



Reading Municipal Light Department

ANNUAL REPORT **FISCAL YEAR 2008**

RMLD



Reading Municipal Light Department
RELIABLE POWER FOR GENERATIONS

WORKING TOWARDS A GREENER FUTURE

BOARD OF COMMISSIONERS



Ellen C. Kearns
Chairperson



Richard S. Hahn



Mary Ellen O'Neill



Philip B. Pacino



Robert H. Soli

The Reading Municipal Light Department's mission is to provide you, our customers, with electric service you can rely on. To fulfill this responsibility, we continuously monitor and plan for changes in supply and demand and refine our portfolio of energy suppliers so that you are receiving the electricity at the lowest possible cost.

We continue to do our part to protect the environment, by promoting energy conservation to help reduce greenhouse gas emissions, and by exploring potential “green” technologies to power our communities. Sun, wind, water, and biomass — these are the fuels for the future. RMLD is laying the groundwork now to make renewable energy part of our power supply portfolio.

RMLD's Citizens' Advisory Board, whose members are appointed by the four towns we serve, makes recommendations to the Board of Commissioners. Its members include Roger Lessard and Quincy Vale, both of Wilmington, Arthur Carakatsane of Lynnfield, John Norton of North Reading, and Andrew Herlihy of Reading.

LETTER FROM THE GENERAL MANAGER



DEAR CUSTOMERS,

Over the past year, we have all felt the impact of rising natural gas and oil prices. Concerns about global warming and rapidly dwindling fossil fuel supplies have homeowners and companies looking at other sources of energy to help meet their needs.

RMLD is also seeking alternatives to fossil fuels. We are planning to obtain a small portion of our power supply through renewable energy resources. Over the last year, we have been negotiating with renewable energy project developers. In most cases, renewable energy is more expensive than energy from conventional resources, so cost concerns cannot be ignored. However, incorporating some renewable energy resources into our mix will help us stabilize fuel costs and be less dependent on fossil fuels.

A Technical Potential Study conducted in 2007 included some renewable and alternative generation technologies that are now available. On a similar mission, the Town of Reading's Advisory Committee on Cities for Climate Protection created a Climate Action Plan for Reading that recommended various renewable energy projects and programs. Based on these reports, we are expanding our efforts to provide financial incentives for renewable energy projects that are developed by residential, commercial, and industrial customers within RMLD's service territory.

Increased local interest in renewable and alternative energy supported by incentives for development presents RMLD with an opportunity to decrease the amount of conventional power we purchase from the New England market, thereby lowering costs to our customers. Supporting and using locally developed renewable and alternative energy resources will help insulate us from fluctuations in the fossil fuel market. Use of alternative energy will also result in lower emissions from generating plants in New England, keeping our environment clean and reducing the impact of global warming.

We encourage you to support renewable energy.

Sincerely,

A handwritten signature in black ink, appearing to read "Vincent F. Cameron Jr.", written in a cursive style.

Vincent F. Cameron Jr.
General Manager



Reading Municipal Light Department Strategic Plan – Key Objectives

This year, the RMLD Board of Commissioners, Citizens' Advisory Board, General Manager, and staff provided input for a strategic plan.

The key objectives of this plan are:

- To provide our customers with a product mix that optimizes electric costs and maximizes value through energy efficiency and load management.
- To procure a long-term diverse and environmentally responsive power supply portfolio, including consideration of ownership of generation.
- To assure long-term reliability of the RMLD distribution system.
- To enhance customer service to residential and commercial customers to the highest level.

BUILDING THE FOUNDATION

FOR GREENER, CLEANER POWER

RMLD, like many utilities around the world, is facing the limitations and environmental impacts of fossil fuel use. Fossil fuels — coal, oil and natural gas — are non-renewable fuel sources that are steadily dwindling. The combustion of fossil fuels to produce energy is the cause of more than 90% of greenhouse gas emissions in the U.S.



As part of RMLD's responsibility of providing reliable electrical power, we are committed to exploring new alternatives — options that will help us meet power demand and protect the environment. Clean, renewable energy resources — such as hydropower, solar, wind, and biomass — now make up a

small part of our power supply portfolio (about 5%), and we are working to add more.

A look at the national energy picture will put this into perspective. In 2007, 85% of the nation's electrical energy need was met using fossil fuels, with 7% coming from renewable energy resources. Why is the use of alternative energy so low? A major barrier is geography. The development of geothermal and hydroelectric power is more attractive in certain parts of the U.S., but not New England. Wind power sites in New England are scarce except for those that are located along the coastline or in higher elevations. Solar energy is making strides in increased efficiency; however, the cost remains two to three times higher than conventional energy resources and solar power is not as available in New England as it is other parts of the country.

The primary advantage of renewable energy sources is that they are not as sensitive to cost fluctuations as oil and gas because the fuel (such as the wind and sun) is free. The costs are based on the capital investment and ongoing operations and maintenance of the technology.

Many of you are helping us in these efforts through our voluntary Green Choice program. Through this program, customers choose to contribute as little as \$3 each month to support the production and future development of electricity from renewable energy sources in New England.

Facts about renewable energy

- According to the Energy Information Administration, renewable energy use will double by 2030 due to improved technology, higher fossil fuel prices, and the extension of tax credits.
- Technological improvements are making solar-electric modules more cost-effective, with the average cost to purchase energy at 20 cents per kilowatt-hour, according to the American Solar Energy Society.
- The energy we get from all of the world's reserves of coal, oil, and natural gas can be matched by just 20 days' supply of sunshine.
- Wind energy projects around the world now generate enough energy to power nine million typical U.S. homes, according to the American Wind Energy Association.
- Massachusetts is one of the nation's leading producers of electricity from biomass (landfill gas and municipal solid waste).

WORKING TOGETHER

TO CONSERVE ENERGY

RMLD is in the business of supplying electricity, yet we also work with our customers to help them find ways to conserve energy to save them money. Moving forward, we plan to enhance and expand our energy conservation programs.

The Town of Reading's Citizens' Climate Protection Advisory Committee developed a Climate Action Plan, which included some recommendations to RMLD, calling for increased energy conservation and energy efficiency measures to be implemented within RMLD's customer base.

Alternative energy system rebates: Residences and commercial buildings that use alternative energy systems, such as solar panels and combined heat and power (CHP) units, can potentially provide excess electricity. This excess electricity can be put into RMLD's electrical grid, thereby reducing the peak load of our system. RMLD is looking into offering rebates to customers who install alternative energy systems. We will continue to provide technical advice and engineering support for these projects, as we did with one customer who installed solar panels in his home.

Energy efficient appliance rebates: RMLD continues to offer rebates of \$25 to \$100 for the purchase of certain energy-efficient appliances that have an Energy Star® rating, such as refrigerators, washing machines, dishwashers, room air conditioners, central air conditioners. During this fiscal year, we added dehumidifiers and programmable thermostats to the Energy Star appliance rebate program.



Advising our service area communities: RMLD staff worked with Reading officials and energy committee members to establish a benchmark for energy use in all of the town buildings. We conducted audits and presented recommendations for low-to-no-cost energy saving tips. The Town of Reading saw a 10% reduction in energy use after following RMLD's recommendations. RMLD offers similar assistance to the other communities it serves.

Looking within for energy savings: RMLD continues to look for ways to conserve energy within our operations. As older vehicles are taken off the road, we continue to replace them with cost-saving, energy-efficient, hybrid vehicles. In this fiscal year, we boosted the insulation of our building to make it more energy-efficient.



Exceeding Your Expectations for Personal Service

RMLD's Customer Service

Specialists are your neighbors and are also RMLD customers.

When you call us, you speak with a knowledgeable person who can review your bill, arrange a payment plan, offer appliance rebate information, schedule technical support, and provide answers to easement issues and pole locations. We know these are challenging times and we continue to work with our customers to find payment solutions.



GENERATING ENERGY AWARENESS

THROUGH CUSTOMER EDUCATION

RMLD is regularly reaching out to the community in a variety of ways to provide information about the benefits of energy conservation and how to integrate them into our daily lives.

During this fiscal year, our Community Relations staff educated residents of all ages on how to adopt energy conservation measures at home, school, work, and within our communities through the following programs:

- **Change a Light, Change the World:** RMLD customers were encouraged to participate in this national campaign and join millions of Americans in pledging to change at least one light bulb in their home or workplace to an Energy Star compact fluorescent lightbulb (CFL) and help prevent an increase in greenhouse gases. We took the program to 13 elementary and middle schools, Reading Town Day, Cities for Climate Protection Earth Day Fair, and other community events, and reached 161% of our goal. The school with the highest percentage of pledges in each of RMLD's four service towns was awarded a \$2,000 grant to use towards energy efficient improvements in their schools.



- **Kill A Watt energy usage monitors** were donated to 13 elementary schools so students could measure appliance energy usage. RMLD also made these monitors available to parents who wished to measure their home energy usage.



- **Annual T-shirt Contest:** Energy conservation was the theme for this year's contest. Approximately 1,000 third and fourth graders from eleven elementary schools in Reading, North Reading, Wilmington, and Lynnfield created T-shirt designs that reflected what they learned about energy efficiency. The winners' work appeared in the 2008 RMLD poster calendar and each received a U.S. savings bond from RMLD.

We continue to educate our customers about the energy saving advantages of CFLs and encourage their use by distributing them at community events. Throughout the fiscal year, RMLD staff regularly made educational presentations and participated in community forum discussions about a variety of topics, including how RMLD purchases power, fuel cost impact on customers' electric bills, energy saving tips for the home, and alternative sources of energy that are available to heat your home.

DID YOU KNOW?

- The energy used in the average home can be responsible for more than twice the greenhouse gas emissions of the average car. When you use less energy at home, you reduce greenhouse gas emissions from power plants and help protect our environment from the risks of global climate change. *(From U.S. EPA's Energy Star Program)*
- According to the Appraisal Journal of the National Appraiser's Association, home values increase \$20 for every \$1 in annual energy savings. So saving \$1250 a year in electricity could increase your home value by \$25,000.

A RELIABLE POWER SYSTEM

THAT WORKS FOR YOU

It takes thousands of feet of cable, four substations, and 3,700 transformers to deliver electricity to your homes and businesses. RMLD keeps these vital pieces of equipment operating efficiently day and night, earning high rankings in service reliability. During this fiscal year, we continued to improve and optimize the reliability of our distribution system by maintaining our equipment and investing in needed improvements.

RMLD continued its preventative maintenance tree-trimming program, which keeps our lines and other equipment clear of vegetation that could cause power outages. From July to December in 2007, we added a second tree crew to concentrate on maintaining feeder areas, clearing growth on rights-of-way, and responding to the needs of our customers. In FY 2008, we responded to 1,286 customer calls when their service was interrupted. RMLD crews are on call 24/7 to solve service issues.

We completed construction projects to improve service capacity and reliability for our customers. We also installed new equipment to accommodate new housing and commercial developments. Here are project highlights for each town:

In **Reading**, RMLD crews upgraded service by installing 2,000 circuit feet of primary and secondary cable on South Main Street to accommodate the redevelopment of buildings at 80, 90, and 100 Main Street, as well as the anticipated redevelopment of the Addison Wesley property. Two thousand feet of primary and secondary cable were installed on Green Street, Elliot Street, and Prescott Street.

In addition, we extended new service to the tenants of the Walkers Brook Drive commercial development: Stop and Shop, LongHorn Steakhouse, and Bertucci's. We also completed new service additions to Market Basket on General Way and a commercial building on Main Street.

In **Wilmington**, we installed 700 circuit feet of three-phase primary, 500 circuit feet of single-phase primary, and 1,200 feet of secondary cable on Bridge Lane and Brand Avenue, and 4,500 circuit feet of three-phase primary and 4,500 feet of secondary cable on Aldrich Road. Circuit extension work included the installation of 5,000 circuit feet of three-phase primary, 4,400 circuit feet of single-phase primary, and 8,500 feet of secondary cable on Chestnut Street from Butters Row to the Woburn town line.



Fiscal Year 2008 Statistics

System peak demand: 167,557 kilowatts on Tuesday, June 10, 2008, at 4:00pm.

This is 2.86% lower than the previous year's peak demand of 172,493 kilowatts.

Retail sales: RMLD purchased 746,183,913 kilowatt-hours, which is up 1.17% over last year

Customer calls for service: 1,286

Dig Safe requests: 3,284 locations marked for underground facilities

Poles damaged by motor vehicles: 65

Poles replaced: 95

Total new home services: 598, up 343% from the previous year

Reading: 39

Lynnfield: 27

North Reading: 370

Wilmington: 162

Total new commercial/industrial business services: 145, up 245% from the previous year

Reading: 24

Lynnfield: 1

North Reading: 48

Wilmington: 72

We added and upgraded service for a commercial building on Main Street, the Channel Building on Middlesex Avenue, and the tenants of Wilmington Crossing on Main Street (Starbucks, Kendra and Anthony's Pizza, Staples, D'Angelo, Pearl Vision Center, and the Dollar Tree Store).



In **North Reading**, construction work included the installation of 3,000 feet of primary and secondary cable in the Marshall Road, Laurel Road, and Hickory Road areas; 2,000 circuit feet of underground primary cable on Pleasant Street, Strawberry Lane, and Equestrian Drive; 3,000 circuit feet of three-phase primary, 2,000 circuit feet of single-phase primary, and 6,000 feet of secondary cable on

Oakdale Road, Lee Road, Meade Road, Maple Road, Taylor Drive, Juniper Road, and Devons Road; 700 feet of single-phase primary and secondary cable on Janice Avenue; and 1,000 feet of single-phase primary cable on Burroughs Road.

New commercial service additions and upgrades included Ryer's Store and the North Reading Police Station on Park Street, Brick Yard Place on Concord Street, and Winter Hill Bank and Walgreens on Main Street.

In **Lynnfield**, RMLD crews installed 1,000 circuit feet of three-phase primary, 500 feet of single-phase primary, and 1,000 feet of secondary cable on North Hill Drive, Glen Drive, and West Tapley Road. We completed the third phase of a circuit extension project on Lowell Street, which involved the installation of 2,100 feet of spacer cable from North Reading town line to Chestnut Street.



Other Construction Projects

RMLD completed station upgrades, continued the decommissioning of the Ash Street Substation in Reading, and completed the installation of a backup circuit to the USPS Middlesex-Essex Processing and Distribution Center in North Reading.

In FY 2008, RMLD purchased construction equipment including: a new, versatile single-reel trailer that can be used for a variety of service needs; a compact, efficient, multi-purpose fork truck; a refurbished construction trailer for use in the ongoing Gaw Substation upgrade project in Reading, and a multi-use digger derrick line truck for use in distribution line improvement projects and system recovery efforts.

TOWN OF READING, MASSACHUSETTS READING MUNICIPAL LIGHT DEPARTMENT

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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Independent Auditors' Report*

To the Municipal Light Board
Town of Reading Municipal Light Department
Reading, Massachusetts

We have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fund information of the Town of Reading Municipal Light Department ("the Department") (an enterprise fund of the Town of Reading), as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 financial position of the business-type activities, and the aggregate remaining fund information of the Town of Reading Municipal Light Department as of June 30, 2008, and the results of its operations and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Department's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

Melanson, Heath + Company P.C.

Melanson, Heath & Company, P.C.
Andover, Massachusetts
September 26, 2008

*This report is complete and original, as submitted to RMLD

Management's Discussion and Analysis

Within this section of the Town of Reading Municipal Light Department's ("the Department") annual financial report, management provides a narrative discussion and analysis of the financial activities for the year ended June 30, 2008. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements:

The basic financial statements include 1) the statements of net assets, 2) the statements of revenues, expenses and changes in net assets, 3) the statements of cash flows, and 4) notes to financial statements.

The Statements of Net Assets is designed to indicate our financial position as of a specific point in time. At June 30, 2008, it shows our net worth of \$87,623,029 which is comprised of \$59,879,183 invested in capital assets, \$2,937,735 restricted for depreciation fund, and \$24,806,111 unrestricted.

The Statements of Revenues, Expenses and Changes in Net Assets summarize our operating results and reveals how much, if any, of a profit was earned for the year. As discussed in more detail below, our net profit for the year ended June 30, 2008 was \$1,633,265.

The Statements of Cash Flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financing activities for the same period. A review of our Statements of Cash Flows indicates that cash receipts from operating activities adequately cover our operating expenses.

Summary of Net Assets

	2008	2007
Current Assets	\$ 22,818,228	\$ 23,158,397
Noncurrent Assets	<u>76,532,856</u>	<u>83,271,930</u>
Total Assets	<u>99,351,084</u>	<u>106,430,327</u>
Current Liabilities	8,574,307	16,983,251
Noncurrent Liabilities	<u>3,153,748</u>	<u>3,457,312</u>
Total Liabilities	11,728,055	20,440,563
Net Assets:		
Invested in Capital Assets, Net of Related Debt	59,879,183	55,801,003
Restricted for Depreciation Fund	2,937,735	2,364,103
Unrestricted	<u>24,806,111</u>	<u>27,824,658</u>
Total Net Assets	<u>87,623,029</u>	<u>85,989,764</u>
Total Liabilities and Net Assets	<u>99,351,084</u>	<u>106,430,327</u>

Summary of Changes In Net Assets

Operating Revenues	86,946,233	66,224,643
Operating Expenses	(84,562,643)	(63,818,933)
Operating Income	2,383,590	2,405,710
Non-Operating Revenues (Expenses)	(750,325)	(494,685)
Change in Net Assets	1,633,265	1,911,025
Beginning Net Assets	<u>85,989,764</u>	<u>84,078,739</u>
Ending Net Assets	<u>\$ 87,623,029</u>	<u>\$ 85,989,764</u>

Financial Highlights:

Electric sales (net of discounts) were \$86,243,927 in 2008, an increase of 26.3% from the prior year. Kilowatt hours sold increased by 1.2% to 717,664,965 in 2008, compared to 709,201,028 in 2007. In 2008, ratepayers received \$(1,649,970) in fuel charge adjustment credits, compared to credits of \$(1,189,870) in 2007. In 2008, ratepayers were charged purchase power adjustments of \$2,352,276.

Operating expenses were \$84,562,643 in 2008, an overall increase of 32.5% from 2007. The largest portion of this total, \$69,641,773, was for purchase power expenses. Other operating expenses included \$10,751,240 for general operating and maintenance costs, \$1,146,094 for voluntary payments to Towns, and depreciation expense of \$3,023,536. In fiscal 2008, the depreciation rate remained level at 3.0%.

In the 2008 fiscal year, the Department was not required to make a contribution to the Reading Municipal Light Department Employees' Pension Trust (the "Trust"). In addition, the Trust contributed \$1,055,758 to the Town of Reading Contributory Retirement System on behalf of the Department's employees.

Capital Asset and Debt Administration

Capital Assets

Total investment in land and construction in progress at year end amounted to \$3,102,442, an increase of \$1,836,600 from the prior year. This increase was due to a partial down payment for transformers for the Gaw Street Substation project. Total investment in depreciable capital assets at year end amounted to \$57,867,740 (net of accumulated depreciation), an increase of \$1,691,579 from the prior year. This investment in depreciable capital assets includes structures and improvements, equipment and furnishings, and infrastructure assets.

Requests for Information

This financial report is designed to provide a general overview of the Reading Municipal Light Department's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Accounting/Business Manager
Town of Reading Municipal Light Department
230 Ash Street
Reading, Massachusetts 01867.

Business-Type Proprietary Fund
Statements of Net Assets
June 30, 2008 and 2007

Assets

	2008	2007
Current:		
Unrestricted Cash and Short-Term Investments	\$ 11,859,292	\$ 14,378,468
Receivables, Net of Allowance for Uncollectibles	9,143,636	6,663,670
Prepaid Expenses	152,718	534,431
Inventory	<u>1,662,582</u>	<u>1,581,828</u>
Total Current Assets	22,818,228	23,158,397
Noncurrent:		
Restricted Cash and Short-Term Investments	11,011,779	21,256,098
Restricted Investments	4,400,000	4,400,000
Investment in Associated Companies	122,391	141,810
Land and Construction in Progress	3,102,442	1,265,842
Capital Assets, Net of Accumulated Depreciation	57,876,740	56,185,161
Other	<u>19,504</u>	<u>23,019</u>
Total Noncurrent Assets	<u>76,532,856</u>	<u>83,271,930</u>
Total Assets	99,351,084	106,430,327

Liabilities

Current:		
Accounts Payable	6,450,130	5,866,398
Customer Deposits	481,328	480,657
Customer Advances for Construction	710,537	595,423
Accrued Liabilities	303,842	272,156
Current Portion of Long-Term Liabilities:		
Bonds Payable	550,000	550,000
Accrued Employee Compensated Absences	78,470	109,852
Calpine Contract Termination	<u>---</u>	<u>9,108,765</u>
Total Current Liabilities	8,574,307	16,983,251
Noncurrent:		
Bonds Payable, Net of Current Portion	550,000	1,100,000
Accrued Employee Compensated Absences	<u>2,603,748</u>	<u>2,357,312</u>
Total Noncurrent Liabilities	<u>3,153,748</u>	<u>3,457,312</u>
Total Liabilities	11,728,055	20,440,563

Net Assets

Invested in Capital Assets, Net of Related Debt	59,879,183	55,801,003
Restricted for Depreciation Fund	2,937,735	2,364,103
Unrestricted	<u>24,806,111</u>	<u>27,824,658</u>
Total Net Assets	<u>\$ 87,623,029</u>	<u>\$ 85,989,764</u>

See Notes to Financial Statements

Business-Type Proprietary Fund
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

Operating Revenues:

	2008	2007
Electric Sales, Net of Discounts of \$3,637,105 and \$3,424,493, Respectively	\$ 86,243,927	\$ 68,269,393
Customer Refunds and Fuel Charge Adjustments		
Rate Refund	---	(1,157,691)
Fuel Charge Adjustment	(1,649,970)	(1,189,870)
Purchase Power Adjustment	<u>2,352,276</u>	<u>302,811</u>
Total Operating Revenues	86,946,233	66,224,643

Operating Expenses:

Purchase Power	69,641,773	49,725,228
Operating	8,701,880	8,124,718
Maintenance	2,049,360	1,953,569
Depreciation	3,023,536	2,907,259
Voluntary Payments to Towns	<u>1,146,094</u>	<u>1,108,159</u>
Total Operating Expenses	<u>84,562,643</u>	<u>63,818,933</u>
Operating Income	2,383,590	2,405,710

Nonoperating Revenues (Expenses):

Contributions in Aid of Construction	151,992	191,085
Interest Income	595,433	700,829
Interest Expense	(85,843)	(104,677)
MMWEC Refund	383,202	615,727
Loss on Disposal of Capital Assets	(24,797)	(55,781)
Return on Investment to Town of Reading	(2,073,332)	(2,010,991)
Other	<u>303,020</u>	<u>169,123</u>
Total Nonoperating Revenues (Expenses), Net	<u>(750,325)</u>	<u>(494,685)</u>
Change in Net Assets	1,633,265	1,911,025
Net Assets at Beginning of Year	<u>85,989,764</u>	<u>84,078,739</u>
Net Assets at End of Year	<u>\$ 87,623,029</u>	<u>\$ 85,989,764</u>

See Notes to Financial Statements

**Business-Type Proprietary Fund
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007**

Cash Flows From Operating Activities:	2008	2007
Receipts From Customers and Users	\$ 83,764,632	\$ 67,193,484
Payments to Vendors and Employees	(80,289,046)	(61,700,902)
Customer Refund, Purchase Power, and Fuel Charge Adjustments	<u>702,306</u>	<u>(2,044,750)</u>
Net Cash Provided by (Used For) Operating Activities	4,177,892	3,447,832
 Cash Flows From Noncapital Financing Activities:		
Return on Investment to Town of Reading	(2,073,332)	(2,010,991)
MMWEC Refund	383,202	615,727
Other	<u>303,020</u>	<u>169,123</u>
Net Cash Provided by (Used For) Noncapital Financing Activities	(1,387,110)	(1,226,141)
 Cash Flows From Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(6,576,513)	(5,044,077)
Principal Payment on Notes	(550,000)	(855,000)
Interest Expense	(85,843)	(104,677)
Contributions in Aid of Construction	<u>151,992</u>	<u>191,085</u>
Net Cash Provided by (Used For) Capital and Related Financing Activities	(7,060,364)	(5,812,669)
 Cash Flows From Investing Activities:		
Investment Income	595,433	700,829
(Increase) Decrease in Restricted Cash and Investments	<u>1,154,973</u>	<u>1,597,758</u>
Net Cash Provided by (Used For) Investing Activities	<u>1,750,406</u>	<u>2,298,587</u>
Net Change in Cash and Short-Term Investments	(2,519,176)	(1,292,391)
Unrestricted Cash and Short Term Investments, Beginning of Year	<u>14,378,468</u>	<u>15,670,859</u>
Unrestricted Cash and Short Term Investments, End of Year	<u>\$ 11,859,292</u>	<u>\$ 14,378,468</u>
 Reconciliation of Operating Income to Net Cash:		
Operating Income	\$ 2,383,590	\$ 2,405,710
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Depreciation Expense	3,023,536	2,907,259
Changes in Assets and Liabilities:		
Restricted Cash - Calpine Liability	(9,108,765)	(24,316,095)
Accounts Receivable	(2,479,966)	(1,052,073)
Prepaid and Other Assets	385,229	(435,539)
Inventory	(80,754)	(330,467)
Accounts Payable	583,732	(295,782)
Accrued Liabilities	246,740	165,442
Calpine Liability - Energy Contract Buy-Out	9,108,765	24,316,095
Other Liabilities	<u>115,785</u>	<u>83,282</u>
Net Cash Provided by (Used For) Operating Activities	<u>\$ 4,177,892</u>	<u>\$ 3,447,832</u>

See Notes to Financial Statements

Fiduciary Fund — Retirement Trust
 Statements of Fiduciary Net Assets
 June 30, 2008 and 2007

Assets

	2008	2007
Cash and Short-Term Investments	\$ 2,136,712	\$ 1,753,722
Investments	4,800,000	5,900,642
Accrued Interest Receivable	---	69,742
Other	<u>3,643</u>	<u>1,534</u>
Total Assets	<u>6,940,355</u>	<u>7,725,640</u>

Net Assets

Net Assets Held in Trust for Pension Benefits	\$ <u>6,940,355</u>	\$ <u>7,725,640</u>
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Fiduciary Fund — Retirement Trust
 Statements of Changes in Fiduciary Net Assets
 For the Years Ended June 30, 2008 and 2007

Additions

Contributions From Reading Municipal Light Department	\$ ---	\$ 350,764
Interest and Dividend Income	<u>270,473</u>	<u>285,985</u>
Total Additions	270,473	636,749

Deductions

Paid to Reading Contributory Retirement System	<u>1,055,758</u>	<u>1,029,537</u>
Total Deductions	<u>1,055,758</u>	<u>1,029,537</u>
Net Increase (Decrease) in Net Assets	(785,285)	(392,788)
Net Assets Available for Benefits, Beginning of Year	<u>7,725,640</u>	<u>8,118,428</u>
Net Assets Available for Benefits, End of Year	<u>\$ 6,940,355</u>	<u>\$ 7,725,640</u>

See Notes to Financial Statements

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The significant accounting policies of the Town of Reading Municipal Light Department ("the Department") (an enterprise fund of the Town of Reading) are as follows:

- A. Business Activity:** The Department purchases electricity which it distributes to consumers within the towns of Reading, North Reading, Wilmington, and Lynnfield.
- B. Regulation and Basis of Accounting:** Under Massachusetts General Laws, the Department's electric rates are set by the Municipal Light Board and may be changed not less than once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Department, the Department's rates are not subject to DPU approval. The Department's policy is to prepare its financial statements in conformity with generally accepted accounting principles.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Department has elected not to follow subsequent private-sector guidance.

- C. Concentrations:** The Department operates within the electric utility industry which has undergone significant restructuring and deregulation. Legislation was enacted by the Commonwealth of Massachusetts in 1998 which changed the electric industry. The law introduced competition and provided consumers with choices while assuring continued reliable service. Municipal utilities are not currently subject to this legislation.
- D. Retirement Trust:** The Reading Municipal Light Department Employees' Pension Trust (the "Trust") was established on December 30, 1966, by the Town of Reading's Municipal Light Board pursuant to Chapter 164 of the General Laws of the Commonwealth of Massachusetts.

The Trust constitutes the principal instrument of a plan established by the Municipal Light Board for the purpose of funding the Department's annual required contribution to the Town of Reading Contributory Retirement System (the System), a cost sharing, multi-employer public employee retirement system.

- E. Revenues:** Revenues are based on rates established by the Department and filed with the DPU. Revenues from sales of electricity are recorded on the basis of bills rendered from monthly meter readings taken on a cycle basis and are stated net of discounts. Recognition is given to the amount of sales to customers which are unbilled at the end of the fiscal period.
- F. Cash and Short-term Investments:** For the purposes of the Statement of Cash Flows, the Department considers both restricted and unrestricted cash on deposit with the Town Treasurer to be cash or short-term investments. For purpose of the Statement of Net Assets, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.
- G. Investments:** State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from date of purchase.

Investments for the Department and the Trust consist of U.S. government bonds that are being held to maturity. Investments are carried at cost.

- H. Inventory:** Inventory consists of parts and accessories purchased for use in the utility business for construction, operation and maintenance purposes and is stated at average cost. Meters and transformers are capitalized when purchased.
- I. Capital Assets and Depreciation:** Capital assets, which include property, plant, equipment, and utility plant infrastructure, are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as they are acquired or constructed. Interest incurred during the construction phase of proprietary fund capital assets is included as part of the capitalized value of the constructed asset. When capital assets are retired, the cost of the retired asset, less accumulated depreciation, salvage value and any cash proceeds, is charged to the Department's unrestricted net assets account.

Massachusetts General Laws require utility plant in service to be depreciated at an annual rate of 3%. To change this rate, the Department must obtain approval from the DPU. Changes in annual depreciation rates may be made for financial factors relating to cash flow for plant expansion, rather than engineering factors relating to estimates of useful lives.

- J. Amortization:** Costs related to the issuance of bonds have been capitalized and are being amortized over the life of the bonds.
- K. Accrued Compensated Absences:** Employee vacation leave is vested annually but may only be carried forward to the succeeding year with supervisor approval and, if appropriate, within the terms of the applicable Department policy or union contract. Generally, sick leave may accumulate according to union and Department contracts and policy, and is paid upon normal termination at the current rate of pay. The Department's policy is to recognize vacation costs at the time payments are made. The Department records accumulated, unused, vested sick pay as a liability. The amount recorded is the amount to be paid at termination at the current rate of pay.
- L. Long-Term Obligations:** The proprietary fund financial statements report long-term debt and other long-term obligations as liabilities in the proprietary fund statement of net assets.
- M. 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 disclosures for contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.
- N. Rate of Return:** The Department's rates must be set such that earnings attributable to electric operations do not exceed eight percent of the net cost of plant. The audited financial statements are prepared in accordance with auditing standards generally accepted in the United States of America. To determine the net income subject to the rate of return, the Department performs the following calculation. Using the net income per the audited financials, the return on investment to the Town of Reading is added back, the fuel charge adjustment is added or deducted, and miscellaneous debits/credits (i.e., gain/loss on disposal of fixed assets, etc.) are added or deducted, leaving an adjusted net income figure for rate of return purposes. Investment interest income and bond principal payments are then deducted from this figure to determine the net income subject to the rate of return. The net income subject to the rate of return is then subtracted from the allowable eight percent rate of return, which is calculated by adding the book value of net plant and the investment in associated companies less the contributions in aid of construction multiplied by eight percent. From this calculation, the Municipal Light Board will determine what cash transfers need to be made at year end.

2. Cash and Investments

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Unrestricted Cash and Short-Term Investments	\$ 11,859,292
Restricted Cash and Short-Term Investments	11,011,779
Restricted Investments	4,400,000

Fiduciary Funds

Cash and Short-Term Investments	2,136,712
Investments	<u>4,800,000</u>
Total Cash and Investments	<u>\$ 34,207,783</u>

Cash and investments at June 30, 2008 consist of the following:

Cash on Hand	\$ 3,000
Deposits with Financial Institutions	25,004,783
Investments	<u>9,200,000</u>
Total Cash And Investments	<u>\$ 34,207,783</u>

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that the fair value of an investment will be adversely affected by changes in market interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Department manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2008, the Department (including the Pension Trust) had the following investments:

	Restricted Investments	Pension Trust	Maturity Date	Moody's Rating
Government Bonds				
Federal Home Loan Mtg. Corp.	\$ 1,500,000	---	12/15/12	AAA
Federal Home Loan Mtg. Corp.	500,000	---	07/15/13	AAA
Federal Home Loan Mtg. Corp.	1,400,000	---	11/15/13	AAA
Federal Home Loan Mtg. Corp.	500,000	---	01/15/15	AAA
Federal National Mtg. Assn.	500,000	---	11/13/17	AAA
Federal Home Loan Bank	---	1,200,000	06/25/13	AAA
Federal Home Loan Mtg. Corp.	---	1,800,000	11/15/13	AAA
Federal Home Loan Mtg. Corp.	<u>---</u>	<u>1,800,000</u>	03/15/15	AAA
Total	<u>\$ 4,400,000</u>	<u>\$ 4,800,000</u>		

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Department's investments (including investments held in the Pension Trust) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

Highly sensitive investments	Fair Value at Year End
Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair value of these securities highly sensitive to changes in interest rates.	<u>\$9,200,000</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assigning of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year end for each of the Department's (including the Pension Trust) investment types:

Investment Type	Amount	Minimum Legal Rating	Rating as of Year End	
			AAA	Not Rated
Federal Agency Securities	\$ 9,200,000	N/A	\$ 9,200,000	\$ ---
Total	\$ 9,200,000		\$ 9,200,000	\$ ---

Concentration of Credit Risk

The Department follows the Town of Reading's investment policy, which does not limit the amount that can be invested in any one issuer beyond that stipulated by Massachusetts General Laws. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent more than 5% of the Department's total investments (including the Pension Trust investments) are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Mtg. Corp.	Federal agency securities	\$ 7,500,000
Federal Home Loan Bank	Federal agency securities	1,200,000
Federal National Mtg. Assn.	Federal agency securities	500,000

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Department will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Massachusetts General Laws, Chapter 44, section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Department follows the Massachusetts statute as written, as well as the Town of Reading's deposit policy for custodial credit risk.

Because the Department pools its cash with the Town of Reading, the specific custodial credit risk of the Department's deposits could not be determined at June 30, 2008. As of June 30, 2008, Department investments (including the Pension Trust) in the following investment types were held by the same broker-dealer (counterparty) that was used by the Department to buy the securities:

Investment Type	Reported Amount
Federal Agency Securities	\$ 9,200,000
Total	\$ 9,200,000

3. Restricted Cash and Investments

Restricted cash and investments consist of the following at June 30, 2008:

	Cash	Investments
Depreciation Fund	\$ 2,937,735	\$ ---
Construction Fund	2,112,401	---
Deferred Fuel Reserve	905,308	---
Rate Stabilization	3,178,549	2,900,000
Reserve for Uncollectible Accounts	28,988	---
Sick Leave Benefits	1,182,218	1,500,000
Insurance Reserve	35,252	---
Hazardous Waste Fund	150,000	---
Customer Deposits	481,328	---
Total	\$ 11,011,779	\$ 4,400,000

Restricted investments are invested in U.S. Government bonds, which will be held to maturity, and are reported at book value of \$4,400,000. The fair market value of the investments at June 30, 2008 was \$4,435,984.

The Department maintains the following restricted cash accounts:

Depreciation Fund: The Department is required to reserve 3.0% of capital assets each year to fund capital improvements.

Construction Fund: This account reflects a balance set aside by the Board of Commissioners to fund capital asset purchases.

Deferred Fuel Reserve: The Department transfers the difference between the customers' monthly fuel charge adjustment and actual fuel costs into this account to be used in the event of a sudden increase in fuel costs.

Rate Stabilization: The Department transfers funds in excess of 8% of capital assets into this account to be used to stabilize customer rates.

Reserve for Uncollectible Accounts: This account was set up to offset a portion of the Department's bad debt reserve.

Sick Leave Benefits: This account is used to offset the Department's actuarially determined compensated absence liability.

Insurance Reserve: This account reflects a balance set aside by the Board of Commissioners as an insurance deductible reserve.

Hazardous Waste Fund: This reserve was set up by the Board of Commissioners to cover the Department's insurance deductible in the event of a major hazardous materials incident.

Customer Deposits: This represents customer deposits that are held in escrow.

4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2008:

Customer Accounts:

Billed	\$ 3,987,055	
Less allowances:		
Uncollectible accounts	(200,000)	
Sales discounts	(214,497)	
Total billed		\$ 3,572,558
Unbilled, net		<u>4,762,362</u>
Total customer accounts		8,334,920

Other Accounts:

Merchandise sales	269,026	
MMWEC Flush	383,202	
Liens and other	<u>156,488</u>	
Total other accounts		<u>808,716</u>
Total net receivables		<u>\$ 9,143,636</u>

5. Prepaid Expenses

Prepaid expenses consist of the following:

Insurances	\$ 240,107
Purchase power	(282,401)
PASNY prepayment fund	<u>195,012</u>
Total	<u>\$ 152,718</u>

6. Inventory

Inventory is comprised of supplies and materials at June 30, 2008, and is valued using the average cost method.

7. Investment in Associated Companies

Under agreements with the New England Hydro-Transmission Electric Company, Inc. (NEH) and the New England Hydro-Transmission Corporation (NHH), the Department has made the following advances to fund its equity requirements for the Hydro-Quebec Phase II interconnection. The Department is carrying its investment at cost, reduced by shares repurchased. The Department's equity position in the Project is less than one-half of one percent.

Investment in associated companies consists of the following, at June 30, 2008:

New England Hydro-Transmission Electric Company, Inc.	\$ 46,153
New England Hydro-Transmission Corporation	<u>76,238</u>
Total	<u>\$ 122,391</u>

8. Capital Assets

The following is a summary of fiscal year 2008 activity in capital assets (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Structures and Improvements	\$ 13,286	\$ 107	\$ ---	\$ 13,393
Equipment and Furnishings	22,153	556	(89)	22,620
Infrastructure	<u>65,305</u>	<u>4,077</u>	<u>(917)</u>	<u>68,465</u>
Total Capital Assets, Being Depreciated	100,744	4,740	(1,006)	104,478
Less Accumulated Depreciation For:				
Structures and Improvements	(5,753)	(379)	---	(6,132)
Equipment and Furnishings	(15,374)	(727)	89	(16,012)
Infrastructure	<u>(23,432)</u>	<u>(1,917)</u>	<u>892</u>	<u>(24,457)</u>
Total Accumulated Depreciation	<u>(44,559)</u>	<u>(3,023)</u>	<u>981</u>	<u>(46,601)</u>
Total Capital Assets, Being Depreciated, Net	56,185	1,717	(25)	57,877
Capital Assets, Not Being Depreciated:				
Land	1,266	---	---	1,266
Construction in Progress	<u>---</u>	<u>1,836</u>	<u>---</u>	<u>1,836</u>
Total Capital Assets, Not Being Depreciated	<u>1,266</u>	<u>1,836</u>	<u>---</u>	<u>3,102</u>
Capital Assets, Net	<u>\$ 57,451</u>	<u>\$ 3,553</u>	<u>\$(25)</u>	<u>\$ 60,979</u>

9. Other Assets

This balance consists primarily of costs associated with the Department's bonding, which are being amortized over the life of the bonds.

10. Accounts Payable

Accounts payable represent fiscal 2008 expenses that were paid after June 30, 2008.

11. Customer Deposits

This balance represents deposits received from customers that are held in escrow.

12. Customer Advances for Construction

This balance represents deposits received from vendors in advance for work to be performed by the Department. The Department recognizes these deposits as revenue after the work has been completed.

13. Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2008:

Accrued interest	\$ 27,762
Accrued payroll	159,758
Other	<u>116,322</u>
Total	<u>\$ 303,842</u>

14. Bonds Payable

Bonds payable consist of the following at June 30, 2008:

Bonds issued December 1, 1999, in the amount of \$ 5,500,000. Principal is payable annually on September 1 commencing 2000 and continuing to September 1, 2009. Interest is payable semiannually on September 1 and March 1 at 4.5% for five years with rates thereafter ranging from 4.55% to 4.85%. \$ 1,100,000

Total Bonds Payable	1,100,000
Less: Current installments of bonds payable	<u>(550,000)</u>
Total Long-Term Bonds Payable	<u>\$ 550,000</u>

The future payments required on the long-term debt are as follows:

	Principal	Interest	Total
2009	\$ 550,000	\$ 39,738	\$ 589,738
2010	<u>550,000</u>	<u>13,337</u>	<u>563,337</u>
Total	<u>\$ 1,100,000</u>	<u>\$ 53,075</u>	<u>\$ 1,153,075</u>

The following summarizes activity in bonds payable for the year ended June 30, 2008:

Balance 07/01/07	Maturities	Balance 06/30/08	Less Current	Long-Term Portion
<u>\$1,650,000</u>	<u>\$(550,000)</u>	<u>\$1,100,000</u>	<u>\$(550,000)</u>	<u>\$550,000</u>

15. Accrued Employee Compensated Absences

Department employees are granted sick leave in varying amounts. Upon retirement, termination, or death, employees are compensated for unused sick leave (subject to certain limitations) at their then current rates of pay.

16. Calpine Contract Termination

In October 2001, the Department entered into a Power Supply Agreement (PSA) with Calpine Energy Services, L.P. (Calpine). Under the terms of the PSA, Calpine agreed to supply the Department with energy at contracted rates during the period June 1, 2002 through October 31, 2008. The PSA was guaranteed by Calpine Corporation, the parent corporation of Calpine.

In order to protect the Department from Calpine's inability to deliver on the terms of the contract, the PSA contained a provision that required Calpine to deposit funds into an escrow account if Calpine Corporation's long-term unsecured debt rating dropped below investment grade. In May 2003, the Department entered into an Escrow Agreement with Calpine, and funds were deposited into this escrow account in accordance with the terms of this agreement.

In December 2005, Calpine filed for bankruptcy and the Department terminated its PSA with Calpine. In exchange for its agreement to release all further claims against Calpine, the Department received a settlement payment of \$ 42,549,683. In accordance with the provisions of Statements of Accounting Standards No. 71, these proceeds, including interest earnings, were recorded as a liability, and were applied to reduce customer charges over the 15 months of the original PSA.

In 2008, the Division reduced its power supply expense and its corresponding customer Purchase Power Fuel Charge Adjustment (PPFCA) by \$ 9,108,765 (the remaining amount of its Calpine liability).

17. Restricted Net Assets

The proprietary fund financial statements report restricted net assets when external constraints are placed on net assets. Specifically, restricted net assets represent depreciation fund reserves, which are restricted for future capital asset purchases.

18. Post-Employment Health Care and Life Insurance Benefits

In July 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" (GASB45). This Statement requires governments to recognize and account for the actuarially determined cost of providing postemployment benefits other than pensions to current and future retirees and their spouses and dependents. The Town of Reading is required to implement the requirements of GASB 45 in Fiscal Year 2009. The Department and the Town are in the process of contracting for an actuarial study to determine the extent of their future OPEB liability. This study is expected to be completed in the fall of 2008, and the Department plans to fully implement GASB 45 in Fiscal Year 2009.

19. Pension Plan

The Department follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds.

Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the Town of Reading Contributory Retirement system at Town Hall, Reading, MA.

- A. Plan Description:** The Department contributes to the Town of Reading Contributory Retirement System (the System), a cost-sharing, multiple-employer, defined benefit pension plan administered by a Town Retirement Board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases.
- B. Funding Policy:** Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Department is required to pay into the System its share of the remaining system wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Department are governed by Chapter 32 of the Massachusetts General Laws. The Department's contributions to the System for the years ended June 30, 2008 and 2007 were \$1,055,758 and \$1,029,537, respectively, which were equal to its annual required contributions for each of these years.

20. Participation in Massachusetts Municipal Wholesale Electric Company

The Town of Reading, acting through its Light Department, is a participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own, or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its *pro rata* share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's

cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of FPL Energy, LLC., and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. In November 2005, the Nuclear Regulatory Commission (NRC) renewed the operating licenses for the Millstone Unit 2 and Unit 3 nuclear units for an additional twenty years. The license for Unit 2 was extended to July 31, 2035 and the license for Unit 3 was extended to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by FPL Energy Seabrook, LLC (FPLE Seabrook), the majority owner and an indirect subsidiary of FPL Group, Inc. In December 2005, the NRC issued an amendment to the operating license that extends its expiration date from October 2026 to March 2030, to recapture the period from 1986 to 1990 during which time Seabrook Station had an operating license, but did not operate. FPLE Seabrook has stated its intention to request an extension of the Seabrook Station operating license beyond March 2030.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

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

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

After the July 1, 2008, principal payment, total capital expenditures for MMWEC's Projects amounted to \$1,538,666,000, of which \$110,468,000 represents the amount associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds totaling \$641,630,000, of which \$35,104,000 is associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. After the July 1, 2008, principal payment, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$711,316,000, of which \$37,152,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of Reading Municipal Light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at June 30, 2008 and estimated for future years is shown below.

	Annual Costs
For years ended June 30, 2009	\$ 5,457,000
2010	4,867,000
2011	4,674,000
2012	4,657,000
2013	4,702,000
2014-2018	<u>12,795,000</u>
Total	<u>\$ 37,152,000</u>

In addition, under the PSAs, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs were \$15,726,000 and \$17,049,000 for the years ended June 30, 2008, and 2007, respectively.

21. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past four fiscal years.

22. Leases

Related Party Transaction — Property Sub-Lease

The Department is sub-leasing facilities to the Reading Massachusetts Town Employees Federal Credit Union. The original sub-lease agreement commenced in December 2000 and ended in November 2005. A new agreement, which extends the lease through November 30, 2008, was signed on December 1, 2005. The following is the future minimum rental income for the years ending June 30:

2009	<u>\$3,630</u>
Total	<u>\$3,630</u>

Other Income — Property Sub-Lease

The Department is sub-leasing facilities to Reading Community Television Inc. The sub-lease agreement commenced in March 2000 and ends in November 2008. The Department, as lessor, has waived the rent for the term of the lease.

RMLD



Reading Municipal Light Department
RELIABLE POWER FOR GENERATIONS

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