

TOWN OF NORTH READING, MASSACHUSETTS

Financial Statements

June 30, 2006

(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, 2006, 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, 2006 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 January 19, 2007 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

January 19, 2007

Town of North Reading, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2006

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, 2006.

Financial Highlights

- The assets of the Town of North Reading, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$42,326,767 (*net assets*).
- The government's total net assets increased by \$3,834,871. A significant portion of the governmental activities increase (\$4,602,495) was the result of the approval of a grant for a school building project. The Town had incurred debt for the project in prior years. The Golf enterprise fund had a \$394,595 loss and the water enterprise fund had a net loss of \$373,029 causing a net decrease of \$767,624 in the business-type activities.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,169,876, or 5 percent of total general fund expenditures.
- The Town of North Reading, Massachusetts' total long term debt increased by \$10,964,175 or 65 percent during the current year. The change relates to an increase in the Governmental Activities (\$9,533,738 or 81%) and a net increase in the Business-type Activities (\$1,430,437 or 29%).

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, 2006						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and Other Assets	\$ 26,464,521	\$ 27,936,986	\$ 1,435,168	\$ 1,331,502	\$ 27,899,689	\$ 29,268,488
Capital Assets	38,069,635	52,619,330	16,795,617	16,327,895	54,865,252	68,947,225
Total Assets	<u>64,534,156</u>	<u>80,556,316</u>	<u>18,230,785</u>	<u>17,659,397</u>	<u>82,764,941</u>	<u>98,215,713</u>
Other Liabilities	22,000,006	24,850,921	3,220,689	2,198,766	25,220,695	27,049,687
Long Term Liabilities	14,772,786	23,285,868	4,342,020	5,553,391	19,114,806	28,839,259
Total Liabilities	<u>36,772,792</u>	<u>48,136,789</u>	<u>7,562,709</u>	<u>7,752,157</u>	<u>44,335,501</u>	<u>55,888,946</u>
Net Assets:						
Invested in Capital Assets						
net of Related Debt	22,492,412	26,479,969	10,185,497	9,704,454	32,677,909	36,184,423
Restricted	2,968,819	3,211,123	-	-	2,968,819	3,211,123
Unrestricted	2,355,801	2,728,435	489,367	202,786	2,845,168	2,931,221
Total Net Assets	<u>\$ 27,817,032</u>	<u>\$ 32,419,527</u>	<u>\$ 10,674,864</u>	<u>\$ 9,907,240</u>	<u>\$ 38,491,896</u>	<u>\$ 42,326,767</u>

The net assets of the Town increased by \$3,834,871. The net assets of the governmental activities increased by \$4,602,495 or 16.5% and the net assets of the business-type activities decreased by \$767,624 or 7%.

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>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 4,255,642	\$ 4,928,437	\$ 4,248,480	\$ 4,388,910	\$ 8,504,122	\$ 9,317,347
Operating Grants and Contributions	8,994,592	9,516,251	37,440	49,083	9,032,032	9,565,334
Capital Grants and Contributions	-	4,802,649	-	-	-	4,802,649
General Revenues:						
Property Taxes	25,633,830	26,743,520	-	-	25,633,830	26,743,520
Motor Vehicle and Other Excises	2,169,834	2,281,495	-	-	2,169,834	2,281,495
Intergovernmental Not Restricted to a Specific Program	2,028,514	2,071,185	-	-	2,028,514	2,071,185
Other	689,756	792,400	-	-	689,756	792,400
Total Revenues	<u>43,772,168</u>	<u>51,135,937</u>	<u>4,285,920</u>	<u>4,437,993</u>	<u>48,058,088</u>	<u>55,573,930</u>
Expenses						
General Government	2,168,462	2,498,907	-	-	2,168,462	2,498,907
Public Safety	5,448,048	5,696,731	-	-	5,448,048	5,696,731
Education	24,891,763	25,792,818	-	-	24,891,763	25,792,818
Highways and Public Works	4,779,994	4,653,709	-	-	4,779,994	4,653,709
Human Services	403,241	464,686	-	-	403,241	464,686
Culture and Recreation	935,984	1,005,750	-	-	935,984	1,005,750
Fringe Benefits and Insurance	5,014,003	5,779,951	-	-	5,014,003	5,779,951
Interest on Debt Service	365,736	1,122,016	-	-	365,736	1,122,016
Water Expenses	-	-	2,478,672	3,032,317	2,478,672	3,032,317
Golf Expenses	-	-	1,244,318	1,833,802	1,244,318	1,833,802
Total Expenses	<u>44,007,231</u>	<u>47,014,568</u>	<u>3,722,990</u>	<u>4,866,119</u>	<u>47,730,221</u>	<u>51,880,687</u>
Increase (Decrease) in Net Assets						
Before Special Items and Transfers:	(235,063)	4,121,369	562,930	(428,126)	327,867	3,693,243
Special Items	1,746,190	141,628	-	-	1,746,190	141,628
Transfers	195,000	339,498	(195,000)	(339,498)	-	-
Increase (Decrease) in Net Assets	<u>\$ 1,706,127</u>	<u>\$ 4,602,495</u>	<u>\$ 367,930</u>	<u>\$ (767,624)</u>	<u>\$ 2,074,057</u>	<u>\$ 3,834,871</u>

Governmental Activities

In fiscal year 2006, property taxes accounted for approximately 59% of the revenues. During fiscal year 2005, property taxes, also, 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 loss of \$373,029 in 2006. It had net income in fiscal year 2005 of \$19,531. Water rates were increased significantly in fiscal year 2005. The cost per gallon during the summer months was increased in fiscal year 2007. The Golf enterprise fund generated a loss of \$394,595 in fiscal year 2006. It had a net income in fiscal year 2005 of \$348,399.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – The year-end fund balances of the general fund were \$960,912 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 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>
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

<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

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 \$121,897. The total decrease in net assets was \$373,029. Unrestricted net assets of the Hillview Enterprise Fund at the end of the year amounted to \$80,889. The total decrease in net assets was \$394,595.

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, 2005

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, 2006, amounts to \$68,360,325 (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 (\$9,272,866)
- Land Acquisition (\$3,283,000)
- Police Station (\$1,856,299)
- School Tennis Courts (\$135,498)
- DPW Equipment/Vehicle (\$288,535)
- Middle School Boiler (\$207,500)
- Fire Pumper (\$150,000)

Capital Assets at June 30, 2006 (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Assets not Being Depreciated	\$ 18,670,370	\$ 33,954,933	\$ 4,311,766	\$ 4,311,766	\$ 22,982,136	\$ 38,266,699
Assets Being Depreciated:						
Buildings	15,143,067	14,287,087	1,455,151	1,386,104	16,598,218	15,673,191
Improvements Other Than Buildings	544,406	505,042	1,195,127	1,127,617	1,739,533	1,632,659
Infrastructure	2,307,989	2,029,138	9,678,075	9,366,832	11,986,064	11,395,970
Equipment	278,536	618,002	100,023	91,389	378,559	709,391
Vehicles	1,125,267	1,225,128	55,475	44,187	1,180,742	1,269,315
Total	<u>\$ 38,069,635</u>	<u>\$ 52,619,330</u>	<u>\$ 16,795,617</u>	<u>\$ 16,327,895</u>	<u>\$ 54,865,252</u>	<u>\$ 68,947,225</u>

Debt

The Town had \$27,796,175 in bonds, outstanding on June 30, 2006. This represents a \$10,964,175 increase or 65 % increase from the previous year.

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

Outstanding Debt at June 30, 2006

	<u>2005</u>	<u>2006</u>
Governmental Activities		
General Obligation Bonds Payable	\$ 11,836,283	\$21,370,021
Business-type Activities		
General Obligation Bonds Payable	<u>4,995,717</u>	<u>6,426,154</u>
Total Debt	<u><u>\$ 16,832,000</u></u>	<u><u>\$27,796,175</u></u>

Fiscal Year 2007 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 \$576,324 of its reserves in the governmental funds to fund the 2007 budget. The Town does not plan to utilize the stabilization fund for the 2007 budget.

Any 2007 budget problems will be addressed by interdepartmental or free cash transfers at the April Town Meeting. Additionally, \$124,000 is available in the Town’s Reserve Fund for fiscal year 2007 department budgets.

Town of North Reading, Massachusetts
Statement of Net Assets
June 30, 2006
(Continued on Page 11)

	Governmental Activities	Business - Type Activities	Total
Assets			
Current:			
Cash/Investments	\$ 16,823,568	\$ 1,112,385	\$ 17,935,953
Petty Cash	585	-	585
Accounts Receivable:			
Property Taxes	373,408	-	373,408
Tax Liens	429,078	5,691	434,769
Excises	179,811	-	179,811
User Charges	376,557	201,760	578,317
Liens	5,514	11,666	17,180
Intergovernmental	1,279,355	-	1,279,355
Noncurrent:			
Accounts Receivable:			
Intergovernmental	8,324,454	-	8,324,454
Deferred Property Taxes	70,504	-	70,504
Deferred Special Assessments	74,152	-	74,152
Capital Assets:			
Assets Not Being Depreciated	33,954,933	4,311,766	38,266,699
Assets Being Depreciated, Net	18,664,397	12,016,129	30,680,526
Total Assets	80,556,316	17,659,397	98,215,713
Liabilities			
Current:			
Warrants Payable	1,651,468	136,052	1,787,520
Accounts Payable	-	189,298	189,298
Accrued Salaries Payable	1,353,127	-	1,353,127
Employees' Withholding Payable	220,922	-	220,922
Due to Individuals	(29,431)	-	(29,431)
Due to Other Governments	3,003	-	3,003
Unclaimed Checks	51,324	-	51,324
Guarantee Deposits	287,194	39,666	326,860
Accrued Interest Payable	183,762	50,470	234,232
Other Liabilities	695,574	-	695,574
Bonds Payable	2,062,978	983,280	3,046,258
Bond Anticipation Notes Payable	18,371,000	800,000	19,171,000

Town of North Reading, Massachusetts
Statement of Net Assets
June 30, 2006
(Continued from Page 10)

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Noncurrent:			
Bonds Payable	19,307,043	5,442,874	24,749,917
Other	200,000	-	200,000
Compensated Absences	<u>3,778,825</u>	<u>110,517</u>	<u>3,889,342</u>
Total Liabilities	<u>48,136,789</u>	<u>7,752,157</u>	<u>55,888,946</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	26,479,969	9,704,454	36,184,423
Restricted for:			
Debt Service	86,466	-	86,466
Special Revenue	2,368,572	-	2,368,572
Perpetual Funds:			
Expendable	189,533	-	189,533
Nonexpendable	566,552	-	566,552
Unrestricted	<u>2,728,435</u>	<u>202,786</u>	<u>2,931,221</u>
Total Net Assets	<u><u>\$ 32,419,527</u></u>	<u><u>\$ 9,907,240</u></u>	<u><u>\$ 42,326,767</u></u>

Town of North Reading, Massachusetts

Statement of Activities

Fiscal Year Ended June 30, 2006

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
			Operating	Capital		Business -	
Functions/Programs	Expenses	Charges for	Grants and	Grants and	Governmental	Type	Total
		Services	Contributions	Contributions	Activities	Activities	
Primary Government:							
<i>Governmental Activities:</i>							
General Government	\$ 2,498,907	\$ 502,608	\$ 218,862	\$ -	\$ (1,777,437)	\$ -	\$ (1,777,437)
Public Safety	5,696,731	913,962	233,301	-	(4,549,468)	-	(4,549,468)
Education	25,792,818	1,522,198	8,551,447	4,802,649	(10,916,524)	-	(10,916,524)
Highways and Public Works	4,653,709	1,733,273	365,341	-	(2,555,095)	-	(2,555,095)
Human Services	464,686	19,288	51,188	-	(394,210)	-	(394,210)
Culture and Recreation	1,005,750	237,108	96,112	-	(672,530)	-	(672,530)
Fringe Benefits and Insurance	5,779,951	-	-	-	(5,779,951)	-	(5,779,951)
Interest on Debt Service	1,122,016	-	-	-	(1,122,016)	-	(1,122,016)
Total Governmental Activities	47,014,568	4,928,437	9,516,251	4,802,649	(27,767,231)	-	(27,767,231)
<i>Business-Type Activities:</i>							
Golf	1,833,802	1,536,975	31,730	-	-	(265,097)	(265,097)
Water Services	3,032,317	2,851,935	17,353	-	-	(163,029)	(163,029)
Total Business-Type Activities	4,866,119	4,388,910	49,083	-	-	(428,126)	(428,126)
Total Primary Government	\$ 51,880,687	\$ 9,317,347	\$ 9,565,334	\$ 4,802,649	(27,767,231)	(428,126)	(28,195,357)
<i>General Revenues:</i>							
					26,743,520	-	26,743,520
					2,281,495	-	2,281,495
					144,375	-	144,375
					320,782	-	320,782
					2,071,185	-	2,071,185
					313,313	-	313,313
					2,430	-	2,430
					11,500	-	11,500
					128,953	-	128,953
					12,675	-	12,675
					339,498	(339,498)	-
Total General Revenues, Special Items and							
					32,369,726	(339,498)	32,030,228
					4,602,495	(767,624)	3,834,871
Net Assets:							
					27,761,364	10,668,076	38,429,440
					55,668	6,788	62,456
					27,817,032	10,674,864	38,491,896
					\$ 32,419,527	\$ 9,907,240	\$ 42,326,767

Town of North Reading, Massachusetts
Balance Sheet
Governmental Funds
June 30, 2006
(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	\$ 4,941,884	\$ 4,458,014	\$ 7,423,670	\$ 16,823,568
Petty Cash	585	-	-	585
Receivables:				
Property Taxes	373,408	-	-	373,408
Tax Liens	429,078	-	-	429,078
Excises	179,811	-	-	179,811
User Charges	33,954	-	342,603	376,557
Deferred Property Taxes	70,504	-	-	70,504
Other Liens	5,514	-	-	5,514
Intergovernmental	8,577,225	-	1,026,584	9,603,809
Special Assessments	-	-	74,152	74,152
Tax Foreclosures	277,776	-	-	277,776
Total Assets	<u>\$ 14,889,739</u>	<u>\$ 4,458,014</u>	<u>\$ 8,867,009</u>	<u>\$ 28,214,762</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Warrants Payable	\$ 638,816	\$ 532,973	\$ 479,679	\$ 1,651,468
Accrued Salaries Payable	1,353,127	-	-	1,353,127
Employees' Withholding Payable	220,922	-	-	220,922
Due to Individuals	(29,431)	-	-	(29,431)
Due to Other Governments	3,003	-	-	3,003
Unclaimed Checks	51,324	-	-	51,324
Guarantee Deposits	287,194	-	-	287,194
Other Liabilities	-	-	695,574	695,574
Bonds Anticipation Notes Payable	-	12,916,000	5,455,000	18,371,000
Deferred Revenue:				
Property Taxes	325,120	-	-	325,120
Taxes and User Charges Paid in Advance	29,671	-	-	29,671
Deferred Property Taxes	70,504	-	-	70,504
Liens	434,592	-	-	434,592
Excises	28,968	-	-	28,968
Special Assessments	-	-	74,152	74,152
Tax Foreclosures	277,776	-	-	277,776
User Charges	33,954	-	342,603	376,557
Intergovernmental	8,577,225	-	1,012,038	9,589,263
Total Liabilities	<u>12,302,765</u>	<u>13,448,973</u>	<u>8,059,046</u>	<u>33,810,784</u>

Town of North Reading, Massachusetts
Balance Sheet
Governmental Funds
June 30, 2006
(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	417,098	-	-	417,098
Reserved For Excluded Debt Premium	-	-	86,466	86,466
Reserved for Perpetual Permanent Funds	-	-	566,552	566,552
Unreserved:				
Designated for:				
Subsequent Year's Expenditures	105,398	-	458,872	564,270
Appropriation Deficits	(207,155)	-	-	(207,155)
Undesignated, Reported in:				
General Fund	2,271,633	-	-	2,271,633
Special Revenue Fund	-	-	4,031,790	4,031,790
Capital Projects Fund	-	(8,990,959)	(4,525,250)	(13,516,209)
Permanent Fund	-	-	189,533	189,533
Total Fund Balances	<u>2,586,974</u>	<u>(8,990,959)</u>	<u>807,963</u>	<u>(5,596,022)</u>
Total Liabilities and Fund Balances	<u>\$ 14,889,739</u>	<u>\$ 4,458,014</u>	<u>\$ 8,867,009</u>	<u>\$ 28,214,762</u>

Town of North Reading, Massachusetts
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2006
(Continued on Page 16)

	<u>General</u>	<u>Batchelder School Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 26,706,808	\$ -	\$ -	\$ 26,706,808
Tax Liens	99,745	-	-	99,745
Excises	2,190,898	-	-	2,190,898
Penalties and Interest	144,376	-	-	144,376
Licenses and Permits	651,122	-	-	651,122
Fees and Other Departmental	215,626	-	-	215,626
Intergovernmental	10,304,393	-	1,932,608	12,237,001
Charges for Services	755,295	-	2,218,142	2,973,437
Fines and Forfeits	16,995	-	-	16,995
Earnings on Investments	276,210	-	85,907	362,117
In Lieu of Taxes	320,782	-	-	320,782
Contributions	-	-	318,801	318,801
Miscellaneous	949,610	-	262,774	1,212,384
Total Revenues	<u>42,631,860</u>	<u>-</u>	<u>4,818,232</u>	<u>47,450,092</u>
<u>Expenditures:</u>				
General Government	2,057,703	-	4,237,122	6,294,825
Public Safety	5,324,049	-	2,206,039	7,530,088
Education	22,421,380	9,272,866	3,265,088	34,959,334
Intergovernmental	113,485	-	-	113,485
Highways and Public Works	3,009,232	-	1,547,515	4,556,747
Human Services	436,027	-	20,914	456,941
Culture and Recreation	566,378	-	329,037	895,415
Employee Benefits and Insurance	5,779,951	-	-	5,779,951
Debt Service	2,413,780	-	-	2,413,780
Total Expenditures	<u>42,121,985</u>	<u>9,272,866</u>	<u>11,605,715</u>	<u>63,000,566</u>
Excess of Revenues Over (Under) Expenditures	<u>509,875</u>	<u>(9,272,866)</u>	<u>(6,787,483)</u>	<u>(15,550,474)</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	939,512	-	488,475	1,427,987
Operating Transfers (Out)	(488,475)	-	(729,512)	(1,217,987)
Proceeds from Bonds	-	6,446,025	4,475,000	10,921,025
Total Other Financing Sources (Uses)	<u>451,037</u>	<u>6,446,025</u>	<u>4,233,963</u>	<u>11,131,025</u>

Town of North Reading, Massachusetts
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2006
(Continued from Page 15)

	<u>General</u>	Batchelder School <u>Capital Project</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	960,912	(2,826,841)	(2,553,520)	(4,419,449)
Fund Balance, Beginning	1,626,062	(6,164,118)	3,365,068	(1,172,988)
Prior Period Adjustment	-	-	(3,585)	(3,585)
Fund Balance, Beginning as Restated	1,626,062	(6,164,118)	3,361,483	(1,176,573)
Fund Balance, Ending	<u>\$ 2,586,974</u>	<u>\$ (8,990,959)</u>	<u>\$ 807,963</u>	<u>\$ (5,596,022)</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 30,2006

Total Governmental Fund Balances	\$ (5,596,022)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	52,619,330
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	10,928,827
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(21,370,021)
Other	(200,000)
Accrued Interest on Bonds	(183,762)
Compensated Absences	(3,778,825)
	<hr/>
Net Assets of Governmental Activities	<u><u>\$ 32,419,527</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, 2006

Net change in fund balances - total governmental funds	\$ (4,419,449)
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.	14,478,767
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.	11,675
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.	3,815,798
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.	(9,533,738)
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.	(95,523)
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.	344,965
Change in net assets of governmental activities	\$ 4,602,495

Town of North Reading, Massachusetts
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Business-Type Activities <u>Enterprise Funds</u>	
	<u>Water</u>	<u>Golf</u>
Assets		
Current:		
Cash and Cash Investments	\$ 381,304	\$ 731,081
Receivables, Net of Allowance for Uncollectibles:		
User Charges	201,760	-
Tax Liens	5,691	-
Liens	11,666	-
Noncurrent:		
Assets Not Being Depreciated	477,376	3,834,390
Assets Being Depreciated, Net	<u>9,393,022</u>	<u>2,623,107</u>
Total Assets	<u>10,470,819</u>	<u>7,188,578</u>
Liabilities		
Current:		
Warrants Payable	23,680	112,372
Accounts Payable	189,298	-
Guarantee Deposits	-	39,666
Accrued Interest Payable	30,552	19,918
Bond Anticipation Notes Payable	150,000	650,000
Bonds Payable	447,115	536,165
Noncurrent:		
Bonds Payable	3,003,556	2,439,318
Compensated Absences	<u>107,653</u>	<u>2,864</u>
Total Liabilities	<u>3,951,854</u>	<u>3,800,303</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	6,397,068	3,307,386
Unrestricted	<u>121,897</u>	<u>80,889</u>
Total Net Assets	<u><u>\$6,518,965</u></u>	<u><u>\$3,388,275</u></u>

Town of North Reading, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended June 30, 2006

	<u>Business-Type Activities</u>	
	<u>Water</u>	<u>Golf</u>
	<u>Enterprise</u>	<u>Enterprise</u>
Operating Revenues:		
Charges for Services	\$ 2,851,935	\$1,381,658
Departmental	-	155,317
Gifts	-	19,083
Total Operating Revenues	<u>2,851,935</u>	<u>1,556,058</u>
Operating Expenditures:		
Personal Services	619,736	21,590
Nonpersonal Services	1,963,456	1,539,215
Depreciation	321,033	159,477
Total Operating Expenditures	<u>2,904,225</u>	<u>1,720,282</u>
Operating Income	<u>(52,290)</u>	<u>(164,224)</u>
Nonoperating Revenues (Expenses):		
Intergovernmental	8,583	-
Earnings on Investments	8,770	12,647
Interest on Debt	(128,092)	(113,520)
Total Nonoperating Revenues (Expenses)	<u>(110,739)</u>	<u>(100,873)</u>
Income Before Operating Transfers	<u>(163,029)</u>	<u>(265,097)</u>
Transfers out - Capital Assets	-	(129,498)
Operating Transfers Out	(210,000)	-
Total Transfers	<u>(210,000)</u>	<u>(129,498)</u>
Change in Net Assets	<u>(373,029)</u>	<u>(394,595)</u>
Net Assets, July 1, 2005	6,891,994	3,776,082
Prior Period Adjustment	-	6,788
Adjusted Net Assets, July 1, 2005	<u>6,891,994</u>	<u>3,782,870</u>
Net Assets June 30, 2006	<u>\$ 6,518,965</u>	<u>\$3,388,275</u>

Town of North Reading, Massachusetts
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2006
(Continued on Page 22)

	<u>Water</u>	<u>Hillview</u>
Cash Flows from Operating Activities:		
Receipts from Customers	\$2,841,284	\$1,556,058
Payments to Employees	(619,590)	(21,060)
Payments to Vendors	(1,860,551)	(1,450,110)
Net Cash Flows Provided (Used) by Operating Activities	<u>361,143</u>	<u>84,888</u>
Cash Flows from Non Capital Related Financing Activities:		
Transfers from (to) Other Funds (Net)	(210,000)	-
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(210,000)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:		
Payments on Bond Anticipation Notes	(1,325,500)	(918,000)
Proceeds from Bonds	1,286,550	907,425
Proceeds from Bond Anticipation Notes	150,000	650,000
Principal Payments on Bonds	(356,087)	(413,901)
Transfer of Assets to Governmental Fund	-	(129,498)
Interest Payments	(99,995)	(115,631)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(345,032)</u>	<u>(19,605)</u>
Cash Flows from Investing Activities:		
Earnings on Investments	<u>1,792</u>	<u>12,647</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>1,792</u>	<u>12,647</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(192,097)	77,930
Cash and Cash Equivalents, July 1, 2005	573,401	653,151
Cash and Cash Equivalents, June 30, 2006	<u><u>\$ 381,304</u></u>	<u><u>\$ 731,081</u></u>

Town of North Reading, Massachusetts
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2006
(Continued from Page 21)

	<u>Water</u>	<u>Hillview</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (52,290)	\$ (164,224)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	321,033	159,477
Assets Acquired	-	(6,000)
(Increase) Decrease in Accounts Receivable	(10,651)	-
Increase (Decrease) in Compensated Absences	146	530
Increase (Decrease) in Other Payables	<u>102,905</u>	<u>95,105</u>
Net Cash Provided by Operating Activities	<u>\$ 361,143</u>	<u>\$ 84,888</u>

Town of North Reading, Massachusetts
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private-Purpose <u>Trust</u>
Assets	
Cash and Cash Investments	\$ 237,873
	<hr/>
Total Assets	237,873
	<hr/>
Liabilities	-
	<hr/>
Total Liabilities	-
	<hr/>
Net Assets	
Held in Trust for Scholarships	237,873
	<hr/>
Total Net Assets	\$ 237,873
	<hr/> <hr/>

Town of North Reading, Massachusetts
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2006

Additions:	
Contributions	\$ 1,000
Interest, Dividends, and Other	<u>5,810</u>
Total Additions	<u>6,810</u>
Deductions:	
Scholarships Awarded	<u>4,700</u>
Change in Net Assets	<u>2,110</u>
Net Assets:	
Beginning of the Year	230,773
Prior Period Adjustment	<u>4,990</u>
Fund Balance, Beginning as Restated	<u>235,763</u>
End of the Year	<u><u>\$237,873</u></u>

Town of North Reading, Massachusetts
Notes to the Financial Statements
June 30, 2006

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, 2006, 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, 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.

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 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 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 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.

(c) 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.

(d) 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.

(e) Designated for Appropriation Deficits

This account reflects a legal deficit in the snow and ice appropriation account. The deficit was raised on the 2007 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, 2006 and July 15, 2006. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2006 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 2006 adjusted for any special Town meeting votes applicable to fiscal 2006 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, 2006.

	<u>Revenues</u>
As Reported Budget Basis	\$ 39,276,564
Adjustments:	
Sixty Day Revenue Accrual - Net	(69,523)
On Behalf Payments Included in Intergovernmental	<u>3,424,819</u>
As Reported GAAP Statement	<u><u>\$ 42,631,860</u></u>

	<u>Expenditures</u>
As Reported Budget Basis	\$ 38,637,534
Adjustments:	
July 1, 2005 Encumbrances	476,730
June 30, 2006 Encumbrances	(417,098)
On Behalf Payments Included in Employee Benefits	<u>3,424,819</u>
As Reported GAAP Statement	<u><u>\$ 42,121,985</u></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, 2006, \$13,108,094 of the Town's bank balance of \$14,732,624 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 13,108,094

Investments

As of June 30, 2006, 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>
Repurchase Agreements	<u>\$ 3,499,919</u>	<u>\$ 3,499,919</u>	<u>\$ -</u>	<u>\$ -</u>

The securities underlying the repurchase agreements were held by the bank, but not in the Town's name.

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.

B. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Government Activities:				
Assets not Being Depreciated				
Land	\$ 11,938,122	\$ 3,869,900	\$ -	\$ 15,808,022
Work In Process	6,732,248	11,414,663		18,146,911
Total Capital Assets Not Being Depreciated	<u>18,670,370</u>	<u>15,284,563</u>	<u>-</u>	<u>33,954,933</u>
Assets Being Depreciated:				
Buildings	29,527,146	-	-	29,527,146
Improvements Other Than Buildings	1,094,862	-	-	1,094,862
Infrastructure	11,318,452	-	-	11,318,452
Equipment	984,253	414,172	(122,600)	1,275,825
Vehicles	3,040,154	311,164	(93,753)	3,257,565
Total Capital Assets Being Depreciated	<u>45,964,867</u>	<u>725,336</u>	<u>(216,353)</u>	<u>46,473,850</u>
Less Accumulated Depreciation for:				
Buildings	(14,384,080)	(855,979)	-	(15,240,059)
Improvements Other Than Buildings	(550,456)	(39,364)	-	(589,820)
Infrastructure	(9,010,463)	(278,851)	-	(9,289,314)
Equipment	(695,816)	(79,307)	117,300	(657,823)
Vehicles	(1,865,533)	(255,457)	88,553	(2,032,437)
Total Accumulated Depreciation	<u>(26,506,348)</u>	<u>(1,508,958)</u>	<u>205,853</u>	<u>(27,809,453)</u>
Capital Assets Being Depreciated, Net	<u>19,458,519</u>	<u>(783,622)</u>	<u>(10,500)</u>	<u>18,664,397</u>
Governmental Activities Capital Assets, Net	<u>\$ 38,128,889</u>	<u>\$14,500,941</u>	<u>\$ (10,500)</u>	<u>\$ 52,619,330</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General government	\$ 3,400
Public safety	272,823
Education	719,675
Highways and Public works	394,147
Human Services	10,695
Culture and Recreation	108,218
Total Governmental Activities Depreciation Expense	<u>\$ 1,508,958</u>

B. Capital Assets (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance
Business-Type Activities:				
Assets Not Being Depreciated				
Land	\$ 4,311,766	\$ -	\$ -	\$ 4,311,766
Work in Process	-	-	-	-
	<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	416,478	6,000	-	422,478
Vehicles	240,883	-	-	240,883
Total Capital Assets Being Depreciated	<u>19,693,633</u>	<u>6,000</u>	<u>-</u>	<u>19,699,633</u>
Less Accumulated Depreciation for:				
Buildings	(756,725)	(69,047)	-	(825,772)
Improvements Other Than Buildings	(574,538)	(67,510)	-	(642,048)
Infrastructure	(5,376,656)	(311,243)	-	(5,687,899)
Equipment	(309,668)	(21,421)	-	(331,089)
Vehicles	(185,408)	(11,288)	-	(196,696)
Total Accumulated Depreciation	<u>(7,202,995)</u>	<u>(480,509)</u>	<u>-</u>	<u>(7,683,504)</u>
Capital Assets Being Depreciated, Net	<u>12,490,638</u>	<u>(474,509)</u>	<u>-</u>	<u>12,016,129</u>
Business Type Activities Capital Assets, Net	<u>\$ 16,802,404</u>	<u>\$ (474,509)</u>	<u>\$ -</u>	<u>\$ 16,327,895</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Water	\$ 321,033
Hillview Golf	159,477
Total Business-Type Activities Depreciation Expense	<u>\$ 480,510</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

2006	\$ 332,786
2005	3,703

C. Accounts Receivable (Continued)

2004	45
2002	147
2001	3,300
2000	348

Total Real Estate Taxes	<u>\$ 340,329</u>
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Personal Property Taxes

2006	3,836
2005	2,946
2004	4,617
2003	3,001
2002	2,905
2001	3,436
2000	12,338

Total Personal Property Taxes	<u>33,079</u>
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Total Property Taxes Receivable	<u>\$ 373,408</u>
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Tax Liens	<u>\$ 429,078</u>
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Excise Taxes Receivable:

Motor Vehicle Excise Tax

2006	\$ 98,201
2005	32,339
2004	16,042
2003	7,938
2002	7,939
2001	7,211
2000	4,785
1999	5,356

Total Motor Vehicle Excise	<u>\$ 179,811</u>
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Tax Excise Receivable

User Charges:

Trash Fees	\$ 33,954
Ambulance	<u>342,603</u>

Total User Charges	<u>\$ 376,557</u>
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C. Accounts Receivable (Continued)

Light Liens		
2006	\$ 924	
2002	751	
2001	1,343	
2000	<u>896</u>	
Total Light Liens		<u>3,914</u>
Trash Liens		
2006	<u>1,600</u>	
Total Trash Liens:		<u>1,600</u>
Total Liens		<u>\$ 5,514</u>
<u>Intergovernmental:</u>		
Current:		
Due from Commonwealth of Massachusetts:		
Bike Grant	\$ 216,900	
Highways and Other Public Works Grants	799,501	
Various State Grants	10,183	
School Building Assistance Bureau Grant	<u>252,771</u>	
Total Current		<u>\$1,279,355</u>
Noncurrent:		
School Building Assistance Bureau Grant	<u>8,324,454</u>	
Total Intergovernmental		<u>\$ 9,603,809</u>
Deferred Property Taxes		
Clause 41 A		<u>\$ 70,504</u>
Special Assessments:		
Septic Betterments		<u>\$ 74,152</u>

C. Accounts Receivable (Continued)

Business Type Activities

Current:

User Charges:

Water	\$ 201,760
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Water Liens:

2006	\$ 11,528
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2002	138
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Total Water Liens	\$ 11,666
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Water Tax Liens:

2006	\$ 5,691
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Total Water Tax Liens	\$ 5,691
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D. Debt

i Short Term Debt

Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2006 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	4.25%	\$12,075,000	\$6,916,000	\$12,075,000	\$6,916,000	9/22/2006
School Construction	4.00%	0	6,000,000	0	6,000,000	9/22/2006
School Equipment	4.25%	429,500	0	429,500	0	9/22/2006
Public Work - Trucks	4.25%	215,000	0	215,000	0	9/22/2006
Public Work - Road Program	4.25%	420,000	0	420,000	0	9/22/2006
Public Work - Cemetery Upgrade	4.25%	105,000	0	105,000	0	9/22/2006

D. Debt (Continued)

<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>						
Fire Pumper	4.25 %	0	150,000	0	150,000	9/22/2006
Police Cruisers	4.25 %	0	50,000	0	50,000	9/22/2006
Public Work - Equipment	4.25 %	0	255,000	0	255,000	9/22/2006
Smith Property	4.25 %	3,310,000	0	3,310,000	0	9/22/2006
Police Station	4.25 %	50,000	625,000	50,000	625,000	9/22/2006
Police Station	4.25 %	<u>375,000</u>	<u>4,375,000</u>	<u>375,000</u>	<u>4,375,000</u>	9/22/2006
Total		<u>\$16,979,500</u>	<u>\$18,371,000</u>	<u>\$16,979,500</u>	<u>\$18,371,000</u>	
<u>Business-type Activities:</u>						
Hillview Capital	4.25 %	\$288,000	\$0	\$288,000	\$0	9/22/2006
Hillview		0	600,000	0	600,000	9/22/2006
Hillview - Equipment		0	50,000	0	50,000	9/22/2006
Hillview Capital	4.25 %	200,000	0	200,000	0	9/22/2006
Wheeler Property	4.25 %	430,000	0	430,000	0	9/22/2006
Water Tower	4.25 %	900,000	0	900,000	0	9/22/2006
Water System	4.25 %	220,000	0	220,000	0	9/22/2006
Water System	4.25 %	180,000	150,000	180,000	150,000	9/22/2006
Water Utility Vehicle	4.25 %	<u>25,500</u>	<u>0</u>	<u>25,500</u>	<u>0</u>	9/22/2006
Total		<u>\$2,243,500</u>	<u>\$800,000</u>	<u>\$2,243,500</u>	<u>\$800,000</u>	

Long Term Debt

General obligation bonds outstanding at June 30, 2006, bear interest at various rates.

Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Balance 7/01/05	\$11,836,283	\$4,995,717	\$16,832,000
Add: New Issues	10,921,025	2,193,975	13,115,000
Less: Maturities	<u>(1,387,287)</u>	<u>(774,310)</u>	<u>(2,161,597)</u>
Balance 6/30/06	<u>\$21,370,021</u>	<u>\$6,426,154</u>	<u>\$27,796,175</u>

D. Debt (Continued)

(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>
2007	\$2,062,978	\$790,464	\$983,280	\$239,053
2008	1,940,849	714,222	976,019	201,789
2009	1,515,363	644,782	698,006	167,708
2010	1,450,763	581,599	628,598	137,554
2011	1,406,327	528,391	624,326	110,542
2012-2016	5,831,137	1,966,733	1,570,925	313,282
2017-2021	4,612,604	963,008	625,000	113,983
2022-2026	<u>2,550,000</u>	<u>183,480</u>	<u>320,000</u>	<u>24,800</u>
	<u>\$21,370,021</u>	<u>\$6,372,679</u>	<u>\$6,426,154</u>	<u>\$1,308,711</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.

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>	
	<u>General</u>	
	<u>Government</u>	<u>Enterprise</u>
2007	\$15,079	\$6,558
2008	14,592	6,377
2009	14,124	6,190
2010	13,595	5,998
2011	13,078	5,799
2012 - 2016	45,407	25,784
2017 - 2021	26,946	19,554
2022 - 2026	<u>0</u>	<u>9,960</u>
Total Subsidies	<u>\$142,821</u>	<u>\$86,220</u>

D. Debt (Continued)

(c) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2006, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
February 12, 2001	Police Station Construction	\$4,375,000
December 3, 2001	Modular Classrooms	55,000
April 7, 2003	Modular Classrooms	250,000
October 6, 2003	Water Systems	150,000
October 6, 2003	School Renovations	11,138,810
April 5, 2004	Dump Truck	3,000
April 5, 2004	High School Hot Water System	1,000
October 4, 2004	School Renovation	2,777,000
October 17, 2005	Fire Pumper Truck	370,000
October 17, 2005	Two Police Cruisers	50,000
October 17, 2005	Front End Loader	125,000
October 17, 2005	Dump Truck	130,000
October 17, 2005	Police Station Construction	3,700,000
October 17, 2005	Golf Course/Outdoor	50,000
April 3, 2006	Cemetery Expansion	60,000
April 3, 2006	Six Wheel Dump Truck	130,000
April 3, 2006	Road Improvement Program	250,000
April 3, 2006	Water Department Capital	<u>328,000</u>
	Total	<u>\$23,942,810</u>

On October 16, 2006 (subsequent to the balance sheet date), the Town approved a \$913,183 loan authorization for modular classrooms.

(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>
2007	\$511,875	\$492,688
2008	<u>480,938</u>	<u>475,875</u>
	<u>\$992,813</u>	<u>\$968,563</u>

D. Debt (Continued)

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>	<u>Existing Debt Principal & Interest</u>	<u>Refunding Bonds Principal & Interest</u>
2007	\$179,314	\$176,367
2008	<u>169,785</u>	<u>167,228</u>
	<u>\$349,099</u>	<u>\$343,595</u>

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:

	<u>Transfer In (Out)</u>	<u>Transfer In (Out)</u>	<u>Total</u>
General	\$ 939,512	\$ (488,475)	\$ 451,037
Non-Major Governmental	488,475	(729,512)	(241,037)
Water - Business Type	-	(210,000)	(210,000)
Subtotal	<u>1,427,987</u>	<u>(1,427,987)</u>	<u>-</u>
Transfer of Assets:			
Golf - Business Type	-	(129,498)	(129,498)
Governmental Activities	129,498	-	129,498
Total	<u>\$ 1,557,485</u>	<u>\$ (1,557,485)</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, 2006, 2005 and 2004 were \$1,569,774, \$1,383,883 and \$1,296,853, 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, 2006, the Commonwealth paid \$3,424,819 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, 2006, or fund balances at June 30, 2006.

C. Subsequent Year Authorizations

On April 3, 2006 and October 16, 2006, the Town adopted a fiscal 2007 operating and capital budget of \$47,711,391. Fiscal 2007 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:

2007 Property Taxes, State Aid and Non-Property Tax Revenue	\$ 41,144,594
General Fund Unreserved Fund Balance	1,434,911
Enterprise Fund Revenues	4,555,562
Other Available Funds	12,054
Designated for Subsequent Year's Expenditures: (Reflected on Balance Sheet)	
General Fund	105,398
Non-Major Funds	458,872
	<u>\$ 47,711,391</u>

D. Subsequent Events

A liability was accrued for the settlement of litigation that had been brought against the Town prior to June 30, 2006. The settlement (\$586,900) was paid in January 2007 and is reflected as a current "other" liability in the non major funds.

E. 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 years.

F. Prior Period Adjustment

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

<u>Reason</u>	<u>Governmental Funds/ Activities</u>	<u>Business Type Activities</u>
Correction of prior year's revenues	(\$3,585)	\$0
Prior year fixed assets (net) adjusted	<u>59,253</u>	<u>6,788</u>
Total	<u>\$55,668</u>	<u>\$6,788</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, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
Revenues:				
Property Taxes	\$ 26,778,754	\$ 26,778,754	\$ 26,704,354	\$ (74,400)
Tax Liens	-	-	99,745	99,745
Excises	1,998,750	1,998,750	2,262,873	264,123
Penalties and Interest	85,000	85,000	144,376	59,376
Licenses and Permits	466,844	466,844	651,122	184,278
Fees and Other Departmental	231,000	231,000	215,626	(15,374)
Intergovernmental	6,907,507	6,907,507	6,879,573	(27,934)
Charges for Services	733,000	733,000	755,295	22,295
Fines and Forfeits	8,500	8,500	16,998	8,498
Earnings on Investments	75,000	75,000	276,210	201,210
In Lieu of Taxes	200,000	200,000	320,782	120,782
Miscellaneous	300,000	300,000	949,610	649,610
Total Revenues	37,784,355	37,784,355	39,276,564	1,492,209
Expenditures:				
Current:				
General Government	2,081,819	2,148,724	1,926,185	222,539
Public Safety	5,220,467	5,372,357	5,347,658	24,699
Education	18,964,330	19,038,678	19,027,092	11,586
Highway and Public Works	2,869,042	2,857,547	3,020,231	(162,684)
Health and Human Services	397,338	447,573	440,774	6,799
Culture and Recreation	572,772	572,772	568,378	4,394
Intergovernmental	110,623	110,623	113,485	(2,862)
Employee Benefits	5,797,434	5,797,434	5,779,951	17,483
Debt Service	2,817,820	2,483,892	2,413,780	70,112
Total Expenditures	38,831,645	38,829,600	38,637,534	192,066
Excess (Deficiency) of Revenues Over Expenditures	(1,047,290)	(1,045,245)	639,030	1,684,275
Other Financing Sources (Uses):				
Transfers In	939,512	939,512	939,512	-
Transfers Out	(488,475)	(488,475)	(488,475)	-
Budgetary Fund Balance - Sources	1,048,227	1,048,227	1,048,227	-
Budgetary Fund Balance - Uses	(451,974)	(454,019)	(454,019)	-
Total Other Financing Sources (Uses)	1,047,290	1,045,245	1,045,245	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	\$ -	\$ -	\$ 1,684,275	\$ 1,684,275

Town of North Reading, Massachusetts
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

<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>\$ 52,844</u>
<u>U.S. Department of Justice</u>		
Violence Against Women Act	16.588	7,529
Community Policing	16.710	60,896
Total U.S. Department of Justice		<u>68,425</u>
<u>U.S Institute of Museum and Library Services</u>		
LSTA	45.301	7,095
Total Institute of Library and Museum Services		<u>7,095</u>
<u>U.S. Department of Education</u>		
SPED PL 94-142 Allocation	84.027	531,602
SPED Program Improvement	84.027	6,464
Subtotal # 84.027		<u>538,066</u>
Title V	84.151	<u>3,274</u>
SPED Early Childhood	84.173	<u>12,040</u>
Safe and Drug-Free Schools	84.186	<u>9,921</u>
Enhanced Education Through Technology	84.318	<u>204</u>
Teacher Quality	84.367	<u>20,560</u>
Total U.S. Department of Education		<u>584,065</u>
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 712,429</u></u>

Town of North Reading, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2006

(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 2006 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
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, 2006, and have issued our report thereon dated January 19, 2007. 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 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 January 24, 2007.

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*.

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
January 19, 2007

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, 2006. 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, 2006.

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
January 19, 2007

Town of North Reading, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

(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 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, 2006
(Continued on Page 50)

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Current Status</u>
<u>June 30, 2003</u>		
1. Department of Justice COPFAST CFDA #16.710 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.	No expenditures were recorded in the general ledger account in fiscal year 2006.
	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.	The reports were filed in fiscal year 2004. No expenditures were made in fiscal year 2006.
	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	The Town did not draw down any funds in fiscal year 2004, 2005 or fiscal year 2006. A final determination relating to the finding has not
	reimbursed for more than the approved amount per officer for the November 1998 portion (Supplement 2) of the Copsfast grant.	made.
been	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:	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, 2006
(Continued from Page 49)

<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.