,127 sale of Town owned property. The Golf enterprise fund generated a \$348,399 profit and the water enterprise fund had a net income of \$19,531 causing a net increase of \$367,930 in the business-type activities.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,603,041, or 4 percent of total general fund expenditures.
- The Town of North Reading, Massachusetts' total long term debt decreased by (\$2,219,107) or 11 percent during the current year. The change relates to a decrease in the Governmental Activities (\$1,031,444 or 8%) and a decrease in the Business-type Activities (\$1,097,663 or 18%).

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 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 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.

Net Assets June 30, 2005

	Governmental Activities		Business-type Activities		Total	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current and Other Assets	\$ 15,622,980	\$ 26,464,521	\$ 1,170,978	\$ 1,435,168	\$ 16,793,958	\$ 27,899,689
Capital Assets	31,957,419	38,069,635	17,201,577	16,795,617	49,158,996	54,865,252
Total Assets	<u>47,580,399</u>	<u>64,534,156</u>	<u>18,372,555</u>	<u>18,230,785</u>	<u>65,952,954</u>	<u>82,764,941</u>
Other Liabilities	6,232,358	22,000,006	2,988,240	3,220,689	9,220,598	25,220,695
Long Term Liabilities	15,292,804	14,772,786	5,084,169	4,342,020	20,376,973	19,114,806
Total Liabilities	<u>21,525,162</u>	<u>36,772,792</u>	<u>8,072,409</u>	<u>7,562,709</u>	<u>29,597,571</u>	<u>44,335,501</u>
Net Assets:						
Invested in Capital Assets net of Related Debt	23,747,673	22,433,158	9,700,197	10,178,709	33,447,870	32,611,867
Restricted	2,368,868	2,968,819	-	-	2,368,868	2,968,819
Unrestricted	(61,304)	2,359,387	599,949	489,367	538,645	2,848,754
Total Net Assets	<u>\$ 26,055,237</u>	<u>\$ 27,761,364</u>	<u>\$ 10,300,146</u>	<u>\$ 10,668,076</u>	<u>\$ 36,355,383</u>	<u>\$ 38,429,440</u>

The net assets of the Town increased by \$2,074,057. The net assets of the governmental activities increased by \$1,706,127 or 6.55 % and the net assets of the business-type activities decreased by \$367,930 or 3.57%.

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>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 4,077,957	\$ 4,255,642	\$ 3,972,965	\$ 4,248,480	\$ 8,050,922	\$ 8,504,122
Operating Grants and Contributions	7,377,090	8,994,592	62,726	37,440	7,439,816	9,032,032
General Revenues:						
Property Taxes	23,150,456	25,633,830	-	-	23,150,456	25,633,830
Motor Vehicle and Other Excises	2,214,110	2,169,834	-	-	2,214,110	2,169,834
Intergovernmental Not Restricted to a Specific Program	1,919,905	2,028,514	-	-	1,919,905	2,028,514
Other	416,172	689,756	-	-	416,172	689,756
Total Revenues	39,155,690	43,772,168	4,035,691	4,285,920	43,191,381	48,058,088
Expenses						
General Government	1,970,083	2,168,462	-	-	1,970,083	2,168,462
Public Safety	5,277,025	5,448,048	-	-	5,277,025	5,448,048
Education	22,170,281	24,891,763	-	-	22,170,281	24,891,763
Highways and Public Works	4,542,414	4,779,994	-	-	4,542,414	4,779,994
Human Services	386,480	403,241	-	-	386,480	403,241
Culture and Recreation	955,797	935,984	-	-	955,797	935,984
Fringe Benefits and Insurance	4,647,769	5,014,003	-	-	4,647,769	5,014,003
Interest on Debt Service	590,315	365,736	-	-	590,315	365,736
Water Expenses	-	-	2,634,062	2,478,672	2,634,062	2,478,672
Golf Expenses	-	-	1,185,780	1,244,318	1,185,780	1,244,318
Total Expenses	40,540,164	44,007,231	3,819,842	3,722,990	44,360,006	47,730,221
Increase (Decrease) in Net Assets						
Before Special Items and Transfers:	(1,384,474)	(235,063)	215,849	562,930	(1,168,625)	327,867
Special Items	-	1,746,190	-	-	-	1,746,190
Transfers	245,635	195,000	(235,330)	(195,000)	10,305	-
Increase (Decrease) in Net Assets	<u>\$ (1,138,839)</u>	<u>\$ 1,706,127</u>	<u>\$ (19,481)</u>	<u>\$ 367,930</u>	<u>\$ (1,158,320)</u>	<u>\$ 2,074,057</u>

Governmental Activities

In fiscal year 2005, property taxes accounted for approximately 59% of the revenues. During fiscal year 2004, 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 net income of \$19,531 in 2005.

It had a deficit in fiscal year 2004 (\$427,469). Water rates were increased significantly in fiscal year 2005.

The Golf enterprise fund generated a net income of \$348,399 in fiscal year 2005. It had a deficit in fiscal year 2004 (\$440,056). In fiscal year 2004 the Town planned to and used \$245,000 of golf available funds to fund the annual budget.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – The year-end fund balances of the general fund were \$40,095 less than the prior year's fund balances. In fiscal year 2005, the expenditures and transfers out exceeded the revenues and transfers in.

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 five fiscal years.

Changes in Fund Balance Last Five 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>
2001	\$ 934,787	\$ 147,638	\$ 600,448	\$ (408,962)	\$ 1,597,962	\$ 2,871,873
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

<u>Fiscal Year</u>	<u>Free Cash</u>
2001	\$ 1,073,655
2002	203,177
2003	1,381,502
2004	(15,553)
2005	1,153,625

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 \$369,394. The total increase in net assets was \$19,531. Unrestricted net assets of the Hillview Enterprise Fund at the end of the year amounted to \$119,973. The total increase in net assets was \$348,399.

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, 2004.

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, 2005, amounts to \$54,865,252 (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:

- Batchelder School (\$5,636,485)
- Land Acquisition (\$1,421,250)
- Police Station (\$111,639)

Capital Assets at June 30, 2005 (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Assets not Being Depreciated	\$ 11,500,996	\$ 18,670,370	\$ 4,319,055	\$ 4,311,766	\$ 15,820,051	\$ 22,982,136
Assets Being Depreciated:						
Buildings	16,040,812	15,143,067	1,524,199	1,455,151	17,565,011	16,598,218
Improvements Other Than Buildings	497,698	544,406	1,262,637	1,195,127	1,760,335	1,739,533
Infrastructure	2,567,030	2,307,989	10,520,103	9,678,075	13,087,133	11,986,064
Equipment	280,383	278,536	32,665	100,023	313,048	378,559
Vehicles	1,077,634	1,125,267	29,943	55,475	1,107,577	1,180,742
Total	\$ 31,964,553	\$ 38,069,635	\$ 17,688,602	\$ 16,795,617	\$ 49,653,155	\$ 54,865,252

Debt

The Town had \$16,832,000 in bonds, outstanding on June 30, 2005. This represents a \$2,129,107 decrease or 11% decrease from the previous year.

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

Outstanding Debt at June 30, 2005

	<u>2004</u>	<u>2005</u>
Governmental Activities		
General Obligation Bonds Payable	\$12,867,727	\$11,836,283
Business-type Activities		
General Obligation Bonds Payable	<u>6,093,380</u>	<u>4,995,717</u>
Total Debt	<u><u>\$18,961,107</u></u>	<u><u>\$16,832,000</u></u>

Fiscal Year 2005 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 \$2,300,000 of its reserves in the governmental funds to fund the 2006 budget (including \$279,000 of the stabilization fund). The Town does not plan to utilize the stabilization fund for the 2007 budget.

Town of North Reading, Massachusetts
Statement of Net Assets
June 30, 2005
(Continued on Page 11)

	Governmental Activities	Business - Type Activities	Total
Assets			
Current:			
Cash/Investments	\$ 19,011,780	\$ 1,226,552	\$ 20,238,332
Petty Cash	585	150	735
Accounts Receivable:			
Property Taxes	307,624	-	307,624
Tax Liens	398,102	6,757	404,859
Excises	235,619	-	235,619
User Charges	361,846	192,335	554,181
Liens	11,731	9,374	21,105
Intergovernmental	1,915,533	-	1,915,533
Noncurrent:			
Accounts Receivable:			
Intergovernmental	4,027,347	-	4,027,347
Deferred Property Taxes	103,553	-	103,553
Deferred Special Assessments	90,801	-	90,801
Capital Assets:			
Assets Not Being Depreciated	18,670,370	4,311,767	22,982,137
Assets Being Depreciated, Net	19,399,265	12,483,850	31,883,115
Total Assets	64,534,156	18,230,785	82,764,941
Liabilities			
Current:			
Warrants Payable	1,593,699	122,160	1,715,859
Accrued Salaries Payable	1,649,056	-	1,649,056
Employees' Withholding Payable	155,145	-	155,145
Due to Individuals	(59,492)	-	(59,492)
Due to Other Governments	3,750	-	3,750
Unclaimed Checks	28,554	-	28,554
Guarantee Deposits	37,590	44,997	82,587
Accrued Interest Payable	88,239	46,494	134,733
Other Liabilities	136,678	-	136,678
Bonds Payable	1,387,287	763,538	2,150,825
Bond Anticipation Notes Payable	16,979,500	2,243,500	19,223,000
Noncurrent:			
Bonds Payable	10,448,996	4,232,179	14,681,175
Other	200,000	-	200,000
Compensated Absences	4,123,790	109,841	4,233,631
Total Liabilities	36,772,792	7,562,709	44,335,501

Town of North Reading, Massachusetts
Statement of Net Assets
June 30, 2005
(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	22,433,158	10,178,709	32,611,867
Restricted for:			
Debt Service	92,503	-	92,503
Special Revenue	2,137,740	-	2,137,740
Perpetual Funds:			
Expendable	178,534	-	178,534
Nonexpendable	560,042	-	560,042
Unrestricted	<u>2,359,387</u>	<u>489,367</u>	<u>2,848,754</u>
 Total Net Assets	 <u><u>\$ 27,761,364</u></u>	 <u><u>\$ 10,668,076</u></u>	 <u><u>\$ 38,429,440</u></u>

Town of North Reading, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	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	\$ 2,168,462	\$ 355,028	\$ 22,952	\$ -	\$ (1,790,482)	\$ -	\$ (1,790,482)
Public Safety	5,448,048	972,048	257,578	-	(4,218,422)	-	(4,218,422)
Education	24,891,763	1,532,299	7,697,053	-	(15,662,411)	-	(15,662,411)
Highways and Public Works	4,779,994	1,144,891	910,411	-	(2,724,692)	-	(2,724,692)
Human Services	403,241	24,985	36,559	-	(341,697)	-	(341,697)
Culture and Recreation	935,984	226,391	70,039	-	(639,554)	-	(639,554)
Fringe Benefits and Insurance	5,014,003	-	-	-	(5,014,003)	-	(5,014,003)
Interest on Debt Service	365,736	-	-	-	(365,736)	-	(365,736)
Total Governmental Activities	<u>44,007,231</u>	<u>4,255,642</u>	<u>8,994,592</u>	<u>-</u>	<u>(30,756,997)</u>	<u>-</u>	<u>(30,756,997)</u>
<i>Business-Type Activities:</i>							
Golf	1,244,318	1,572,133	20,584	-	-	348,399	348,399
Water Services	<u>2,478,672</u>	<u>2,676,347</u>	<u>16,856</u>	<u>-</u>	<u>-</u>	<u>214,531</u>	<u>214,531</u>
Total Business-Type Activities	<u>3,722,990</u>	<u>4,248,480</u>	<u>37,440</u>	<u>-</u>	<u>-</u>	<u>562,930</u>	<u>562,930</u>
Total Primary Government	<u>\$ 47,730,221</u>	<u>\$ 8,504,122</u>	<u>\$ 9,032,032</u>	<u>\$ -</u>	<u>(30,756,997)</u>	<u>562,930</u>	<u>(30,194,067)</u>
<i>General Revenues:</i>							
Property Taxes					25,633,830	-	25,633,830
Motor Vehicle and Other Excise Taxes					2,169,834	-	2,169,834
Penalties and Interest on Taxes					118,006	-	118,006
Other Taxes, Assessments and in Lieu of Payments					410,825	-	410,825
Intergovernmental					2,028,514	-	2,028,514
Interest and Investment Income					135,882	-	135,882
Other Revenue					5,193	-	5,193
Contributions to Permanent Funds					19,850	-	19,850
Special Items:							
Premium on Sale of Debt					130,419	-	130,419
Net Gain (Loss) on Sale of Assets					1,615,771	-	1,615,771
Transfers, Net					195,000	(195,000)	-
Total General Revenues, Special Items and Transfers					<u>32,463,124</u>	<u>(195,000)</u>	<u>32,268,124</u>
Change in Net Assets					1,706,127	367,930	2,074,057
<i>Net Assets:</i>							
Beginning of the Year					26,062,371	10,787,171	36,849,542
Prior Period Adjustment					(7,134)	(487,025)	(494,159)
Adjusted Beginning of the Year					<u>26,055,237</u>	<u>10,300,146</u>	<u>36,355,383</u>
End of the Year					<u>\$ 27,761,364</u>	<u>\$ 10,668,076</u>	<u>\$ 38,429,440</u>

Town of North Reading, Massachusetts
Balance Sheet
Governmental Funds
June 30, 2005
(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	\$3,657,499	\$ 4,435,882	\$ 10,918,399	\$ 19,011,780
Petty Cash	585	-	-	585
Receivables:				
Property Taxes	307,624	-	-	307,624
Tax Liens	398,102	-	-	398,102
Excises	235,619	-	-	235,619
User Charges	45,196	-	316,650	361,846
Deferred Property Taxes	103,553	-	-	103,553
Other Liens	11,731	-	-	11,731
Intergovernmental	4,530,819	-	1,412,061	5,942,880
Special Assessments	-	-	90,801	90,801
Tax Foreclosures	277,776	-	-	277,776
Total Assets	<u>\$9,568,504</u>	<u>\$ 4,435,882</u>	<u>\$ 12,737,911</u>	<u>\$ 26,742,297</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Warrants Payable	\$ 412,757	\$ -	\$ 1,180,942	\$ 1,593,699
Accrued Salaries Payable	1,649,056	-	-	1,649,056
Employees' Withholding Payable	155,145	-	-	155,145
Due to Individuals	(59,492)	-	-	(59,492)
Due to Other Governments	3,750	-	-	3,750
Unclaimed Checks	28,554	-	-	28,554
Guarantee Deposits	37,590	-	-	37,590
Other Liabilities	-	-	136,678	136,678
Bonds Anticipation Notes Payable	-	10,600,000	6,379,500	16,979,500
Deferred Revenue:				
Property Taxes	261,789	-	-	261,789
Taxes and User Charges Paid in Advance	73,316	-	-	73,316
Deferred Property Taxes	103,553	-	-	103,553
Tax Liens	409,833	-	-	409,833
Excises	12,800	-	-	12,800
Special Assessments	-	-	90,801	90,801
Tax Foreclosures	277,776	-	-	277,776
User Charges	45,196	-	316,650	361,846
Intergovernmental	4,530,819	-	1,268,272	5,799,091
Total Liabilities	<u>7,942,442</u>	<u>10,600,000</u>	<u>9,372,843</u>	<u>27,915,285</u>

Town of North Reading, Massachusetts
Balance Sheet
Governmental Funds
June 30, 2005
(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	476,730	-	-	476,730
Reserved by State Statute	-	-	92,503	92,503
Reserved for Perpetual Permanent Funds	-	-	560,042	560,042
Unreserved:				
Designated for:				
Subsequent Year's Expenditures	-	-	574,809	574,809
Appropriation Deficits	(453,709)	-	-	(453,709)
Undesignated, Reported in:				
General Fund	1,603,041	-	-	1,603,041
Special Revenue Fund	-	-	3,926,075	3,926,075
Capital Projects Fund	-	(6,164,118)	(1,966,895)	(8,131,013)
Permanent Fund	-	-	178,534	178,534
Total Fund Balances	<u>1,626,062</u>	<u>(6,164,118)</u>	<u>3,365,068</u>	<u>(1,172,988)</u>
 Total Liabilities and Fund Balances	 <u>\$9,568,504</u>	 <u>\$ 4,435,882</u>	 <u>\$ 12,737,911</u>	 <u>\$ 26,742,297</u>

Town of North Reading, Massachusetts
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2005

	<u>General</u>	<u>Batchelder School Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property Taxes	\$25,429,273	\$ -	\$ -	\$ 25,429,273
Tax Liens	77,829	-	-	77,829
Excises	2,100,128	-	-	2,100,128
Penalties and Interest	118,006	-	-	118,006
Licenses and Permits	485,405	-	-	485,405
Fees and Other Departmental	218,233	-	-	218,233
Intergovernmental	9,067,009	-	1,798,675	10,865,684
Charges for Services	866,624	-	1,855,920	2,722,544
Fines and Forfeits	22,168	-	-	22,168
Earnings on Investments	135,882	-	202,776	338,658
In Lieu of Taxes	410,825	-	-	410,825
Contributions	-	-	414,208	414,208
Miscellaneous	328,958	-	1,762,539	2,091,497
Total Revenues	<u>39,260,340</u>	<u>-</u>	<u>6,034,118</u>	<u>45,294,458</u>
Expenditures:				
General Government	1,922,043	-	1,341,153	3,263,196
Public Safety	5,015,047	-	184,391	5,199,438
Education	21,525,790	5,636,485	2,744,322	29,906,597
Intergovernmental	143,380	-	-	143,380
Highways and Public Works	3,483,226	-	1,174,708	4,657,934
Human Services	374,100	-	12,588	386,688
Culture and Recreation	555,559	-	263,649	819,208
Employee Benefits and Insurance	5,014,003	-	-	5,014,003
Debt Service	1,922,370	-	-	1,922,370
Total Expenditures	<u>39,955,518</u>	<u>5,636,485</u>	<u>5,720,811</u>	<u>51,312,814</u>
Excess of Revenues Over (Under) Expenditures	<u>(695,178)</u>	<u>(5,636,485)</u>	<u>313,307</u>	<u>(6,018,356)</u>
Other Financing Sources (Uses):				
Operating Transfers In	679,694	-	9,611	689,305
Operating Transfers (Out)	(24,611)	-	(469,694)	(494,305)
Proceeds from Bonds	-	-	372,977	372,977
Total Other Financing Sources (Uses)	<u>655,083</u>	<u>-</u>	<u>(87,106)</u>	<u>567,977</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(40,095)	(5,636,485)	226,201	(5,450,379)
Fund Balance, Beginning	<u>1,666,157</u>	<u>(527,633)</u>	<u>3,138,867</u>	<u>4,277,391</u>
Fund Balance, Ending	<u>\$ 1,626,062</u>	<u>\$ (6,164,118)</u>	<u>\$ 3,365,068</u>	<u>\$ (1,172,988)</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 30,2005

Total Governmental Fund Balances	\$ (1,172,988)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	38,069,635
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	7,113,029
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(11,836,283)
Other	(200,000)
Accrued Interest on Bonds	(88,239)
Compensated Absences	<u>(4,123,790)</u>
Net Assets of Governmental Activities	<u><u>\$ 27,761,364</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, 2005

Net change in fund balances - total governmental funds	\$(5,450,379)
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 depreciation exceeded capital outlays in the current period.	6,043,241
In the statement of activities, the gain on the trade in of capital assets is reported, whereas in the governmental funds, the gain is not reported.	(131,025)
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.	354,925
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.	1,031,444
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.	152,213
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>(294,292)</u>
Change in net assets of governmental activities	<u><u>\$ 1,706,127</u></u>

Town of North Reading, Massachusetts
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities	
	<u>Enterprise Funds</u>	
	<u>Water</u>	<u>Golf</u>
Assets		
Current:		
Cash and Cash Investments	\$ 573,401	\$ 653,151
Petty Cash	-	150
Receivables, Net of Allowance for Uncollectibles:		
User Charges	192,335	-
Tax Liens	6,757	-
Liens	9,374	-
Noncurrent:		
Assets Not Being Depreciated	477,376	3,834,391
Assets Being Depreciated, Net	<u>9,714,054</u>	<u>2,769,796</u>
Total Assets	<u>10,973,297</u>	<u>7,257,488</u>
Liabilities		
Current:		
Warrants Payable	110,073	12,087
Guarantee Deposits	-	44,997
Accrued Interest Payable	19,650	26,844
Bond Anticipation Notes Payable	1,325,500	918,000
Bonds Payable	354,452	409,086
Noncurrent:		
Bonds Payable	2,164,121	2,068,058
Compensated Absences	<u>107,507</u>	<u>2,334</u>
Total Liabilities	<u>4,081,303</u>	<u>3,481,406</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	6,522,600	3,656,109
Unrestricted	<u>369,394</u>	<u>119,973</u>
Total Net Assets	<u><u>\$6,891,994</u></u>	<u><u>\$3,776,082</u></u>

Town of North Reading, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended June 30, 2005

	Business-Type Activities	
	<u>Enterprise Funds</u>	
	Water	Golf
	<u>Enterprise</u>	<u>Enterprise</u>
Operating Revenues:		
Charges for Services	\$ 2,676,347	\$1,388,434
Departmental	-	183,699
Gifts	-	15,582
Total Operating Revenues	<u>2,676,347</u>	<u>1,587,715</u>
Operating Expenditures:		
Personal Services	600,914	22,985
Nonpersonal Services	1,456,756	948,307
Depreciation	327,278	157,031
Total Operating Expenditures	<u>2,384,948</u>	<u>1,128,323</u>
Operating Income	<u>291,399</u>	<u>459,392</u>
Nonoperating Revenues (Expenses):		
Intergovernmental	8,348	1,516
Earnings on Investments	8,508	3,486
Interest on Debt	(93,724)	(115,995)
Total Nonoperating Revenues (Expenses)	<u>(76,868)</u>	<u>(110,993)</u>
Income Before Operating Transfers	<u>214,531</u>	<u>348,399</u>
Operating Transfers In	15,000	-
Operating Transfers Out	(210,000)	-
Total Transfers	<u>(195,000)</u>	<u>-</u>
Change in Net Assets	<u>19,531</u>	<u>348,399</u>
Net Assets, July 1, 2004	7,433,703	3,353,468
Prior Period Adjustment	(561,240)	74,215
Adjusted Net Assets, July 1, 2004	<u>6,872,463</u>	<u>3,427,683</u>
Net Assets June 30, 2005	<u>\$ 6,891,994</u>	<u>\$3,776,082</u>

Town of North Reading, Massachusetts
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2005
(Continued on Page 21)

	<u>Water</u>	Hillview
Cash Flows from Operating Activities:		
Receipts from Customers	\$2,884,518	\$1,587,714
Payments to Employees	(591,883)	(21,399)
Payments to Vendors	<u>(1,672,325)</u>	<u>(1,043,756)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>620,310</u>	<u>522,559</u>
Cash Flows from Non Capital Related Financing Activities:		
Transfers from (to) Other Funds (Net)	<u>(195,000)</u>	<u>-</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(195,000)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:		
Receipts from Government	-	1,516
Payments on Bond Anticipation Notes	(1,120,000)	(288,000)
Proceeds from Bond Anticipation Notes	1,325,500	918,000
Principal Payments on Bonds	(359,556)	(744,914)
Interest Payments	<u>(86,193)</u>	<u>(127,022)</u>
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(240,249)</u>	<u>(240,420)</u>
Cash Flows from Investing Activities:		
Earnings on Investments	<u>1,676</u>	<u>3,486</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>1,676</u>	<u>3,486</u>
Net Increase (Decrease) in Cash and Cash Equivalents	186,737	285,625
Cash and Cash Equivalents, July 1, 2004	<u>386,664</u>	<u>367,526</u>
Cash and Cash Equivalents, June 30, 2005	<u>\$ 573,401</u>	<u>\$ 653,151</u>

Town of North Reading, Massachusetts
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2005
(Continued from Page 20)

	<u>Water</u>	Hillview
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 291,399	\$ 459,392
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	327,278	157,031
Assets Acquired	(24,711)	(53,638)
(Increase) Decrease in Accounts Receivable	208,171	(1)
Increase (Decrease) in Compensated Absences	9,031	1,586
Increase (Decrease) in Other Payables	<u>(190,858)</u>	<u>(41,811)</u>
 Net Cash Provided by Operating Activities	 <u>\$ 620,310</u>	 <u>\$ 522,559</u>

Town of North Reading, Massachusetts
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private-Purpose <u>Trust</u>
Assets	
Cash and Cash Investments	\$ 230,773
	<hr/>
Total Assets	230,773
	<hr/>
Liabilities	
	-
	<hr/>
Total Liabilities	-
	<hr/>
Net Assets	
Held in Trust for Scholarships	230,773
	<hr/>
Total Net Assets	\$ 230,773
	<hr/> <hr/>

Town of North Reading, Massachusetts
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005

Additions:	
Interest, Dividends, and Other	<u>\$ 4,816</u>
Total Additions	<u>4,816</u>
Deductions:	
Scholarships Awarded	<u>7,650</u>
Change in Net Assets	<u>(2,834)</u>
Net Assets:	
Beginning of the Year	<u>233,607</u>
End of the Year	<u><u>\$230,773</u></u>

Town of North Reading, Massachusetts
Notes to the Financial Statements
June 30, 2005

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, 2005, 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

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

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, amounts due under grants, charges for services and investment income. 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. All other revenues are recognized when received.

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, 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 short term

investments with original maturities of three months or less from the date of acquisition.

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”).

Also, 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. 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 consists of unpaid, accumulated annual vacation and sick leave benefits. The liabilities have been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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 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.

(c) 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.

(d) Designated for Appropriation Deficits

This account reflects a legal deficit in the snow and ice appropriation account. The deficit was raised on the 2005 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, 2005 and July 15, 2005. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2005 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 2005 adjusted for any special Town meeting votes applicable to fiscal 2005 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, 2005.

	<u>Revenues</u>
As Reported Budget Basis	\$ 37,145,257
Adjustments:	
Sixty Day Revenue Accrual - Net	(293,143)
Budgetary Fund Balance is not a revenue on GAAP Statement	(608,231)
On Behalf Payments Included in Intergovernmental	<u>3,016,457</u>
As Reported GAAP Statement	<u><u>\$ 39,260,340</u></u>

	<u>Expenditures</u>
As Reported Budget Basis	\$ 37,213,573
Adjustments:	
July 1, 2004 Encumbrances	365,982
June 30, 2005 Encumbrances	(476,730)
Budgetary Fund Balance is not an expenditure on GAAP Statement	(163,764)
On Behalf Payments Included in Employee Benefits	<u>3,016,457</u>
As Reported GAAP Statement	<u><u>\$ 39,955,518</u></u>

III Detailed Notes on All Funds

A. Deposits

At year end, the carrying amount of the Town's deposits was \$20,019,033 and the bank balance was \$20,823,552. Of the bank balance \$1,615,747 was insured by the Federal Deposit Insurance Corporation (FDIC), \$65,020 was insured by the Depositors' Insurance Fund (DIF), \$19,142,785 was uninsured and uncollateralized.

Investments

The Town's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The categories are as follows:

Category 1 - includes investments that are insured or registered or for which the securities are held by the Town or its agent in the Town's name.

Category 2 - includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Town's name.

Category 3 - includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Town's name.

	Category			Carrying Amount
	1	2	3	
U.S. Government Securities	\$0	\$0	\$0	\$0
Commercial Paper	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Investments not susceptible to being categorized:

Investments in state treasurer's investment pool - Massachusetts	
Municipal Depository Trust	<u>450,072</u>
Total Investments	<u><u>\$450,072</u></u>

B. Capital Assets

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

	Beginning Balance	Additions	Reductions	Ending Balance
Government Activities:				
Assets not Being Depreciated				
Land	\$ 10,516,872	\$ 1,421,250	\$ -	\$ 11,938,122
Work In Process	984,124	5,748,124		6,732,248
Total Capital Assets Not Being Depreciated	<u>11,500,996</u>	<u>7,169,374</u>	<u>-</u>	<u>18,670,370</u>
Assets Being Depreciated:				
Buildings	29,640,880	122,016	(235,750)	29,527,146
Improvements Other Than Buildings	1,010,249	84,613	-	1,094,862
Infrastructure	11,298,887	19,565	-	11,318,452
Equipment	921,134	71,276	(19,157)	973,253
Vehicles	2,814,070	272,517	(103,942)	2,982,645
Total Capital Assets Being Depreciated	<u>45,685,220</u>	<u>569,987</u>	<u>(358,849)</u>	<u>45,896,358</u>
Less Accumulated Depreciation for:				
Buildings	(13,607,203)	(882,964)	106,088	(14,384,079)
Improvements Other Than Buildings	(512,551)	(37,905)	-	(550,456)
Infrastructure	(8,731,857)	(278,606)	-	(9,010,463)
Equipment	(640,751)	(68,460)	14,494	(694,717)
Vehicles	(1,736,436)	(224,884)	103,942	(1,857,378)
Total Accumulated Depreciation	<u>(25,228,798)</u>	<u>(1,492,819)</u>	<u>224,524</u>	<u>(26,497,093)</u>
Capital Assets Being Depreciated, Net	<u>20,456,422</u>	<u>(922,832)</u>	<u>(134,325)</u>	<u>19,399,265</u>
Governmental Activities Capital Assets, Net	<u>\$ 31,957,418</u>	<u>\$ 6,246,542</u>	<u>\$ (134,325)</u>	<u>\$ 38,069,635</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General government	\$ 3,400
Public safety	259,878
Education	735,141
Highways and Public works	375,420
Human Services	10,695
Culture and Recreation	108,285
Total Governmental Activities Depreciation Expense	<u>\$ 1,492,819</u>

	Beginning Balance	Additions	Reductions	Ending Balance
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	15,030,020	24,711	-	15,054,731
Equipment	393,268	16,065	-	409,333
Vehicles	216,424	37,573	(13,114)	240,883
Total Capital Assets Being Depreciated	<u>19,621,253</u>	<u>78,349</u>	<u>(13,114)</u>	<u>19,686,488</u>
Less Accumulated Depreciation for:				
Buildings	(687,678)	(69,047)	-	(756,725)
Improvements Other Than Buildings	(507,028)	(67,510)	-	(574,538)
Infrastructure	(5,063,868)	(312,788)	-	(5,376,656)
Equipment	(286,387)	(22,923)	-	(309,310)
Vehicles	(186,481)	(12,041)	13,114	(185,408)
Total Accumulated Depreciation	<u>(6,731,442)</u>	<u>(484,309)</u>	<u>13,114</u>	<u>(7,202,637)</u>
Capital Assets Being Depreciated, Net	<u>12,889,811</u>	<u>(405,960)</u>	<u>-</u>	<u>12,483,851</u>
Business Type Activities Capital Assets, Net	<u>\$ 17,201,577</u>	<u>\$ (405,960)</u>	<u>\$ -</u>	<u>\$ 16,795,617</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Water	\$ 327,278
Hillview Golf	157,031
Total Business-Type Activities Depreciation Expense	<u>\$ 484,309</u>

C. Accounts Receivable

The accounts receivable on the combined balance sheet are listed below by levy.

Governmental Activities

Property Taxes Receivable:

Real Estate Taxes

2005	\$305,256
2004	(10,597)
2002	(6,335)
2001	<u>(16,583)</u>

Total Real Estate Taxes \$271,741

Personal Property Taxes

2005	\$3,334
2004	4,384
2003	804
2002	2,644
2001	3,193
2000	11,438
1999	<u>10,086</u>

Total Personal Property Taxes 35,883

Total Property Taxes Receivable \$307,624

Tax Liens 398,102

Excise Taxes Receivable:

Motor Vehicle Excise Tax

2005	\$167,524
2004	31,041
2003	9,855
2002	9,533
2001	7,437
2000	4,779
1999	<u>5,356</u>

Total Motor Vehicle Excise 235,525

Farm Animal Excise		<u>94</u>
Tax Excise Receivable		<u><u>\$235,619</u></u>
User Charges:		
Trash Fees	\$45,196	
Ambulance	<u>316,650</u>	
Total User Charges		<u><u>\$361,846</u></u>
Light Liens		
2005	\$2,470	
2002	751	
2001	1,343	
2000	896	
1999	836	
1998	154	
1995	2,033	
1994	<u>298</u>	
Total Light Liens		<u>8,781</u>
Trash Liens		
2005	<u>2,950</u>	
Total Trash Liens:		<u>2,950</u>
Total Liens		<u><u>\$11,731</u></u>
<u>Intergovernmental:</u>		
Current:		
Due from Commonwealth of Massachusetts:		
Bike Grant	\$9,400	
Highways and Other Public Works Grants	1,217,591	
Copsfast Grant	53,836	
Massachusetts Water Pollution Abatement Trust	131,234	
School Building Assistance Bureau Grant	<u>503,472</u>	
Total Current		<u>1,915,533</u>
Noncurrent:		
School Building Assistance Bureau Grant	<u>4,027,347</u>	
Total Intergovernmental		<u><u>\$5,942,880</u></u>

Deferred Property Taxes Clause 41 A		<u>\$103,553</u>
Special Assessments: Septic Betterments		<u>\$90,801</u>
<u>Business Type Activities</u>		
Current: User Charges: Water		<u>\$192,335</u>
Water Liens:		
2005	\$9,236	
2002	138	<u> </u>
Total Water Liens		<u>\$9,374</u>
Water Tax Liens:		
2005	\$4,552	
2004	2,042	
2003	163	<u> </u>
Total Water Tax Liens		<u>\$6,757</u>

D. Debt

i Short Term Debt

Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2005 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	3.25%	\$2,075,000	\$12,075,000	\$2,075,000	\$12,075,000	9/22/2005
School Equipment	2.61%	0	429,500	0	429,500	9/22/2005

<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>						
Public Work - Trucks	2.61%	0	215,000	0	215,000	9/22/2005
Public Work - Road Program	2.61%	0	420,000	0	420,000	9/22/2005
Public Work - Cemetery Upgrade	2.61%	0	105,000	0	105,000	9/22/2005
Smith Property	2.61%	0	3,310,000	0	3,310,000	9/22/2005
Police Station	2.61%	0	50,000	0	50,000	9/22/2005
Police Station	3.25%	<u>300,000</u>	<u>375,000</u>	<u>300,000</u>	<u>375,000</u>	9/22/2005
Total		<u>\$2,375,000</u>	<u>\$16,979,500</u>	<u>\$2,375,000</u>	<u>\$16,979,500</u>	

Business-type Activities:

	<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>
Hillview Capital	3.25%	\$277,500	\$288,000	\$277,500	\$288,000	9/22/2005
Hillview Capital	2.61%	10,500	200,000	10,500	200,000	9/22/2005
Wheeler Property	2.61%	0	430,000	0	430,000	9/22/2005
Water Tower	3.25%	1,120,000	900,000	1,120,000	900,000	9/22/2005
Water System	3.25%	0	220,000	0	220,000	9/22/2005
Water System	2.61%	0	180,000	0	180,000	9/22/2005
Water Utility Vehicle	2.61%	<u>0</u>	<u>25,500</u>	<u>0</u>	<u>25,500</u>	9/22/2005
Total		<u>\$1,408,000</u>	<u>\$2,243,500</u>	<u>\$1,408,000</u>	<u>\$2,243,500</u>	

ii Long Term Debt

General obligation bonds outstanding at June 30, 2005, 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, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Balance 7/01/04	\$12,867,727	\$6,093,380	\$18,961,107
Add: New Issues	372,977	0	372,977
Less: Maturities	(1,404,421)	(1,097,663)	(2,502,084)
Deferred Debit from Refunding	0	0	0
Refunding Debt	<u>0</u>	<u>0</u>	<u>0</u>
Balance 6/30/05	<u>\$11,836,283</u>	<u>\$4,995,717</u>	<u>\$16,832,000</u>

(b) Summary of Debt Service Requirements to Maturity

	Governmental Activities		Business-type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$1,387,287	\$436,063	\$774,310	\$183,524
2007	1,286,953	397,151	805,078	157,238
2,008	1,215,849	358,139	811,792	128,812
2009	855,363	323,003	533,006	103,029
2010	770,763	291,597	483,598	79,625
2011 - 2015	3,016,596	1,054,364	1,330,251	154,846
2016 - 2020	2,223,472	509,472	257,682	10,284
2021 - 2025	<u>1,080,000</u>	<u>97,821</u>	<u>0</u>	<u>0</u>
	<u>\$11,836,283</u>	<u>\$3,467,610</u>	<u>\$4,995,717</u>	<u>\$817,358</u>

(c) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2005, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
April 4, 1994	Town Hall Doors and Windows	\$39,595
April 14, 1997	Elementary School Plans	33,000
February 4, 1999	School Construction	44,000
April 3, 2000	DPW Equipment	9,500
April 6, 2000	Backhoe	14,000
October 12, 2000	Hillview Club House	190,000
February 12, 2001	Police Station Construction	4,800,000
February 12, 2001	School Plans	100,000
April 2, 2001	Water Tower	900,000
December 3, 2001	Modular Classrooms	555,000
October 10, 2002	School Planning	225,000
April 7, 2003	Modular Classrooms	900,000
October 6, 2003	Water Systems	550,000
October 6, 2003	Gold Carts	48,000
October 6, 2003	Hillview Club House	50,000
October 6, 2003	School Renovations	15,738,810
April 5, 2004	Dump Truck	118,000
April 5, 2004	Replace Rack Truck	45,000
April 5, 2004	High School Hot Water System	48,000
October 4, 2004	School Renovation	2,777,000
October 4, 2004	Cemetery Upgrade	105,000
October 4, 2004	Dump Truck	65,000
October 4, 2004	Road Program	300,000
October 4, 2004	One Ton Truck	35,000

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
October 4, 2004	Replace Utility Vehicle	25,500
October 7, 2004	Replace & Update Culverts	120,000
October 7, 2004	Hillview Capital	200,000
January 11, 2005	Land Acquisition	3,310,000
April 4, 2005	School Remodeling	257,500
April 4, 2005	School Equipment	80,000
April 4, 2005	Land Acquisition	<u>430,000</u>
	Total	<u>\$32,112,905</u>

(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>	<u>Existing Debt Principal & Interest</u>	<u>Refunding Bonds Principal & Interest</u>
2006	\$569,175	\$503,969
2007	511,875	492,688
2008	<u>480,938</u>	<u>475,875</u>
	<u>\$1,561,988</u>	<u>\$1,472,532</u>

On December 15, 2003, the Town issued \$720,000 of General Obligations Refunding bonds with average interest rate of 2.36% to advance refund \$690,000 of outstanding debt with 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>	<u>Existing Debt Principal & Interest</u>	<u>Refunding Bonds Principal & Interest</u>
2006	\$204,187	\$200,180
2007	179,314	176,367
2008	<u>169,785</u>	<u>167,228</u>
	<u>\$553,286</u>	<u>\$543,775</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	\$ 679,694	\$ (24,611)	\$ 655,083
Non-Major Governmental	9,611	(469,694)	(460,083)
Golf - Business Type	-	-	-
Water - Business Type	15,000	(210,000)	(195,000)
Agency Funds	-	-	-
Total	<u>\$ 704,305</u>	<u>\$ (704,305)</u>	<u>\$ -</u>

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, 2005, 2004 and 2003 were \$1,383,883, \$1,296,853 and \$949,837, respectively, equal to 100% of the required contribution each year.

B. On Behalf Payments

GASB Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance" requires the Town 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, 2005, the Commonwealth paid \$3,016,457 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, 2005, or fund balances at June 30, 2005.

C. Subsequent Year Authorizations

On April 4, 2005 and October 17, 2005, the Town adopted a fiscal 2006 operating and capital budget of \$44,288,283. Fiscal 2006 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:

2006 Property Taxes, State Aid and Non-Property Tax Revenue	\$ 37,640,930
General Fund Unreserved Fund Balance	1,048,227
Enterprise Fund Revenues	4,378,377
Other Available Funds	645,940
Designated for Subsequent Year's Expenditures: (Reflected on Balance Sheet)	
Non-Major Funds	574,809
	<u>\$ 44,288,283</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.
2. The Town has various pending litigation and has reported a long term liability (other) of \$200,000 in the entity wide financial statements. It is anticipated that the liability will become current in two to three years.

E. Prior Period Adjustment

Prior period adjustments were made to the government wide financial statements as follows:

<u>Reason</u>	<u>Governmental Funds</u>	<u>Business Type Activities</u>
Prior year fixed assets (net) adjusted	<u>(\$7,134)</u>	<u>(\$487,025)</u>

Town of North Reading, Massachusetts
Required Supplementary Information
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Property Taxes	\$ 25,341,194	\$ 25,639,385	\$ 25,551,495	\$ (87,890)
Tax Liens	-	-	77,829	77,829
Excises	1,950,000	1,950,000	2,271,049	321,049
Penalties and Interest	85,000	85,000	118,006	33,006
Licenses and Permits	400,000	400,000	485,405	85,405
Fees and Other Departmental	175,000	175,000	218,233	43,233
Intergovernmental	5,959,676	5,959,676	6,050,552	90,876
Charges for Services	842,069	842,069	866,624	24,555
Fines and Forfeits	8,500	8,500	22,168	13,668
Earnings on Investments	55,000	55,000	135,882	80,882
In Lieu of Taxes	225,000	225,000	410,825	185,825
Miscellaneous	437,500	437,500	328,958	(108,542)
Budgetary Fund Balance	529,131	608,231	608,231	-
	<u>36,008,070</u>	<u>36,385,361</u>	<u>37,145,257</u>	<u>759,896</u>
Expenditures:				
Current:				
General Government	2,061,118	2,061,118	1,957,329	103,789
Public Safety	5,035,027	5,056,027	5,016,620	39,407
Education	18,515,104	18,588,046	18,576,254	11,792
Highway and Public Works	2,959,813	3,058,863	3,493,698	(434,835)
Health and Human Services	369,621	369,621	371,714	(2,093)
Culture and Recreation	561,541	561,541	554,441	7,100
Intergovernmental	141,160	141,160	143,380	(2,220)
Employee Benefits	4,786,398	5,111,786	5,014,003	97,783
Debt Service	1,911,754	1,926,754	1,922,370	4,384
Budgetary Fund Balance	163,764	163,764	163,764	-
	<u>36,505,300</u>	<u>37,038,680</u>	<u>37,213,573</u>	<u>(174,893)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(497,230)</u>	<u>(653,319)</u>	<u>(68,316)</u>	<u>585,003</u>
Other Financing Sources (Uses):				
Transfers In	521,841	677,930	679,695	1,765
Transfers Out	(24,611)	(24,611)	(24,611)	-
	<u>497,230</u>	<u>653,319</u>	<u>655,084</u>	<u>1,765</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 586,768</u>	<u>\$ 586,768</u>

Town of North Reading, Massachusetts
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

<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	<u>\$ 54,603</u>
<u>U.S. Department of Justice</u>		
Violence Against Women Act	16.588	18,310
Community Policing	16.710	<u>8,205</u>
Total U.S. Department of Justice		<u><u>26,515</u></u>
<u>U.S Institute of Museum and Library Services</u>		
LSTA	45.301	2,841
Total Institute of Library and Museum Services		<u>2,841</u>
<u>Federal Emergency Management Agency</u>		
Hazard Mitigation	83.548	117,430
Total Federal Emergency Management Agency		<u>117,430</u>
<u>U.S. Department of Education</u>		
SPED PL 94-142 Allocation	84.027	374,441
SPED Program Improvement	84.027	13,449
Subtotal # 84.027		<u>387,890</u>
Title VI	84.151	4,919
SPED Early Childhood	84.173	16,103
Safe and Drug-Free Schools	84.186	6,623
Enhanced Education Through Technology	84.318	275
Teacher Quality	84.367	34,340
Total U.S. Department of Education		<u>450,150</u>
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 651,539</u></u>

Town of North Reading, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2005

(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 2005 single audit. The status of the findings of noncompliance identified in connection with the 2003 single audit is presented in the Summary of Prior Year's Findings and Questioned Costs.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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, 2005, and have issued our report thereon dated November 1, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether the Town of North Reading, Massachusetts' basic financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of North Reading, Massachusetts' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over the financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Town of North Reading, Massachusetts in a separate letter dated December 30, 2005.

This report is intended solely for the information and use of the audit committee, management, others within the organization, 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
November 1, 2005

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, 2005. 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, 2005.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a consideration in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, 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
November 1, 2005

Town of North Reading, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

(I) Summary of Auditors' Results

- 1 The opinion of the financial statements was unqualified.
- 2 No reportable conditions on 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 reportable conditions 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

- 8 The dollar threshold used to distinguish between Type A and Type B programs was \$500,000.
- 9 The Town did not 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.

Town of North Reading, Massachusetts
 Summary of Prior Years Findings and Questioned Costs
 For the Year Ended June 30, 2005
 (Continued on Page 49)

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Current Status</u>
<u>June 30, 2003</u>		
1. Department of Justice COPSFAST CFDA #16.710 efforts to Award #95CFWX0743	2003-1 Internal controls were not in place to reconcile the Town's general ledger grant account to the detail spreadsheets maintained by the Police Department. The spreadsheets maintained by the Police Department are utilized to accumulate data for Quarterly Financial Status Reports and the Requests for Reimbursement Reports. 2003-2 The Quarterly Financial Status Reports (Q.F.S.R.) and the Quarterly Reimbursement Reports were not filed in a timely manner during fiscal year 2003. 2003-3 The internal control procedures did not include a system to provide assurance that only the allotted amount per officer (\$75,000 for a full time officer) was charged to the Copsfast grant account. As a result, the Town requested and was reimbursed for more than the approved amount per officer for the November 1998 portion (Supplement 2) of the Copsfast grant. 2003-4 It appears the Town was reimbursed for more than the approved amount (\$75,000 per officer for 3 full time positions) for the Copsfast grant. The questioned costs total \$155,240 and are calculated as follows:	No expenditures were recorded in the general ledger account in fiscal year 2005. The Town has made reconcile the prior years. The reports were filed in fiscal year 2004. No expenditures were made in fiscal year 2005. The Town did not draw down any funds in fiscal year 2004 or fiscal year 2005. A final determination relating to the finding has not been made. A final determination relating to the finding has not been made.

Town of North Reading, Massachusetts
 Summary of Prior Years Findings and Questioned Costs
 For the Year Ended June 30, 2005
 (Continued from Page 48)

<u>Program</u>	<u>Finding/Noncompliance</u>			<u>Current Status</u>
<u>Grant</u>	<u>Total</u>	<u>Full Time Officer #1</u>	<u>Full Time Officer #2</u>	<u>Full Time Officer #3</u>
November 1998 Supplement 2	\$225,000	\$75,000	\$75,000	\$75,000
Reimbursements Received (Fiscal Years 1999 - 2003)	<u>(380,240)</u>	<u>(129,462)</u>	<u>(124,650)</u>	<u>(126,128)</u>
Excess Reimbursement	<u>(\$155,240)</u>	<u>(\$54,462)</u>	<u>(\$49,650)</u>	<u>(\$51,128)</u>
Department of Justice COPFAST CFDA # 16.710 Award # 95CFWX0743	2003-5	It appears that expenditures related to the Copsfast grant (Supplement 2) were incurred after the period of availability had expired.		A final determination relating to the finding has not been made.