

TOWN OF SAUGUS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2007

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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, 2007 (except for the Saugus Contributory Retirement System which is as of and for the year ended December 31, 2006), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of 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, 2007 (except the Saugus Contributory Retirement System which is as of December 31, 2006), 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 11, 2007 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 11, 2007

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, 2007.

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, 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, 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 \$ 45,914,099 (i.e., net assets), a change of \$ 2,645,735 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 5,287,864, a change of \$ 1,413,265 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 \$ (226,420), a change of \$ (43,574) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 33,375,997, a change of \$ 2,461,300 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	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 10,294,999	\$ 7,697,444	\$ 7,986,588	\$ 6,703,068	\$ 18,281,587	\$ 14,400,512
Capital assets	<u>53,533,480</u>	<u>53,746,826</u>	<u>21,075,422</u>	<u>18,584,633</u>	<u>74,608,902</u>	<u>72,331,459</u>
Total assets	63,828,479	61,444,270	29,062,010	25,287,701	92,890,489	86,731,971
Long-term liabilities outstanding	30,358,859	30,687,083	10,263,962	7,816,657	40,622,821	38,503,740
Other liabilities	<u>5,348,780</u>	<u>4,331,671</u>	<u>1,004,789</u>	<u>628,196</u>	<u>6,353,569</u>	<u>4,959,867</u>
Total liabilities	35,707,639	35,018,754	11,268,751	8,444,853	46,976,390	43,463,607
Net assets:						
Invested in capital assets, net	29,279,497	28,834,003	14,302,769	17,889,404	43,582,266	46,723,407
Restricted	3,085,614	2,897,905	-	-	3,085,614	2,897,905
Unrestricted	<u>(4,244,271)</u>	<u>(5,306,392)</u>	<u>3,490,490</u>	<u>(1,046,556)</u>	<u>(753,781)</u>	<u>(6,352,948)</u>
Total net assets	\$ <u>28,120,840</u>	\$ <u>26,425,516</u>	\$ <u>17,793,259</u>	\$ <u>16,842,848</u>	\$ <u>45,914,099</u>	\$ <u>43,268,364</u>

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 6,392,933	\$ 5,335,426	\$ 8,688,987	\$ 8,304,807	\$ 15,081,920	\$ 13,640,233
Operating grants and contributions	12,727,731	12,691,076	-	-	12,727,731	12,691,076
Capital grants and contributions	853,415	1,307,229	-	-	853,415	1,307,229
General revenues:						
Property taxes	43,097,852	39,540,985	-	-	43,097,852	39,540,985
Excises	3,198,838	3,180,873	-	-	3,198,838	3,180,873
Penalties, interest, and other taxes	444,055	607,649	-	-	444,055	607,649
Fines and forfeitures	204,403	-	-	-	204,403	-
Grants and contributions not restricted to specific programs	5,350,216	4,616,811	-	-	5,350,216	4,616,811
Investment income	349,538	283,784	182,990	103,066	532,528	386,850
Other	173,548	187,775	-	-	173,548	187,775
Total revenues	<u>72,792,529</u>	<u>67,751,608</u>	<u>8,871,977</u>	<u>8,407,873</u>	<u>81,664,506</u>	<u>76,159,481</u>
Expenses:						
General government	2,927,071	2,958,762	-	-	2,927,071	2,958,762
Public safety	9,922,572	10,058,075	-	-	9,922,572	10,058,075
Education	33,827,124	33,231,863	-	-	33,827,124	33,231,863
Public works	3,755,825	4,673,786	-	-	3,755,825	4,673,786
Human services	2,391,368	2,380,286	-	-	2,391,368	2,380,286
Culture and recreation	1,435,550	1,099,748	-	-	1,435,550	1,099,748
Employee benefits	13,453,078	12,250,795	-	-	13,453,078	12,250,795
Interest on long-term debt	922,029	866,843	-	-	922,029	866,843
Intergovernmental	2,894,291	2,335,376	-	-	2,894,291	2,335,376
Miscellaneous	182,653	91,215	-	-	182,653	91,215
Water	-	-	3,819,955	3,659,886	3,819,955	3,659,886
Sewer	-	-	2,836,598	2,636,054	2,836,598	2,636,054
Ice rink	-	-	670,761	730,593	670,761	730,593
Landfill closure	-	-	-	39,645	-	39,645
Total expenses	<u>71,711,561</u>	<u>69,946,749</u>	<u>7,327,314</u>	<u>7,066,178</u>	<u>79,038,875</u>	<u>77,012,927</u>
Change in net assets before permanent fund contributions and transfers	1,080,968	(2,195,141)	1,544,663	1,341,695	2,625,631	(853,446)
Permanent fund contributions	20,104	23	-	-	20,104	23
Transfers in (out)	<u>594,252</u>	<u>349,438</u>	<u>(594,252)</u>	<u>(349,438)</u>	<u>-</u>	<u>-</u>
Change in net assets	1,695,324	(1,845,680)	950,411	992,257	2,645,735	(853,423)
Net assets - beginning 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>
Net assets - end of year	<u>\$ 28,120,840</u>	<u>\$ 26,425,516</u>	<u>\$ 17,793,259</u>	<u>\$ 16,842,848</u>	<u>\$ 45,914,099</u>	<u>\$ 43,268,364</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 \$ 45,914,099, a change of \$ 2,645,735 from the prior year.

The largest portion of net assets \$ 43,582,266 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 \$ 3,085,614 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 \$ (753,781).

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ 1,695,324. Key elements of this change are as follows:

	<u>Governmental Activities</u>
General fund operating results	\$ 418,410
Nonmajor funds operating results	994,855
Internal service fund operating results	(23,025)
Capital assets purchased with tax revenue	503,614
Principal debt service, which is budgeted, less depreciation expense, which is not budgeted	(488,086)
Change in compensated absences as compared with prior year	114,860
Other	<u>174,696</u>
Total	\$ <u>1,695,324</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 950,411. Key elements of this change are as follows:

Water Fund	\$ 536,216
Sewer Fund	647,317
Ice Rink Fund	(268,308)
Landfill Closure Fund	<u>35,186</u>
Total	\$ <u>950,411</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 \$ 5,287,864, a change of \$ 1,413,265 in comparison with the prior year. Most of this change was attributable to the following:

	Governmental Funds
General fund operating results	\$ 418,410
Nonmajor funds operating results	<u>994,855</u>
Total	<u>\$ 1,413,265</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 \$ (226,420), while total fund balance was \$ 715,173. 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 1.1 percent of that same amount.

The fund balance of the general fund changed by \$ 418,410 during the current fiscal year. Key factors in this change are as follows:

	General Fund
Revenue shortfall compared to budget estimate	\$ (412,179)
Actual expenditures less budgeted expenditures	129,061
Use of overlay surplus and other sources as a funding source, net of other uses	(355,308)
Collection of prior year tax levies	761,350
Prior year encumbrances spent in the current year	(232,750)
Raising of prior year snow and ice deficit on the current year tax levy	<u>528,236</u>
Total	<u>\$ 418,410</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 surplus of \$ 3,490,490. 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:

- \$ 25,551 - transferred from the reserve fund to building maintenance.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 74,608,902 (net of accumulated depreciation), a change of \$ 2,277,443 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:

\$ 287,983	for storm drains
259,452	for sewer pumping station
1,169,677	for water mains
1,226,143	for sewer mains
350,285	for water meters
399,724	for a front line fire engine
454,063	for modular classrooms
15,221	for a dehumidifier for the ice arena
26,555	for a truck for the ice arena
14,995	for a van for the school department
10,000	for a grand piano for the school department
126,124	for a fire truck - contender mini-pumper for the fire department
20,175	for radios for the fire department
14,545	for a radar trailer for the police department
36,331	for a 911 control system for public safety
54,206	for two trucks for public safety
399,724	for a fire truck pumper for the fire department
6,800	for an exhaust system for the fire department
36,908	for a wood chipper for public works
127,357	for four trucks for public works
23,000	for a truck for cemetery
11,434	for a motor feed conductor for public works

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 33,375,997, 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, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 4,854,575	\$ 2,311,757	\$ 7,166,332
Investments	2,337,268	1,061,681	3,398,949
Deposit held by others	1,181,400	-	1,181,400
Receivables, net of allowance for uncollectibles:			
Property taxes	885,438	-	885,438
Excises	308,216	-	308,216
User fees	-	4,122,899	4,122,899
Departmental and other	115,776	-	115,776
Intergovernmental	458,482	490,251	948,733
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	153,844	-	153,844
Capital assets:			
Land and construction in progress	12,986,125	10,941,961	23,928,086
Other assets, net of accumulated depreciation	<u>40,547,355</u>	<u>10,133,461</u>	<u>50,680,816</u>
TOTAL ASSETS	63,828,479	29,062,010	92,890,489
LIABILITIES			
Current:			
Warrants payable	735,251	-	735,251
Accounts payable	972,192	248,465	1,220,657
Accrued liabilities	1,678,454	61,590	1,740,044
Anticipation notes payable	2,400,000	-	2,400,000
Internal balances	(694,734)	694,734	-
Tax refund payable	206,151	-	206,151
Other current liabilities	51,466	-	51,466
Current portion of long-term liabilities:			
Bonds payable	2,284,000	989,436	3,273,436
Other liabilities	640,660	45,421	686,081
Noncurrent:			
Bonds payable, net of current portion	21,990,000	8,112,561	30,102,561
Other liabilities, net of current portion	<u>5,444,199</u>	<u>1,116,544</u>	<u>6,560,743</u>
TOTAL LIABILITIES	35,707,639	11,268,751	46,976,390
NET ASSETS			
Invested in capital assets, net of related debt	29,279,497	14,302,769	43,582,266
Restricted for:			
Grants and other statutory restrictions	1,936,289	-	1,936,289
Permanent funds:			
Expendable	46,006	-	46,006
Nonexpendable	1,103,319	-	1,103,319
Unrestricted	<u>(4,244,271)</u>	<u>3,490,490</u>	<u>(753,781)</u>
TOTAL NET ASSETS	\$ <u>28,120,840</u>	\$ <u>17,793,259</u>	\$ <u>45,914,099</u>

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 2,927,071	\$ 1,056,210	\$ 436,957	\$ -	\$ (1,433,904)	\$ -	\$ (1,433,904)
Public safety	9,922,572	1,037,165	498,352	-	(8,387,055)	-	(8,387,055)
Education	33,827,124	1,209,732	11,830,606	767,271	(20,019,515)	-	(20,019,515)
Public works	3,755,825	251,471	(216,541)	86,144	(3,634,751)	-	(3,634,751)
Health and human services	2,391,368	588,246	153,730	-	(1,649,392)	-	(1,649,392)
Culture and recreation	1,435,550	178,626	24,627	-	(1,232,297)	-	(1,232,297)
Employee benefits	13,453,078	2,071,483	-	-	(11,381,595)	-	(11,381,595)
Interest	922,029	-	-	-	(922,029)	-	(922,029)
Intergovernmental	2,894,291	-	-	-	(2,894,291)	-	(2,894,291)
Miscellaneous	182,653	-	-	-	(182,653)	-	(182,653)
Total Governmental Activities	71,711,561	6,392,933	12,727,731	853,415	(51,737,482)	-	(51,737,482)
Business-Type Activities:							
Water services	3,819,955	4,486,293	-	-	-	666,338	666,338
Sewer services	2,836,598	3,765,055	-	-	-	928,457	928,457
Ice rink	670,761	402,453	-	-	-	(268,308)	(268,308)
Landfill closure	-	35,186	-	-	-	35,186	35,186
Total Business-Type Activities	7,327,314	8,688,987	-	-	-	1,361,673	1,361,673
Total	\$ 79,038,875	\$ 15,081,920	\$ 12,727,731	\$ 853,415	(51,737,482)	1,361,673	(50,375,809)
General Revenues:							
Property taxes					43,097,852	-	43,097,852
Excises					3,198,838	-	3,198,838
Penalties, interest, and other taxes					444,055	-	444,055
Fines and forfeitures					204,403	-	204,403
Grants and contributions not restricted to specific programs					5,350,216	-	5,350,216
Investment income					349,538	182,990	532,528
Miscellaneous					173,548	-	173,548
Contributions					20,104	-	20,104
Transfers, net					594,252	(594,252)	-
Total general revenues and transfers					53,432,806	(411,262)	53,021,544
Change in Net Assets					1,695,324	950,411	2,645,735
Net Assets:							
Beginning of year					26,425,516	16,842,848	43,268,364
End of year					\$ 28,120,840	\$ 17,793,259	\$ 45,914,099

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 1,772,249	\$ 3,082,326	\$ 4,854,575
Investments	1,259,593	1,077,675	2,337,268
Receivables:			
Property taxes	1,333,169	-	1,333,169
Excises	578,070	-	578,070
Departmental and other	54,970	-	54,970
Intergovernmental	-	458,482	458,482
Due from other funds	598,856	-	598,856
Advance from other funds	694,734	-	694,734
TOTAL ASSETS	\$ 6,291,641	\$ 4,618,483	\$ 10,910,124
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 735,251	\$ -	\$ 735,251
Accounts payable	8,860	45,792	54,652
Deferred revenues	1,848,048	-	1,848,048
Anticipation notes payable	2,400,000	-	2,400,000
Accrued liabilities	326,692	-	326,692
Tax refunds payable	206,151	-	206,151
Other liabilities	51,466	-	51,466
TOTAL LIABILITIES	5,576,468	45,792	5,622,260
Fund Balances:			
Reserved for:			
Encumbrances and continuing appropriations	246,859	-	246,859
Advance	694,734	-	694,734
Perpetual permanent funds	-	1,103,319	1,103,319
Unreserved:			
Undesignated, reported in:			
General fund	(226,420)	798,169	571,749
Special revenue funds	-	2,083,737	2,083,737
Capital project funds	-	541,460	541,460
Permanent funds	-	46,006	46,006
TOTAL FUND BALANCES	715,173	4,572,691	5,287,864
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,291,641	\$ 4,618,483	\$ 10,910,124

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, 2007

Total governmental fund balances	\$ 5,287,864
<ul style="list-style-type: none">Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	53,533,480
<ul style="list-style-type: none">Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,278,130
<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.	(1,269,028)
<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.	(350,747)
<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>(30,358,859)</u>
Net assets of governmental activities	\$ <u>28,120,840</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, 2007

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 43,114,930	\$ -	\$ 43,114,930
Excises	3,096,322	-	3,096,322
Penalties, interest and other taxes	444,055	-	444,055
Fines and forfeitures	207,954	-	207,954
Charges for services	593,881	2,019,014	2,612,895
Intergovernmental	16,238,233	2,693,129	18,931,362
Licenses and permits	1,292,672	4,670	1,297,342
Investment income	276,425	73,113	349,538
Miscellaneous	113,682	59,851	173,533
Contributions	-	341,491	341,491
Total Revenues	<u>65,378,154</u>	<u>5,191,268</u>	<u>70,569,422</u>
Expenditures:			
Current:			
General government	2,416,957	289,178	2,706,135
Public safety	9,162,789	899,905	10,062,694
Education	30,429,489	3,673,280	34,102,769
Public works	3,220,140	475,407	3,695,547
Health and human services	1,921,054	447,439	2,368,493
Culture and recreation	913,035	394,715	1,307,750
Employee benefits	10,885,238	-	10,885,238
Articles	182,653	-	182,653
Debt service	3,025,507	-	3,025,507
Intergovernmental	2,894,291	-	2,894,291
Total Expenditures	<u>65,051,153</u>	<u>6,179,924</u>	<u>71,231,077</u>
Excess (deficiency) of revenues over expenditures	327,001	(988,656)	(661,655)
Other Financing Sources (Uses):			
Bond proceeds	-	1,954,000	1,954,000
Transfers in	1,164,741	175,000	1,339,741
Transfers out	(1,073,332)	(145,489)	(1,218,821)
Total Other Financing Sources (Uses)	<u>91,409</u>	<u>1,983,511</u>	<u>2,074,920</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	418,410	994,855	1,413,265
Fund Equity, at Beginning of Year	<u>296,763</u>	<u>3,577,836</u>	<u>3,874,599</u>
Fund Equity, at End of Year	<u>\$ 715,173</u>	<u>\$ 4,572,691</u>	<u>\$ 5,287,864</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, 2007

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1,413,265
<ul style="list-style-type: none"> 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	2,442,104
Depreciation	(2,655,450)
<ul style="list-style-type: none"> 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. 	171,713
<ul style="list-style-type: none"> 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	2,085,000
Debt issuance - bonds	(1,954,000)
Repayments of debt - lease	82,364
<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. 	18,478
<ul style="list-style-type: none"> 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. 	114,875
<ul style="list-style-type: none"> 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. 	(23,025)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>1,695,324</u>

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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 42,353,580	\$ 42,353,580	\$ 42,353,580	\$ -
Excise	3,581,192	3,581,192	3,096,322	(484,870)
Penalties, interest, and other taxes	559,511	559,511	444,055	(115,456)
Fines and forfeitures	315,000	315,000	207,954	(107,046)
Charges for services	735,073	735,073	593,881	(141,192)
Intergovernmental	9,927,669	9,927,669	10,408,483	480,814
Licenses and permits	1,268,554	1,268,554	1,292,672	24,118
Investment income	313,892	313,892	276,425	(37,467)
Miscellaneous	101,101	101,101	113,682	12,581
Transfers in	1,208,402	1,208,402	1,164,741	(43,661)
Other sources	84,723	84,723	84,723	-
Overlay surplus	174,517	174,517	174,517	-
Total Revenues and Other Sources	60,623,214	60,623,214	60,211,035	(412,179)
Expenditures and Other Uses:				
General government	2,607,764	2,582,213	2,515,810	66,403
Public safety	9,331,046	9,331,046	9,169,118	161,928
Education	24,320,348	24,320,348	24,339,145	(18,797)
Public works	3,492,032	2,989,347	3,153,286	(163,939)
Health and human services	1,994,920	1,994,920	1,918,002	76,918
Culture and recreation	952,725	952,725	916,065	36,660
Debt service	2,929,446	2,929,446	2,929,439	7
Intergovernmental	2,841,467	2,841,467	2,894,291	(52,824)
Employee benefits	10,919,484	10,919,484	10,896,779	22,705
Articles	160,650	160,650	160,650	-
Other uses	-	528,236	528,236	-
Transfers out	1,073,332	1,073,332	1,073,332	-
Total Expenditures and Other Uses	60,623,214	60,623,214	60,494,153	129,061
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (283,118)	\$ (283,118)

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	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	\$ 2,047,536	\$ 84,051	\$ -	\$ 180,170	\$ 2,311,757
Investments	-	1,061,681	-	-	1,061,681
Deposit held by others	-	-	-	-	-
Receivables, net of allowance for uncollectibles:					
User fees, net of allowance for uncollectibles	2,405,855	1,717,044	-	-	4,122,899
Departmental and other	-	-	-	-	-
Intergovernmental	-	490,251	-	-	490,251
Total current assets	4,453,391	3,353,027	-	180,170	7,986,588
Noncurrent:					
Capital assets, net of accumulated depreciation	7,744,634	11,122,907	2,207,881	-	21,075,422
Total noncurrent assets	7,744,634	11,122,907	2,207,881	-	21,075,422
TOTAL ASSETS	12,198,025	14,475,934	2,207,881	180,170	29,062,010
LIABILITIES					
Current:					
Accounts payable	238,076	10,389	-	-	248,465
Accrued liabilities	14,914	46,676	-	-	61,590
Due to other funds	-	-	694,734	-	694,734
Advance to other funds	-	-	-	-	-
Current portion of long-term liabilities:					
Bonds payable	661,454	327,982	86	35,000	989,436
Other liabilities	7,872	2,463	-	-	45,421
Total current liabilities	922,316	387,510	694,820	35,000	2,039,646
Noncurrent:					
Bonds payable, net of current portion	4,219,302	3,893,259	-	-	8,112,561
Other liabilities, net of current portion	70,843	22,164	8,537	1,015,000	1,116,544
Total noncurrent liabilities	4,290,145	3,915,423	8,537	1,015,000	9,229,105
TOTAL LIABILITIES	5,212,461	4,302,933	703,357	1,050,000	11,268,751
NET ASSETS					
Invested in capital assets, net of related debt	4,120,566	8,018,248	2,163,955	-	14,302,769
Unrestricted	2,864,998	2,154,753	(659,431)	(869,830)	3,490,490
TOTAL NET ASSETS	\$ 6,985,564	\$ 10,173,001	\$ 1,504,524	\$ (869,830)	\$ 17,793,259

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, 2007

	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	\$ 4,486,293	\$ 3,765,055	\$ 402,453	\$ 35,186	\$ 8,688,987	\$ -
Employee and employer contributions	-	-	-	-	-	8,464,713
Total Operating Revenues	4,486,293	3,765,055	402,453	35,186	8,688,987	8,464,713
Operating Expenses:						
Operating expenses	3,681,221	2,384,472	553,542	-	6,619,235	-
Depreciation	123,820	271,686	117,219	-	512,725	8,961,070
Employee benefits	-	-	-	-	-	8,961,070
Total Operating Expenses	3,805,041	2,656,158	670,761	-	7,131,960	(496,357)
Operating Income (Loss)	681,252	1,108,897	(268,308)	35,186	1,557,027	
Nonoperating Revenues (Expenses):						
Investment income	125,620	57,370	-	-	182,990	-
Interest expense	(14,914)	(180,440)	-	-	(195,354)	-
Total Nonoperating Revenues (Expenses), Net	110,706	(123,070)	-	-	(12,364)	-
Income (Loss) Before Transfers	791,958	985,827	(268,308)	35,186	1,544,663	(496,357)
Other financing sources and uses:						
Transfers in	-	-	-	-	-	898,332
Transfers out	(255,742)	(338,510)	-	-	(594,252)	(425,000)
Change in Net Assets	536,216	647,317	(268,308)	35,186	950,411	(23,025)
Net Assets at Beginning of Year	6,449,348	9,525,684	1,772,832	(905,016)	16,842,848	(1,246,003)
Net Assets at End of Year	\$ 6,985,564	\$ 10,173,001	\$ 1,504,524	\$ (869,830)	\$ 17,793,259	\$ (1,269,028)

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Funds					Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Ice Rink Fund	Landfill Closure Fund	Total	
Cash Flows From Operating Activities:						
Receipts from customers and users	\$ 4,515,550	\$ 3,729,471	\$ 402,453	\$ 35,186	\$ 8,682,660	\$ -
Payments to vendors and employees	(3,474,214)	(2,391,974)	(551,878)	(164,807)	(6,582,873)	8,397,730
Receipts from employees and employer	-	-	-	-	-	(9,593,519)
Payments of employee benefits and expenses	-	-	-	-	-	(1,195,789)
Net Cash Provided By (Used For) Operating Activities	1,041,336	1,337,497	(149,425)	(129,621)	2,099,787	
Cash Flows From Noncapital Financing Activities:						
Interfund borrowing	(255,742)	(338,510)	191,202	-	191,202	598,856
Operating transfers in (out)	-	-	-	-	(594,252)	473,332
Net Cash (Used For) Noncapital Financing Activities	(255,742)	(338,510)	191,202	-	(403,050)	1,072,188
Cash Flows From Capital and Related Financing Activities:						
Acquisition and construction of capital assets	(1,726,214)	(1,235,523)	(41,777)	-	(3,003,514)	-
Bond proceeds	2,005,814	835,813	-	-	2,841,627	-
Principal payments on bonds and notes	(560,872)	(178,706)	-	-	(739,578)	-
Interest expense	(31,663)	(159,657)	-	-	(191,320)	-
Net Cash (Used For) Capital and Related Financing Activities	(312,935)	(738,073)	(41,777)	-	(1,092,785)	-
Cash Flows From Investing Activities:						
Investment income	125,620	57,370	-	-	182,990	264,801
Increase in deposits held by others	-	(234,233)	-	-	(234,233)	(141,200)
Investment (purchases) sales	-	-	-	-	(51,243)	-
Net Cash (Used For) Investing Activities	125,620	(176,863)	-	-	(51,243)	123,601
Net Change in Cash and Short-Term Investments	598,279	84,051	-	(129,621)	552,709	-
Cash and Short-Term Investments, Beginning of Year	1,449,257	-	-	309,791	1,759,048	-
Cash and Short-Term Investments, End of Year	\$ 2,047,536	\$ 84,051	\$ -	\$ 180,170	\$ 2,311,757	\$ -
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:						
Operating income (loss)	\$ 681,252	\$ 1,108,897	\$ (268,308)	\$ 35,186	\$ 1,557,027	\$ (496,357)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	123,819	271,686	117,220	-	512,725	-
Changes in assets and liabilities:						
User fees	29,257	(35,584)	-	-	(6,327)	(66,983)
Departmental and other receivables	(43,311)	(16,768)	(3,354)	-	(63,433)	(98,640)
Warrants payable	238,076	10,389	-	-	248,465	(682,149)
Accounts payable	-	-	(3,606)	(69)	(3,675)	148,340
Accrued liabilities	12,243	(1,123)	8,623	(164,738)	(144,995)	-
Other liabilities	-	-	-	-	-	-
Net Cash Provided By (Used For) Operating Activities	\$ 1,041,336	\$ 1,337,497	\$ (149,425)	\$ (129,621)	\$ 2,099,787	\$ (1,195,789)

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	Pension Trust Fund (As of December 31, 2006)	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>			
Cash and short-term investments	\$ 320,093	\$ 92,141	\$ 312,795
Investments	58,690,079	149,585	-
Accounts receivable	<u>2,834,482</u>	<u>-</u>	<u>-</u>
Total Assets	61,844,654	241,726	312,795
<u>LIABILITIES AND NET ASSETS</u>			
Accounts payable	79,223	-	-
Other liabilities	<u>-</u>	<u>-</u>	<u>312,795</u>
Total Liabilities	<u>79,223</u>	<u>-</u>	<u>312,795</u>
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits pension and other purposes	<u>\$ 61,765,431</u>	<u>\$ 241,726</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, 2007

	Pension Trust Fund (For the Year Ended December 31, 2006)	Private Purpose Trust Funds
Additions:		
Contributions:		
Employers	\$ 3,707,403	\$ -
Other systems and Commonwealth of Massachusetts	367,504	-
Plan members	<u>1,411,892</u>	<u>-</u>
Total contributions	5,486,799	-
Investment Income (Loss):		
Increase (decrease) in fair value of investments	8,633,566	8,642
Less: management fees	<u>(320,390)</u>	<u>-</u>
Net investment income (loss)	<u>8,313,176</u>	<u>8,642</u>
Total additions	13,799,975	8,642
Deductions:		
Benefit payments to plan members and beneficiaries	5,631,702	-
Refunds to plan members	149,847	-
Administrative expenses	90,039	-
Other	<u>-</u>	<u>7,752</u>
Total deductions	<u>5,871,588</u>	<u>7,752</u>
Net increase (decrease)	7,928,387	890
Net assets:		
Beginning of year	<u>53,837,044</u>	<u>240,836</u>
End of year	<u>\$ 61,765,431</u>	<u>\$ 241,726</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 func-

tion 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 expendi-

tures, 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 2007 tax levy reflected an excess capacity of \$ 31,510.

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 obli-

gations 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.

L. Use of Estimates

The preparation of basic 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 basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

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)	\$ 65,378,154	\$ 65,051,153
Other financing sources/uses (GAAP basis)	<u>1,164,741</u>	<u>1,073,332</u>
Subtotal (GAAP Basis)	66,542,895	66,124,485
Adjust tax revenue to accrual basis	(761,350)	-
Reverse beginning of year appropri- ation carryforwards from expenditures	-	(479,609)
Add end of year appropriation carryforwards to expenditures	-	246,859
To reverse the effect of non- budgeted State contributions for teachers retirement	(5,829,750)	(5,829,750)
To raising of prior year snow and ice deficit	-	528,236
To record use of overlay surplus	174,517	-
Other	<u>84,723</u>	(<u>96,068</u>)
Budgetary basis	\$ <u>60,211,035</u>	\$ <u>60,494,153</u>

D. Excess of Expenditures Over Appropriations

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

Education	\$ (18,797)
Public Works:	
Snow and ice	\$ (123,908)
Cemetery land sales	\$ (13,721)
Building maintenance	\$ (37,489)

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2007:

Special Revenue Funds:	
Community Policing Grant - FY 2005	\$ (6,279)
Community Policing Grant - FY 2006	\$ (395)
Title I	\$ (1,820)
SPED Program Improvement - FY 2006	\$ (5,000)
SPED Program Improvement - FY 2007	\$ (27,736)
SPED 94-142 - FY 2006	\$ (40,180)
Drug Free Schools - FY 2004	\$ (14,478)
SPED Early Childhood - FY 2006	\$ (815)
Enhanced Ed Thru Tech 2004	\$ (318)
Teacher Quality 2006	\$ (50,713)
MNTL Health SPT 2005	\$ (2,322)
Special Assistance in Mentoring	\$ (20)
SPED Corrective Action 2007	\$ (583)
Academic Support 2005	\$ (3,182)
Community Development Grant	\$ (93,712)
Cert Grant - Fire Department	\$ (2,000)
Substance Abuse Grant	\$ (21,230)
C.A.S.I.T. Grant - Italian Program	\$ (3,109)
Preschool Peer Models Revolving	\$ (20,039)
Senior Center Lunch Program	\$ (18,247)
Donations - Playground Improvement	\$ (113)
Donations - Youth-Community Fund	\$ (334)
Kasabuski Arena Donations	\$ (15,433)

Capital Project Funds:	
Kasabuski Arena Renovations	\$ (43,925)
Repair Main Pump Station	\$ (196,035)
MWPAT – SSO/DEP	\$ (1,483,867)
Highway Chapter 90	\$ (5,486)
Belmonte School Track Grant	\$ (356)
Briggs Court & Oakhill Road	\$ (34,198)
Ballard Street Tide Grant	\$ (230)

Enterprise Fund:	
Landfill	\$ (869,830)

Internal Service Fund	\$ (1,269,028)
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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, 2007, \$ 4,826,661 of the Town's bank balance of \$ 8,848,197 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):

<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>
U.S. Treasury notes	\$ 299	N/A	\$ 299	\$ -	\$ -	\$ -
Federal agency securities	<u>3,249</u>	N/A	-	<u>3,249</u>	-	-
Total investments	\$ <u>3,548</u>		\$ <u>299</u>	\$ <u>3,249</u>	\$ -	\$ -

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>58,690</u>	N/A	\$ <u>58,690</u>	\$ -	\$ -	\$ -
Total investments	\$ <u>58,690</u>		\$ <u>58,690</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):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Debt Related Securities:					
U.S. Treasury notes	\$ 299	\$ 299	\$ -	\$ -	\$ -
Federal agency securities	<u>3,249</u>	<u>1,892</u>	<u>1,331</u>	<u>26</u>	<u>-</u>
Total	<u>\$ 3,548</u>	<u>\$ 2,191</u>	<u>\$ 1,331</u>	<u>\$ 26</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, 2007 consist of the following (in thousands):

Real Estate		
2007	\$ 499	
Prior	<u>55</u>	
		554
Personal Property		220
Tax Liens		<u>559</u>
Total	\$ <u>1,333</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	\$ 294	\$ -
Excises	270	-
Utilities	-	127
Departmental	6	-

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2007.

8. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2007 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Advance To Other Funds</u>	<u>Advance From Other Funds</u>
General Fund	\$ 598,856	\$ -	\$ 694,734	\$ -
Internal Service Fund	-	598,856	-	-
Ice Arena Enterprise	-	-	-	694,734
	<u>\$ 598,856</u>	<u>\$ 598,856</u>	<u>\$ 694,734</u>	<u>\$ 694,734</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 50,941	\$ 474	\$ -	\$ 51,415
Machinery, equipment, and furnishings	6,593	902	(32)	7,463
Infrastructure	<u>22,262</u>	<u>-</u>	<u>-</u>	<u>22,262</u>
Total capital assets, being depreciated	79,796	1,376	(32)	81,140
Less accumulated depreciation for:				
Buildings and improvements	(17,899)	(1,326)	-	(19,225)
Machinery, equipment, and furnishings	(4,010)	(811)	32	(4,789)
Infrastructure	<u>(16,061)</u>	<u>(518)</u>	<u>-</u>	<u>(16,579)</u>
Total accumulated depreciation	<u>(37,970)</u>	<u>(2,655)</u>	<u>32</u>	<u>(40,593)</u>
Total capital assets, being depreciated, net	41,826	(1,279)	-	40,547
Capital assets, not being depreciated:				
Land	8,138	-	-	8,138
Construction in progress	<u>3,783</u>	<u>1,071</u>	<u>(6)</u>	<u>4,848</u>
Total capital assets, not being depreciated	<u>11,921</u>	<u>1,071</u>	<u>(6)</u>	<u>12,986</u>
Governmental activities capital assets, net	<u>\$ 53,747</u>	<u>\$ (208)</u>	<u>\$ (6)</u>	<u>\$ 53,533</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	\$ 3,671	\$ -	\$ -	\$ 3,671
Machinery, equipment, and furnishings	437	41	-	478
Infrastructure	<u>17,660</u>	<u>35</u>	<u>-</u>	<u>17,695</u>
Total capital assets, being depreciated	21,768	76	-	21,844
Less accumulated depreciation for:				
Buildings and improvements	(1,387)	(112)	-	(1,499)
Machinery, equipment, and furnishings	(255)	(52)	-	(307)
Infrastructure	<u>(9,555)</u>	<u>(350)</u>	<u>-</u>	<u>(9,905)</u>
Total accumulated depreciation	<u>(11,197)</u>	<u>(514)</u>	<u>-</u>	<u>(11,711)</u>
Total capital assets, being depreciated, net	10,571	(438)	-	10,133
Capital assets, not being depreciated:				
Land	64	-	-	64
Construction in progress	<u>7,951</u>	<u>2,962</u>	<u>(35)</u>	<u>10,878</u>
Total capital assets, not being depreciated	<u>8,015</u>	<u>2,962</u>	<u>(35)</u>	<u>10,942</u>
Governmental activities capital assets, net	<u>\$ 18,586</u>	<u>\$ 2,524</u>	<u>\$ (35)</u>	<u>\$ 21,075</u>

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

Governmental Activities:	
General government	\$ 201
Public safety	582
Education	847
Public works	894
Health and human services	6
Culture and recreation	<u>125</u>
Total depreciation expense – governmental activities	<u>\$ 2,655</u>
Business-Type Activities:	
Water	\$ 124
Sewer	273
Ice rink	<u>117</u>
Total depreciation expense – business-type activities	<u>\$ 514</u>

10. Warrants Payable

Warrants payable represent 2007 expenditures paid by July 15, 2007 as permitted by law.

11. 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, 2007 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

12. 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, 2007:

	Capital Lease
2008	\$ 106,317
2009	106,317
2010	106,317
2011	106,317
2012	106,317
Thereafter	70,875
Total minimum lease payments	531,585
Less amount representing interest	(65,976)
Present Value of Minimum Lease Payments	\$ <u>531,585</u>

13. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for abatements that have been issued to taxpayers or overpayments made by taxpayers.

14. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2007:

	Interest Rate	Date of Issue	Date of Maturity	Balance at June 30, 2007
Revenue anticipation	5.50%	06/19/07	08/02/07	\$ 2,400,000
Total				<u>2,400,000</u>

The following summarizes activity in notes payable during fiscal year 2007 (in thousands):

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Revenue anticipation	\$ -	\$ 2,400	\$ -	\$ 2,400

15. 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, 2007
<u>Governmental Activities:</u>			
General Obligation Bonds	02/15/23	2.500 - 5.000	\$ 13,310,000
General Obligation Bonds	08/15/14	3.550	720,000
General Obligation Bonds - Refinancing	08/15/14	3.550	3,780,000
General Obligation Bonds - Refinancing	08/15/15	3.550	4,510,000
General Obligation Bonds	09/15/16	4.000 - 5.000	<u>1,954,000</u>
Total Governmental Activities			<u>\$ 24,274,000</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2007</u>
Water:			
MWRA Pipe Replacement	08/15/10		\$ 361,163
MWRA Pipe Replacement	08/15/12		451,453
MWRA Pipe Replacement	05/15/13		540,000
MWRA Pipe Replacement	11/15/14		722,325
General Obligation Bonds	02/15/18	3.750 - 5.000	900,000
General Obligation Bonds	09/15/16	4.000 - 5.000	100,000
MWRA Water Bond	08/15/16		1,805,814
Sewer:			
MWPAT - Pumping Station	08/01/18	1.860	252,900
MWPAT - Inflow & Infiltration	08/01/18	1.940	222,200
MWPAT - Storm Water Mgmt.	08/01/12	1.170	240,077
General Obligation Bonds	02/15/18	3.750 - 5.000	2,080,000
General Obligation Bonds	09/15/16	4.000 - 5.000	100,000
MWPAT - Sanitary Overflow			109,813
MWPAT - Sanitary Overflow			726,000
MWPAT - Sanitary Overflow			490,252
Total Business-Type Activities			\$ 9,101,997

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2007 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 2,284,000	\$ 917,556	\$ 3,201,556
2009	2,260,000	838,631	3,098,631
2010	2,235,000	759,606	2,994,606
2011	2,180,000	1,053,526	3,233,526
2012	2,140,000	595,561	2,735,561
2013 - 2017	8,720,000	1,837,445	10,557,445
2018 - 2022	3,815,000	640,450	4,455,450
2023	640,000	29,600	669,600
Total	\$ 24,274,000	\$ 6,672,375	\$ 30,946,375

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, 2007.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 989,436	\$ 281,405	\$ 1,270,841
2009	997,336	247,040	1,244,376
2010	1,000,792	220,432	1,221,224
2011	1,004,611	196,895	1,201,506
2012	918,217	169,881	1,088,098
2013 - 2017	3,297,174	489,118	3,786,292
2018 - 2022	607,436	71,862	679,298
2023 - 2027	286,995	21,521	308,516
Total	\$ 9,101,997	\$ 1,698,154	\$ 10,800,151

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2007, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/06	Additions	Reductions	Total Balance 6/30/07	Less Current Portion	Equals Long-term Portion 6/30/07
<u>Governmental Activities</u>						
Bonds payable	\$ 24,405	\$ 1,954	\$ (2,085)	\$ 24,274	\$ (2,284)	\$ 21,990
Other:						
Lease payable	619	-	(85)	534	(84)	450
Accrued employee benefits	5,663	-	(115)	5,548	(555)	4,993
Totals	\$ 30,687	\$ 1,954	\$ (2,285)	\$ 30,356	\$ (2,923)	\$ 27,433
	Total Balance 7/1/06	Additions	Reductions	Total Balance 6/30/07	Less Current Portion	Equals Long-term Portion 6/30/07
<u>Business-Type Activities</u>						
Bonds payable	\$ 6,510	\$ 3,332	\$ (741)	\$ 9,101	\$ (989)	\$ 8,112
Other:						
Landfill closure	1,215	-	(165)	1,050	(35)	1,015
Accrued employee benefits	92	20	-	112	(10)	102
Totals	\$ 7,817	\$ 3,352	\$ (906)	\$ 10,263	\$ (1,034)	\$ 9,229

16. Landfill 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 recently completed the capping of the landfill.

The liability reported is based on what it would cost to perform all postclosure care in 2007. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

17. 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.

18. 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, 2007:

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

Reserved for Advances - An account used to segregate a portion of fund balance to indicate that advances to other funds, although a component of assets, do not represent available spendable resources.

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.

19. 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	\$ (226,420)
Snow and ice deficit	<u>123,908</u>
Statutory (UMAS) Balance	\$ (<u>102,512</u>)

20. 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.

21. 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, 2007 was not available.

22. 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, 2006, 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>672</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 2007, 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.

23. 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, 2007 are as follows:

	<u>Health Coverage</u>
Claims liability, July 1, 2006	\$ 852,675
Claims incurred/recognized in fiscal year 2007	8,961,070
Claims paid in fiscal year 2007	(8,812,730)
Claims liability, June 30, 2007	\$ <u>1,001,015</u>

24. 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.

25. Beginning Net Assets Restatement

The Town's water and sewer enterprise funds beginning (July 1, 2006) net asset of have been restated. Accordingly, the following reconciliations are as follows:

Business-Type Activities:

	<u>Water</u>	<u>Sewer</u>
As previously reported	\$ 6,463,763	\$ 9,511,269
Reclassify water meter capital asset and related debt from the water enterprise fund to the sewer enterprise fund	<u>(14,415)</u>	<u>14,415</u>
As restated	<u>\$ 6,449,348</u>	<u>\$ 9,525,684</u>

**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.