

**TOWN OF SAUGUS, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2009**

## **TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>3</b>
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets	11
Statement of Activities	12
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	17
<b>Proprietary Funds:</b>	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Assets	21
Statement of Changes in Fiduciary Net Assets	22
<b>Notes to Financial Statements</b>	<b>23</b>
<b>SUPPLEMENTARY INFORMATION:</b>	
Schedule of Funding Progress	47



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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, 2009 (except for the Saugus Contributory Retirement System which is as of and for the year ended December 31, 2008), 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, 2009 (except the Saugus Contributory Retirement System which is as of December 31, 2008), 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 on page 47, are not a required part of the basic financial statements but are supplementary information required by

accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding 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 February 23, 2010 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  
February 23, 2010

## **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, 2009.

### **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 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 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 accounting principles generally accepted in the United States of America.

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 54,480,370 (i.e., net assets), a change of \$ 773,807 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 7,294,567, a change of \$ 1,080,910 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,935,273, a change of \$ 1,183,046 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 31,932,781, a change of \$ (1,694,731) 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	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 11,856,034	\$ 8,749,433	\$ 10,240,011	\$ 10,182,001	\$ 22,096,045	\$ 18,931,434
Capital assets	<u>54,912,064</u>	<u>52,491,348</u>	<u>26,931,343</u>	<u>24,426,164</u>	<u>81,843,407</u>	<u>76,917,512</u>
Total assets	66,768,098	61,240,781	37,171,354	34,608,165	103,939,452	95,848,946
Long-term liabilities outstanding	30,846,751	27,311,962	13,551,563	12,781,372	44,398,314	40,093,334
Other liabilities	<u>2,962,390</u>	<u>691,960</u>	<u>2,098,378</u>	<u>1,357,089</u>	<u>5,060,768</u>	<u>2,049,049</u>
Total liabilities	33,809,141	28,003,922	15,649,941	14,138,461	49,459,082	42,142,383
Net assets:						
Invested in capital assets, net	33,335,109	30,482,666	18,089,119	14,620,631	51,424,228	45,103,297
Restricted	2,363,402	2,442,447	-	-	2,363,402	2,442,447
Unrestricted	<u>( 2,739,554)</u>	<u>311,746</u>	<u>3,432,294</u>	<u>5,849,073</u>	<u>692,740</u>	<u>6,160,819</u>
Total net assets	\$ <u>32,958,957</u>	\$ <u>33,236,859</u>	\$ <u>21,521,413</u>	\$ <u>20,469,704</u>	\$ <u>54,480,370</u>	\$ <u>53,706,563</u>

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,861,326	\$ 3,790,956	\$ 8,585,288	\$ 11,024,460	\$ 12,446,614	\$ 14,815,416
Operating grants and contributions	15,789,981	16,251,312	-	-	15,789,981	16,251,312
Capital grants and contributions	1,138,760	767,271	-	-	1,138,760	767,271
General revenues:						
Property taxes	46,312,634	44,242,402	-	-	46,312,634	44,242,402
Excises	3,009,381	3,127,200	-	-	3,009,381	3,127,200
Penalties and interest on taxes	292,186	390,154	-	-	292,186	390,154
Fines and forfeitures	248,490	200,960	-	-	248,490	200,960
Grants and contributions not restricted to specific programs	4,424,443	4,598,956	-	-	4,424,443	4,598,956
Investment income	216,079	397,469	-	-	216,079	397,469
Other	<u>851,147</u>	<u>654,568</u>	<u>-</u>	<u>-</u>	<u>851,147</u>	<u>654,568</u>
Total revenues	<u>76,144,427</u>	<u>74,421,248</u>	<u>8,585,288</u>	<u>11,024,460</u>	<u>84,729,715</u>	<u>85,445,708</u>
Expenses:						
General government	735,582	4,052,613	-	-	735,582	4,052,613
Public safety	10,949,367	10,046,007	-	-	10,949,367	10,046,007
Education	36,654,330	33,439,760	-	-	36,654,330	33,439,760
Public works	3,577,779	4,257,210	-	-	3,577,779	4,257,210
Human services	2,212,114	2,302,678	-	-	2,212,114	2,302,678
Culture and recreation	850,668	715,480	-	-	850,668	715,480
Employee benefits	18,765,568	11,891,943	-	-	18,765,568	11,891,943
Interest on long-term debt	799,478	890,517	-	-	799,478	890,517
Intergovernmental	1,613,881	2,440,346	-	-	1,613,881	2,440,346
Miscellaneous	111,324	56,823	-	-	111,324	56,823
Water	-	-	4,455,659	3,584,305	4,455,659	3,584,305
Sewer	-	-	2,971,697	3,193,431	2,971,697	3,193,431
Ice rink	-	-	272,236	683,009	272,236	683,009
Landfill closure	-	-	-	112,509	-	112,509
Total expenses	<u>76,270,091</u>	<u>70,093,377</u>	<u>7,699,592</u>	<u>7,573,254</u>	<u>83,969,683</u>	<u>77,666,631</u>
Change in net assets before permanent fund contributions and transfers	( 125,664)	4,327,871	885,696	3,451,206	760,032	7,779,077
Permanent fund contributions	13,775	13,387	-	-	13,775	13,387
Transfers in (out)	( 166,013)	<u>774,761</u>	<u>166,013</u>	( 774,761)	-	-
Change in net assets	( 277,902)	5,116,019	1,051,709	2,676,445	773,807	7,792,464
Net assets - beginning of year	<u>33,236,859</u>	<u>28,120,840</u>	<u>20,469,704</u>	<u>17,793,259</u>	<u>53,706,563</u>	<u>45,914,099</u>
Net assets - end of year	<u>\$ 32,958,957</u>	<u>\$ 33,236,859</u>	<u>\$ 21,521,413</u>	<u>\$ 20,469,704</u>	<u>\$ 54,480,370</u>	<u>\$ 53,706,563</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 \$ 54,480,370, a change of \$ 773,807 from the prior year.

The largest portion of net assets \$ 51,424,228 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 \$ 2,363,402 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 \$ 692,740.

**Governmental activities.** Governmental activities for the year resulted in a change in net assets of \$ (277,902). Key elements of this change are as follows:

	Governmental Activities
General fund operating results	\$ 1,185,065
Nonmajor funds - accrual basis	5,952,942
Internal service fund operating results	( 853,168)
Principal debt service, which is budgeted, less depreciation expense, which is not budgeted	(1,376,382)
Change in compensated absences as compared with prior year	70,150
Change in deferred revenue compared with prior year	599,261
OPEB liability	(5,954,364)
Other	<u>98,594</u>
Total	\$ ( <u>277,902</u> )

**Business-type activities.** Business-type activities for the year resulted in a change in net assets of \$ 1,051,709. Key elements of this change are as follows:

Water Fund	\$( 620,672)
Sewer Fund	1,003,913
Ice Rink Fund	665,767
Landfill Closure Fund	<u>2,701</u>
Total	\$ <u>1,051,709</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 \$ 7,294,567, a change of \$ 1,080,910 in comparison with the prior year. Most of this change was attributable to the following:

	Governmental Funds
General fund operating results	\$ 1,185,065
Nonmajor funds operating results	( 104,155)
Total	\$ <u>1,080,910</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 \$ 1,935,273, while total fund balance was \$ 3,134,989. 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 2.9 percent of total general fund expenditures, while total fund balance represents 4.6 percent of that same amount.

The fund balance of the general fund changed by \$ 1,185,065 during the current fiscal year. Key factors in this change are as follows:

	General Fund
Revenue surplus compared to budget estimate	\$( 616,565)
Actual expenditures less budgeted expenditures	158,021
Excess tax collections versus net assessment	( 76,597)
Prior year encumbrances spent in the current year	930,756
Raising of prior year deficits on the current year tax levy	<u>789,450</u>
Total	\$ <u>1,185,065</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 \$ 3,432,294. 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.

The budget and actual statement reflects an under collection of Intergovernmental revenue primarily resulting from State Aid (Chapter 70) reductions implemented by the Commonwealth in fiscal year 2009. The Chapter 70 reductions were partially offset by an American Recovery and Reinvestment Act (ARRA) grant which is reported in a separate major fund in accordance with the transparency requirements of the Act. The general fund revenue shortfall is offset by

budgetary turn backs in education expenditures. The turn backs result from the Town transferring cost to the ARRA major fund.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 81,843,407 (net of accumulated depreciation), a change of \$ 4,925,895 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:

- \$ 1,349,721 of water lines added to construction in progress.
- \$ 5,402,496 of water construction in progress reclassified to fixed assets and started to depreciate.
- \$ 4,837,257 of sewer construction in progress reclassified to infrastructure and started to depreciate.
- Sewer purchased a new truck for \$ 175,874.
- \$ 2,259,433 of sewer upgrades added to construction in progress
- \$ 1,487,448 of roadway construction related to Chapter 90 funding was added to construction in progress.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 31,932,781, 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 had 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. In fiscal year 2009, the administration feels 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 the Town Accountant  
Town of Saugus, Massachusetts  
Town Hall  
298 Central Street  
Saugus, Massachusetts 01906

## TOWN OF SAUGUS, MASSACHUSETTS

## STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 9,660,402	\$ 5,951,220	\$ 15,611,622
Investments	8,045	5,187	13,232
Receivables, net of allowance for uncollectibles:			
Property taxes	871,241	-	871,241
Excises	212,247	-	212,247
User fees	-	4,357,664	4,357,664
Departmental and other	187,880	-	187,880
Intergovernmental	434,183	-	434,183
Internal balances	74,060	(74,060)	-
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	407,976	-	407,976
Capital assets:			
Land and construction in progress	13,471,568	8,213,377	21,684,945
Other assets, net of accumulated depreciation	41,440,496	18,717,966	60,158,462
<b>TOTAL ASSETS</b>	<b>66,768,098</b>	<b>37,171,354</b>	<b>103,939,452</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	1,054,774	87,660	1,142,434
Accounts payable	559,109	448,917	1,008,026
Accrued liabilities	285,826	86,801	372,627
Tax refund payable	105,723	-	105,723
Notes payable	733,000	1,475,000	2,208,000
Other current liabilities	223,958	-	223,958
Current portion of long-term liabilities:			
Bonds payable	2,235,000	1,428,410	3,663,410
Other liabilities	573,295	47,929	621,224
Noncurrent:			
Bonds payable, net of current portion	17,495,000	10,774,371	28,269,371
OPEB liability	5,954,364	221,988	6,176,352
Other liabilities, net of current portion	4,589,092	1,078,865	5,667,957
<b>TOTAL LIABILITIES</b>	<b>33,809,141</b>	<b>15,649,941</b>	<b>49,459,082</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	33,335,109	18,089,119	51,424,228
Restricted for:			
Grants and other statutory restrictions	1,124,343	-	1,124,343
Permanent funds:			
Nonexpendable	1,087,181	-	1,087,181
Expendable	151,878	-	151,878
Unrestricted	(2,739,554)	3,432,294	692,740
<b>TOTAL NET ASSETS</b>	<b>\$ 32,958,957</b>	<b>\$ 21,521,413</b>	<b>\$ 54,480,370</b>

See notes to financial statements.

## TOWN OF SAUGUS, MASSACHUSETTS

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 735,582	\$ 1,095,778	\$ 10,500	\$ -	\$ 370,696	\$ -	\$ 370,696
Public safety	10,949,367	819,563	405,507	-	(9,724,297)	-	(9,724,297)
Education	36,654,330	1,279,712	14,700,894	554,577	(20,119,147)	-	(20,119,147)
Public works	3,577,779	133,269	407,647	584,183	(2,452,680)	-	(2,452,680)
Health and human services	2,212,114	423,120	103,305	-	(1,685,689)	-	(1,685,689)
Culture and recreation	850,668	65,902	162,128	-	(622,638)	-	(622,638)
Employee benefits	18,765,568	43,982	-	-	(18,721,586)	-	(18,721,586)
Interest	799,478	-	-	-	(799,478)	-	(799,478)
Intergovernmental	1,613,881	-	-	-	(1,613,881)	-	(1,613,881)
Miscellaneous	111,324	-	-	-	(111,324)	-	(111,324)
Total Governmental Activities	76,270,091	3,861,326	15,789,981	1,138,760	(55,480,024)	-	(55,480,024)
<b>Business-Type Activities:</b>							
Water services	4,455,659	4,212,550	-	-	-	(243,109)	(243,109)
Sewer services	2,971,697	4,360,771	-	-	-	1,389,074	1,389,074
Ice rink	272,236	9,266	-	-	-	(262,970)	(262,970)
Landfill closure	-	2,701	-	-	-	2,701	2,701
Total Business-Type Activities	7,699,592	8,585,288	-	-	-	885,696	885,696
Total	<u>\$ 83,969,683</u>	<u>\$ 12,446,614</u>	<u>\$ 15,789,981</u>	<u>\$ 1,138,760</u>	(55,480,024)	885,696	(54,594,328)
<b>General Revenues, Contributions and Transfers:</b>							
Property taxes					46,312,634	-	46,312,634
Excises					3,009,381	-	3,009,381
Penalties, interest, and other taxes					292,186	-	292,186
Fines and forfeitures					248,490	-	248,490
Grants and contributions not restricted to specific programs					4,424,443	-	4,424,443
Investment income					216,079	-	216,079
Miscellaneous					851,147	-	851,147
Contributions					13,775	-	13,775
Transfers, net					(166,013)	166,013	-
Total general revenues and transfers					<u>55,202,122</u>	<u>166,013</u>	<u>55,368,135</u>
Change in Net Assets					(277,902)	1,051,709	773,807
<b>Net Assets:</b>							
Beginning of year					<u>33,236,859</u>	<u>20,469,704</u>	<u>53,706,563</u>
End of year					<u>\$ 32,958,957</u>	<u>\$ 21,521,413</u>	<u>\$ 54,480,370</u>

See notes to financial statements.

## TOWN OF SAUGUS, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2009

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 4,086,090	\$ 5,127,644	\$ 9,213,734
Investments	3,103	4,942	8,045
Receivables:			
Property taxes	1,654,207	-	1,654,207
Excises	497,668	-	497,668
Departmental and other	210,426	-	210,426
Intergovernmental	-	434,183	434,183
Due from other funds	<u>74,060</u>	<u>-</u>	<u>74,060</u>
TOTAL ASSETS	<u>\$ 6,525,554</u>	<u>\$ 5,566,769</u>	<u>\$ 12,092,323</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Warrants payable	\$ 939,692	\$ 115,082	\$ 1,054,774
Accounts payable	-	559,109	559,109
Deferred revenues	2,121,192	-	2,121,192
Anticipation notes payable	-	733,000	733,000
Tax refunds payable	105,723	-	105,723
Other liabilities	<u>223,958</u>	<u>-</u>	<u>223,958</u>
TOTAL LIABILITIES	3,390,565	1,407,191	4,797,756
Fund Balances:			
Reserved for:			
Encumbrances and continuing appropriations	1,199,716	448,979	1,648,695
Perpetual permanent funds	-	1,087,181	1,087,181
Unreserved:			
Undesignated, reported in:			
General fund	1,935,273	-	1,935,273
Special revenue funds	-	3,074,160	3,074,160
Capital project funds	-	(602,620)	(602,620)
Permanent funds	<u>-</u>	<u>151,878</u>	<u>151,878</u>
TOTAL FUND BALANCES	<u>3,134,989</u>	<u>4,159,578</u>	<u>7,294,567</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,525,554</u>	<u>\$ 5,566,769</u>	<u>\$ 12,092,323</u>

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, 2009

<b>Total governmental fund balances</b>	\$ 7,294,567
<ul style="list-style-type: none"><li>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.</li></ul>	54,912,064
<ul style="list-style-type: none"><li>Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	1,438,235
<ul style="list-style-type: none"><li>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.</li></ul>	446,668
<ul style="list-style-type: none"><li>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(285,826)
<ul style="list-style-type: none"><li>Long-term liabilities, including accrued vacation time, note payable, and OPEB liability, are not due and payable in the current period and, therefore, are not reported in governmental funds</li></ul>	<u>(30,846,751)</u>
<b>Net assets of governmental activities</b>	<b>\$ <u>32,958,957</u></b>

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, 2009

	<u>General Fund</u>	<u>ARRA Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 45,832,322	\$ -	\$ -	\$ 45,832,322
Excises	3,066,602	-	-	3,066,602
Penalties, interest and other taxes	292,186	-	-	292,186
Fines and forfeitures	258,181	-	-	258,181
Charges for services	563,180	-	2,054,610	2,617,790
Intergovernmental	17,189,002	440,788	3,715,104	21,344,894
Licenses and permits	1,034,973	-	1,880	1,036,853
Investment income	153,469	-	48,688	202,157
Miscellaneous	745,909	-	105,238	851,147
Contributions	-	-	22,065	22,065
Total Revenues	<u>69,135,824</u>	<u>440,788</u>	<u>5,947,585</u>	<u>75,524,197</u>
<b>Expenditures:</b>				
Current:				
General government	2,421,948	-	418,604	2,840,552
Public safety	9,894,016	-	467,883	10,361,899
Education	32,418,516	440,788	3,131,227	35,990,531
Public works	4,004,343	-	1,352,716	5,357,059
Health and human services	1,772,771	-	463,071	2,235,842
Culture and recreation	562,216	-	212,033	774,249
Employee benefits	12,000,131	-	-	12,000,131
Articles	111,324	-	-	111,324
Debt service	3,091,806	-	-	3,091,806
Intergovernmental	1,613,881	-	-	1,613,881
Total Expenditures	<u>67,890,952</u>	<u>440,788</u>	<u>6,045,534</u>	<u>74,377,274</u>
Excess (deficiency) of revenues over expenditures	1,244,872	-	(97,949)	1,146,923
<b>Other Financing Sources (Uses):</b>				
Transfers in	886,818	-	71,197	958,015
Transfers out	(946,625)	-	(77,403)	(1,024,028)
Total Other Financing Sources (Uses)	<u>(59,807)</u>	<u>-</u>	<u>(6,206)</u>	<u>(66,013)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,185,065	-	(104,155)	1,080,910
Fund Equity, at Beginning of Year	<u>1,949,924</u>	<u>-</u>	<u>4,263,733</u>	<u>6,213,657</u>
Fund Equity, at End of Year	<u>\$ 3,134,989</u>	<u>\$ -</u>	<u>\$ 4,159,578</u>	<u>\$ 7,294,567</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, 2009

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 1,080,910</b>												
<ul style="list-style-type: none"> <li>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: <table> <tr> <td style="padding-left: 40px;">Capital outlay purchases - net of disposals</td><td style="text-align: right;">6,057,097</td></tr> <tr> <td style="padding-left: 40px;">Depreciation</td><td style="text-align: right;">(3,636,382)</td></tr> </table> </li> <li>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. <div style="text-align: right;">576,101</div> </li> <li>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: <table> <tr> <td style="padding-left: 40px;">Repayments of debt - bonds</td><td style="text-align: right;">2,260,000</td></tr> <tr> <td style="padding-left: 40px;">Repayments of debt - lease</td><td style="text-align: right;">89,425</td></tr> </table> </li> <li>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <div style="text-align: right;">32,329</div> </li> <li>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. <table> <tr> <td style="padding-left: 40px;">Compensated absences</td><td style="text-align: right;">70,150</td></tr> <tr> <td style="padding-left: 40px;">OPEB liability</td><td style="text-align: right;">(5,954,364)</td></tr> </table> </li> <li>Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of the internal service fund is reported in the governmental activities in the Statement of Net Assets. <div style="text-align: right;"><u>(853,168)</u></div> </li> </ul>	Capital outlay purchases - net of disposals	6,057,097	Depreciation	(3,636,382)	Repayments of debt - bonds	2,260,000	Repayments of debt - lease	89,425	Compensated absences	70,150	OPEB liability	(5,954,364)	
Capital outlay purchases - net of disposals	6,057,097												
Depreciation	(3,636,382)												
Repayments of debt - bonds	2,260,000												
Repayments of debt - lease	89,425												
Compensated absences	70,150												
OPEB liability	(5,954,364)												
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>(277,902)</u></b>												

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, 2009

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and Other Sources:</b>				
Taxes	\$ 45,908,919	45,908,919	\$ 45,908,919	\$ -
Excise	2,990,000	2,990,000	3,066,602	76,602
Penalties, interest, and other taxes	365,000	365,000	292,186	(72,814)
Fines and forfeitures	195,000	195,000	258,181	63,181
Charges for services	588,000	588,000	563,180	(24,820)
Intergovernmental	10,136,935	10,136,935	9,317,537	(819,398)
Licenses and permits	981,300	981,300	1,034,973	53,673
Investment income	200,000	200,000	153,469	(46,531)
Miscellaneous	606,461	606,461	745,909	139,448
Transfers in	872,724	872,724	886,818	14,094
Total Revenues and Other Sources	62,844,339	62,844,339	62,227,774	(616,565)
<b>Expenditures and Other Uses:</b>				
General government	2,453,325	2,391,325	2,377,886	13,439
Public safety	10,034,989	10,042,989	9,939,881	103,108
Education	25,532,723	25,532,723	25,093,043	439,680
Public works	2,947,411	3,162,901	4,022,068	(859,167)
Health and human services	1,915,016	1,850,016	1,819,903	30,113
Culture and recreation	568,656	568,656	556,321	12,335
Debt service	3,091,809	3,091,809	3,091,809	-
Intergovernmental	1,701,621	1,701,621	1,613,881	87,740
Employee benefits	12,767,601	12,671,111	12,346,952	324,159
Articles	113,000	113,000	88,498	24,502
Other	789,451	789,451	789,451	-
Transfers out	928,737	928,737	946,625	(17,888)
Total Expenditures and Other Uses	62,844,339	62,844,339	62,686,318	158,021
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (458,544)	\$ (458,544)

See notes to financial statements.

## TOWN OF SAUGUS, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2009

	Business-Type Activities Enterprise Funds					Governmental Activities
	Water Fund	Sewer Fund	Ice Rink Fund	Landfill Closure Fund	Total	Internal Service Funds
<b><u>ASSETS</u></b>						
Current:						
Cash and short-term investments	\$ 2,354,860	\$ 3,578,498	\$ -	\$ 17,862	\$ 5,951,220	\$ 446,668
Investments	-	5,187	-	-	5,187	-
Receivables, net of allowance for uncollectibles:						
User fees, net of allowance for uncollectibles	2,398,027	1,959,637	-	-	4,357,664	-
Total current assets	4,752,887	5,543,322	-	17,862	10,314,071	446,668
Noncurrent:						
Construction in process	3,258,998	4,954,379	-	-	8,213,377	-
Capital assets, net of accumulated depreciation	6,805,243	9,942,703	1,970,020	-	18,717,966	-
Total noncurrent assets	10,064,241	14,897,082	1,970,020	-	26,931,343	-
<b>TOTAL ASSETS</b>	14,817,128	20,440,404	1,970,020	17,862	37,245,414	446,668
<b><u>LIABILITIES</u></b>						
Current:						
Warrants payable	10,208	77,452	-	-	87,660	-
Accounts payable	275,817	173,100	-	-	448,917	-
Accrued liabilities	11,650	75,151	-	-	86,801	-
Due to other funds	-	-	74,060	-	74,060	-
Notes payable	-	1,475,000	-	-	1,475,000	-
Current portion of long-term liabilities:						
Bonds payable	966,807	461,603	-	-	1,428,410	-
Other liabilities	10,933	1,996	-	35,000	47,929	-
Total current liabilities	1,275,415	2,264,302	74,060	35,000	3,648,777	-
Noncurrent:						
Bonds payable, net of current portion	5,169,946	5,604,425	-	-	10,774,371	-
OPEB liability	121,056	100,932	-	-	221,988	-
Other liabilities, net of current portion	98,402	17,963	-	962,500	1,078,865	-
Total noncurrent liabilities	5,389,404	5,723,320	-	962,500	12,075,224	-
<b>TOTAL LIABILITIES</b>	6,664,819	7,987,622	74,060	997,500	15,724,001	-
<b><u>NET ASSETS</u></b>						
Invested in capital assets, net of related debt	5,611,293	10,507,807	1,970,019	-	18,089,119	-
Unrestricted	2,541,016	1,944,975	(74,059)	(979,638)	3,432,294	446,668
<b>TOTAL NET ASSETS</b>	\$ 8,152,309	\$ 12,452,782	\$ 1,895,960	\$ (979,638)	\$ 21,521,413	\$ 446,668

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, 2009

	Business-Type Activities Enterprise Funds					Governmental Activities
	Water Fund	Sewer Fund	Ice Rink Fund	Landfill Closure Fund	Total	Internal Service Fund
<b>Operating Revenues:</b>						
Charges for services	\$ 4,148,273	\$ 3,518,509	\$ 9,266	\$ -	\$ 7,676,048	\$ -
Employee and employer contributions	-	-	-	-	-	43,982
Total Operating Revenues	4,148,273	3,518,509	9,266	-	7,676,048	43,982
<b>Operating Expenses:</b>						
Operating expenses	3,669,869	2,002,954	153,305	-	5,826,128	-
Depreciation	629,534	703,821	118,931	-	1,452,286	-
Employee benefits	121,056	100,932	-	-	221,988	811,073
Total Operating Expenses	4,420,459	2,807,707	272,236	-	7,500,402	811,073
Operating Income (Loss)	(272,186)	710,802	(262,970)	-	175,646	(767,091)
<b>Nonoperating Revenues (Expenses):</b>						
Intergovernmental revenue	-	822,987	-	-	822,987	-
Investment income	64,277	19,275	-	2,701	86,253	13,923
Interest expense	(35,200)	(163,990)	-	-	(199,190)	-
Total Nonoperating Revenues (Expenses), Net	29,077	678,272	-	2,701	710,050	13,923
Income (Loss) Before Transfers	(243,109)	1,389,074	(262,970)	2,701	885,696	(753,168)
<b>Other financing sources and uses:</b>						
Transfers in	-	-	928,737	-	928,737	-
Transfers out	(377,563)	(385,161)	-	-	(762,724)	(100,000)
Total other financing sources and uses	(377,563)	(385,161)	928,737	-	166,013	-
Change in Net Assets	(620,672)	1,003,913	665,767	2,701	1,051,709	(853,168)
Net Assets at Beginning of Year	8,772,981	11,448,869	1,230,193	(982,339)	20,469,704	1,299,836
Net Assets at End of Year	\$ 8,152,309	\$ 12,452,782	\$ 1,895,960	\$ (979,638)	\$ 21,521,413	\$ 446,668

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Enterprise Funds					Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Ice Rink Fund	Landfill Closure Fund	Total	
<b><u>Cash Flows From Operating Activities:</u></b>						
Receipts from customers and users	\$ 4,627,858	\$ 3,798,204	\$ 79,245	\$ -	\$ 8,505,307	\$ -
Payments to vendors and employees	(3,531,515)	(1,921,368)	(79,245)	(35,000)	(5,567,128)	-
Receipts from employees and employer	-	-	-	-	-	52,042
Payments of employee benefits and expenses	-	-	-	-	-	(811,073)
Net Cash Provided By (Used For) Operating Activities	1,096,343	1,876,836	-	(35,000)	2,938,179	(759,031)
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>						
Interfund borrowing	-	-	(928,737)	-	(928,737)	-
Intergovernmental funding	-	822,987	-	-	822,987	-
Operating transfers in (out)	(377,563)	(385,161)	928,737	-	166,013	(100,000)
Net Cash (Used For) Noncapital Financing Activities	(377,563)	437,826	-	-	60,263	(100,000)
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>						
Acquisition and construction of capital assets	(1,375,533)	(2,581,930)	-	-	(3,957,463)	-
Short-term borrowing proceeds	-	1,475,000	-	-	1,475,000	-
Bond proceeds	-	508,050	-	-	508,050	-
Principal payments on bonds and notes	911,151	(331,554)	-	-	579,597	-
Interest expense	(36,833)	(183,668)	-	-	(220,501)	-
Net Cash (Used For) Capital and Related Financing Activities	(501,215)	(1,114,102)	-	-	(1,615,317)	-
<b><u>Cash Flows From Investing Activities:</u></b>						
Investment income	64,278	19,275	-	2,701	86,254	13,923
Decrease in deposits held by others	-	-	-	-	-	110,594
Investment (purchases) sales	-	921,878	-	-	921,878	-
Net Cash (Used For) Investing Activities	64,278	941,153	-	2,701	1,008,132	124,517
Net Change in Cash and Short-Term Investments	281,843	2,141,713	-	(32,299)	2,391,257	(734,514)
Cash and Short-Term Investments, Beginning of Year	2,073,017	1,436,785	-	50,161	3,559,963	1,181,182
Cash and Short-Term Investments, End of Year	\$ 2,354,860	\$ 3,578,498	\$ -	\$ 17,862	\$ 5,951,220	\$ 446,668
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>						
Operating income (loss)	\$ (272,186)	\$ 710,802	\$ (262,970)	\$ -	\$ 175,646	\$ (767,091)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	629,533	703,821	118,931	-	1,452,285	-
Changes in assets and liabilities:						
User fees	479,584	279,695	69,980	-	829,259	-
Departmental and other receivables	-	-	-	(35,000)	(35,000)	8,060
Accounts payable	120,970	81,038	-	-	202,008	-
OPEB liability	121,056	100,932	-	-	221,988	-
Other liabilities	17,386	548	74,059	-	91,993	-
Net Cash Provided By (Used For) Operating Activities	\$ 1,096,343	\$ 1,876,836	\$ -	\$ (35,000)	\$ 2,938,179	\$ (759,031)

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2009

	Pension Trust Fund (As of <u>December 31, 2008</u> )	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<b><u>ASSETS</u></b>			
Cash and short-term investments	\$ 425,562	\$ 217,942	\$ 335,060
Investments	44,642,093	507	-
Accounts receivable	<u>3,263,944</u>	<u>-</u>	<u>-</u>
Total Assets	48,331,599	218,449	335,060
<b><u>LIABILITIES AND NET ASSETS</u></b>			
Warrants payable	82,024	-	43,427
Other liabilities	<u>-</u>	<u>-</u>	<u>291,633</u>
Total Liabilities	<u>82,024</u>	<u>-</u>	<u>335,060</u>
<b><u>NET ASSETS</u></b>			
Total net assets held in trust for pension benefits pension and other purposes	\$ <u><u>48,249,575</u></u>	\$ <u><u>218,449</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

	Pension Trust Fund (For the Year Ended December 31, 2008)	Private Purpose Trust Funds
<b>Additions:</b>		
Contributions:		
Employers	\$ 3,971,725	\$ -
Other systems and Commonwealth of Massachusetts	204,202	-
Plan members	1,395,387	-
Total contributions	<u>5,571,314</u>	<u>-</u>
Investment Income (Loss):	-	4,645
Increase (decrease) in fair value of investments	(18,905,680)	-
Less: management fees	(277,314)	-
Net investment income (loss)	<u>(19,182,994)</u>	<u>4,645</u>
Total additions	(13,611,680)	4,645
<b>Deductions:</b>		
Benefit payments to plan members and beneficiaries	5,802,476	-
Refunds to plan members	235,048	-
Administrative expenses	90,797	-
Other	4,920	29,949
Total deductions	<u>6,133,241</u>	<u>29,949</u>
Net increase (decrease)	(19,744,921)	(25,304)
<b>Net assets:</b>		
Beginning of year	<u>67,994,496</u>	<u>243,753</u>
End of year	<u>\$ 48,249,575</u>	<u>\$ 218,449</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.
- The *ARRA (American Recovery and Reinvestment Act) Fund* is used to account for the receipt and expenditure of federal "stimulus" funds awarded to the community to replace some of the fiscal year 2009 chapter 70 state aid reductions.

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 2009 tax levy reflected an excess capacity of \$ 2,957.

*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 are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Water/sewer infrastructure	50 - 75
Lighting equipment	7
Vehicles	5
Office equipment	5
Computer equipment	5

#### *I. Compensated Absences*

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

#### *J. Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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.

M. Material Changes in Classifications

The accompanying financial statements reflect various changes in classification from the prior year. Specifically, police drug seizure funds were reclassified from expendable trust funds to special revenue funds. While classifications of fund balance changed as a result, overall non-major fund balance values remained the same.

**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)	\$ 69,135,824	\$ 67,890,952
Other financing sources/uses (GAAP basis)	<u>886,818</u>	<u>946,625</u>
Subtotal (GAAP Basis)	70,026,642	68,837,577
Adjust tax revenue to accrual basis	76,597	-
Reverse beginning of year appropriation carryforwards from expenditures	-	( 268,960)
Add end of year appropriation carryforwards to expenditures	-	1,199,716
To reverse the effect of non-budgeted State contributions for teachers retirement	( 7,871,465)	( 7,871,465)
To raising of prior year snow and ice deficit	<u>-</u>	<u>789,450</u>
Budgetary basis	\$ <u><u>62,227,774</u></u>	\$ <u><u>62,686,318</u></u>

D. Excess of Expenditures Over Appropriations

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

Ice arena	\$ ( 26,108)
Public Works:	
Snow and ice	\$ (830,214)
Treasurer	\$ ( 4,729)
Building Maintenance and Construction	\$ ( 11,100)

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2009:

Special Revenue Funds:

FEMA Grant - Shute Brook	\$ (247,330)
SPED Program Improvement - FY 2007	\$ ( 27,736)
SPED Program Improvement - FY 2008	\$ ( 14,303)
SPED 94-142 - FY 2003	\$ ( 350)
SPED – Early Childhood 2009	\$ ( 2,930)
Enhanced Ed Thru Tech 2007	\$ ( 2,846)
Enhanced Ed Thru Tech 2008	\$ ( 3,166)
Teacher Quality 2006	\$ ( 50,713)
Special Assistance in Mentoring	\$ ( 20)
SPED Corrective Action 2007	\$ ( 10,530)
Safe Schools II 2009	\$ ( 1,500)
Housing Rehabilitation	\$ ( 5,042)
Fire Fighting Equipment - 2009	\$ ( 1,145)
Chelsea Health Grant 2003	\$ ( 2,174)
Substance Abuse Grant 2007	\$ ( 14,346)
Substance Abuse Grant 2008/2009	\$ ( 12,132)
Full day kindergarten	\$ ( 375)
Fire Code Violations	\$ ( 417)
Veterans memorial enrichment	\$ ( 112)
Kasabuski Arena Donations	\$ ( 21,678)

Capital Project Funds:

Textbooks School Department	\$ (300,000)
Repair Main Pump Station	\$ (196,035)
MWPAT - SSO/DEP	\$ ( 62,947)
Highway Chapter 90	\$ (653,453)
Capital Equipment H.F. Sewer Truck	\$ (175,874)
Briggs Court & Oakhill Road	\$ ( 34,198)

Enterprise Funds:

Landfill	\$ (979,638)
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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 and Contributory Retirement System's (the System) deposits may not be returned. 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 percent 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." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The Town and System's investment policy limits cash balances in any one institution to 25% of total cash balances held by the Treasurer.

As of June 30, 2009 and December 31, 2008, \$ 7,284,533 and \$ 96,029 of the Town's and System's bank balances of \$ 15,807,854 and \$ 297,205, respectively, were exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's and System'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>14</u>	N/A	\$ <u>-</u>	\$ <u>14</u>	\$ <u>-</u>	\$ <u>-</u>
Total investments	\$ <u>14</u>		\$ <u>-</u>	\$ <u>14</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>44,642</u>	N/A	\$ <u>44,642</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Total investments	\$ <u>44,642</u>		\$ <u>44,642</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 \$ 13,739, the government has a custodial credit risk exposure of \$ 13,739 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):

<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:					
Federal agency securities	\$ <u>14</u>	\$ <u>-</u>	\$ <u>14</u>	\$ <u>-</u>	\$ <u>-</u>
Total	\$ <u>14</u>	\$ <u>-</u>	\$ <u>14</u>	\$ <u>-</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 1<sup>st</sup> 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, 2009 consist of the following (in thousands):

Real Estate	
2009	\$ 523
Personal Property	295
Tax Liens	<u>836</u>
Total	\$ <u>1,654</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	\$ 375	\$ -
Excises	285	-
Utilities	-	122
Departments	23	-

#### 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2009.

#### 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, 2009 balances in interfund receivable and payable accounts:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 74,060	\$ -
Ice Arena	<u>-</u>	<u>74,060</u>
Total	\$ <u>74,060</u>	\$ <u>74,060</u>

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 52,121	\$ 720	\$ -	\$ 52,841
Machinery, equipment, and furnishings	7,581	745	( 133)	8,193
Infrastructure	<u>22,745</u>	<u>4,466</u>	<u>-</u>	<u>27,211</u>
Total capital assets, being depreciated	82,447	5,931	( 133)	88,245
Less accumulated depreciation for:				
Buildings and improvements	(20,550)	(1,360)	-	(21,910)
Machinery, equipment, and furnishings	( 5,650)	( 926)	133	( 6,443)
Infrastructure	<u>(17,101)</u>	<u>(1,350)</u>	<u>-</u>	<u>(18,451)</u>
Total accumulated depreciation	<u>(43,301)</u>	<u>(3,636)</u>	<u>133</u>	<u>(46,804)</u>
Total capital assets, being depreciated, net	39,146	2,295	-	41,441
Capital assets, not being depreciated:				
Land	8,138	-	-	8,138
Construction in progress	<u>5,207</u>	<u>1,487</u>	<u>(1,361)</u>	<u>5,333</u>
Total capital assets, not being depreciated	<u>13,345</u>	<u>1,487</u>	<u>(1,361)</u>	<u>13,471</u>
Governmental activities capital assets, net	\$ <u>52,491</u>	\$ <u>3,782</u>	\$ <u>(1,361)</u>	\$ <u>54,912</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,800	\$ -	\$ -	\$ 3,800
Machinery, equipment, and furnishings	499	2,310	( 18)	2,791
Infrastructure	<u>17,704</u>	<u>8,090</u>	<u>-</u>	<u>25,794</u>
Total capital assets, being depreciated	22,003	10,400	( 18)	32,385
Less accumulated depreciation for:				
Buildings and improvements	( 1,613)	( 117)	-	( 1,730)
Machinery, equipment, and furnishings	( 363)	( 309)	18	( 654)
Infrastructure	<u>(10,257)</u>	<u>( 1,026)</u>	<u>-</u>	<u>(11,283)</u>
Total accumulated depreciation	<u>(12,233)</u>	<u>( 1,452)</u>	<u>18</u>	<u>(13,667)</u>
Total capital assets, being depreciated, net	9,770	8,948	-	18,718
Capital assets, not being depreciated:				
Land	64	-	-	64
Construction in progress	<u>14,592</u>	<u>3,797</u>	<u>(10,240)</u>	<u>8,149</u>
Total capital assets, not being depreciated	<u>14,656</u>	<u>3,797</u>	<u>(10,240)</u>	<u>8,213</u>
Business-type activities capital assets, net	\$ <u>24,426</u>	\$ <u>12,745</u>	\$ <u>(10,240)</u>	\$ <u>26,931</u>

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

Governmental Activities:	
General government	\$ 770
Public safety	628
Education	848
Public works	1,256
Culture and recreation	131
Other	<u>3</u>
Total depreciation expense - governmental activities	\$ <u>3,636</u>
Business-Type Activities:	
Water	\$ 629
Sewer	704
Ice rink	<u>119</u>
Total depreciation expense - business-type activities	\$ <u>1,452</u>

#### 10. **Warrants and Accounts Payable**

Warrants payable represent 2009 expenditures paid by July 15, 2009 as permitted by law. Accounts payable represent additional 2009 expenditures paid after July 15, 2009.

#### 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, 2009 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

#### 12. **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.

#### 13. **Anticipation Notes Payable**

The Town had the following notes outstanding at June 30, 2009:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/09</u>
Bond anticipation	2.75%	03/03/09	03/03/10	\$ <u>2,208,000</u>

The following summarizes activity in notes payable during fiscal year 2009 (in thousands):

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ -	\$ 2,208	\$ -	\$ 2,208
Total	\$ -	\$ 2,208	\$ -	\$ 2,208

#### 14. 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, 2009:

	<u>Capital Lease</u>
2010	\$ 106,317
2011	106,317
2012	106,317
2013	<u>70,877</u>
Total minimum lease payments	389,828
Less amount representing interest	( <u>28,591</u> )
Present Value of Minimum Lease Payments	\$ <u>361,237</u>

#### 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	Interest Rate(s)%	Amount Outstanding as of June 30, 2009
<u>Governmental Activities:</u>	<u>Through</u>		
General Obligation Bonds	02/15/23	2.500 - 5.000	\$ 11,480,000
General Obligation Bonds	08/15/14	3.550	540,000
General Obligation Bonds - Refinancing	08/15/14	3.550	2,760,000
General Obligation Bonds - Refinancing	08/15/15	3.550	3,435,000
General Obligation Bonds	06/30/17	4.000 - 5.000	<u>1,515,000</u>
Total Governmental Activities:			\$ <u>19,730,000</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, 2009</u>
Water:			
MWRA Pipe Replacement	08/15/10	-	\$ 180,581
MWRA Pipe Replacement	08/15/12	-	270,871
MWRA Pipe Replacement	05/15/13	-	360,000
MWRA Pipe Replacement	11/15/14	-	541,743
General Obligation Bonds	02/15/18	3.750 - 5.000	700,000
General Obligation Bonds	09/15/16	4.000 - 5.000	80,000
MWRA Water Bond	08/15/16	-	1,444,653
MWRA Water Bond	08/15/12	-	360,000
MWRA Water Bond	11/15/17	-	491,670
MWRA Loan	08/21/13	-	1,707,235
Sewer:			
MWPAT - Pumping Station	08/01/18	1.860	214,600
MWPAT - Inflow & Infiltration	08/01/18	1.940	188,600
MWPAT - Storm Water Mgmt.	08/01/12	1.170	164,922
General Obligation Bonds	02/15/18	3.750 - 5.000	1,680,000
General Obligation Bonds	09/15/16	4.000 - 5.000	80,000
MWPAT - Sanitary Overflow	07/15/26	2.00	100,183
MWPAT - Sanitary Overflow	07/15/26	2.00	666,893
MWPAT - Sanitary Overflow	07/15/26	2.00	442,179
MWPAT - Sanitary Overflow	07/15/27	2.00	<u>2,528,651</u>
Total Business-Type Activities:			\$ <u>12,202,781</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,080,000	436,226	2,516,226
2015 - 2019	6,250,000	1,246,825	7,496,825
2020 - 2024	<u>2,750,000</u>	<u>308,564</u>	<u>3,058,564</u>
Total	\$ <u>19,730,000</u>	\$ <u>4,916,188</u>	\$ <u>24,646,188</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, 2009.



<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,428,410	\$ 201,032	\$ 1,629,442
2011	1,425,557	191,667	1,617,224
2012	1,341,296	170,020	1,511,316
2013	1,236,788	172,233	1,409,021
2014	1,037,518	134,856	1,172,374
2015 - 2019	3,826,105	376,380	4,202,485
2020 - 2024	1,057,133	152,338	1,209,471
2025 - 2029	<u>849,974</u>	<u>44,797</u>	<u>894,771</u>
Total	\$ <u>12,202,781</u>	\$ <u>1,443,323</u>	\$ <u>13,646,104</u>

**C. Changes in General Long-Term Liabilities**

During the year ended June 30, 2009, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/09</u>	Less Current Portion	Long-Term Portion <u>6/30/09</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 21,990	\$ -	\$ (2,260)	\$ 19,730	\$ (2,235)	\$ 17,495
OPEB liability	-	5,954	-	5,954	-	5,954
Other:						
Lease payable	451	-	( 90)	361	( 93)	268
Accrued employee benefits	<u>4,871</u>	<u>169</u>	<u>( 239)</u>	<u>4,801</u>	<u>( 480)</u>	<u>4,321</u>
Totals	\$ <u>27,312</u>	\$ <u>6,123</u>	\$ <u>(2,589)</u>	\$ <u>30,846</u>	\$ <u>(2,808)</u>	\$ <u>28,038</u>
						Equals
	Total Balance <u>7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/09</u>	Less Current Portion	Long-Term Portion <u>6/30/09</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 11,637	\$ 1,707	\$ (1,141)	\$ 12,203	\$ (1,428)	\$ 10,775
OPEB liability	-	222	-	222	-	222
Other:						
Landfill closure	1,032	-	( 35)	997	( 35)	962
Accrued employee benefits	<u>111</u>	<u>18</u>	<u>-</u>	<u>129</u>	<u>( 13)</u>	<u>116</u>
Totals	\$ <u>12,780</u>	\$ <u>1,947</u>	\$ <u>(1,176)</u>	\$ <u>13,551</u>	\$ <u>(1,476)</u>	\$ <u>12,075</u>

**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 2009. 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 and Designations 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. Fund “designations”, which are not legally required segregations, have also been established to indicate tentative plans for future financial utilization.

The following types of reserves and designations are reported at June 30, 2009:

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

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

## 19. Subsequent Events

### Debt

Subsequent to June 30, 2009, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
MWPAT – Drinking Water Revenue Bond	\$ 2,275,388	2.0%	12/16/09	07/15/29

## 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**

During the year, the Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

### **A. Plan Description**

In addition to providing the pension benefits described in Note 21, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2008, the actuarial valuation date, approximately 621 retirees and 1,110 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

### **B. Benefits Provided**

The Town provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

### **C. Funding Policy**

Retirees contribute 25% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

### **D. Annual OPEB Costs and Net OPEB Obligation**

The Town's fiscal 2009 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No.

45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2009, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2008.

Annual Required Contribution (ARC)	\$ 9,663,582
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	9,663,582
Contributions made	(3,487,230)
Increase in net OPEB obligation	6,176,352
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 6,176,352

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 9,663,582	36%	\$ 6,176,352

The Town's net OPEB obligation as of June 30, 2009 is recorded as a component of the "other long-term liabilities" line item.

**E. Funded Status and Funding Progress**

The funded status of the plan as of July 1, 2008, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 97,721,169
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	97,721,169
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 30,751,309
UAAL as a percentage of covered payroll	317.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts deter-

mined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**F. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 10% which decreases to a 5% long-term rate for all health-care benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

**22. Contributory Retirement System**

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

**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</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>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 January 1, 2007, the unfunded actuarially accrued liability is being amortized over 15 years (21 years for ERI).

**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 2009, 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.

## **23. 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. The Town plans to use excessive funds after post-closure costs to offset increased health insurances costs in fiscal year 2010.

## **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.



**TOWN OF SAUGUS, MASSACHUSETTS**  
**SCHEDULE OF FUNDING PROGRESS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009**  
**(Unaudited)**  
**(Amounts Expressed in thousands)**

**Employees' Retirement System**

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
01/01/07	\$ 55,897	\$ 84,272	\$ 28,375	66.3%	\$ 14,220	199.5%
01/01/05	\$ 47,649	\$ 76,809	\$ 29,160	62.0%	\$ 12,119	240.6%
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%
01/01/95	\$ 16,179	\$ 37,290	\$ 21,111	43.4%	\$ 7,470	282.6%

**Other Post-Employment Benefits**

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
07/01/08	\$ -	\$ 97,721	\$ 97,721	0.0%	\$ 30,751	317.8%

See Independent Auditors' Report.