

TOWN OF SAUGUS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2006

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 112
Andover, MA 01810-1096
(978) 749-0005 • Fax (978) 749-0006
www.melansonheath.com

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Saugus, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Saugus, Massachusetts, as of and for the year ended June 30, 2006 (except for the Saugus Contributory Retirement System which is as of and for the year ended December 31, 2005), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Saugus' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Saugus, as of June 30, 2006 (except the Saugus Contributory Retirement System which is as of December 31, 2005), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information, appearing in the back of this report, are not a required part of the basic financial statements but are supplementary information

required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 4, 2006 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal 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 assessing the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
October 4, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Saugus, we offer readers this narrative overview and analysis of the financial activities of the Town of Saugus for the fiscal year ended June 30, 2006.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position 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 to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water, sewer, ice rink and landfill closure 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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds 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 available 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 funds 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.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, sewer, Kasubuski Ice Rink, and landfill closure operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal services funds are used to account for self-insured employee health programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, Kasubuski Ice Rink, and landfill closure operations, all of which are considered to be major funds.

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.

Notes to the financial statements. The notes provide additional information that are essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by the *Governmental Accounting Standards Board*.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 43,268,364 (i.e., net assets), a change of \$ (853,423) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 3,874,599, a change of \$ (2,252,284) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was a deficit of \$ (182,846), a change of \$ (307,159) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 30,914,697, a change of \$ 687,083 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 7,697,444	\$ 10,159,736	\$ 6,703,068	\$ 8,861,260	\$ 14,400,512	\$ 19,020,996
Capital assets	53,746,826	54,972,396	18,584,633	15,227,058	72,331,459	70,199,454
Total assets	61,444,270	65,132,132	25,287,701	24,088,318	86,731,971	89,220,450
Long-term liabilities outstanding	30,687,083	33,051,819	7,816,657	7,777,001	38,503,740	40,828,820
Other liabilities	4,331,671	3,809,117	628,196	460,726	4,959,867	4,269,843
Total liabilities	35,018,754	36,860,936	8,444,853	8,237,727	43,463,607	45,098,663
Net assets:						
Invested in capital assets, net	28,834,003	29,121,111	17,889,404	12,953,803	46,723,407	42,074,914
Restricted	2,897,905	2,931,670	-	-	2,897,905	2,931,670
Unrestricted	(5,306,392)	(3,781,585)	(1,046,556)	2,896,788	(6,352,948)	(884,797)
Total net assets	\$ 26,425,516	\$ 28,271,196	\$ 16,842,848	\$ 15,850,591	\$ 43,268,364	\$ 44,121,787

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 5,335,426	\$ 4,187,055	\$ 8,304,807	\$ 10,466,649	\$ 13,640,233	\$ 14,653,704
Operating grants and contributions	12,691,076	11,921,124	-	67,198	12,691,076	11,988,322
Capital grants and contributions	1,307,229	1,067,271	-	-	1,307,229	1,067,271
General revenues:						
Property taxes	39,540,985	39,752,137	-	-	39,540,985	39,752,137
Excises	3,180,873	3,481,649	-	-	3,180,873	3,481,649
Penalties, interest, and other taxes	607,649	570,864	-	-	607,649	570,864
Grants and contributions not restricted to specific programs	4,616,811	4,524,585	-	-	4,616,811	4,524,585
Investment income	283,784	231,447	103,066	-	386,850	231,447
Other	187,775	1,270	-	-	187,775	1,270
Total revenues	<u>67,751,608</u>	<u>65,737,402</u>	<u>8,407,873</u>	<u>10,533,847</u>	<u>76,159,481</u>	<u>76,271,249</u>
Expenses:						
General government	2,958,762	2,638,287	-	-	2,958,762	2,638,287
Public safety	10,058,075	10,420,187	-	-	10,058,075	10,420,187
Education	33,231,863	31,586,910	-	-	33,231,863	31,586,910
Public works	4,673,786	5,230,793	-	-	4,673,786	5,230,793
Human services	2,380,286	2,310,615	-	-	2,380,286	2,310,615
Culture and recreation	1,099,748	1,132,882	-	-	1,099,748	1,132,882
Employee benefits	12,250,795	11,738,887	-	-	12,250,795	11,738,887
Interest on long-term debt	866,843	1,468,510	-	-	866,843	1,468,510
Intergovernmental	2,335,376	2,093,967	-	-	2,335,376	2,093,967
Miscellaneous	91,215	-	-	-	91,215	-
Water	-	-	3,659,886	2,731,456	3,659,886	2,731,456
Sewer	-	-	2,636,054	2,203,435	2,636,054	2,203,435
Ice rink	-	-	730,593	689,377	730,593	689,377
Landfill closure	-	-	39,645	1,887,598	39,645	1,887,598
Total expenses	<u>69,946,749</u>	<u>68,621,038</u>	<u>7,066,178</u>	<u>7,511,866</u>	<u>77,012,927</u>	<u>76,132,904</u>
Change in net assets before permanent fund contributions and transfers	(2,195,141)	(2,883,636)	1,341,695	3,021,981	(853,446)	138,345
Permanent fund contributions	23	-	-	-	23	-
Transfers in (out)	<u>349,438</u>	<u>564,691</u>	<u>(349,438)</u>	<u>(564,691)</u>	<u>-</u>	<u>-</u>
Change in net assets	(1,845,680)	(2,318,945)	992,257	2,457,290	(853,423)	138,345
Net assets - beginning of year	<u>28,271,196</u>	<u>30,590,141</u>	<u>15,850,591</u>	<u>13,393,301</u>	<u>44,121,787</u>	<u>43,983,442</u>
Net assets - end of year	<u>\$ 26,425,516</u>	<u>\$ 28,271,196</u>	<u>\$ 16,842,848</u>	<u>\$ 15,850,591</u>	<u>\$ 43,268,364</u>	<u>\$ 44,121,787</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 43,268,364, a change of \$ (853,423) from the prior year.

The largest portion of net assets \$ 46,723,407 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt

used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 2,897,905 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets reflects a deficit of \$ (6,352,948).

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (1,845,680). Key elements of this change are as follows:

	<u>Governmental Activities</u>
General fund operating results	\$ (958,299)
Nonmajor funds operating results	(1,293,985)
Internal service fund operating results	(673,722)
Capital assets purchased with prior year bond proceeds	552,081
Capital assets purchased with tax revenue	36,960
Principal debt service, which is budgeted, less depreciation expense, which is not budgeted	(263,458)
Change in compensated absences as compared with prior year	813,584
Other	<u>(58,841)</u>
Total	<u>\$ (1,845,680)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 992,257. Key elements of this change are as follows:

Water Fund	\$ 286,114
Sewer Fund	823,052
Ice Rink Fund	(164,216)
Landfill Closure Fund	<u>47,307</u>
Total	<u>\$ 992,257</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 3,874,599, a change of \$ (2,252,284) in comparison with the prior year. Most of this change was attributable to the following:

	<u>Governmental Funds</u>
General fund operating results	\$ (958,299)
Nonmajor funds operating results	<u>(1,293,985)</u>
Total	<u>\$ (2,252,284)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was a deficit of \$ (182,846), while total fund balance was \$ 296,763. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents (0.3) percent of total general fund expenditures, while total fund balance represents 0.5 percent of that same amount.

The fund balance of the general fund changed by \$ (958,299) during the current fiscal year. Key factors in this change are as follows:

	<u>General Fund</u>
Revenue shortfall compared to budget estimate	\$ (509,398)
Actual expenditures less budgeted expenditures	(39,705)
Use of overlay surplus as a funding source	(251,551)
Shortfall of tax collection	(639,899)
Prior year encumbrances spent in the current year	(540,096)
Raising of prior year snow and ice deficit from the tax levy	1,079,350
Other	<u>(57,000)</u>
Total	<u>\$ (958,299)</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to a deficit of \$ (1,046,556), a change of \$ (3,943,344) in comparison with the prior year. Most of this results is from continued investment in capital assets of \$ 3,357,575, net of depreciation expense. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

The differences between the original budget and the final amended budget were as follows:

- \$ 768,394 - appropriated from stabilization funds for the Saugus Police JLMC Award.
- \$ 175,000 - appropriated from stabilization funds for Police Overtime (\$ 100,000) and Building Maintenance (\$ 75,000).
- \$ 42,600 - appropriated from overlay surplus for Highway Maintenance (\$ 15,000), Forestry Department Overtime (\$ 11,000), Cemetery Department Overtime (\$ 2,500), Building Maintenance Overtime (\$ 8,500), and Highway Department Overtime (\$ 5,600).
- \$ 208,951 - appropriated from overlay surplus for the balance of the Northeast Regional Vocational School fiscal year 2006 assessment.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 72,331,459 (net of accumulated depreciation), a change of \$ 2,132,007 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- \$ 29,253 for storm drains
- \$ 280,502 for sewer pumping station
- \$ 1,950,972 for water mains
- \$ 1,603,380 for sewer mains
- \$ 31,135 for high school stage renovation
- \$ 22,800 for a columbarium
- \$ 77,802 for a traffic signal at 27 Hamilton Street

- \$ 27,003 for a police car
- \$ 16,954 for a Dodge Caravan for public works
- \$ 23,300 for a Ford Explorer for the fire department
- \$ 13,500 for a Ford Explorer for town hall
- \$ 13,400 for a Ford F150 pickup truck for public works
- \$ 9,240 for a Ford Aerotech shuttle van for the senior center
- \$ 33,986 for a police car and mobile data system
- \$ 44,645 for radio equipment for the police department
- \$ 10,710 for an air compressor for the cemetery department
- \$ 223,388 for general infrastructure improvements
- \$ 645,558 for street lights

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 30,914,697, all of which was backed by the full faith and credit of the government. Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Saugus' 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:

Office of Town Accountant
Town of Saugus, Massachusetts
Town Hall
298 Central Street
Saugus, Massachusetts 01906

TOWN OF SAUGUS, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 443,286	\$ 1,759,048	\$ 2,202,334
Investments	4,605,297	827,448	5,432,745
Deposit held by others	1,040,200	-	1,040,200
Receivables, net of allowance for uncollectibles:			
Property taxes	498,331	-	498,331
Excises	217,590	-	217,590
User fees	-	4,116,572	4,116,572
Departmental and other	43,005	-	43,005
Intergovernmental	655,429	-	655,429
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	194,306	-	194,306
Capital assets:			
Land and construction in progress	11,921,389	8,014,980	19,936,369
Other assets, net of accumulated depreciation	<u>41,825,437</u>	<u>10,569,653</u>	<u>52,395,090</u>
TOTAL ASSETS	61,444,270	25,287,701	86,731,971
LIABILITIES			
Current:			
Warrants payable	643,903	63,433	707,336
Accounts payable	1,599,689	-	1,599,689
Accrued liabilities	1,524,296	61,231	1,585,527
Cash overdraft	-	503,532	503,532
Other current liabilities	563,783	-	563,783
Current portion of long-term liabilities:			
Bonds payable	2,085,000	731,944	2,816,944
Other liabilities	648,688	174,984	823,672
Noncurrent:			
Bonds payable, net of current portion	22,320,000	5,777,753	28,097,753
Other liabilities, net of current portion	<u>5,633,395</u>	<u>1,131,976</u>	<u>6,765,371</u>
TOTAL LIABILITIES	35,018,754	8,444,853	43,463,607
NET ASSETS			
Invested in capital assets, net of related debt	28,834,003	17,889,404	46,723,407
Restricted for:			
Grants and other statutory restrictions	1,808,356	-	1,808,356
Permanent funds:			
Expendable	6,334	-	6,334
Nonexpendable	1,083,215	-	1,083,215
Unrestricted	<u>(5,306,392)</u>	<u>(1,046,556)</u>	<u>(6,352,948)</u>
TOTAL NET ASSETS	\$ <u>26,425,516</u>	\$ <u>16,842,848</u>	\$ <u>43,268,364</u>

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 2,958,762	\$ 733,768	\$ 517,889	\$ -	\$ (1,707,105)	\$ -	\$ (1,707,105)
Public safety	10,058,075	1,362,200	470,454	-	(8,225,421)	-	(8,225,421)
Education	33,231,863	1,242,603	11,142,298	767,271	(20,079,691)	-	(20,079,691)
Public works	4,673,786	216,782	286,333	509,575	(3,661,096)	-	(3,661,096)
Health and human services	2,380,286	393,408	211,706	30,383	(1,744,789)	-	(1,744,789)
Culture and recreation	1,099,748	112,902	36,996	-	(949,850)	-	(949,850)
Employee benefits	12,250,795	1,273,763	25,400	-	(10,951,632)	-	(10,951,632)
Interest	866,843	-	-	-	(866,843)	-	(866,843)
Intergovernmental	2,335,376	-	-	-	(2,335,376)	-	(2,335,376)
Miscellaneous	91,215	-	-	-	(91,215)	-	(91,215)
Total Governmental Activities	69,946,749	5,335,426	12,691,076	1,307,229	(50,613,018)	-	(50,613,018)
Business-Type Activities:							
Water services	3,659,886	4,089,173	-	-	-	429,287	429,287
Sewer services	2,636,054	3,716,013	-	-	-	1,079,959	1,079,959
Ice rink	730,593	412,669	-	-	-	(317,924)	(317,924)
Landfill closure	39,645	86,952	-	-	-	47,307	47,307
Total Business-Type Activities	7,066,178	8,304,807	-	-	-	1,238,629	1,238,629
Total	\$ 77,012,927	\$ 13,640,233	\$ 12,691,076	\$ 1,307,229	(50,613,018)	1,238,629	(49,374,389)
General Revenues:							
Property taxes					39,540,985	-	39,540,985
Excises					3,180,873	-	3,180,873
Penalties, interest, and other taxes					607,649	-	607,649
Grants and contributions not restricted to specific programs					4,616,811	-	4,616,811
Investment income					283,784	103,066	386,850
Miscellaneous					187,775	-	187,775
Contributions					23	-	23
Transfers, net					349,438	(349,438)	-
Total general revenues and transfers					48,767,338	(246,372)	48,520,966
Change in Net Assets					(1,845,680)	992,257	(853,423)
Net Assets:							
Beginning of year					28,271,196	15,850,591	44,121,787
End of year					\$ 26,425,516	\$ 16,842,848	\$ 43,268,364

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2006

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 444,185	\$ -	\$ 444,185
Investments	1,189,801	3,149,796	4,339,597
Receivables:			
Property taxes	1,017,647	-	1,017,647
Excises	454,317	-	454,317
Departmental and other	43,005	-	43,005
Intergovernmental	-	655,429	655,429
TOTAL ASSETS	\$ 3,148,955	\$ 3,805,225	\$ 6,954,180
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 329,086	\$ 216,177	\$ 545,263
Accounts payable	525	-	525
Deferred revenues	1,668,154	-	1,668,154
Accrued liabilities	291,184	11,212	302,396
Other liabilities	563,243	-	563,243
TOTAL LIABILITIES	2,852,192	227,389	3,079,581
Fund Balances:			
Reserved for:			
Encumbrances and continuing appropriations	479,609	46,260	525,869
Perpetual permanent funds	-	1,083,215	1,083,215
Unreserved:			
Undesignated, reported in:			
General fund	(182,846)	-	(182,846)
Special revenue funds	-	2,331,002	2,331,002
Capital project funds	-	111,025	111,025
Permanent funds	-	6,334	6,334
TOTAL FUND BALANCES	296,763	3,577,836	3,874,599
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,148,955	\$ 3,805,225	\$ 6,954,180

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2006

Total governmental fund balances	\$ 3,874,599
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	53,746,826
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,106,417
<ul style="list-style-type: none">• Internal services funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	(1,246,003)
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(369,225)
<ul style="list-style-type: none">• Long-term liabilities, including accrued vacation time and note payable, are not due and payable in the current period and, therefore, are not reported in governmental funds	<u>(30,687,098)</u>
Net assets of governmental activities	\$ <u>26,425,516</u>

See notes to the financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 39,500,108	\$ -	\$ 39,500,108
Excises	3,322,898	-	3,322,898
Penalties, interest and other taxes	660,981	-	660,981
Charges for services	553,310	1,749,868	2,303,178
Intergovernmental	14,969,753	3,172,999	18,142,752
Licenses and permits	1,563,487	6,198	1,569,685
Investment income	287,458	67,705	355,163
Miscellaneous	209,393	248,609	458,002
Contributions	-	129,270	129,270
Total Revenues	<u>61,067,388</u>	<u>5,374,649</u>	<u>66,442,037</u>
Expenditures:			
Current:			
General government	2,223,480	715,539	2,939,019
Public safety	9,687,310	294,650	9,981,960
Education	29,439,670	3,528,689	32,968,359
Public works	3,588,819	548,111	4,136,930
Health and human services	1,892,162	422,576	2,314,738
Culture and recreation	845,947	146,502	992,449
Employee benefits	10,276,371	-	10,276,371
Articles	105,023	-	105,023
Debt service	2,974,431	-	2,974,431
Intergovernmental	2,335,376	-	2,335,376
Total Expenditures	<u>63,368,589</u>	<u>5,656,067</u>	<u>69,024,656</u>
Excess (deficiency) of revenues over expenditures	(2,301,201)	(281,418)	(2,582,619)
Other Financing Sources (Uses):			
Operating transfers in	1,496,610	(3,559)	1,493,051
Operating transfers out	(153,708)	(1,009,008)	(1,162,716)
Total Other Financing Sources (Uses)	<u>1,342,902</u>	<u>(1,012,567)</u>	<u>330,335</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(958,299)	(1,293,985)	(2,252,284)
Fund Equity, at Beginning of Year	<u>1,255,062</u>	<u>4,871,821</u>	<u>6,126,883</u>
Fund Equity, at End of Year	<u>\$ 296,763</u>	<u>\$ 3,577,836</u>	<u>\$ 3,874,599</u>

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (2,252,284)**

- 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:

Capital outlay purchases	1,234,599
Depreciation	(2,460,168)

- 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 differ between the two statements. This amount represents the net change in deferred revenue. 3,571

- 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:

Repayments of debt - bonds	2,170,000
Repayments of debt - lease	26,710
Debt issuance - lease	(645,558)

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (62,412)

- 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. 813,584

- Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. (673,722)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (1,845,680)**

See notes to the financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Taxes	\$ 40,140,007	\$ 40,140,007	\$ 40,140,007	\$ -
Excise	3,503,616	3,503,616	3,322,898	(180,718)
Penalties, interest, and other taxes	714,511	714,511	660,981	(53,530)
Charges for services	723,073	723,073	553,310	(169,763)
Intergovernmental	9,118,595	9,118,595	9,309,802	191,207
Licenses and permits	1,346,366	1,346,366	1,563,487	217,121
Investment income	265,660	265,660	287,458	21,798
Miscellaneous	1,101	1,101	209,393	208,292
Transfers in	1,297,021	2,240,415	1,496,610	(743,805)
Other sources	57,000	57,000	57,000	-
Overlay surplus	-	251,551	251,551	-
Total Revenues and Other Sources	57,166,950	58,361,895	57,852,497	(509,398)
Expenditures and Other Uses:				
General government	2,212,686	2,305,336	2,244,105	61,231
Public safety	9,226,468	10,052,312	9,762,940	289,372
Education	23,341,165	23,536,016	23,256,274	279,742
Public works	3,785,833	3,917,433	4,614,268	(696,835)
Health and human services	1,988,864	1,988,864	1,893,627	95,237
Culture and recreation	842,094	842,094	850,756	(8,662)
Debt service	2,975,022	2,975,022	2,974,431	591
Intergovernmental	2,246,783	2,246,783	2,335,376	(88,593)
Employee benefits	10,344,581	10,294,581	10,276,369	18,212
Articles	10,000	10,000	-	10,000
Miscellaneous	39,746	39,746	39,746	-
Transfers out	153,708	153,708	153,708	-
Total Expenditures and Other Uses	57,166,950	58,361,895	58,401,600	(39,705)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (549,103)	\$ (549,103)

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-Type Activities Enterprise Funds					Governmental Activities Internal Service Funds
	Water Fund	Sewer Fund	Ice Rink Fund	Landfill Closure Fund	Total	
ASSETS						
Current:						
Cash and short-term investments	\$ 1,449,257	\$ -	\$ -	\$ 309,791	\$ 1,759,048	\$ -
Deposit held by others	-	-	-	-	-	1,040,200
Investments	-	827,448	-	-	827,448	264,801
User fees, net of allowance for uncollectibles	2,435,112	1,681,460	-	-	4,116,572	-
Total current assets	3,884,369	2,508,908	-	309,791	6,703,068	1,305,001
Noncurrent:						
Capital assets, net of accumulated depreciation	7,156,654	9,144,655	2,283,324	-	18,584,633	-
Total noncurrent assets	7,156,654	9,144,655	2,283,324	-	18,584,633	-
TOTAL ASSETS	11,041,023	11,653,563	2,283,324	309,791	25,287,701	1,305,001
LIABILITIES						
Current:						
Warrants payable	43,311	16,768	3,354	-	63,433	98,640
Accounts payable	-	-	-	-	-	1,599,689
Accrued liabilities	31,663	25,893	3,606	69	61,231	852,675
Cash overdraft	-	-	503,532	-	503,532	-
Current portion of long-term liabilities:						
Bonds payable	560,872	171,072	-	-	731,944	-
Other liabilities	7,385	2,861	-	164,738	174,984	-
Total current liabilities	643,231	216,594	510,492	164,807	1,535,124	2,551,004
Noncurrent:						
Bonds payable, net of current portion	3,874,942	1,902,811	-	-	5,777,753	-
Other liabilities, net of current portion	59,087	22,889	-	1,050,000	1,131,976	-
Total noncurrent liabilities	3,934,029	1,925,700	-	1,050,000	6,909,729	-
TOTAL LIABILITIES	4,577,260	2,142,294	510,492	1,214,807	8,444,853	2,551,004
NET ASSETS						
Invested in capital assets, net of related debt	5,689,243	9,960,762	2,239,399	-	17,889,404	-
Unrestricted	774,520	(449,493)	(466,567)	(905,016)	(1,046,556)	(1,246,003)
TOTAL NET ASSETS	\$ 6,463,763	\$ 9,511,269	\$ 1,772,832	\$ (905,016)	\$ 16,842,848	\$ (1,246,003)

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities Enterprise Funds					Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Ice Rink Fund	Landfill Closure Fund	Total	
Operating Revenues:						
Charges for services	\$ 4,089,173	\$ 3,716,013	\$ 412,669	\$ 86,952	\$ 8,304,807	\$ -
Employee and employer contributions	-	-	-	-	-	7,186,380
Total Operating Revenues	4,089,173	3,716,013	412,669	86,952	8,304,807	7,186,380
Operating Expenses:						
Operating expenses	3,506,566	2,248,154	620,017	39,645	6,414,382	-
Depreciation	125,125	270,829	110,576	-	506,530	-
Employee benefits	-	-	-	-	-	7,911,831
Total Operating Expenses	3,631,691	2,518,983	730,593	39,645	6,920,912	7,911,831
Operating Income (Loss)	457,482	1,197,030	(317,924)	47,307	1,383,895	(725,451)
Nonoperating Revenues (Expenses):						
Investment income	64,773	38,293	-	-	103,066	32,626
Interest expense	(28,195)	(117,071)	-	-	(145,266)	-
Total Nonoperating Revenues (Expenses), Net	36,578	(78,778)	-	-	(42,200)	32,626
Income (Loss) Before Transfers	494,060	1,118,252	(317,924)	47,307	1,341,695	(692,825)
Other financing sources and uses:						
Operating transfers in	-	-	153,708	-	153,708	19,103
Operating transfers out	(207,946)	(295,200)	-	-	(503,146)	-
Change in Net Assets	286,114	823,052	(164,216)	47,307	992,257	(673,722)
Net Assets at Beginning of Year	6,177,649	8,688,217	1,937,048	(952,323)	15,850,591	(572,281)
Net Assets at End of Year	\$ 6,463,763	\$ 9,511,269	\$ 1,772,832	\$ (905,016)	\$ 16,842,848	\$ (1,246,003)

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities Enterprise Funds					Governmental Activities
	Water Fund	Sewer Fund	Ice Rink Fund	Landfill Closure Fund	Total	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>						
Receipts from customers and users	\$ 4,510,486	\$ 4,036,899	\$ 412,668	\$ 86,951	\$ 9,047,004	\$ -
Payments to vendors and employees	(3,428,575)	(2,227,747)	(613,056)	(2,895,318)	(9,164,696)	-
Receipts from employees and employer	-	-	-	-	-	7,186,379
Payments of employee benefits and expenses	-	-	-	-	-	(7,529,159)
Net Cash Provided By (Used For) Operating Activities	1,081,911	1,809,152	(200,388)	(2,808,367)	(117,692)	(342,780)
<u>Cash Flows From Noncapital Financing Activities:</u>						
Cash overdraft	-	-	46,680	-	46,680	-
Operating transfers in (out)	(207,946)	(295,200)	153,708	-	(349,438)	19,103
Net Cash (Used For) Noncapital Financing Activities	(207,946)	(295,200)	200,388	-	(302,758)	19,103
<u>Cash Flows From Capital and Related Financing Activities:</u>						
Acquisition and construction of capital assets	(1,950,972)	(1,913,133)	-	-	(3,864,105)	-
Principal payments on bonds and notes	1,639,128	1,217,955	-	-	2,857,083	-
Interest expense	3,468	(95,052)	-	-	(91,584)	-
Net Cash (Used For) Capital and Related Financing Activities	(308,376)	(790,230)	-	-	(1,098,606)	-
<u>Cash Flows From Investing Activities:</u>						
Investment income	64,773	38,293	-	-	103,066	32,626
Increase in deposits held by others	-	-	-	-	-	(189,500)
Investment (purchases) sales	-	(762,015)	-	-	(762,015)	457,237
Net Cash (Used For) Investing Activities	64,773	(723,722)	-	-	(658,949)	300,363
Net Change in Cash and Short-Term Investments	630,362	-	-	(2,808,367)	(2,178,005)	(23,314)
Cash and Short-Term Investments, Beginning of Year	818,895	-	-	3,118,158	3,937,053	23,314
Cash and Short-Term Investments, End of Year	\$ 1,449,257	\$ -	\$ -	\$ 309,791	\$ 1,759,048	\$ -
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>						
Operating income (loss)	\$ 457,482	\$ 1,197,030	\$ (317,924)	\$ 47,307	\$ 1,383,895	\$ (725,451)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	125,126	270,829	110,576	-	506,531	-
Changes in assets and liabilities:						
User fees	421,314	320,887	-	-	742,201	-
Warrants payable	-	-	-	-	-	98,640
Accounts payable	43,311	16,768	3,354	-	63,433	429,248
Accrued liabilities	-	-	3,606	69	3,675	(145,215)
Other liabilities	34,678	3,638	-	(2,855,743)	(2,817,427)	-
Net Cash Provided By (Used For) Operating Activities	\$ 1,081,911	\$ 1,809,152	\$ (200,388)	\$ (2,808,367)	\$ (117,692)	\$ (342,778)

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

	Pension Trust Fund (As of <u>December 31, 2005</u>)	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>			
Cash and short-term investments	\$ 60,134	\$ -	\$ 350,908
Investments	51,881,929	240,836	-
Accounts receivable	<u>1,995,983</u>	<u>-</u>	<u>-</u>
Total Assets	53,938,046	240,836	350,908
<u>LIABILITIES AND NET ASSETS</u>			
Accounts payable	101,002	-	-
Other liabilities	<u>-</u>	<u>-</u>	<u>350,908</u>
Total Liabilities	<u>101,002</u>	<u>-</u>	<u>350,908</u>
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits pension and other purposes	\$ <u><u>53,837,044</u></u>	\$ <u><u>240,836</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Pension Trust Fund (For the Year Ended December 31, 2005)	Private Purpose Trust Funds
Additions:		
Contributions:		
Employers	\$ 3,571,550	\$ -
Other systems and Commonwealth of Massachusetts	375,924	-
Plan members	1,245,497	-
Other	-	12,420
Total contributions	<u>5,192,971</u>	<u>12,420</u>
Investment Income (Loss):		
Increase (decrease) in fair value of investments	5,890,894	7,232
Less: management fees	(263,392)	-
Net investment income (loss)	<u>5,627,502</u>	<u>7,232</u>
Total additions	10,820,473	19,652
Deductions:		
Benefit payments to plan members and beneficiaries	5,299,972	-
Refunds to plan members	258,819	-
Administrative expenses	81,458	-
Other	-	3,245
Total deductions	<u>5,640,249</u>	<u>3,245</u>
Net increase (decrease)	5,180,224	16,407
Net assets:		
Beginning of year	<u>48,656,820</u>	<u>224,429</u>
End of year	<u>\$ 53,837,044</u>	<u>\$ 240,836</u>

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Saugus (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Saugus Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 25R Main Street, Town Hall Annex, Saugus, Massachusetts 01906.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function 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*.

Fund Financial Statements

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 and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within

60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental fund:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and 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 business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Water operations
- Sewer operations
- Ice rink operations
- Landfill closure operations

The self-insured employee health program is reported as an internal service fund in the accompanying financial statements.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The private-purpose trust fund is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent

fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. 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 by 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 the date of purchase.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2006 tax levy reflected an excess capacity of \$ 219,128.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as

either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate the portion not available for appropriation and not available as expendable financial resources.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government 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 costs 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
Building improvements	20
Water/sewer infrastructure	50 - 75
Lighting equipment	7
Vehicles	5
Office equipment	5
Computer equipment	5

I. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. 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 applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. 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.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 61,067,388	\$ 63,368,589
Other financing sources/uses (GAAP basis)	<u>1,496,610</u>	<u>153,708</u>
Subtotal (GAAP Basis)	62,563,998	63,522,297
Adjust tax revenue to accrual basis	639,899	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,019,705)
Add end of year appropriation carryforwards to expenditures	-	479,609
To reverse the effect of non-budgeted State contributions for teachers retirement	(5,659,951)	(5,659,951)
To record use of overlay surplus	251,551	-
Other	<u>57,000</u>	<u>1,079,350</u>
Budgetary basis	\$ <u>57,852,497</u>	\$ <u>58,401,600</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

General Government:	
Medicare taxes	\$ (15,318)
Court judgments (including fees)	\$ (14,123)
Public Works:	
Snow and ice	\$ (528,235)
Building maintenance	\$ (128,717)
Other	\$ (39,883)
Culture and Recreation:	
Youth and recreation	\$ (8,662)

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2005:

Special Revenue Funds:	
Community Policing Grant - FY 2005	\$ (6,279)
Enhanced Ed Through Tech - FY 2004	\$ (318)
Teacher Quality - FY 2006	\$ (9,919)
SPED Program Improvement - FY 2006	\$ (9,508)
Drug Free Schools - FY 2004	\$ (14,478)
Mental Health SPT - FY 2006	\$ (2,322)
SPED Early Childhood - FY 2006	\$ (815)
Title I - FY 2006	\$ (35,482)
Special Assistance in Mentoring	\$ (20)
Community Development Grant	\$ (40,322)
Citizens Corps Program - FY 2004	\$ (4,036)
Brook Clearing (FEMA Grant)	\$ (14,999)
Public Safety Equipment - Fire	\$ (333)
Cert Grant - Fire	\$ (2,000)
Chelsea Health Grant - FY 2003	\$ (1,000)
Adopt a site	\$ (825)
Local preparedness grant	\$ (7,584)
Sale of Cemetery Lots	\$ (13,761)
Summer School Revolving Account	\$ (1,297)
C.A.S.I.T. Grant - Italian program	\$ (1,732)
Cafeteria Revolving	\$ (608)
LIG - Library Grant	\$ (11,515)
Donations - Playground improvement	\$ (113)
Donations - Youth - Community fund	\$ (334)
Capital Project Funds:	
Kasabuski Arena Renovations	\$ (43,925)
Repair Main Pump Station	\$ (20,766)

Highway Chapter 90	\$ (39,259)
New Frontline Fire Engine	\$ (157)
Briggs Court & Oakhill Road	\$ (41,936)
Enterprise Fund:	
Landfill	\$ (905,016)
Internal Service Fund	\$ (1,246,003)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

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. Massachusetts general law Chapter 44, section 55, limits the Town's 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 Town's investment policy limits cash balances in any one institution to 25% of total cash balances held by the Treasurer.

As of June 30, 2006, \$ 3,232,095 of the Town's bank balance of \$ 5,430,293 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts general law, chapter 44, section 55, limits investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year end for each investment of the Town (in thousands):

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	Aa	Not Rated
U.S. Treasury notes	\$ 665	N/A	\$ 665	\$ -	\$ -	\$ -
Federal agency securities	5,008	N/A	-	5,008	-	-
Total investments	\$ 5,673		\$ 665	\$ 5,008	\$ -	\$ -

Presented below is the actual rating as of year end of the Contributory Retirement System (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
State investment pool	\$ <u>51,882</u>	N/A	\$ <u>51,882</u>	\$ -	\$ -	\$ -
Total investments	\$ <u>51,882</u>		\$ <u>51,882</u>	\$ -	\$ -	\$ -

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts general law, chapter 32, section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts general law, chapter 30B.*

B. Custodial Credit Risk

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, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's investment policy limits custodial credit risk as follows:

"Direct investment in an institution shall be restricted to those ranked in the upper half of rating categories utilized by said company unless the Treasurer obtains additional adequate security for the investment or otherwise determines and documents in writing that the rating provided does not properly reflect the strength of the institution. Maintenance of disbursement or other types of accounts at institutions below a mid-range rating shall be limited, to the maximum extent possible, to a balance below \$ 100,000. When the rating falls to a "warning stage" or when more than one-half of an institution's capital and surplus has been lost in a 12-month period, any accounts shall be closed forthwith."

C. Concentration of Credit Risk

The Town's policy to limit the amount the Town may invest in any one issuer shall not exceed 25% of the total investment balances of the Treasurer, except for investment in the Pension Reserves Investment Trust.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town's investment policy that

limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates is:

“utilize original issue and secondary market U.S. Treasury securities for maturity periods of up to one year which, in the Treasurer’s judgment, will provide a favorable rate differential when compared to current and projected MMDT or shorter term CD rates for that portion of the cash portfolio which may be invested for relatively longer periods of time;

“utilize Repurchase Agreements only on a limited basis and then only with major Massachusetts financial institutions when no other more favorable action is possible and then only for a duration of no more than three days.”

Information about the sensitivity of the fair values of the Town’s investments to market interest rate fluctuations is as follows (in thousands):

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Debt Related Securities:					
U.S. Treasury notes	\$ 665	\$ -	\$ 665	\$ -	\$ -
Federal agency securities	<u>5,008</u>	<u>1,595</u>	<u>3,379</u>	<u>34</u>	<u>-</u>
Total	<u>\$ 5,673</u>	<u>\$ 1,595</u>	<u>\$ 4,044</u>	<u>\$ 34</u>	<u>\$ -</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town’s investment policy limits investments only to domestic securities.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor’s for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers’ property. The Town has an ultimate right

to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2006 consist of the following (in thousands):

Real Estate		
2006	\$ 177	
Prior	<u>11</u>	
		188
Personal Property		223
Tax Liens		<u>607</u>
Total		\$ <u>1,018</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 325	\$ -
Excises	237	-
Utilities	-	156

7. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 50,886,622	\$ 53,935	\$ -	\$ 50,940,557
Machinery, equipment, and furnishings	6,029,646	953,057	(390,000)	6,592,703
Infrastructure	<u>22,262,115</u>	<u>-</u>	<u>-</u>	<u>22,262,115</u>
Total capital assets, being depreciated	79,178,383	1,006,992	(390,000)	79,795,375
Less accumulated depreciation for:				
Buildings and improvements	(16,604,297)	(1,295,004)	-	(17,899,301)
Machinery, equipment, and furnishings	(3,752,680)	(647,383)	390,000	(4,010,063)
Infrastructure	<u>(15,542,794)</u>	<u>(517,780)</u>	<u>-</u>	<u>(16,060,574)</u>
Total accumulated depreciation	<u>(35,899,771)</u>	<u>(2,460,167)</u>	<u>390,000</u>	<u>(37,969,938)</u>
Total capital assets, being depreciated, net	43,278,612	(1,453,175)	-	41,825,437

(continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	8,138,042	-	-	8,138,042
Construction in progress	<u>3,555,741</u>	<u>227,606</u>	<u>-</u>	<u>3,783,347</u>
Total capital assets, not being depreciated	<u>11,693,783</u>	<u>227,606</u>	<u>-</u>	<u>11,921,389</u>
Governmental activities capital assets, net	\$ <u>54,972,395</u>	\$ <u>(1,225,569)</u>	\$ <u>-</u>	\$ <u>53,746,826</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,670,582	\$ -	\$ -	\$ 3,670,582
Machinery, equipment, and furnishings	259,334	177,557	-	436,891
Infrastructure	<u>17,659,722</u>	<u>-</u>	<u>-</u>	<u>17,659,722</u>
Total capital assets, being depreciated	21,589,638	177,557	-	21,767,195
Less accumulated depreciation for:				
Buildings and improvements	(1,276,681)	(110,576)	-	(1,387,257)
Machinery, equipment, and furnishings	(209,426)	(45,648)	-	(255,074)
Infrastructure	<u>(9,204,905)</u>	<u>(350,306)</u>	<u>-</u>	<u>(9,555,211)</u>
Total accumulated depreciation	<u>(10,691,012)</u>	<u>(506,530)</u>	<u>-</u>	<u>(11,197,542)</u>
Total capital assets, being depreciated, net	10,898,626	(328,973)	-	10,569,653
Capital assets, not being depreciated:				
Land	64,379	-	-	64,379
Construction in progress	<u>4,264,052</u>	<u>3,686,549</u>	<u>-</u>	<u>7,950,601</u>
Total capital assets, not being depreciated	<u>4,328,431</u>	<u>3,686,549</u>	<u>-</u>	<u>8,014,980</u>
Business-type activities capital assets, net	\$ <u>15,227,057</u>	\$ <u>3,357,576</u>	\$ <u>-</u>	\$ <u>18,584,633</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 208
Public safety	528
Education	829
Public works	770
Health and human services	9
Culture and recreation	<u>116</u>
Total depreciation expense - governmental activities	\$ <u>2,460</u>

Business-Type Activities:

Water	\$ 125
Sewer	271
Ice rink	<u>110</u>

Total depreciation expense - business-type activities \$ 506

8. Warrants Payable

Warrants payable represent 2006 expenditures paid by July 15, 2006 as permitted by law.

9. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2006 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

10. Lease Obligations

The Town is the lessee of certain equipment under a capital lease expiring in 2013. Future minimum lease payments under the lease consisted of the following as of June 30, 2006:

	<u>Capital Lease</u>
2007	\$ 106,317
2008	106,317
2009	106,317
2010	106,317
2011	106,317
Thereafter	<u>177,191</u>
Total minimum lease payments	708,776
Less amount representing interest	<u>(89,929)</u>
 Present Value of Minimum Lease Payments	 \$ <u>618,847</u>

11. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2006
<u>Governmental Activities:</u>			
General Obligation Bonds	08/15/06	4.725	\$ 510,000
General Obligation Bonds	02/15/23	2.500 - 5.000	14,230,000
General Obligation Bonds	08/15/14	3.550	810,000
General Obligation Bonds - Refinancing	08/15/14	3.550	4,305,000
General Obligation Bonds - Refinancing	08/15/15	3.550	<u>4,550,000</u>
Total Governmental Activities:			\$ <u>24,405,000</u>

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2006
<u>Business-Type Activities:</u>			
Sewer:			
MWPAT - Pumping Station	08/01/18	1.860	\$ 275,362
MWPAT - Inflow & Infiltration	08/01/18	1.940	241,872
MWPAT - Storm Water Mgmt.	08/01/12	1.170	276,649
General Obligation Bonds	02/15/18	3.750 - 5.000	1,280,000
Water:			
MWRA Pipe Replacement	08/15/10	-	451,454
MWRA Pipe Replacement	08/15/12	-	541,744
MWRA Pipe Replacement	05/15/13	-	630,000
MWRA Pipe Replacement	11/15/14	-	812,616
General Obligation Bonds	02/15/18	3.750 - 5.000	<u>2,000,000</u>
Total Business-Type Activities:			\$ <u>6,509,697</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2006 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,085,000	\$ 901,531	\$ 2,986,531
2007	2,060,000	829,469	2,894,469
2008	2,045,000	766,638	2,811,638
2009	2,030,000	697,106	2,727,106
2010	1,975,000	1,000,026	2,975,026
2011 - 2015	8,885,000	2,053,705	10,938,705
2016 - 2020	4,015,000	814,663	4,829,663
2021 - 2023	<u>1,310,000</u>	<u>90,187</u>	<u>1,400,187</u>
Total	\$ <u>24,405,000</u>	\$ <u>7,158,325</u>	\$ <u>31,563,325</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2006.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 731,944	\$ 174,897	\$ 906,841
2007	733,547	159,801	893,348
2008	735,252	144,682	879,934
2009	737,465	128,141	865,606
2010	740,016	114,172	854,188
2011 - 2015	2,404,639	360,555	2,765,194
2016 - 2020	<u>426,834</u>	<u>29,517</u>	<u>456,351</u>
Total	\$ <u>6,509,697</u>	\$ <u>1,111,765</u>	\$ <u>7,621,462</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2006, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/05	Additions	Reductions	Total Balance 6/30/06	Less Current Portion	Equals Long-Term Portion 6/30/06
<u>Governmental Activities</u>						
Bonds payable	\$ 26,575	\$ -	\$ (2,170)	\$ 24,405	\$ (2,085)	\$ 22,320
Other:						
Lease payable	-	645	(26)	619	(83)	536
Accrued employee benefits	<u>6,477</u>	<u>-</u>	<u>(814)</u>	<u>5,663</u>	<u>(566)</u>	<u>5,097</u>
Totals	\$ <u>33,052</u>	\$ <u>645</u>	\$ <u>(3,010)</u>	\$ <u>30,687</u>	\$ <u>(2,734)</u>	\$ <u>27,953</u>

	Total Balance <u>7/1/05</u>	Additions	Reductions	Total Balance <u>6/30/06</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/06</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 3,653	\$ 3,280	\$ (423)	\$ 6,510	\$ (732)	\$ 5,778
Other:						
Landfill closure	4,070	-	(2,855)	1,215	(165)	1,050
Accrued employee benefits	<u>54</u>	<u>38</u>	<u>-</u>	<u>92</u>	<u>(10)</u>	<u>82</u>
Totals	\$ <u>7,777</u>	\$ <u>3,318</u>	\$ <u>(3,278)</u>	\$ <u>7,817</u>	\$ <u>(907)</u>	\$ <u>6,910</u>

D. Advance and Current Refundings

Prior Year

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds matured on August 15, 2005. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2006, the amount of defeased debt outstanding but removed from the governmental activities and \$ 4,200,000.

12. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The Town is currently in the process of capping the landfill and has negotiated with the State to accept Central Artery fill for a fee, and anticipates these fees will be sufficient to cover closure costs.

These liability amounts reported are based on what it would cost to perform all closure and postclosure care in 2006. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

13. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

14. Reserves of Fund Equity

"Reserves" of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2006:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

15. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the "snow and ice" appropriation. All such overexpenditures, however, must be funded in the subsequent year's tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

The following summarizes the specific differences between GAAP basis and statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ (182,846)
Snow and ice deficit	528,235
Court judgments deficit	14,123
Appellate Tax Board liability	<u>433,653</u>
Statutory (UMAS) Balance	\$ <u>793,165</u>

16. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

17. Post-Employment Health Care and Life Insurance Benefits

The Town has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2006 was not available.

18. Contributory Retirement System

A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Saugus Contributory Retirement System (SCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the SCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the SCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The SCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the

System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	305
Terminated plan members entitled to but not yet receiving benefits	37
Active plan members	<u>330</u>
Total	<u>714</u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

C. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

The Town's current year covered payroll for teachers and administrators was unavailable.

In fiscal year 2006, the Commonwealth of Massachusetts contributed \$ 5,659,951 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

19. Self Insurance

The Town self insures against claims for workers compensation, unemployment and most employee health coverage. Annual estimated requirements for claims are provided in the Town's annual operating budget.

Health Insurance

The Town contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the Town is liable for claims up to \$ 75,000 per individual. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the year ended June 30, 2006 are as follows:

	<u>Health Coverage</u>
Claims liability, July 1, 2005	\$ 997,890
Claims incurred/recognized in fiscal year 2006	7,911,831
Claims paid in fiscal year 2006	<u>(8,057,046)</u>
Claims liability, June 30, 2006	\$ <u>852,675</u>

20. 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 three fiscal years.

**TOWN OF SAUGUS, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION**

Schedules of Funding Progress and Employer Contributions

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25.

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b - a)/c]
01/01/05	\$ 47,649	\$ 76,809	\$ 29,200	62.0%	\$ 12,119	240.9%
01/01/03	\$ 40,088	\$ 70,781	\$ 30,693	56.6%	\$ 12,166	252.3%
01/01/01	\$ 39,635	\$ 61,002	\$ 21,367	65.0%	\$ 11,413	187.2%
01/01/99	\$ 31,868	\$ 50,221	\$ 18,353	63.5%	\$ 10,376	176.9%
01/01/97	\$ 23,061	\$ 41,007	\$ 17,946	56.2%	\$ 8,597	208.7%
10/01/95	\$ 16,179	\$ 37,290	\$ 21,111	43.4%	\$ 7,470	282.6%

Schedule of Employer Contributions:

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1999	\$ 2,224,042	100%
2000	2,694,228	100%
2001	2,717,372	100%
2002	2,926,984	100%
2003	3,044,522	100%
2004	3,167,661	100%
2005	3,296,700	100%
2006	3,571,550	100%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	01/01/05
Actuarial cost method	Individual entry age normal
Amortization method	3.0% increasing
Remaining amortization period	25 years
Asset valuation method	Actuarial value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increase	Service based table with ultimate rates of 4.75%, 5.00%, and 5.25% for groups 1, 2, and 4, respectively.

See Independent Auditors' Report.