

TOWN OF SAUGUS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2011

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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, 2011, (except for the Saugus Contributory Retirement System which is as of and for the year ended December 31, 2010) 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, as of June 30, 2011, (except the Saugus Contributory Retirement System which is as of December 31, 2010), 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 51, 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

Additional Offices:

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

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 December 12, 2011 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
December 12, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Saugus, Massachusetts, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2011.

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, education, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water and sewer 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 and sewer operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service 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. The Town discontinued its self-insurance program for employee health in fiscal year 2010 and the internal service fund was closed in fiscal year 2011.

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 and sewer operations.

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 is 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 \$ 47,451,909 (i.e., net assets), a change of \$ (4,977,105) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,968,046, a change of \$ 522,766 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 896,026, a change of \$ (617,123) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 36,963,418, a change of \$ 4,250,550 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 fiscal year. All amounts are presented in thousands:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 14,707	\$ 15,426	\$ 8,479	\$ 9,592	\$ 23,186	\$ 25,018
Capital assets	<u>50,723</u>	<u>52,736</u>	<u>34,408</u>	<u>32,292</u>	<u>85,131</u>	<u>85,028</u>
Total assets	<u>65,430</u>	<u>68,162</u>	<u>42,887</u>	<u>41,884</u>	<u>108,317</u>	<u>110,046</u>
Long-term liabilities outstanding	38,752	32,742	19,351	14,201	58,103	46,943
Other liabilities	<u>2,128</u>	<u>6,211</u>	<u>634</u>	<u>4,463</u>	<u>2,762</u>	<u>10,674</u>
Total liabilities	<u>40,880</u>	<u>38,953</u>	<u>19,985</u>	<u>18,664</u>	<u>60,865</u>	<u>57,617</u>
Net assets:						
Invested in capital assets, net	32,992	32,282	16,578	17,312	49,570	49,594
Restricted	5,305	3,904	1,616	-	6,921	3,904
Unrestricted	<u>(13,747)</u>	<u>(6,977)</u>	<u>4,708</u>	<u>5,908</u>	<u>(9,039)</u>	<u>(1,069)</u>
Total net assets	<u>\$ 24,550</u>	<u>\$ 29,209</u>	<u>\$ 22,902</u>	<u>\$ 23,220</u>	<u>\$ 47,452</u>	<u>\$ 52,429</u>

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,271	\$ 3,117	\$ 9,071	\$ 8,788	\$ 12,342	\$ 11,905
Operating grants and contributions	16,896	16,230	-	-	16,896	16,230
Capital grants and contributions	142	668	-	-	142	668
General revenues:						
Property taxes	48,813	47,767	-	-	48,813	47,767
Excises	3,026	2,890	-	-	3,026	2,890
Penalties and interest on taxes	322	309	-	-	322	309
Fines and forfeitures	286	266	-	-	286	266
Grants and contributions not restricted to specific programs	4,513	4,004	-	-	4,513	4,004
Investment income	68	33	56	50	124	83
Other	180	136	-	-	180	136
Total revenues	<u>77,517</u>	<u>75,420</u>	<u>9,127</u>	<u>8,838</u>	<u>86,644</u>	<u>84,258</u>
Expenses:						
General government	3,917	3,983	-	-	3,917	3,983
Public safety	10,750	11,010	-	-	10,750	11,010
Education	41,187	39,276	-	-	41,187	39,276
Public works	5,448	5,448	-	-	5,448	5,448
Human services	2,041	2,159	-	-	2,041	2,159
Culture and recreation	1,013	856	-	-	1,013	856
Employee benefits	16,372	18,987	-	-	16,372	18,987
Interest on long-term debt	490	747	-	-	490	747
Intergovernmental	1,877	1,769	-	-	1,877	1,769
Miscellaneous	7	10	-	-	7	10
Water	-	-	4,805	2,606	4,805	2,606
Sewer	-	-	3,714	1,842	3,714	1,842
Ice Rink	-	-	-	1,970	-	1,970
Landfill closure	-	-	-	18	-	18
Total expenses	<u>83,102</u>	<u>84,245</u>	<u>8,519</u>	<u>6,436</u>	<u>91,621</u>	<u>90,681</u>
Change in net assets	(5,585)	(8,825)	608	2,402	(4,977)	(6,423)
Transfers in (out)	926	807	(926)	(807)	-	-
Permanent fund contributions	-	22	-	-	-	22
Increase (decrease) in net assets	(4,659)	(7,996)	(318)	1,595	(4,977)	(6,401)
Net assets - beginning of year, as restated	29,209	37,205	23,220	21,625	52,429	58,830
Net assets - end of year	<u>\$ 24,550</u>	<u>\$ 29,209</u>	<u>\$ 22,902</u>	<u>\$ 23,220</u>	<u>\$ 47,452</u>	<u>\$ 52,429</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 \$ 47,451,909, a change of \$ (4,977,105) from the prior year.

The largest portion of net assets \$ 49,570,046 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), 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 \$ 6,920,915 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets reflects a deficit of \$ (9,039,052). The deficit is caused primarily by the unfunded OPEB liability of \$ 14,688,999.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (4,659,634). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (927,889)
Nonmajor funds on the accrual basis	669,485
Depreciation expense in excess of principal debt service	(1,715,212)
Increase in net OPEB obligation	(2,252,324)
Other	<u>(433,694)</u>
Total	<u>\$ (4,659,634)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ (317,471). Key elements of this change are as follows:

Water operations	\$ 137,517
Sewer operations	<u>(454,988)</u>
Total	<u>\$ (317,471)</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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,968,046, a change of \$ 522,766 in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures and transfers out	
in excess of revenues and transfers in	\$ (927,889)
Nonmajor funds revenues, bond proceeds and transfers	
in, in excess of expenditures and transfers out	<u>1,450,655</u>
Total	<u>\$ 522,766</u>

In fiscal year 2011, the Town implemented *Governmental Accounting Standards Board Statement #54 Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now reported as unassigned fund balance. Full definitions of all fund balance classifications can be found in the Notes to Financial Statements. Additionally, amounts previously reported in stabilization funds, are now required to be presented as committed fund balance in the general fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 896,026, while total fund balance was \$ 2,006,826. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 896,026	\$ 1,513,149	\$ (617,123)	1.2%
Total fund balance ¹	2,006,826	2,934,715	(927,889)	2.7%

¹Now includes stabilization fund. Prior period balances have been revised to conform to current presentation.

The total fund balance of the general fund changed by \$ (927,889) during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 217,374
Expenditures in excess of budget	(485,167)
Expenditures of prior year encumbrances, in excess of current year encumbrances	(314,390)
Change in stabilization/capital reserve	3,624
Other	<u>(349,330)</u>
Total	\$ <u>(927,889)</u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
General stabilization	\$ <u>524,935</u>	\$ <u>521,311</u>	\$ <u>3,624</u>
Total	\$ <u>524,935</u>	\$ <u>521,311</u>	\$ <u>3,624</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 \$ 4,708,133.

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 resulted in no change in appropriations.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 85,130,986 (net of accumulated depreciation), a change of \$ 578,497 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Additional information on capital assets can be found in the Notes to Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 36,963,418, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to Financial Statements.

REQUESTS FOR INFORMATION

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

Office of 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, 2011

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 5,642,081	\$ 712,612	\$ 6,354,693
Investments	2,622,213	2,213,403	4,835,616
Receivables, net of allowance for uncollectibles:			
Property taxes	949,056	-	949,056
Excises	231,513	-	231,513
User fees	-	4,787,013	4,787,013
Departmental and other	221,222	-	221,222
Intergovernmental	361,970	765,387	1,127,357
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	697,362	-	697,362
Intergovernmental	3,981,676	-	3,981,676
Capital assets:			
Land and construction in progress	9,542,891	16,259,798	25,802,689
Other assets, net of accumulated depreciation	<u>41,179,696</u>	<u>18,148,601</u>	<u>59,328,297</u>
TOTAL ASSETS	65,429,680	42,886,814	108,316,494
LIABILITIES			
Current:			
Warrants payable	734,448	80,976	815,424
Accounts payable	186,068	403,485	589,553
Accrued liabilities	254,099	149,415	403,514
Tax refund payable	85,665	-	85,665
Notes payable	383,000	-	383,000
Other current liabilities	485,031	-	485,031
Current portion of long-term liabilities:			
Bonds payable	2,393,000	1,836,087	4,229,087
Other liabilities	658,566	12,755	671,321
Noncurrent:			
Bonds payable, net of current portion	15,875,000	16,859,331	32,734,331
OPEB liability	14,161,052	527,947	14,688,999
Other liabilities, net of current portion	<u>5,663,871</u>	<u>114,789</u>	<u>5,778,660</u>
TOTAL LIABILITIES	40,879,800	19,984,785	60,864,585
NET ASSETS			
Invested in capital assets, net of related debt	32,992,054	16,577,992	49,570,046
Restricted for:			
Grants and other restrictions	4,044,794	1,615,904	5,660,698
Permanent funds:			
Nonexpendable	1,132,981	-	1,132,981
Expendable	127,236	-	127,236
Unrestricted	<u>(13,747,185)</u>	<u>4,708,133</u>	<u>(9,039,052)</u>
TOTAL NET ASSETS	\$ <u>24,549,880</u>	\$ <u>22,902,029</u>	\$ <u>47,451,909</u>

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	<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>
Governmental Activities:							
General government	\$ 3,917,028	\$ 791,888	\$ 117,142	\$ -	\$ (3,007,998)	\$ -	\$ (3,007,998)
Public safety	10,749,823	549,365	69,492	-	(10,130,966)	-	(10,130,966)
Education	41,186,916	1,451,251	16,229,578	141,618	(23,364,469)	-	(23,364,469)
Public works	5,447,611	135,277	404,789	-	(4,907,545)	-	(4,907,545)
Health and human services	2,040,827	167,936	45,221	-	(1,827,670)	-	(1,827,670)
Culture and recreation	1,013,471	175,451	30,071	-	(807,949)	-	(807,949)
Employee benefits	16,372,315	-	-	-	(16,372,315)	-	(16,372,315)
Interest	489,991	-	-	-	(489,991)	-	(489,991)
Intergovernmental	1,877,143	-	-	-	(1,877,143)	-	(1,877,143)
Miscellaneous	6,930	-	-	-	(6,930)	-	(6,930)
Total Governmental Activities	83,102,055	3,271,168	16,896,293	141,618	(62,792,976)	-	(62,792,976)
Business-Type Activities:							
Water services	4,804,971	5,324,737	-	-	-	519,766	519,766
Sewer services	3,714,606	3,746,526	-	-	-	31,920	31,920
Total Business-Type Activities	8,519,577	9,071,263	-	-	-	551,686	551,686
Total	\$ <u>91,621,632</u>	\$ <u>12,342,431</u>	\$ <u>16,896,293</u>	\$ <u>141,618</u>	(62,792,976)	551,686	(62,241,290)
General Revenues, Contributions and Transfers:							
Property taxes					48,812,545	-	48,812,545
Excises					3,025,911	-	3,025,911
Penalties, interest, and other taxes					322,197	-	322,197
Fines and forfeitures					286,053	-	286,053
Grants and contributions not restricted to specific programs					4,513,310	-	4,513,310
Investment income					67,775	56,535	124,310
Miscellaneous					156,059	-	156,059
Contributions					23,800	-	23,800
Transfers, net					925,692	(925,692)	-
Total general revenues and transfers					<u>58,133,342</u>	<u>(869,157)</u>	<u>57,264,185</u>
Change in Net Assets					(4,659,634)	(317,471)	(4,977,105)
Net Assets:							
Beginning of year, as adjusted					<u>29,209,514</u>	<u>23,219,500</u>	<u>52,429,014</u>
End of year					\$ <u>24,549,880</u>	\$ <u>22,902,029</u>	\$ <u>47,451,909</u>

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 998,434	\$ 4,643,647	\$ 5,642,081
Investments	1,608,335	1,013,878	2,622,213
Receivables:			
Property taxes	2,083,278	-	2,083,278
Excises	497,865	-	497,865
Departmental and other	244,060	-	244,060
TOTAL ASSETS	\$ 5,431,972	\$ 5,657,525	\$ 11,089,497
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 607,211	\$ 127,237	\$ 734,448
Accounts payable	-	186,068	186,068
Deferred revenues	2,501,736	-	2,501,736
Anticipation notes payable	-	383,000	383,000
Tax refunds payable	85,665	-	85,665
Other liabilities	230,534	-	230,534
TOTAL LIABILITIES	3,425,146	696,305	4,121,451
Fund Balances:			
Nonspendable	-	1,132,981	1,132,981
Restricted	-	4,172,032	4,172,032
Committed	525,325	-	525,325
Assigned	585,475	-	585,475
Unassigned	896,026	(343,793)	552,233
TOTAL FUND BALANCES	2,006,826	4,961,220	6,968,046
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,431,972	\$ 5,657,525	\$ 11,089,497

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, 2011

Total governmental fund balances	\$ 6,968,046
<ul style="list-style-type: none">Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	50,722,587
<ul style="list-style-type: none">Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,775,686
<ul style="list-style-type: none">Long-term receivable from the Massachusetts School Building Authority is not available in the current period and, therefore, is not reported in the governmental funds.	4,343,646
<ul style="list-style-type: none">In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(254,099)
<ul style="list-style-type: none">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	<u>(39,005,986)</u>
Net assets of governmental activities	\$ <u>24,549,880</u>

See notes to the financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 48,906,808	\$ -	\$ 48,906,808
Excises	3,009,378	-	3,009,378
Penalties, interest and other taxes	322,197	-	322,197
Fines and forfeitures	285,316	-	285,316
Charges for services	730,960	1,733,461	2,464,421
Intergovernmental	18,127,649	3,918,519	22,046,168
Licenses and permits	770,101	4,629	774,730
Investment income	56,276	9,474	65,750
Miscellaneous	62,102	93,957	156,059
Contributions	-	83,429	83,429
Total Revenues	<u>72,270,787</u>	<u>5,843,469</u>	<u>78,114,256</u>
Expenditures:			
Current:			
General government	2,478,609	336,624	2,815,233
Public safety	9,924,512	238,503	10,163,015
Education	35,971,223	5,053,480	41,024,703
Public works	4,168,943	1,507,091	5,676,034
Health and human services	1,948,633	139,086	2,087,719
Culture and recreation	707,986	169,716	877,702
Employee benefits	14,119,991	-	14,119,991
Debt service	2,871,642	-	2,871,642
Intergovernmental	1,877,143	-	1,877,143
Total Expenditures	<u>74,068,682</u>	<u>7,444,500</u>	<u>81,513,182</u>
Excess (deficiency) of revenues over expenditures	(1,797,895)	(1,601,031)	(3,398,926)
Other Financing Sources (Uses):			
Bond proceeds	-	2,953,000	2,953,000
Transfers in	950,482	114,674	1,065,156
Transfers out	(80,476)	(15,988)	(96,464)
Total Other Financing Sources (Uses)	<u>870,006</u>	<u>3,051,686</u>	<u>3,921,692</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(927,889)	1,450,655	522,766
Fund Equity, at Beginning of Year, as adjusted	<u>2,934,715</u>	<u>3,510,565</u>	<u>6,445,280</u>
Fund Equity, at End of Year	<u>\$ 2,006,826</u>	<u>\$ 4,961,220</u>	<u>\$ 6,968,046</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, 2011

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 522,766
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: 	
Capital outlay purchases - net of disposals	2,357,696
Depreciation	(3,895,212)
<ul style="list-style-type: none"> Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. This amount represents the net change in deferred revenue. 	209,521
<ul style="list-style-type: none"> The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: 	
Repayments of debt - bonds	2,180,000
Debt issuance - bonds	(2,953,000)
Repayments of debt - lease	97,092
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	9,044
<ul style="list-style-type: none"> Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 	
Compensated absences	(312,776)
Net OPEB obligation	(2,252,324)
Landfill liability	35,000
Atb liability	(254,497)
<ul style="list-style-type: none"> Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of the internal service fund is reported in the governmental activities in the Statement of Net Assets. 	(40,975)
<ul style="list-style-type: none"> Reimbursements from the Massachusetts School Building Authority for principal payments on long-term debt provide current financial resources to governmental funds but have no effect on changes in net assets, therefore are excluded from net assets 	(361,969)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(4,659,634)</u>

See notes to the financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Taxes	\$ 49,256,138	49,256,138	\$ 49,256,138	\$ -
Excise	2,810,000	2,810,000	3,009,378	199,378
Penalties, interest, and other taxes	319,500	319,500	322,197	2,697
Fines and forfeitures	345,280	345,280	285,316	(59,964)
Charges for services	573,500	573,500	730,960	157,460
Intergovernmental	9,556,051	9,556,051	9,500,098	(55,953)
Licenses and permits	833,186	833,186	770,101	(63,085)
Investment income	38,000	38,000	53,852	15,852
Miscellaneous	41,101	41,101	62,102	21,001
Transfers in	950,494	950,494	950,482	(12)
Total Revenues and Other Sources	64,723,250	64,723,250	64,940,624	217,374
Expenditures and Other Uses:				
General government	2,473,716	2,521,956	2,446,921	75,035
Public safety	10,140,422	10,110,074	9,886,286	223,788
Education	27,421,221	27,421,221	27,421,228	(7)
Public works	3,140,147	3,104,875	4,198,436	(1,093,561)
Health and human services	1,901,321	1,901,721	1,878,567	23,154
Culture and recreation	778,683	731,883	707,546	24,337
Debt service	3,010,997	3,010,997	2,871,643	139,354
Intergovernmental	1,993,001	1,993,001	1,877,143	115,858
Employee benefits	13,782,066	13,845,846	13,838,971	6,875
Transfers out	81,676	81,676	81,676	-
Total Expenditures and Other Uses	64,723,250	64,723,250	65,208,417	(485,167)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (267,793)	\$ (267,793)

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Water Fund	Sewer Fund	Total	
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 50,850	\$ 661,762	\$ 712,612	\$ -
Investments	-	2,213,403	2,213,403	-
Receivables, net of allowance for uncollectibles:				
User fees, net of allowance for uncollectibles	2,849,437	1,937,576	4,787,013	-
Intergovernmental	-	765,387	765,387	-
Total current assets	2,900,287	5,578,128	8,478,415	-
Noncurrent:				
Construction in process	6,286,789	9,973,009	16,259,798	-
Capital assets, net of accumulated depreciation	7,381,217	10,767,384	18,148,601	-
Total noncurrent assets	13,668,006	20,740,393	34,408,399	-
TOTAL ASSETS	16,568,293	26,318,521	42,886,814	-
<u>LIABILITIES</u>				
Current:				
Warrants payable	47,803	33,173	80,976	-
Accounts payable	184,589	218,896	403,485	-
Accrued liabilities	19,383	130,032	149,415	-
Current portion of long-term liabilities:				
Bonds payable	1,017,616	818,471	1,836,087	-
Other liabilities	10,575	2,180	12,755	-
Total current liabilities	1,279,966	1,202,752	2,482,718	-
Noncurrent:				
Bonds payable, net of current portion	4,945,422	11,913,909	16,859,331	-
OPEB liability	287,904	240,043	527,947	-
Other liabilities, net of current portion	95,173	19,616	114,789	-
Total noncurrent liabilities	5,328,499	12,173,568	17,502,067	-
TOTAL LIABILITIES	6,608,465	13,376,320	19,984,785	-
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	8,010,318	8,567,674	16,577,992	-
Restricted	-	1,615,904	1,615,904	-
Unrestricted	1,949,510	2,758,623	4,708,133	-
TOTAL NET ASSETS	\$ 9,959,828	\$ 12,942,201	\$ 22,902,029	\$ -

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, 2011

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Total	
Operating Revenues:				
Charges for services	\$ 5,324,737	\$ 3,746,526	\$ 9,071,263	\$ -
Total Operating Revenues	5,324,737	3,746,526	9,071,263	-
Operating Expenses:				
Operating expenses	4,092,763	2,648,083	6,740,846	-
Depreciation	663,029	742,931	1,405,960	-
Employee benefits	-	38,179	38,179	-
Total Operating Expenses	4,755,792	3,429,193	8,184,985	-
Operating Income (Loss)	568,945	317,333	886,278	-
Nonoperating Revenues (Expenses):				
Investment income	26,755	29,780	56,535	2,025
Interest expense	(49,179)	(285,413)	(334,592)	-
Total Nonoperating Revenues (Expenses), Net	(22,424)	(255,633)	(278,057)	2,025
Income (Loss) Before Transfers	546,521	61,700	608,221	2,025
Other financing sources and uses:				
Transfers out	(409,004)	(516,688)	(925,692)	(43,000)
Total other financing sources and uses	(409,004)	(516,688)	(925,692)	-
Change in Net Assets	137,517	(454,988)	(317,471)	(40,975)
Net Assets at Beginning of Year, as adjusted	9,822,311	13,397,189	23,219,500	40,975
Net Assets at End of Year	\$ 9,959,828	\$ 12,942,201	\$ 22,902,029	\$ -

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Total	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 4,967,036	\$ 3,878,427	\$ 8,845,463	\$ -
Payments to vendors and employees	(3,828,245)	(2,567,802)	(6,396,047)	-
Net Cash Provided By (Used For) Operating Activities	1,138,791	1,310,625	2,449,416	-
<u>Cash Flows From Noncapital Financing Activities:</u>				
Intergovernmental funding	-	161,172	161,172	-
Operating transfers in (out)	(409,004)	(516,688)	(925,692)	(43,000)
Net Cash (Used For) Noncapital Financing Activities	(409,004)	(355,516)	(764,520)	(43,000)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(1,201,980)	(2,299,299)	(3,501,279)	-
Bond proceeds	-	2,434,226	2,434,226	-
Principal payments on bonds and notes	(1,057,907)	(508,769)	(1,566,676)	-
Interest expense	(39,034)	(246,313)	(285,347)	-
Net Cash (Used For) Capital and Related Financing Activities	(2,298,921)	(620,155)	(2,919,076)	-
<u>Cash Flows From Investing Activities:</u>				
Investment income	26,755	29,780	56,535	2,025
Investment (purchases) sales	-	(2,213,403)	(2,213,403)	-
Net Cash (Used For) Investing Activities	26,755	(2,183,623)	(2,156,868)	2,025
Net Change in Cash and Short-Term Investments	(1,542,379)	(1,848,669)	(3,391,048)	(40,975)
Cash and Short-Term Investments, Beginning of Year	1,593,229	2,510,431	4,103,660	40,975
Cash and Short-Term Investments, End of Year	\$ 50,850	\$ 661,762	\$ 712,612	\$ -
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ 568,945	\$ 317,333	\$ 886,278	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	663,029	742,931	1,405,960	-
Changes in assets and liabilities:				
User fees	(357,701)	131,901	(225,800)	-
Warrants payable	46,384	20,640	67,024	-
Accounts payable	184,589	58,275	242,864	-
OPEB liability	45,792	38,179	83,971	-
Other liabilities	(12,247)	1,366	(10,881)	-
Net Cash Provided By (Used For) Operating Activities	\$ 1,138,791	\$ 1,310,625	\$ 2,449,416	\$ -

See notes to financial statements.

TOWN OF SAUGUS, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011

	Pension Trust Fund (As of <u>December 31, 2010</u>)	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 543,178	\$ 29,161	\$ 327,388
Investments	58,666,506	184,623	-
Accounts receivable	<u>3,171,435</u>	<u>-</u>	<u>86,417</u>
Total Assets	62,381,119	213,784	413,805
<u>LIABILITIES AND NET ASSETS</u>			
Warrants payable	-	-	88,404
Other liabilities	<u>-</u>	<u>-</u>	<u>325,401</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>413,805</u>
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits pension and other purposes	\$ <u><u>62,381,119</u></u>	\$ <u><u>213,784</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, 2011

	Pension Trust Fund (For the Year Ended December 31, 2010)	Private Purpose Trust Funds
Additions:		
Contributions:		
Employers	\$ 4,271,000	\$ -
Other systems and Commonwealth of Massachusetts	293,904	-
Plan members	1,628,768	-
Total contributions	<u>6,193,672</u>	<u>-</u>
Investment Income (Loss):		
Increase (decrease) in fair value of investments	<u>6,933,695</u>	<u>1,487</u>
Net investment income (loss)	<u>6,933,695</u>	<u>1,487</u>
Total additions	13,127,367	1,487
Deductions:		
Benefit payments to plan members and beneficiaries	6,166,552	-
Refunds to plan members	14,271	-
Transfers to other systems	66,021	-
Administrative expenses	93,836	-
Other	83,136	4,950
Total deductions	<u>6,423,816</u>	<u>4,950</u>
Net increase (decrease)	6,703,551	(3,463)
Net assets:		
Beginning of year	<u>55,677,568</u>	<u>217,247</u>
End of year	<u>\$ 62,381,119</u>	<u>\$ 213,784</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, Massachusetts (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 is 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 con-

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

The government reports the following major governmental funds:

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

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

The self-insured employee health program is reported as an internal service fund in the accompanying financial statements. This was closed in fiscal year 2011.

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 are 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 2½" has limited 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 is voted. The actual fiscal year 2011 tax levy reflected an excess capacity of \$ 14,870.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due from/to other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

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

H. Capital Assets

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

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

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

Property, plant, and equipment 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
Street lighting equipment	7
Infrastructure	30 - 75
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

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet

paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.

- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to 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)	\$ 72,270,787	\$ 74,068,682
Other financing sources/uses (GAAP basis)	<u>950,482</u>	<u>80,476</u>
Subtotal (GAAP Basis)	73,221,269	74,149,158
Adjust tax revenue to accrual basis	349,330	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(900,255)
Add end of year appropriation carryforwards to expenditures	-	585,865
To reverse the effect of non- budgeted State contributions for police, fire, and teachers retirement	(8,627,551)	(8,627,551)
To reverse the effect of non- budgeted activity	<u>(2,424)</u>	<u>1,200</u>
Budgetary basis	<u>\$ 64,940,624</u>	<u>\$ 65,208,417</u>

D. Excess of Expenditures Over Appropriations

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

Snow and ice	\$ 1,127,623
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The appropriation deficit was funded by a special 1 year real estate tax assessment approved at the June 7, 2011 Special Town Meeting.

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2011:

Enterprise Funds:

\$ (302,303) Water Enterprise Fund (statutory basis)

Special Revenue Funds:

\$ (50,713) 2006 Teacher Quality
(10,530) 2007 SPED corrective action
(3,637) Housing rehab
(13,635) Bullet proof vest reimbursement
(1,254) Senior center van
(1,337) Veterans Memorial School gift account

Capital Project Funds:

\$ (93,493) Belmonte Middle School feasibility study
(67,960) High School ADA compliance
(75,000) High School unit vents
(26,000) Essex Street fire house heating

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, 2011 and December 31, 2010, \$ 1,305,298 of the Town's and \$ 100,067 of the System's bank balances of \$ 7,796,871 and \$ 554,789, respectively, were exposed to custodial credit risk as uninsured or uncollateralized. However, the System's entire exposed balance was on deposit with the Pension Reserves Investment Trust (PRIT).

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 (in thousands) is the actual rating as of year-end for each investment of the Town. (All federal agency securities have an implied credit rating of AAA.):

<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>5,020</u>	N/A	\$ <u>-</u>	\$ <u>5,020</u>	\$ <u>-</u>	\$ <u>-</u>
Total investments	\$ <u><u>5,020</u></u>		\$ <u><u>-</u></u>	\$ <u><u>5,020</u></u>	\$ <u><u>-</u></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 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*	\$ 58,667	N/A	\$ 58,667	\$ -	\$ -	\$ -
Total investments	\$ 58,667		\$ 58,667	\$ -	\$ -	\$ -

*This type of investment is not rated.

**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 do not have policies for custodial credit risk.

Of the investment in Federal securities of \$ 5,020,239, the government has a custodial credit risk exposure of \$ 5,020,239 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 and System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Town's and System's policy on interest rate risk 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>N/A</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	\$ 5,020	\$ 251	\$ 4,769	\$ -	\$ -	\$ -
Total	\$ 5,020	\$ 251	\$ 4,769	\$ -	\$ -	\$ -

E. Foreign Currency Risk

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

5. Taxes Receivable

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

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers’ property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2011 consist of the following (in thousands):

Real Estate		
2011	\$ 552	
Prior	<u>-</u>	552
Personal Property		
2011	32	
2010	24	
2009	24	
2008	15	
Prior	<u>246</u>	341
Tax Liens		1,186
Deferred Taxes		<u>4</u>
Total		<u>\$ 2,083</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	\$ 437	\$ -
Excises	266	-
Utilities	-	103
Departments	23	-

7. **Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2011. In fiscal 2011, \$ 4,343,646 of the \$ 5,109,033 of intergovernmental receivables is due from the Massachusetts School Building Authority for reimbursement of school construction projects.

8. **Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 53,446	\$ 130	\$ -	\$ 53,576
Machinery, equipment, and furnishings	12,285	433	(197)	12,521
Infrastructure	<u>29,276</u>	<u>397</u>	<u>-</u>	<u>29,673</u>
Total capital assets, being depreciated	95,007	960	(197)	95,770
Less accumulated depreciation for:				
Buildings and improvements	(23,286)	(1,398)	-	(24,684)
Machinery, equipment, and furnishings	(7,663)	(988)	190	(8,461)
Infrastructure	<u>(19,936)</u>	<u>(1,509)</u>	<u>-</u>	<u>(21,445)</u>
Total accumulated depreciation	<u>(50,885)</u>	<u>(3,895)</u>	<u>190</u>	<u>(54,590)</u>
Total capital assets, being depreciated, net	44,122	(2,935)	(7)	41,180
Capital assets, not being depreciated:				
Land	8,138	-	-	8,138
Construction in progress	<u>-</u>	<u>1,405</u>	<u>-</u>	<u>1,405</u>
Total capital assets, not being depreciated	<u>8,138</u>	<u>1,405</u>	<u>-</u>	<u>9,543</u>
Governmental activities capital assets, net	<u>\$ 52,260</u>	<u>\$ (1,530)</u>	<u>\$ (7)</u>	<u>\$ 50,723</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 129	\$ -	\$ -	\$ 129
Machinery, equipment, and furnishings	2,750	38	(21)	2,767
Infrastructure	<u>29,863</u>	<u>90</u>	<u>-</u>	<u>29,953</u>
Total capital assets, being depreciated	32,742	128	(21)	32,849
Less accumulated depreciation for:				
Buildings and improvements	(16)	(6)	-	(22)
Machinery, equipment, and furnishings	(926)	(257)	21	(1,162)
Infrastructure	<u>(12,374)</u>	<u>(1,143)</u>	<u>-</u>	<u>(13,517)</u>
Total accumulated depreciation	<u>(13,316)</u>	<u>(1,406)</u>	<u>21</u>	<u>(14,701)</u>
Total capital assets, being depreciated, net	19,426	(1,278)	-	18,148
Capital assets, not being depreciated:				
Land	64	-	-	64
Construction in progress	<u>12,802</u>	<u>3,432</u>	<u>(38)</u>	<u>16,196</u>
Total capital assets, not being depreciated	<u>12,866</u>	<u>3,432</u>	<u>(38)</u>	<u>16,260</u>
Business-type activities capital assets, net	<u>\$ 32,292</u>	<u>\$ 2,154</u>	<u>\$ (38)</u>	<u>\$ 34,408</u>

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

Governmental Activities:	
General government	\$ 1,157
Public safety	413
Education	943
Public works	1,265
Health and human services	6
Culture and recreation	<u>111</u>
Total depreciation expense - governmental activities	<u>\$ 3,895</u>
Business-Type Activities:	
Water	\$ 663
Sewer	<u>743</u>
Total depreciation expense - business-type activities	<u>\$ 1,406</u>

9. **Warrants and Accounts Payable**

Warrants payable represent 2011 expenditures paid by July 15, 2011 as permitted by law. Accounts payable represent additional 2011 expenditures paid after July 15, 2011.

10. **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, 2011 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

11. **Tax Refunds Payable**

This balance consists of an estimate of refunds due to property taxpayers for potential abatements or refunds.

12. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2011:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/11</u>
Bond anticipation	1.15%	03/03/11	03/03/12	\$ 168,000
Bond anticipation	1.50%	06/28/11	03/03/12	<u>215,000</u>
Total				<u>\$ 383,000</u>

The following summarizes activity in notes payable during fiscal year 2011 (in thousands):

	Balance Beginning <u>of Year</u>	New <u>Issues</u>	<u>Maturities</u>	Balance End of <u>Year</u>
Bond anticipation	\$ <u>4,033</u>	\$ <u>2,931</u>	\$ <u>(6,581)</u>	\$ <u>383</u>
Total	\$ <u>4,033</u>	\$ <u>2,931</u>	\$ <u>(6,581)</u>	\$ <u>383</u>

13. Capital Lease Obligations

The Town is the lessee of certain equipment under capital and operating leases expiring in various years through fiscal year 2013. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2011:

	Fiscal <u>Year</u>	Capital <u>Leases</u>
	2012	\$ 106,316
	2013	<u>70,878</u>
Total minimum lease payments		177,194
Less amounts representing interest		<u>6,230</u>
Present Value of Minimum Lease Payments		<u>\$ 170,964</u>

14. 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 <u>Through</u>	Interest Rate(s) % <u>Rate(s) %</u>	Amount Outstanding as of <u>6/30/11</u>
<u>Governmental Activities:</u>			
General obligation bonds	02/15/23	2.50 - 5.00%	\$ 9,695,000
General obligation bonds	08/15/14	3.55%	360,000
General obligation bonds - refinancing	08/15/14	3.55%	1,770,000
General obligation bonds - refinancing	08/15/15	3.55%	2,385,000
General obligation bonds	06/30/17	4.00 - 5.00%	1,105,000
Lobsterman's landing	03/01/25	3.00 - 4.13%	120,000
Middle school boilers	03/01/31	3.00 - 4.13%	350,000
Middle school vents	03/01/25	3.00 - 4.13%	100,000
Street Reconstruction	03/01/25	3.00 - 4.13%	1,700,000
Remodeling	03/01/27	3.00 - 4.13%	80,000
School textbooks	03/01/16	3.00 - 4.13%	300,000
Storm drains	03/01/24	3.00 - 4.13%	65,000
Drainage	03/01/31	3.00 - 4.13%	<u>238,000</u>
Total Governmental Activities:			<u>\$ 18,268,000</u>

	Serial Maturities <u>Through</u>	Interest Rate(s) % <u>Rate(s) %</u>	Amount Outstanding as of <u>6/30/11</u>
<u>Business-Type Activities:</u>			
Water:			
MWRA pipe replacement	08/15/12	-	\$ 90,290
MWRA pipe replacement	05/15/13	-	180,000
MWRA pipe replacement	11/15/14	-	361,162
General obligation bonds	02/15/18	3.75 - 5.00%	500,000
General obligation bonds	09/15/16	4.00 - 5.00%	60,000
MWRA water bond	08/15/16	-	1,083,489
MWRA water bond	08/15/12	-	382,410
MWRA water bond	11/15/17	-	180,000
MWRA loan	08/21/13	-	1,365,788
MWRA water bond	08/15/19	-	819,900
Water	03/01/31	3.00 - 4.13%	940,000

(continued)

(continued)

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/11</u>
Sewer:			
MWPAT - pumping station	08/01/18	1.86%	174,200
MWPAT - inflow & infiltration	08/01/18	1.94%	153,100
MWPAT - storm water mgmt.	08/01/12	1.17%	85,085
General obligation bonds	02/15/18	3.75 - 5.00%	1,280,000
General obligation bonds	09/15/16	4.00 - 5.00%	60,000
MWPAT - sanitary overflow	07/15/26	2.00%	91,126
MWPAT - sanitary overflow	07/15/26	2.00%	604,085
MWPAT - sanitary overflow	07/15/26	2.00%	419,275
MWPAT - sanitary overflow	07/15/27	2.00%	2,116,947
MWPAT - sanitary overflow	07/15/28	2.00%	1,159,210
MWPAT - SSO	07/15/30	2.00%	2,202,521
General obligation bonds	03/01/31	3.00 - 4.13%	2,270,000
MWPAT - preliminary structuring analysis	07/15/30	2.00%	<u>2,116,830</u>
Total Business-Type Activities:			<u>\$ 18,695,418</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,393,000	\$ 702,448	\$ 3,095,448
2013	2,345,000	615,774	2,960,774
2014	2,330,000	528,620	2,858,620
2015	2,315,000	441,999	2,756,999
2016	1,675,000	366,826	2,041,826
2017-2021	5,085,000	1,096,681	6,181,681
2022-2026	1,995,000	187,856	2,182,856
2027-2031	<u>130,000</u>	<u>15,575</u>	<u>145,575</u>
Total	<u>\$ 18,268,000</u>	<u>\$ 3,955,779</u>	<u>\$ 22,223,779</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, 2011:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,836,087	\$ 397,061	\$ 2,233,148
2013	1,716,699	392,598	2,109,297
2014	1,521,850	345,395	1,867,245
2015	1,531,199	314,471	1,845,670
2016	1,450,619	282,867	1,733,486
2017-2021	4,675,223	1,026,215	5,701,438
2022-2026	3,259,109	578,982	3,838,091
2027-2031	<u>2,704,632</u>	<u>177,795</u>	<u>2,882,427</u>
Total	<u>\$ 18,695,418</u>	<u>\$ 3,515,384</u>	<u>\$ 22,210,802</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/10</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/11</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/11</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 17,495	\$ 2,953	\$ (2,180)	\$ 18,268	\$ (2,393)	\$ 15,875
Net OPEB obligation	11,909	5,502	(3,250)	14,161	-	14,161
Other:						
Lease payable	268	-	(97)	171	(101)	70
Landfill postclosure care	962	-	(35)	927	(35)	892
Accrued employee benefits	<u>4,911</u>	<u>313</u>	<u>-</u>	<u>5,224</u>	<u>(522)</u>	<u>4,702</u>
Totals	<u>\$ 35,545</u>	<u>\$ 8,768</u>	<u>\$ (5,562)</u>	<u>\$ 38,751</u>	<u>\$ (3,051)</u>	<u>\$ 35,700</u>

	Total Balance <u>7/1/10</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/11</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/11</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 15,218	\$ 5,326	\$ (1,849)	\$ 18,695	\$ (1,836)	\$ 16,859
Net OPEB obligation	444	205	(121)	528	-	528
Other:						
Accrued employee benefits	<u>118</u>	<u>10</u>	<u>-</u>	<u>128</u>	<u>(13)</u>	<u>115</u>
Totals	<u>\$ 15,780</u>	<u>\$ 5,541</u>	<u>\$ (1,970)</u>	<u>\$ 19,351</u>	<u>\$ (1,849)</u>	<u>\$ 17,502</u>

15. Landfill Closure and Postclosure Care Costs

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

The liability reported is based on what it would cost to perform all postclosure care in 2011. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

16. 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.

17. Subsequent Events

A. Debt

Subsequent to June 30, 2011, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
MWRA	\$ 881,750	0%	08/22/11	08/15/21
MWPAT	\$ 563,736	2.0%	11/01/11	07/15/31
General obligation BAN	\$ 2,625,000	1.2%	11/17/11	11/15/12

18. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town is currently in litigation related to an Inflow and Infiltration Reduction Contribution imposed by the Town. The court has issued a judgment against the Town for \$ 623,700. The Town has taken the case to the Supreme Judicial Court in appeal of the judgment. The Town has funds within its' Sewer Enterprise fund that have been restricted for this

purpose pending the Supreme Court decision. With the exception of the item noted above, the Town's management is of the opinion that the potential future settlement of any other 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.

19. Post-Employment Healthcare and Life Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* 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, the Town provides post-employment healthcare 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, 2010, the actuarial valuation date, approximately 439 retirees and 472 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 10% to 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 2011 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, 2011, 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, 2010.

Annual Required Contribution (ARC)	\$ 5,213,084
Interest on net OPEB obligation	494,108
Adjustment to ARC	<u>-</u>
Annual OPEB cost	5,707,192
Contributions made	<u>(3,370,897)</u>
Increase in net OPEB obligation	2,336,295
Net OPEB obligation - beginning of year	<u>12,352,704</u>
Net OPEB obligation - end of year	<u>\$ 14,688,999</u>

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>
2011	\$ 5,707,192	59%	\$ 14,688,999
2010	\$ 9,663,582	36%	\$ 12,352,704
2009	\$ 9,663,582	36%	\$ 6,176,352

The Town's net OPEB obligation as of June 30, 2011 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, 2010, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 83,572,367
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 83,572,367</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>UNAVAILABLE</u>
UAAL as a percentage of covered payroll	<u></u>

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 determined 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 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 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 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, 2010 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 healthcare 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%.

20. 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, 2010.

Retirees and beneficiaries receiving benefits	284
Terminated plan members entitled to but not yet receiving benefits	57
Active plan members	<u>326</u>
Total	<u><u>667</u></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:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
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%
2009	3,971,725	100%
2010	4,118,261	100%
2011	4,271,000	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 at fair value 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 (in thousands).

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Liability</u> <u>(AAL) -</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as</u> <u>a Percent-</u> <u>age of</u> <u>Covered</u> <u>Payroll</u> <u>[(b-a)/c]</u>
01/01/09	\$ 55,581	\$ 92,729	\$ 37,148	59.9%	\$ 14,177	262.0%

The Schedule of Funding Progress following the Notes to 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 \$ 37.148 million was calculated. The actuarial assumptions included (a) 8.25% investment rate of return and (b) a projected salary increase 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 December 31, 2010, the unfunded actuarially accrued liability is being amortized over 17 years (18 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 not determined.

In fiscal year 2011, the Commonwealth of Massachusetts contributed \$ 8,627,551 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

21. Self-Insurance

In January 2008, the Town discontinued its self-insurance healthcare coverage and joined the Commonwealth of Massachusetts Group Insurance Commission (GIC). Although the Town changed in January, the self-insurance trust remained open to pay outstanding claims incurred prior to January 2008. The trust was closed in fiscal year 2011.

22. Risk Management

The Town 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.

23. Beginning Fund Balance Net Assets Restatement

The beginning (July 1, 2010) fund balances of the Town have been restated as follows:

Government-Wide Financial Statements:

	<u>Business-Type Activities</u>			<u>Governmental Activities</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	
As previously reported	\$ 8,620,302	\$ 12,440,804	\$ 21,061,106	\$ 24,503,899
Record MSBA receivable	-	-	-	4,705,615
To record MWPAT loan	-	193,846	193,846	-
To adjust unbilled receivable	<u>1,202,009</u>	<u>762,539</u>	<u>1,964,548</u>	<u>-</u>
As restated	<u>\$ 9,822,311</u>	<u>\$ 13,397,189</u>	<u>\$ 23,219,500</u>	<u>\$ 29,209,514</u>

Fund Basis Financial Statements:

	<u>Nonmajor Governmental Funds</u>	<u>General Fund</u>
As previously reported	\$ 4,031,876	\$ 2,413,404
Reclassify stabilization funds	<u>(521,311)</u>	<u>521,311</u>
As restated	<u>\$ 3,510,565</u>	<u>\$ 2,934,715</u>

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

June 30, 2011
(Unaudited)
(Amounts Expressed in thousands)

Employees' Retirement System

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]
01/01/09	\$ 55,581	\$ 92,729	\$ 37,148	59.9%	\$ 14,177	262.0%
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 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]
07/01/10	\$ -	\$ 83,572	\$ 83,572	0.0%	UNAVAILABLE	
07/01/08	\$ -	\$ 97,721	\$ 97,721	0.0%	\$ 30,751	317.8%