

TOWN OF SAUGUS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2008

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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, 2008 (except for the Saugus Contributory Retirement System which is as of and for the year ended December 31, 2007), 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, 2008 (except the Saugus Contributory Retirement System which is as of December 31, 2007), 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 November 26, 2008 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
November 26, 2008

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, 2008.

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 \$ 53,706,563 (i.e., net assets), a change of \$ 7,792,464 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,213,657, a change of \$ 925,794 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 752,227, a change of \$ 978,647 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 33,627,512, a change of \$ 251,515 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	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 6,746,433	\$ 10,234,606	\$ 10,182,061	\$ 7,666,588	\$ 16,928,494	\$ 17,901,194
Capital assets	<u>52,491,348</u>	<u>53,536,480</u>	<u>24,426,104</u>	<u>21,075,422</u>	<u>76,917,512</u>	<u>74,576,612</u>
Total assets	61,240,781	63,771,086	34,608,165	28,742,010	95,848,946	92,477,806
Long-term liabilities outstanding	27,311,602	30,366,656	12,781,372	10,263,962	40,092,974	40,630,618
Other liabilities	<u>1,661,900</u>	<u>1,644,731</u>	<u>1,357,089</u>	<u>1,004,789</u>	<u>3,019,089</u>	<u>2,649,440</u>
Total liabilities	28,973,502	32,011,387	14,138,461	11,268,751	43,111,963	43,280,058
Net assets:						
Invested in capital assets, net	33,480,636	29,276,497	14,920,631	14,302,769	48,401,397	43,579,266
Restricted	2,442,447	3,085,914	-	-	2,442,447	3,085,914
Unrestricted	<u>311,748</u>	<u>(1,244,271)</u>	<u>5,646,973</u>	<u>3,490,490</u>	<u>6,160,919</u>	<u>(1,753,751)</u>
Total net assets	\$ 36,234,831	\$ 31,118,140	\$ 20,567,604	\$ 17,793,259	\$ 53,000,726	\$ 45,811,429

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 3,761,890	\$ 6,662,833	\$ 11,024,400	\$ 6,688,687	\$ 14,816,416	\$ 15,091,321
Operating grants and contributions	16,251,311	12,727,731	-	-	16,251,312	12,727,731
Capital grants and contributions	767,271	853,415	-	-	767,271	853,415
General revenues:						
Property taxes	44,242,402	43,067,852	-	-	44,242,402	43,067,852
Eduises	3,127,200	3,169,833	-	-	3,127,200	3,169,833
Penalties and interest on taxes	390,154	444,055	-	-	390,154	444,155
Fines and forfeitures	200,600	214,403	-	-	200,600	214,403
Grants and contributions not restricted to specific programs	4,598,956	5,651,216	-	-	4,598,956	5,651,216
Investment income	397,469	561,526	-	182,990	397,469	561,526
Other	654,593	173,543	-	-	654,593	173,543
Total revenues	<u>74,421,248</u>	<u>72,792,529</u>	<u>11,024,400</u>	<u>8,671,977</u>	<u>85,445,703</u>	<u>81,664,506</u>
Expenses:						
General government	4,052,613	2,927,071	-	-	4,052,613	2,927,071
Public safety	10,046,007	9,922,572	-	-	10,046,007	9,922,572
Education	33,439,760	33,827,124	-	-	33,439,760	33,827,124
Public works	4,257,210	3,755,825	-	-	4,257,210	3,755,825
Human services	2,332,678	2,391,368	-	-	2,332,678	2,391,368
Culture and recreation	715,480	1,436,550	-	-	715,480	1,436,550
Employee benefits	11,891,943	13,453,076	-	-	11,891,943	13,453,076
Interest on long-term debt	890,517	922,029	-	-	890,517	922,029
Intergovernmental	2,440,346	2,604,291	-	-	2,440,346	2,604,291
Miscellaneous	50,823	162,653	-	-	50,823	162,653
Water	-	-	3,564,305	3,819,955	3,564,305	3,819,955
Sewer	-	-	3,193,431	2,836,593	3,193,431	2,836,593
Ice rink	-	-	683,009	670,761	683,009	670,761
Landfill closure	-	-	112,509	-	112,509	-
Total expenses	<u>73,093,377</u>	<u>71,711,581</u>	<u>7,573,254</u>	<u>7,327,314</u>	<u>77,666,631</u>	<u>79,038,875</u>
Change in net assets before permanent fund contributions and transfers	4,327,871	1,080,948	3,451,206	1,544,663	7,779,072	2,625,631
Permanent fund contributions	13,337	20,104	-	-	13,337	20,104
Transfers in (out)	<u>174,761</u>	<u>594,252</u>	<u>(1,774,761)</u>	<u>(594,252)</u>	<u>-</u>	<u>-</u>
Change in net assets	5,110,919	1,695,324	2,676,445	950,411	7,792,464	2,645,735
Net assets - beginning of year	<u>25,123,840</u>	<u>20,425,516</u>	<u>17,793,259</u>	<u>16,842,848</u>	<u>45,914,099</u>	<u>43,268,654</u>
Net assets - end of year	\$ <u>33,239,559</u>	\$ <u>28,120,840</u>	\$ <u>20,469,704</u>	\$ <u>17,793,259</u>	\$ <u>53,706,563</u>	\$ <u>45,914,389</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 \$ 53,706,563, a change of \$ 7,792,464 from the prior year.

The largest portion of net assets \$ 45,103,297 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 \$ 2,442,447 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets reflects a balance of \$ 6,160,819.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ 5,116,019. Key elements of this change are as follows:

	Governmental Activities
General fund operating results	\$ 1,234,751
Nonmajor funds - accrual basis	1,442,340
Internal service fund operating results	2,568,864
Principal debt service, which is budgeted, less depreciation expense, which is not budgeted	(423,607)
Change in compensated absences as compared with prior year	677,075
Change in deferred revenue compared with prior year	(326,117)
Other	(57,287)
Total	\$ 5,116,019

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 2,676,445. Key elements of this change are as follows:

Water Fund	\$ 1,787,417
Sewer Fund	1,275,868
Ice Rink Fund	(274,331)
Landfill Closure Fund	(112,509)
Total	\$ 2,676,445

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 \$ 6,213,657, a change of \$ 925,794 in comparison with the prior year. Most of this change was attributable to the following:

	Governmental Funds
General fund operating results	\$ 1,234,751
Nonmajor funds operating results	(308,957)
Total	\$ 925,794

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 752,227, while total fund balance was \$ 1,949,924. 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 1.1 percent of total general fund expenditures, while total fund balance represents 2.9 percent of that same amount.

The fund balance of the general fund changed by \$ 1,234,751 during the current fiscal year. Key factors in this change are as follows:

	General Fund
Revenue surplus compared to budget estimate	\$ 589,325
Actual expenditures less budgeted expenditures	(238,579)
Excess tax collections versus net assessment	514,250
Prior year encumbrances spent in the current year	22,101
Raising of prior year deficits on the current year tax levy	347,654
Total	\$ 1,234,751

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 \$ 5,849,073. 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**

Differences between the original budget and the final amended budget consisted of appropriation reallocation between budget lines, but no change in overall appropriation totals.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 76,917,512 (net of accumulated depreciation), a change of \$ 2,308,610 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:

- \$ 2,277,227 of additional construction in progress of on-going MWPAT service repair work.
- \$ 1,494,835 of additional construction in progress of water pipeline upgrades.
- \$ 269,000 of repairs for the Belmonte School track.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 33,627,512, 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.

G. ECONOMIC FACTORS

In September, 2008, the Town negotiated a sub-lease agreement with an outside vendor to assume the operation and responsibility of the Kasabuski Ice arena. This successful effort effectively divested the Town of the responsibility of operating the rink while providing a stream of revenue in the amount of \$ 910,000 over a nineteen year period. Furthermore, in the FY09 tax rate, a provision to raise the total outstanding Kasabuski Enterprise Fund deficit has been provided for. This effort, along with the funding of all other outstanding deficits in group health appropriations and ice and snow removal, resolves the most disruptive and negative liabilities facing the Town through Fiscal Year 2008. The administration feels, under the present conditions, that the Town has now reached a period of relative financial stability.

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, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 5,525,238	\$ 3,559,983	\$ 9,085,221
Investments	1,060,261	907,085	2,067,346
Deposit held by others	110,594	-	110,594
Receivables, net of allowance for uncollectibles:			
Property taxes	1,018,407	-	1,018,407
Excises	276,457	-	276,457
User fees	-	5,156,923	5,156,923
Departmental and other	42,931	-	42,931
Intergovernmental	-	568,950	568,950
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	115,495	-	115,495
Capital assets:			
Land and construction in progress	13,344,830	14,656,387	28,001,217
Other assets, net of accumulated depreciation	39,146,518	9,769,777	48,916,295
TOTAL ASSETS	61,240,781	34,636,165	95,876,946
LIABILITIES			
Current:			
Warrants payable	368,226	-	368,226
Accounts payable	493,824	334,569	828,393
Accrued liabilities	318,154	93,793	411,947
Internal balances	(926,737)	926,737	-
Tax refund payable	236,763	-	236,763
Other current liabilities	203,730	-	203,730
Current portion of long-term liabilities:			
Bonds payable	2,260,000	1,231,957	3,491,957
Other liabilities	576,555	46,136	622,691
Noncurrent:			
Bonds payable, net of current portion	18,730,000	10,405,555	29,135,555
Other liabilities, net of current portion	4,745,407	1,097,724	5,843,131
TOTAL LIABILITIES	28,003,922	14,138,461	42,142,383
NET ASSETS			
Invested in capital assets, net of related debt	30,482,566	14,620,631	45,103,197
Restricted for:			
Grants and other statutory restrictions	270,569	-	270,569
Permanent funds:			
Nonexpendable	1,196,574	-	1,196,574
Expendable	975,304	-	975,304
Unrestricted	311,746	5,849,073	6,160,819
TOTAL NET ASSETS	\$ 33,236,859	\$ 20,469,704	\$ 53,706,563

See notes to financial statements.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	Program Revenues			Capital Grants and Contributions	Total (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Governmental Activities		Business Activities	Total	
Governmental Activities:							
General government	\$ 4,062,613	\$ 431,262	\$ -	\$ (2,701,204)	\$ -	\$ (2,701,204)	
Public safety	10,045,067	715,567	-	(8,389,563)	-	(8,389,563)	
Education	33,432,730	13,792,268	767,271	(17,552,610)	-	(17,552,610)	
Public works	4,297,210	595,695	-	(7,140,123)	-	(7,140,123)	
Health and human services	2,302,678	265,438	-	(1,641,117)	-	(1,641,117)	
Culture and recreation	715,480	100,751	-	(574,063)	-	(574,063)	
Employee benefits	11,891,943	-	-	(11,891,943)	-	(11,891,943)	
Interest	800,517	-	-	(800,517)	-	(800,517)	
Intergovernmental	2,440,345	-	-	(2,440,345)	-	(2,440,345)	
Miscellaneous	55,913	-	-	(55,913)	-	(55,913)	
Total Governmental Activities	71,071,377	16,251,312	767,271	(49,293,369)	-	(49,293,369)	
Business-Type Activities:							
Water services	3,534,495	5,719,454	-	-	2,184,959	2,184,959	
Garage services	3,153,431	4,396,298	-	-	1,242,867	1,242,867	
Loss risk	693,605	408,678	-	-	(284,927)	(284,927)	
Landfill closure	112,569	-	-	-	(112,569)	(112,569)	
Total Business-Type Activities	7,573,299	11,524,430	-	-	2,031,206	2,031,206	
Total	\$ 78,644,676	\$ 16,251,312	\$ 767,271	(49,293,369)	\$ 2,031,206	(47,262,163)	
General Revenues:							
Property taxes				443,427,402	-	443,427,402	
Fees				3,127,200	-	3,127,200	
Fines, interest, and other taxes				390,154	-	390,154	
Fees and forfeitures				200,630	-	200,630	
Grants and contributions, not restricted to specific programs				4,798,993	-	4,798,993	
Investment income				397,469	-	397,469	
Donations				654,693	-	654,693	
Contributions				13,087	-	13,087	
Transfers, net				774,761	(774,761)	-	
Total general revenues and transfers				54,399,897	(774,761)	53,625,136	
Change in Net Assets				5,115,019	1,256,445	6,371,464	
Net Assets:							
Beginning of year				19,179,340	11,772,299	30,951,639	
End of year				\$ 24,294,359	\$ 13,028,744	\$ 37,323,103	

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and short-term investments	\$ 919,388	\$ 3,725,019	\$ 4,644,406
Investments	877,898	882,893	1,660,791
Receivables:			
Property taxes	1,517,430	-	1,517,430
Expenses	543,841	-	543,841
Departmental and other	43,755	-	43,755
Advance from other funds	928,737	-	928,737
TOTAL ASSETS	\$ 4,880,219	\$ 4,707,911	\$ 9,588,130
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 368,223	\$ -	\$ 368,223
Accounts payable	49,845	444,173	493,923
Deferred revenues	1,521,931	-	1,521,931
Tax refunds payable	236,733	-	236,733
Other liabilities	293,730	-	293,730
TOTAL LIABILITIES	2,380,295	444,173	2,824,473
Fund Balances:			
Reserved for:			
Encumbrances and continuing appropriations	268,960	-	268,960
Advance	928,737	-	928,737
Perpetual permanent funds	-	1,196,574	1,196,574
Unreserved:			
Undesignated, reported in:			
General fund	752,227	-	752,227
Special revenue funds	-	2,048,935	2,048,935
Capital project funds	-	42,920	42,920
Permanent funds	-	975,304	975,304
TOTAL FUND BALANCES	1,949,924	4,263,733	6,213,657
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,880,219	\$ 4,707,911	\$ 9,588,130

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, 2008

Total governmental fund balances	\$ 6,213,657
<ul style="list-style-type: none">Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	52,491,348
<ul style="list-style-type: none">Revenues are reported on the accrual basis of accounting and are not deferred until collection.	862,134
<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.	1,299,836
<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.	(318,154)
<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>(27,311,962)</u>
Net assets of governmental activities	\$ <u><u>33,236,859</u></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, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	\$ 44,556,356	\$ -	\$ 44,556,356
Excises	3,177,837	-	3,177,837
Penalties, interest and other taxes	390,154	-	390,154
Fines and forfeitures	201,785	-	201,785
Charges for services	638,214	1,957,980	2,646,194
Intergovernmental	17,300,147	4,199,761	21,499,907
Licenses and permits	1,193,776	1,563	1,195,344
Investment income	299,036	35,886	384,922
Miscellaneous	631,047	23,521	654,569
Contributions	-	131,021	131,021
Total Revenues	<u>68,438,352</u>	<u>6,399,737</u>	<u>74,838,089</u>
Expenditures:			
Current:			
General government	2,316,674	1,525,038	3,841,712
Public safety	9,202,785	267,922	9,470,707
Education	30,557,791	3,015,739	33,573,530
Public works	3,746,208	945,827	4,692,035
Health and human services	1,721,189	569,562	2,290,751
Culture and recreation	502,928	162,800	665,728
Employee benefits	13,112,249	-	13,112,249
Articles	58,827	-	58,827
Debt service	3,207,110	-	3,207,110
Intergovernmental	2,440,346	-	2,440,346
Total Expenditures	<u>69,834,107</u>	<u>6,498,939</u>	<u>76,333,045</u>
Excess (deficiency) of revenues over expenditures	1,574,245	(97,201)	1,467,044
Other Financing Sources (Uses):			
Transfers in	996,517	18,476	1,012,993
Transfers out	(1,339,011)	(238,234)	(1,574,245)
Total Other Financing Sources (Uses)	<u>(339,494)</u>	<u>(221,756)</u>	<u>(561,250)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,234,751	(308,957)	925,794
Fund Equity, at Beginning of Year	<u>715,173</u>	<u>4,572,690</u>	<u>5,287,863</u>
Fund Equity, at End of Year	<u>\$ 1,949,924</u>	<u>\$ 4,263,733</u>	<u>\$ 6,213,657</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, 2008

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 825,794
<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	1,665,475
Depreciation	(2,797,607)
<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.	(415,996)
<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	2,234,000
Repayments of debt - lease	35,822
<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.	32,530
<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.	377,075
<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.	<u>2,568,864</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>5,118,016</u></u>

See notes to the financial statements.

TOWN OF SAUGUEE, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget			
Revenues and Other Sources:					
Taxes	\$ 44,042,106	44,042,106	\$ 44,042,106	\$ -	-
Excise	3,106,000	3,106,000	3,177,837	71,837	(34,846)
Penalties, interest, and other taxes	475,000	475,000	390,154	6,785	6,785
Fines and forfeitures	195,000	195,000	301,785	60,244	60,244
Charges for services	593,000	593,000	688,244	9,956,697	(17,424)
Intergovernmental	9,973,031	9,973,031	9,955,697	1,193,776	193,776
Licenses and permits	900,000	900,000	299,035	66,035	66,035
Investment income	300,000	200,000	631,647	179,946	179,946
Miscellaneous	501,101	501,101			
Transfers in	942,556	942,556	942,556		
Total Revenues and Other Sources	60,932,794	60,932,794	61,571,118	638,324	
Expenditures and Other Uses:					
General government	2,261,112	2,317,112	2,286,865	30,247	
Public safety	9,472,575	9,488,575	9,202,226	286,347	
Education	23,509,849	23,509,849	23,208,070	301,779	
Public works	2,836,612	3,084,846	3,744,844	(659,998)	
Health and human services	1,923,876	1,764,876	1,727,057	37,819	
Culture and recreation	510,834	510,834	502,478	8,356	
Debt service	3,098,386	3,114,162	3,207,110	(92,948)	
Intergovernmental	2,310,344	2,310,344	2,440,346	(130,002)	
Employee benefits	13,278,530	13,101,530	13,121,709	(70,179)	
Articles	47,000	47,000	47,000	-	
Other	347,655	347,655	347,655	-	
Transfers out	1,336,011	1,336,011	1,336,011	-	
Total Expenditures and Other Uses	60,932,794	60,932,794	61,171,373	(238,579)	
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 358,745	\$ -	358,745

See notes to financial statements

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	Business-Type Funds					Total	Governmental Activities Fund
	Water Fund	Sewer Fund	Enterprise Fund	Landfill Cleanup Fund	Total		
ASSETS							
Current							
Cash and short-term investments	\$ 2,003,617	\$ 1,429,785	\$ -	\$ 50,000	\$ 3,483,402	\$ 3,483,402	\$ 3,483,402
Receivables		927,000			927,000	927,000	927,000
Prepaid expenses							
Inventory							
Other assets							
Total current assets	2,003,617	1,429,785		50,000	3,483,402	3,483,402	3,483,402
Non-current							
Land	1,000,000	1,000,000			2,000,000	2,000,000	2,000,000
Other non-current assets							
Total non-current assets	1,000,000	1,000,000			2,000,000	2,000,000	2,000,000
TOTAL ASSETS	3,003,617	2,429,785		50,000	5,483,402	5,483,402	5,483,402
LIABILITIES							
Current							
Accounts payable	1,000,000	1,000,000			2,000,000	2,000,000	2,000,000
Accrued liabilities							
Advances to other funds							
Current portion of long-term liabilities							
Bonds payable	1,000,000	1,000,000			2,000,000	2,000,000	2,000,000
Other liabilities							
Total current liabilities	2,000,000	2,000,000			4,000,000	4,000,000	4,000,000
Non-current							
Bonds payable, net of current portion	1,000,000	1,000,000			2,000,000	2,000,000	2,000,000
Other non-current liabilities							
Total non-current liabilities	1,000,000	1,000,000			2,000,000	2,000,000	2,000,000
TOTAL LIABILITIES	3,000,000	3,000,000			6,000,000	6,000,000	6,000,000
NET ASSETS							
Invested in capital assets, net of related debt	1,000,000	1,000,000			2,000,000	2,000,000	2,000,000
Unrestricted							
TOTAL NET ASSETS	1,000,000	1,000,000			2,000,000	2,000,000	2,000,000

Source: Financial Accounting Standards Board

TOWN OF SAUGUS, MASSACHUSETTS

PROPRIETARY FUNDS

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

FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities				Governmental Activities
	Enterprise Funds				
	Water Fund	Sewer Fund	Low Risk Fund	Landfill Closure Fund	Total
Operating Revenues:					
Charges for services	\$ 5,634,476	\$ 4,873,476	\$ 409,678	\$ -	\$ 10,917,630
Employee and employer contributions	-	-	-	-	9,543,847
Total Operating Revenues	5,634,476	4,873,476	409,678	-	10,917,630
Operating Expenses:					
Operating expenses	3,318,294	2,933,706	504,078	112,509	6,767,587
Depreciation	126,326	276,656	118,034	-	520,996
Employee benefits	-	-	-	-	4,234,544
Total Operating Expenses	3,444,620	3,210,362	622,112	112,509	7,390,594
Operating Income (Loss)	2,189,857	1,643,114	(212,434)	(112,509)	\$ 1,507,965
Nonoperating Revenues (Expenses):					
Investment income	86,016	22,842	-	-	108,858
Interest expense	(36,759)	(233,759)	-	-	(270,518)
Total Nonoperating Revenues (Expenses), Net	49,257	(210,917)	-	-	(161,660)
Income (Loss) Before Transfers	2,135,189	1,702,857	(274,334)	(112,509)	3,451,203
Other financing sources and uses:					
Transfers in	-	-	-	-	-
Transfers out	(347,777)	(426,089)	-	-	(773,866)
Change in Net Assets	1,787,412	1,276,868	(274,334)	(112,509)	2,670,446
Net Assets at Beginning of Year	6,985,594	10,173,001	1,504,524	(209,849)	17,453,270
Net Assets at End of Year	\$ 8,772,986	\$ 11,449,869	\$ 1,230,190	\$ (322,358)	\$ 20,130,886

See notes to financial statements.

Financial Statement Disclosures

Financial Statement

Statement of Cash Flows

Statement of Cash Flows

Description	Amount				Financial Statement		Amount	Financial Statement
	Debit	Credit	Debit	Credit	Debit	Credit		
Cash Flows From Operating Activities:								
Receipts from customers and users								
Payments to vendors and employees								
Payments to employees and employees								
Payments to employees and employees								
Net Cash Provided by Operating Activities								
Cash Flows From Non-capital Financing Activities:								
Receipts from customers and users								
Payments to vendors and employees								
Payments to employees and employees								
Payments to employees and employees								
Net Cash Provided by Operating Activities								
Cash Flows From Capital and Related Financing Activities:								
Receipts from customers and users								
Payments to vendors and employees								
Payments to employees and employees								
Payments to employees and employees								
Net Cash Provided by Operating Activities								
Cash Flows From Investing Activities:								
Receipts from customers and users								
Payments to vendors and employees								
Payments to employees and employees								
Payments to employees and employees								
Net Cash Provided by Operating Activities								
Cash Flows From Financing Activities:								
Receipts from customers and users								
Payments to vendors and employees								
Payments to employees and employees								
Payments to employees and employees								
Net Cash Provided by Operating Activities								
Reconciliation of Operating Income to Net Cash Provided by Used For Operating Activities:								
Operating income (loss)								
Adjustments to reconcile operating income (loss) to net cash provided by used for operating activities:								
Depreciation								
Changes in assets and liabilities:								
User fees								
Depreciation and other non-cash								
Accounts payable								
Other liabilities								
Net Cash Provided by Used For Operating Activities								
Reconciliation of Operating Income to Net Cash Provided by Used For Operating Activities:								

TOWN OF SAUGJUS, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

	Pension Trust Fund (As of December 31, 2007)	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>			
Cash and short-term investments	\$ 297,205	\$ 133,076	\$ 308,624
Investments	65,158,038	110,677	-
Accounts receivable	<u>2,620,054</u>	<u>-</u>	<u>-</u>
Total Assets	68,075,297	243,753	308,624
<u>LIABILITIES AND NET ASSETS</u>			
Accounts payable	80,801	-	-
Other liabilities	<u>-</u>	<u>-</u>	<u>308,624</u>
Total Liabilities	<u>80,801</u>	<u>-</u>	<u>308,624</u>
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits pension and other purposes	\$ <u><u>67,994,496</u></u>	\$ <u><u>243,753</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF SAUBUS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

	Pension Trust Fund (For the Year Ended December 31, 2007)	Private Purpose Trust Funds
Additions:		
Contributions:		
Employers	\$ 3,848,910	\$ -
Other systems and Commonwealth of Massachusetts	332,393	-
Plan members	1,274,976	-
Other	-	-
Total contributions	<u>5,456,279</u>	<u>-</u>
Investment Income (Loss):	-	7,776
Increase (decrease) in fair value of investments	7,975,027	-
Less: management fees	(333,337)	-
Net investment income (loss)	<u>6,741,690</u>	<u>7,776</u>
Total additions	12,197,969	7,776
Deductions:		
Benefit payments to plan members and beneficiaries	5,671,578	-
Refunds to plan members	199,076	-
Administrative expenses	93,330	-
Other	4,920	5,749
Total deductions	<u>5,968,904</u>	<u>5,749</u>
Net increase (decrease)	6,229,065	2,027
Net assets:		
Beginning of year	<u>61,765,431</u>	<u>241,706</u>
End of year	<u>\$ 67,994,496</u>	<u>\$ 243,733</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 funds:

- 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 2008 tax levy reflected an excess capacity of \$ 28,995.

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

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)	\$ 68,438,352	\$ 66,864,107
Other financing sources/uses (GAAP basis)	<u>996,517</u>	<u>1,336,011</u>
Subtotal (GAAP Basis)	69,434,869	68,200,118
Adjust tax revenue to accrual basis	(514,250)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(246,859)
Add end of year appropriation carryforwards to expenditures	-	268,960
To reverse the effect of non-budgeted State contributions for teachers retirement	(7,344,540)	(7,344,540)
To raising of prior year snow and ice deficit	-	347,655
Other	<u>(53,961)</u>	<u>(53,961)</u>
Budgetary basis	\$ <u>61,522,118</u>	\$ <u>61,171,373</u>

D. Excess of Expenditures Over Appropriations

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

Debt Service	\$ (92,948)
Public Works:	
Snow and Ice	\$ (672,561)
Intergovernmental	\$ (130,002)
Court judgments	\$ (24,000)

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2008:

Special Revenue Funds:

Community Policing Grant - FY 2005	\$ (6,279)
Community Policing Grant - FY 2006	\$ (713)
Community Policing Grant - FY 2007	\$ (47,000)
FEMA Grant - Shute Brook	\$ (239,321)
SPED Program Improvement - FY 2007	\$ (27,736)
SPED Program Improvement - FY 2008	\$ (14,303)
SPED 94-142 - FY 2003	\$ (350)
Drug Free Schools - FY 2004	\$ (14,473)
Enhanced Ed Thru Tech 2007	\$ (2,343)
Enhanced Ed Thru Tech 2008	\$ (699)
Teacher Quality 2005	\$ (50,713)
Special Assistance in Mentoring	\$ (20)
SPED Corrective Action 2007	\$ (10,530)
Academic Support 2008	\$ (1,940)
Housing Rehabilitation	\$ (5,498)
Cert Grant - Fire Department	\$ (2,000)
Chelsea Health Grant 2003	\$ (2,174)
Substance Abuse Grant 2007	\$ (14,343)
Substance Abuse Grant 2008	\$ (27,859)
Fire Code Violations	\$ (100)
Kasabuski Arena Donations	\$ (21,673)
Cafeteria Revolving	\$ (3,309)
Personal Services	(3,390)

Capital Project Funds:

Kasabuski Arena Renovations	\$ (43,295)
Repair Main Pump Station	\$ (196,035)
MWPAT - SSO DEP	\$ (418,833)
Highway Chapter 90	\$ (7,835)
Belmonte School Track Grant	\$ (356)
Briggs Court & Oakhill Road	\$ (34,193)

Enterprise Funds:
Landfill

\$ (982,339)

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, 2008, \$ 6,667,797 of the Town's bank balance of \$ 11,107,965 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 the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Town's investment policy limits 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."

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>
Federal agency securities	\$ <u>2,698</u>	N/A	\$ <u>-</u>	\$ <u>2,698</u>	\$ <u>-</u>	\$ <u>-</u>
Total investments	\$ <u>2,698</u>		\$ <u>-</u>	\$ <u>2,698</u>	\$ <u>-</u>	\$ <u>-</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

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>65,158</u>	N/A	\$ <u>65,158</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Total investments	\$ <u>65,158</u>		\$ <u>65,158</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</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 and System does not have policies for custodial credit risk.

Of the investment in Federal securities of \$ 2,698,003, the government has a custodial credit risk exposure of \$ 2,698,003 because the related securities are uninsured, unregistered and held by the Town's brokerage firm, which is also the counterparty to these securities.

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 Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Debt Related Securities:					
Federal agency securities	\$ 2,698	\$ 2,679	\$ 19	\$ -	\$ -
Total	\$ 2,698	\$ 2,679	\$ 19	\$ -	\$ -

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, 2008 consist of the following (in thousands):

Real Estate		
2008	\$ 643	
Prior	<u>22</u>	
		\$ 665
Personal Property		283
Tax Liens		<u>569</u>
Total		\$ <u>1,517</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	\$ 383	\$ -
Excises	267	-
Utilities	-	145
Departments	9	-

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2008.

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, 2008 balances in interfund receivable and payable accounts:

	<u>Advance to Other Funds</u>	<u>Advance From Other Funds</u>
General Fund	\$ 928,737	\$ -
Ice Arena Enterprise	<u>-</u>	<u>928,737</u>
Total	\$ <u>928,737</u>	\$ <u>928,737</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2008 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	\$ 51,415	\$ 703	\$ -	\$ 52,121
Machinery, equipment, and furnishings	7,464	117	-	7,581
Infrastructure	<u>22,262</u>	<u>483</u>	<u>-</u>	<u>22,745</u>
Total capital assets, being depreciated	81,141	1,306	-	82,447
Less accumulated depreciation for:				
Buildings and improvements	(10,225)	(1,325)	-	(11,550)
Machinery, equipment, and furnishings	(4,790)	(850)	-	(5,650)
Infrastructure	<u>(15,578)</u>	<u>(523)</u>	<u>-</u>	<u>(16,101)</u>
Total accumulated depreciation	(40,593)	(2,708)	-	(43,301)
Total capital assets, being depreciated, net	40,548	(1,402)	-	39,146
Capital assets, not being depreciated:				
Land	8,138	-	-	8,138
Construction in progress	<u>4,848</u>	<u>359</u>	<u>-</u>	<u>5,207</u>
Total capital assets, not being depreciated	<u>12,986</u>	<u>359</u>	<u>-</u>	<u>13,345</u>
Governmental activities capital assets, net	\$ 53,534	\$ (1,043)	\$ -	\$ 52,491
	<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	\$ 129	\$ -	\$ 3,800
Machinery, equipment, and furnishings	478	21	-	499
Infrastructure	<u>17,694</u>	<u>10</u>	<u>-</u>	<u>17,704</u>
Total capital assets, being depreciated	21,843	160	-	22,003
Less accumulated depreciation for:				
Buildings and improvements	(1,499)	(114)	-	(1,613)
Machinery, equipment, and furnishings	(307)	(53)	-	(363)
Infrastructure	<u>(9,905)</u>	<u>(352)</u>	<u>-</u>	<u>(10,257)</u>
Total accumulated depreciation	(11,711)	(522)	-	(12,233)
Total capital assets, being depreciated, net	10,132	(362)	-	9,770
Capital assets, not being depreciated:				
Land	64	-	-	64
Construction in progress	<u>10,978</u>	<u>4,352</u>	<u>(638)</u>	<u>14,592</u>
Total capital assets, not being depreciated	<u>10,942</u>	<u>4,352</u>	<u>(638)</u>	<u>14,556</u>
Business-type activities capital assets, net	\$ 21,074	\$ 3,990	\$ (638)	\$ 24,426

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

Governmental Activities:	
General government	\$ 198
Public safety	845
Education	824
Public works	909
Culture and recreation	3
Other	<u>129</u>
Total depreciation expense - governmental activities	\$ 2,708
Business-Type Activities:	
Water	\$ 126
Sewer	277
Ice rink	<u>119</u>
Total depreciation expense - business-type activities	\$ 522

10. Warrants Payable

Warrants payable represent 2008 expenditures paid by July 15, 2008 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, 2008 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 2014. Future minimum lease payments under the lease consisted of the following as of June 30, 2008:

	<u>Capital Lease</u>
2009	\$ 106,317
2010	106,317
2011	106,317
2012	106,317
2013	<u>70,876</u>
Total minimum lease payments	496,144
Less amount representing interest	<u>(45,482)</u>
Present Value of Minimum Lease Payments	\$ <u>450,662</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 following summarizes activity in notes payable during fiscal year 2008 (in thousands):

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Revenue anticipation	\$ 2,400	\$ -	\$ 2,400	\$ -
Revenue anticipation	-	7,800	7,800	-
Total	\$ 2,400	\$ 7,800	\$ 10,200	\$ -

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:

<u>Governmental Activities:</u>	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2008
General Obligation Bonds	02/15/23	2.500 - 5.000	\$ 12,395,000
General Obligation Bonds	08/15/14	3.550	630,000
General Obligation Bonds - Refinancing	08/15/14	3.550	3,265,000
General Obligation Bonds - Refinancing	08/15/15	3.550	3,970,000
General Obligation Bonds			<u>1,730,000</u>
Total Governmental Activities:			\$ <u>21,990,000</u>

(continued)

(continued)

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2008</u>
Water:			
MWRA Pipe Replacement	08/15/10	-	\$ 273,872
MWRA Pipe Replacement	08/15/12	-	361,162
MWRA Pipe Replacement	05/15/13	-	450,000
MWRA Pipe Replacement	11/15/14	-	632,034
General Obligation Bonds	02/15/18	3.750 - 5.000	800,000
General Obligation Bonds	09/15/16	4.000 - 5.000	90,000
MWRA Water Bond	08/15/16	-	1,625,233
MWRA Water Bond	08/15/12	-	450,000
MWRA Water Bond	11/15/17	-	548,300
Sewer:			
MWPAT - Pumping Station	08/01/18	1.860	234,000
MWPAT - Inflow & Infiltration	08/01/18	1.940	205,600
MWPAT - Storm Water Mgmt.	08/01/12	1.170	202,902
General Obligation Bonds	02/15/18	3.750 - 5.000	1,880,000
General Obligation Bonds	09/15/16	4.000 - 5.000	90,000
MWPAT - Sanitary Overflow			105,148
MWPAT - Sanitary Overflow			697,367
MWPAT - Sanitary Overflow			468,242
MWPAT - Sanitary Overflow			<u>2,528,652</u>
Total Business-Type Activities:			\$ <u>11,637,512</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2008 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,095,000	515,880	2,610,880
2014 - 2018	7,460,000	1,520,476	9,000,476
2019 - 2023	<u>3,600,000</u>	<u>471,138</u>	<u>4,071,138</u>
Total	\$ 21,990,000	\$ 5,754,818	\$ <u>27,744,818</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, 2008.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,231,956	\$ 243,323	\$ 1,475,279
2010	1,251,988	208,140	1,460,128
2011	1,257,960	189,950	1,447,910
2012	1,173,762	168,239	1,342,001
2013	1,069,318	170,389	1,239,707
2014 - 2013	3,609,830	456,941	4,066,771
2019 - 2023	1,102,999	162,437	1,265,436
2024 - 2028	<u>939,699</u>	<u>51,153</u>	<u>990,852</u>
Total	\$ 11,637,512	\$ 1,650,572	\$ 13,288,084

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2008, the following changes occurred in long-term liabilities (in thousands):

	<u>Total Balance 7/1/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/08</u>	<u>Less Current Portion</u>	<u>Long-Term Portion 6/30/08</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 24,274	\$ -	\$ (2,284)	\$ 21,990	\$ (2,260)	\$ 19,730
Other:						
Lease payable	530	-	(85)	451	(89)	362
Accrued employee benefits	<u>5,548</u>	<u>37</u>	<u>(714)</u>	<u>4,871</u>	<u>(467)</u>	<u>4,364</u>
Totals	\$ 30,358	\$ 37	\$ (3,083)	\$ 27,312	\$ (2,816)	\$ 24,476
						<u>Equals</u>
	<u>Total Balance 7/1/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/08</u>	<u>Less Current Portion</u>	<u>Long-Term Portion 6/30/08</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 9,101	\$ 3,525	\$ (989)	\$ 11,637	\$ (1,232)	\$ 10,405
Other:						
Landfill closure	1,050	-	(18)	1,032	36	997
Accrued employee benefits	<u>112</u>	<u>13</u>	<u>(14)</u>	<u>111</u>	<u>(11)</u>	<u>100</u>
Totals	\$ 10,263	\$ 3,538	\$ (1,021)	\$ 12,780	\$ (1,207)	\$ 11,502

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 2008. 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, 2008:

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	\$ 752,227
Snow and ice deficit	<u>672,501</u>
Statutory (UMAS) Balance	\$ <u>1,424,728</u>

20. **Subsequent Events**

Investments

During September - November, 2008, the stock market suffered significant losses. As a result, there may be a substantial depreciation in the value of the organization's investments.

21. **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.

22. **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, 2008 was not available.

23. 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). The Town's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
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%
2007	3,707,403	100%
2008	3,848,910	100%

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. Funded Status and Funding Progress

The information presented below is from the Town's Contributory Retirement System's most recent valuation.

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)
01/01/07	\$ 55,897	\$ 84,272	\$ 28,375	66.30%	\$ 14,220	199.54%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial

cost method. Under this method an unfunded actuarial accrued liability of \$ 28.375 million was calculated. The actuarial assumptions included (a) 8.25% investment rate of return and (b) a projected salary increase based on a table with ultimate rates of 4.75%, 5.00%, and 5.25% per year. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.25%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of the unfunded actuarially accrued liability is being amortized over 15 years (21 years for ER).

E. 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 2008, the Commonwealth of Massachusetts contributed \$ 7,344,540 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

24. Self Insurance

In January 2008, the Town discontinued its self insurance health care coverage and joined the Commonwealth of Massachusetts Group Insurance Commission (GIC). Although the Town changed in January, the self insurance trust remains open to pay outstanding claims incurred prior to January 2008.

25. 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, UAAI - Entry Age UBI	Unfunded AAL (UAAI - UBI)	Funded Ratio (a/b)	Covered Payroll (c)	UAAI as a Percent- age of Covered Payroll (b ÷ a) × 100
01/01/07	\$ 65,697	\$ 64,272	\$ 28,375	66.3%	\$ 14,220	199.5%
01/01/08	\$ 47,649	\$ 70,800	\$ 29,210	62.0%	\$ 12,119	240.3%
01/01/09	\$ 40,088	\$ 77,761	\$ 30,093	56.6%	\$ 12,109	252.3%
01/01/10	\$ 39,635	\$ 81,002	\$ 21,367	65.0%	\$ 11,413	187.2%
01/01/11	\$ 61,608	\$ 50,221	\$ 18,353	63.5%	\$ 10,376	176.9%
01/01/12	\$ 23,061	\$ 41,067	\$ 17,346	56.2%	\$ 8,597	208.7%
01/01/13	\$ 18,179	\$ 37,291	\$ 21,111	43.4%	\$ 7,473	282.6%

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	01/01/07
Actuarial cost method	Individual entry age normal
Amortization method	3.0% increasing
Remaining amortization period	15 years (21 years for ERI)
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%

See Independent Auditors' Report.