

TOWN OF SAUGUS, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2012

TOWN OF SAUGUS, MASSACHUSETTS

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JUNE 30, 2012

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Independent Auditors' Report

To the Honorable 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 fiscal year ended June 30, 2012 (except for the Saugus Contributory Retirement System which is as of and for the year ended December 31, 2011), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Saugus, Massachusetts' 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Saugus, Massachusetts, as of June 30, 2012 (except for the Saugus Contributory Retirement System which is as of and for the year ended December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2012, on our consideration of the Town of Saugus, Massachusetts' internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, located on the following pages, the schedule of the other postemployment benefit plan funding progress and employer contributions and the schedule of the other postemployment benefit plan actuarial methods and assumptions, located after the notes to the financial statements, be presented to supplement the basic financial statements. Such information, although not a part of the basic financials statements, is required by accounting principles generally accepted in the United States of America who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge

we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script, appearing to read "Bowers & Shellen CC".

August 31, 2012

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Saugus (the "Town"), we offer readers of these basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. These basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the Town as a whole. The fund financial statements focus on the individual components of the Town government, reporting the Town's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other required 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 finances, in a manner similar to 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 or charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, trash removal and recycling, human services, culture and recreation, and interest. The business type activities include costs relating to the water and sewer activities.

The government-wide financial statements include not only the Town itself (known as the *primary government*), but also a legally separate public employee retirement system for which the Town is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

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 two categories: governmental 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 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*.

The Town maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the Belmonte Middle School Capital Project Fund. Data from the other funds are combined into a single, aggregate presentation under the caption *non-major governmental funds*.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds – The Town maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses the enterprise funds to account for its 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 statement 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 propriety funds.

The fiduciary fund financial statements provide separate information for the pension trust fund of the Town. All other fiduciary funds are combined into a single, aggregate presentation in the fiduciary fund financial statements under the caption private purpose trust funds.

Notes to the basic 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.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$49.3 million at the close of fiscal year 2012, an increase of \$1.7 million from the prior year.

Net assets of \$55.4 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its 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 the Town's net assets, \$4.8 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets has a negative amount of \$10.9 million.

At the end of the current fiscal year the Town is able to report positive balances in two of the three categories of net assets for the Town as a whole. Unrestricted net assets are negative due primarily to the impact of the recognition of a postemployment liability of \$17.1 million.

Details related to the Town's governmental and business-type activities follow.

Governmental Activities

As noted earlier net assets may serve, over time, as a useful indicator of a government's financial position. The assets of governmental activities exceeded liabilities by \$24.7 million at the close of the fiscal year 2012. Components of the Town's governmental financial position are listed below.

	FY2012	FY2011
Assets:		
Current assets.....	\$ 17,372,733	\$ 10,028,055
Noncurrent assets (excluding capital).....	3,451,814	4,679,038
Capital assets.....	49,720,299	50,722,587
Total assets.....	<u>70,544,846</u>	<u>65,429,680</u>
Liabilities:		
Current liabilities (excluding debt).....	3,952,960	2,403,877
Noncurrent liabilities (excluding debt).....	20,077,000	19,824,923
Current debt.....	8,328,000	2,776,000
Noncurrent debt.....	13,530,000	15,875,000
Total liabilities.....	<u>45,887,960</u>	<u>40,879,800</u>
Net Assets:		
Capital assets net of related debt.....	37,443,842	37,335,700
Restricted.....	4,771,627	5,305,011
Unrestricted.....	(17,558,583)	(18,090,831)
Total net assets.....	<u>\$ 24,656,886</u>	<u>\$ 24,549,880</u>

A significant portion of the Town's governmental activities net assets, \$37.4 million, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding.

The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt it should be noted that the resources to repay debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets of \$4.8 million represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of unrestricted net assets in the amount of \$17.6 million is due primarily to the recognition of postemployment healthcare benefits payable to current and future retirees of the Town. This liability is recognized in accordance with Governmental Accounting Standards Board Statement # 45. It indicates that the Town does not have enough reserves to meet ongoing, both short-term and long-term, obligations to citizens and creditors.

Included within the governmental activities assets, unrelated to capital assets, are \$4.9 million in school construction reimbursement grants.

In addition to the liability for postemployment benefits, governmental activity liabilities include \$15.9 million in general obligation bonds and \$5.4 million in compensated absence liabilities for unused sick and vacation leave that will be payable to employees upon the end of their employment with the Town.

The following summarizes the current and prior year governmental activities:

	FY2012	FY2011
Program Revenues:		
Charges for services.....	\$ 3,867,026	\$ 3,271,168
Operating grants and contributions.....	17,666,191	16,896,293
Capital grants and contributions.....	1,152,912	141,618
Total program revenues.....	<u>22,686,129</u>	<u>20,309,079</u>
General Revenues:		
Real estate and personal property taxes.....	50,563,664	48,448,485
Special assessment - snow and ice override.....	1,115,491	-
Tax liens.....	774,745	677,824
Motor vehicle and other excise taxes.....	3,180,463	3,069,573
Hotel/motel and meals tax.....	1,381,341	1,241,631
Penalties and interest on taxes.....	302,437	285,317
Payments in lieu of taxes.....	59,276	65,743
Grants and contributions not restricted to specific programs.....	3,581,275	3,355,114
Unrestricted investment income.....	57,266	63,963
Total general revenues.....	<u>61,015,958</u>	<u>57,207,650</u>
Expenses:		
General government.....	5,991,075	6,124,269
Public safety.....	16,709,903	16,987,506
Education.....	51,897,861	49,387,242
Public works.....	4,965,264	6,360,568
Recycling and trash disposal.....	1,366,350	1,592,914
Human services.....	872,578	735,515
Culture and recreation.....	1,512,795	1,424,050
Interest.....	664,204	489,991
Total expenses.....	<u>83,980,030</u>	<u>83,102,055</u>
Transfers, net.....	<u>384,949</u>	<u>925,692</u>
Change in net assets.....	<u>\$ 107,006</u>	<u>\$ (4,659,634)</u>

The governmental activities net assets was essentially unchanged in the current year due to results of operations being in line with budget, management of grant expenditures to coincide with reimbursements receipts and the

change in the postemployment benefit liability accrual being essentially offset with principal payment on long-term debt.

Business-Type Activities

The following summarizes the financial components of the Town's Business-Type Activities:

	FY2012	FY2011
Assets:		
Current assets.....	\$ 11,018,716	\$ 8,478,415
Capital assets.....	<u>37,765,760</u>	<u>34,408,399</u>
Total assets.....	<u>48,784,476</u>	<u>42,886,814</u>
Liabilities:		
Current liabilities (excluding debt).....	772,530	646,631
Noncurrent liabilities (excluding debt).....	719,000	642,736
Notes payable.....	4,412,235	-
Current debt.....	1,826,184	1,836,087
Noncurrent debt.....	<u>16,424,135</u>	<u>16,859,331</u>
Total liabilities.....	<u>24,154,084</u>	<u>19,984,785</u>
Net Assets:		
Capital assets net of related debt.....	17,993,100	16,577,992
Unrestricted.....	<u>6,637,292</u>	<u>6,324,037</u>
Total net assets.....	<u>\$ 24,630,392</u>	<u>\$ 22,902,029</u>
Program Revenues:		
Charges for services.....	\$ 9,175,634	\$ 9,071,263
Capital grants and contributions.....	<u>300,000</u>	<u>-</u>
Total program revenues.....	<u>9,475,634</u>	<u>9,071,263</u>
General Revenues:		
Unrestricted investment income.....	62,651	56,535
Expenses:		
Water.....	4,569,240	4,804,971
Sewer.....	<u>2,855,733</u>	<u>3,714,606</u>
Total expenses.....	<u>7,424,973</u>	<u>8,519,577</u>
Transfers, net.....	<u>(384,949)</u>	<u>(925,692)</u>
Change in net assets.....	<u>\$ 1,728,363</u>	<u>\$ (317,471)</u>

The Water Enterprise Fund net assets increased by \$1.2 million and the Sewer Enterprise Fund net assets increased \$483,000 during the current fiscal year. Most of the change is attributable to rates designed to reflect the cost of providing services, enhanced controls put in place to monitor operating expenditure activity, and the receipt of capital contribution in aid of construction in the Water Enterprise Fund.

Total business type activities assets exceeded liabilities by \$24.6 million at the close of fiscal year 2012.

Net assets of \$18 million reflect the investment in capital assets less any debt used to acquire those assets that are still outstanding. The remaining balance of unrestricted net assets of \$6.6 million may be used to meet ongoing obligations.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting 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.

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 equaled \$2.5 million, while total fund balance equaled \$2.6 million. 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 fund expenditures. Unassigned fund balance represents about 3.2% of general fund budgetary expenditures while total fund balance represents about 3.5%. The general fund increased by \$639,000 during fiscal 2012. This is due to better than expected revenue collections which came in \$1.4 million higher than budgeted due to tax lien collections, which are unbudgeted, of approximately \$950,000 and the receipt of approximately \$411,000 in one time state aid and federal government reimbursements.

Offsetting the revenue surplus are a series of appropriation deficits due to the Town improperly budgeting general fund expenditures in the water and sewer enterprise funds. The Town adjusted the activity to properly reflect the expenditure in the correct fund.

The combination of these events caused the overall increase in the fund balance of the General Fund.

Belmonte Middle School Capital Project Fund

This fund accounts for activities and resources associated with the renovation of the Belmonte Middle School. During the fiscal year the Town incurred construction costs of \$1.2 million, issued bond anticipation notes of \$5.17 million and received \$1.6 million in reimbursements from the Commonwealth of Massachusetts through the MSBA. The ending fund balance was in a deficit of \$136,000. This deficit will be funded through future long term debt borrowings and future grant reimbursements.

As of the end of the fiscal year, governmental funds reported combined ending fund balances of \$7.1 million, an increase of \$151,000 from the prior year.

General Fund Budgetary Highlights

The difference between the original budget of \$68.3 million and the final amended budget of \$69.4 million was due an increase of \$392,000 to the general government function, an increase of \$139,000 to the public safety function, an increase of \$108,000 to the public works function and an increase of \$543,000 to the employee benefits category.

Capital Asset and Debt Administration

Capital Assets - The Town's investment in capital assets for governmental activities as of June 30, 2012, amounts to \$49.7 million, net of accumulated depreciation. The investment in capital assets includes land; buildings and improvements, machinery and equipment and public works infrastructure.

The Town's investment in capital assets for business type activities as of June 30, 2012 amounts to \$37.8 million, net of accumulated depreciation. The investment in capital assets for the business type activities predominately relates to water and sewer infrastructure.

Additional information on the Town's capital assets may be found in Note 4 to the basic financial statements.

Long-term debt - At June 30, 2012, the Town had total long term governmental bonded debt of \$15.9 million which mainly consists of outstanding debt relative to school and other general building construction, renovation and upgrades.

Additionally, the Town is carrying governmental short term notes of \$6 million that is funding various school capital investments.

The water and sewer enterprise funds have \$18.2 million in long-term debt that is supported by the water and sewer rates.

Currently the Town has \$23.2 million in authorized and unissued long-term debt that is available to fund ongoing water and sewer capital improvements as well as the Belmonte Middle School renovations.

Requests for Information

This financial report is designed to provide a general overview of the Town of Saugus's 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 the Office of the Town Accountant, Town of Saugus, Town Hall, 298 Central Street, Saugus, MA 01906.

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Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 10,495,771	\$ 3,200,110	\$ 13,695,881
Investments.....	2,618,471	2,176,484	4,794,955
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	683,909	-	683,909
Tax liens.....	828,011	-	828,011
Motor vehicle and other excise taxes.....	248,934	-	248,934
User fees.....	-	4,937,465	4,937,465
Departmental and other.....	144,779	-	144,779
Special assessments.....	19,022	-	19,022
Intergovernmental.....	2,089,484	704,657	2,794,141
Tax foreclosures.....	244,352	-	244,352
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	3,451,814	-	3,451,814
Capital assets, not being depreciated.....	9,663,671	614,876	10,278,547
Capital assets, net of accumulated depreciation.....	40,056,628	37,150,884	77,207,512
TOTAL ASSETS.....	70,544,846	48,784,476	119,329,322
LIABILITIES			
CURRENT:			
Warrants payable.....	837,580	589,643	1,427,223
Accrued payroll.....	263,731	8,927	272,658
Accrued interest.....	222,532	134,960	357,492
Payroll withholdings.....	211,057	-	211,057
Abandoned property.....	14,060	-	14,060
Compensated absences.....	2,384,000	39,000	2,423,000
Landfill postclosure care liability.....	20,000	-	20,000
Notes payable.....	5,983,000	4,412,235	10,395,235
Bonds payable.....	2,345,000	1,826,184	4,171,184
NONCURRENT:			
Compensated absences.....	3,054,000	103,000	3,157,000
Other postemployment benefits.....	16,523,000	616,000	17,139,000
Bonds payable.....	13,530,000	16,424,135	29,954,135
Landfill postclosure care liability.....	500,000	-	500,000
TOTAL LIABILITIES.....	45,887,960	24,154,084	70,042,044
NET ASSETS			
Invested in capital assets, net of related debt.....	37,443,842	17,993,100	55,436,942
Restricted for:			
Permanent funds:			
Expendable.....	133,167	-	133,167
Nonexpendable.....	1,150,827	-	1,150,827
Grants and gifts.....	3,487,633	-	3,487,633
Unrestricted.....	(17,558,583)	6,637,292	(10,921,291)
TOTAL NET ASSETS.....	\$ 24,656,886	\$ 24,630,392	\$ 49,287,278

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 5,991,075	\$ 1,358,597	\$ 299,071	\$ -	\$ (4,333,407)
Public safety.....	16,709,903	633,622	198,520	-	(15,877,761)
Education.....	51,897,861	1,356,369	16,054,802	1,152,912	(33,333,778)
Public works.....	4,965,264	142,154	927,963	-	(3,895,147)
Trash removal and recycling.....	1,366,350	31,653	-	-	(1,334,697)
Human services.....	872,578	147,146	53,932	-	(671,500)
Culture and recreation.....	1,512,795	197,485	23,242	-	(1,292,068)
Interest.....	664,204	-	108,661	-	(555,543)
Total Governmental Activities.....	83,980,030	3,867,026	17,666,191	1,152,912	(61,293,901)
<i>Business-Type Activities:</i>					
Water.....	4,569,240	5,529,020	-	300,000	1,259,780
Sewer.....	2,855,733	3,646,614	-	-	790,881
Total Business-Type Activities.....	7,424,973	9,175,634	-	300,000	2,050,661
Total Primary Government.....	\$ 91,405,003	\$ 13,042,660	\$ 17,666,191	\$ 1,452,912	\$ (59,243,240)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (61,293,901)	\$ 2,050,661	\$ (59,243,240)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	50,563,664	-	50,563,664
Special assessment - snow and ice override.....	1,115,491	-	1,115,491
Tax liens.....	774,745	-	774,745
Motor vehicle and other excise taxes.....	3,180,463	-	3,180,463
Hotel/motel and meals tax.....	1,381,341	-	1,381,341
Penalties and interest on taxes.....	302,437	-	302,437
Payments in lieu of taxes.....	59,276	-	59,276
Grants and contributions not restricted to specific programs.....	3,581,275	-	3,581,275
Unrestricted investment income.....	57,266	62,651	119,917
<i>Transfers, net</i>	384,949	(384,949)	-
Total general revenues and transfers.....	61,400,907	(322,298)	61,078,609
Change in net assets.....	107,006	1,728,363	1,835,369
<i>Net Assets:</i>			
Beginning of year.....	24,549,880	22,902,029	47,451,909
End of year.....	\$ <u>24,656,886</u>	\$ <u>24,630,392</u>	\$ <u>49,287,278</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

	General	Belmonte Middle School Capital Project	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents.....	\$ 1,742,740	\$ 4,225,857	\$ 4,527,174	\$ 10,495,771
Investments.....	1,615,319	-	1,003,152	2,618,471
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	683,909	-	-	683,909
Tax liens.....	828,011	-	-	828,011
Motor vehicle and other excise taxes.....	248,934	-	-	248,934
Departmental and other.....	144,779	-	-	144,779
Special assessments.....	19,022	-	-	19,022
Intergovernmental.....	3,897,730	1,066,054	577,514	5,541,298
Tax foreclosures.....	244,352	-	-	244,352
TOTAL ASSETS.....	\$ 9,424,796	\$ 5,291,911	\$ 6,107,840	\$ 20,824,547
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 476,016	\$ 260,075	\$ 101,489	\$ 837,580
Accrued payroll.....	258,498	-	5,233	263,731
Payroll withholdings.....	211,057	-	-	211,057
Abandoned property.....	14,060	-	-	14,060
Deferred revenues.....	5,819,039	-	577,514	6,396,553
Notes payable.....	-	5,168,000	815,000	5,983,000
TOTAL LIABILITIES.....	6,778,670	5,428,075	1,499,236	13,705,981
FUND BALANCES:				
Nonspendable.....	-	-	1,150,827	1,150,827
Restricted.....	-	-	3,620,800	3,620,800
Assigned.....	186,228	-	-	186,228
Unassigned.....	2,459,898	(136,164)	(163,023)	2,160,711
TOTAL FUND BALANCES.....	2,646,126	(136,164)	4,608,604	7,118,566
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 9,424,796	\$ 5,291,911	\$ 6,107,840	\$ 20,824,547

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2012

Total governmental fund balances.....		\$ 7,118,566
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		49,720,299
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		6,396,553
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(222,532)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(15,875,000)	
Landfill postclosure care.....	(520,000)	
Other postemployment benefits liability.....	(16,523,000)	
Compensated absences.....	<u>(5,438,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(38,356,000)</u>
Net assets of governmental activities.....		<u>\$ 24,656,886</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2012

	General	Belmonte Middle School Capital Project	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 50,120,211	\$ -	\$ -	\$ 50,120,211
Special assessment - snow and ice override.....	1,096,469	-	-	1,096,469
Tax liens.....	951,361	-	-	951,361
Motor vehicle and other excise taxes.....	3,078,246	-	-	3,078,246
Hotel/motel and meals tax.....	1,381,341	-	-	1,381,341
Charges for services.....	-	-	1,634,521	1,634,521
Penalties and interest on taxes.....	309,989	-	-	309,989
Fees.....	635,182	-	-	635,182
Rentals.....	212,331	-	-	212,331
Payments in lieu of taxes.....	59,276	-	-	59,276
Licenses and permits.....	802,649	-	-	802,649
Fines and forfeitures.....	243,801	-	-	243,801
Intergovernmental.....	17,655,100	1,152,912	3,246,000	22,054,012
Departmental and other.....	506,876	-	-	506,876
Contributions.....	-	-	240,294	240,294
Investment income.....	40,506	-	16,760	57,266
Miscellaneous.....	-	-	41,041	41,041
TOTAL REVENUES.....	77,093,338	1,152,912	5,178,616	83,424,866
EXPENDITURES:				
Current:				
General government.....	2,808,772	-	89,145	2,897,917
Public safety.....	9,946,349	-	789,342	10,735,691
Education.....	37,618,515	1,195,583	3,737,867	42,551,965
Public works.....	3,412,400	-	743,603	4,156,003
Trash removal and recycling.....	1,305,303	-	-	1,305,303
Human services.....	493,365	-	124,659	618,024
Culture and recreation.....	797,234	-	181,175	978,409
Pension benefits.....	4,333,524	-	-	4,333,524
Property and liability insurance.....	603,239	-	-	603,239
Employee benefits.....	10,224,222	-	-	10,224,222
State and county charges.....	2,166,227	-	-	2,166,227
Debt service:				
Principal.....	2,393,000	-	-	2,393,000
Interest.....	695,771	-	-	695,771
TOTAL EXPENDITURES.....	76,797,921	1,195,583	5,665,791	83,659,295
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	295,417	(42,671)	(487,175)	(234,429)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	712,252	-	66,066	778,318
Transfers out.....	(368,369)	-	(25,000)	(393,369)
TOTAL OTHER FINANCING SOURCES (USES).....	343,883	-	41,066	384,949
NET CHANGE IN FUND BALANCES.....	639,300	(42,671)	(446,109)	150,520
FUND BALANCES AT BEGINNING OF YEAR.....	2,006,826	(93,493)	5,054,713	6,968,046
FUND BALANCES AT END OF YEAR.....	\$ 2,646,126	\$ (136,164)	\$ 4,608,604	\$ 7,118,566

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds.....		\$ 150,520
<p>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.</p>		
Capital outlay.....	2,785,183	
Depreciation expense.....	<u>(3,787,471)</u>	
Net effect of reporting capital assets.....		(1,002,288)
<p>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 (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		531,320
<p>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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Capital lease financing.....	170,964	
Debt service principal payments.....	<u>2,393,000</u>	
Net effect of reporting long-term debt.....		2,563,964
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(214,000)	
Net change in other postemployment benefits accrual.....	(2,361,948)	
Net change in accrued interest on long-term debt.....	31,567	
Net change in accrued landfill postclosure care liability.....	<u>407,871</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		<u>(2,136,510)</u>
Change in net assets of governmental activities.....		<u>\$ 107,006</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2012

	Water Fund	Sewer Fund	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 1,613,804	\$ 1,586,306	\$ 3,200,110
Investments.....	-	2,176,484	2,176,484
Receivables, net of allowance for uncollectibles:			
User fees.....	2,972,056	1,965,409	4,937,465
Intergovernmental.....	-	704,657	704,657
Total current assets.....	4,585,860	6,432,856	11,018,716
NONCURRENT:			
Capital assets, not being depreciated.....	190,501	424,375	614,876
Capital assets, net of accumulated depreciation.....	14,360,700	22,790,184	37,150,884
Total noncurrent assets.....	14,551,201	23,214,559	37,765,760
TOTAL ASSETS.....	19,137,061	29,647,415	48,784,476
LIABILITIES			
CURRENT:			
Warrants payable.....	160,445	429,198	589,643
Accrued payroll.....	5,183	3,744	8,927
Accrued interest.....	23,368	111,592	134,960
Compensated absences.....	17,000	22,000	39,000
Notes payable.....	1,515,000	2,897,235	4,412,235
Bonds payable.....	1,015,501	810,683	1,826,184
Total current liabilities.....	2,736,497	4,274,452	7,010,949
NONCURRENT:			
Compensated absences.....	48,000	55,000	103,000
Other postemployment benefits.....	336,000	280,000	616,000
Bonds payable.....	4,811,675	11,612,460	16,424,135
Total noncurrent liabilities.....	5,195,675	11,947,460	17,143,135
TOTAL LIABILITIES.....	7,932,172	16,221,912	24,154,084
NET ASSETS			
Invested in capital assets, net of related debt.....	8,541,517	9,451,583	17,993,100
Unrestricted.....	2,663,372	3,973,920	6,637,292
TOTAL NET ASSETS.....	\$ 11,204,889	\$ 13,425,503	\$ 24,630,392

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 5,529,020	\$ 3,646,614	\$ 9,175,634
OPERATING EXPENSES:			
Cost of services and administration	3,616,803	1,624,470	5,241,273
Depreciation.....	888,232	944,559	1,832,791
TOTAL OPERATING EXPENSES	4,505,035	2,569,029	7,074,064
OPERATING INCOME (LOSS).....	1,023,985	1,077,585	2,101,570
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	29,043	33,608	62,651
Interest expense.....	(64,205)	(286,704)	(350,909)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(35,162)	(253,096)	(288,258)
INCOME (LOSS) BEFORE TRANSFERS.....	988,823	824,489	1,813,312
TRANSFERS:			
Transfers in.....	302,303	-	302,303
Transfers out.....	(346,065)	(341,187)	(687,252)
TOTAL OPERATING TRANSFERS.....	(43,762)	(341,187)	(384,949)
CAPITAL CONTRIBUTION.....	300,000	-	300,000
CHANGE IN NET ASSETS.....	1,245,061	483,302	1,728,363
NET ASSETS AT BEGINNING OF YEAR.....	9,959,828	12,942,201	22,902,029
NET ASSETS AT END OF YEAR.....	\$ 11,204,889	\$ 13,425,503	\$ 24,630,392

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2012

	Water Fund	Sewer Fund	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Receipts from customers and users.....	\$ 5,406,401	\$ 3,894,608	\$ 9,301,009
Payments to vendors.....	(3,546,171)	(1,433,412)	(4,979,583)
Payments to employees.....	(261,940)	(333,629)	(595,569)
NET CASH FROM OPERATING ACTIVITIES.....	1,598,290	2,127,567	3,725,857
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>			
Transfers in.....	302,303	-	302,303
Transfers out.....	(346,065)	(341,187)	(687,252)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(43,762)	(341,187)	(384,949)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Proceeds from the issuance of bonds and notes.....	2,396,750	3,345,180	5,741,930
Capital contributions.....	300,000	-	300,000
Acquisition and construction of capital assets.....	(1,639,537)	(3,000,120)	(4,639,657)
Principal payments on bonds and notes.....	(1,017,617)	(864,471)	(1,882,088)
Interest expense.....	(60,213)	(339,114)	(399,327)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(20,617)	(858,525)	(879,142)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Purchase (sales) of investments.....	-	(36,919)	(36,919)
Investment income.....	29,043	33,608	62,651
NET CASH FROM INVESTING ACTIVITIES.....	29,043	(3,311)	25,732
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,562,954	924,544	2,487,498
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	50,850	661,762	712,612
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 1,613,804	\$ 1,586,306	\$ 3,200,110
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>			
Operating income (loss).....	\$ 1,023,985	\$ 1,077,585	\$ 2,101,570
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	888,232	944,559	1,832,791
Changes in assets and liabilities:			
User fees.....	(122,619)	247,994	125,375
Warrants payable.....	(196,969)	(232,375)	(429,344)
Accrued payroll.....	(1,687)	(5,357)	(7,044)
Accrued compensated absences.....	(40,748)	55,204	14,456
Other postemployment benefits.....	48,096	39,957	88,053
Total adjustments.....	574,305	1,049,982	1,624,287
NET CASH FROM OPERATING ACTIVITIES.....	\$ 1,598,290	\$ 2,127,567	\$ 3,725,857

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 741,395	\$ 62,014	\$ 237,327
Investments.....	57,821,524	174,801	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	3,288,411	-	197,538
TOTAL ASSETS.....	61,851,330	236,815	434,865
LIABILITIES			
Warrants payable.....	-	-	1,713
Liabilities due depositors.....	-	-	433,152
TOTAL LIABILITIES.....	-	-	434,865
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 61,851,330	\$ 236,815	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 4,446,574	\$ -
Employee.....	1,409,115	-
Private donations.....	-	27,401
	<u>5,855,689</u>	<u>27,401</u>
Total contributions.....		
	5,855,689	27,401
Net investment income (loss):		
Net change in fair value of investments.....	(1,713,722)	-
Interest.....	1,803,221	2,130
	<u>89,499</u>	<u>2,130</u>
Total investment income (loss).....		
	89,499	2,130
Intergovernmental.....	159,177	-
	<u>159,177</u>	<u>-</u>
Transfers from other systems.....	195,279	-
	<u>195,279</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>6,299,644</u>	<u>29,531</u>
DEDUCTIONS:		
Administration.....	391,630	-
Transfers to other systems.....	116,756	-
Retirement benefits and refunds.....	6,321,047	-
Educational scholarships.....	-	6,500
	<u>6,829,433</u>	<u>6,500</u>
TOTAL DEDUCTIONS.....		
	6,829,433	6,500
CHANGE IN NET ASSETS.....	(529,789)	23,031
NET ASSETS AT BEGINNING OF YEAR.....	<u>62,381,119</u>	<u>213,784</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 61,851,330</u>	<u>\$ 236,815</u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Saugus, Massachusetts (Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

A. Reporting Entity

The Town is a municipal corporation governed by a Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

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

The Saugus Contributory Retirement System (System) was established to provide retirement benefits to Town employees, the Saugus Housing Authority 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. The system is governed by a five-member board comprised of the Town Accountant (ex-officio), two members elected by the System's participants, one member appointed by the Board of Selectmen and one member appointed by the Board members

Availability of Financial Information for Component Units

The System issues a publicly available un-audited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may 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., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds 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. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *Belmonte Middle School Capital Project Fund* accounts for resources and activity associated with the renovation of the Belmonte Middle School.

The nonmajor governmental funds consist of special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The *water fund* is used to account for water distribution operations of the department of public works that are financed and operated in a manner similar to private business enterprises where the intent of the governing body

is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The *sewer fund* is used to account for sewage treatment operations of the department of public works that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

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. The Town's scholarship funds are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity such student activity funds, police and fire special detail pay, and various planning board deposits. Agency funds apply the accrual basis of accounting but do not have a measurement approach.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

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 August 1st, November 1st, February 1st and May 1st of each fiscal year 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 of the levy.

Real estate tax liens are processed during the fourth quarter of every fiscal year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Water

Water user fees are levied semi-annually based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water liens are processed in December of every year and included as a lien on the property owner's tax bill. Water charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Sewer

Sewer user fees are levied semi-annually based on individual water meter readings and are subject to penalties and interest if they are not paid by the respective due date. Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of outstanding parking tickets and veterans benefits reimbursement and are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the

provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements.....	20 - 40
Infrastructure.....	30 - 75
Machinery, Equipment, and Furnishings.....	5

All purchases and construction costs in excess of \$25,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets reported as "invested in capital assets, net of related debt" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state's school building program is not considered to be capital related debt.

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Permanent funds - expendable” represents the amount of realized and unrealized investment earnings of donor restricted trusts. The restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings.

“Permanent funds - nonexpendable” represents the endowment portion of donor restricted trusts.

“Grants and gifts” represents amounts held for school grants, highway and other grants, and gift funds.

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. For the Town, Town Meeting is the highest level of decision making authority that can vote to commit fund balance. Once committed, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a Town Meeting vote is taken to remove or revise the commitment.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Sometime the Town will fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balances in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the District’s policy to consider restricted fund balance to have been depleted first, followed by committed fund balance, and assigned fund balance. Unassigned fund balance is applied last.

L. Long-term debt*Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

M. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income earned by the water fund and the sewer fund is retained within the respective funds.

N. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

O. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

P. Individual Fund Deficits

There are several individual fund deficits within the Special Revenue Funds. These deficits will be funded through grants and available fund balances.

Q. Total Column*Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Short-term Investments". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The Retirement System participates, as a Participating member, in the Pension Reserves Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

The PRIT fund, as a pool, invests in various products including, but not limited to, money market mutual funds, equities, pooled foreign and domestic fixed income and equity funds, United States government sponsored enterprises and Treasury notes, real estate, and commodities. The underlying components of PRIT's fixed income portfolio had an effective weighted duration rate ranging from .08 to 8.58 years.

MMDT maintains a cash portfolio and a short-term bond portfolio with combined average maturities of approximately 3 months. Credit ratings associated with the Town's investment in MMDT ranged from A1/P1 to unrated; with approximately 98% rated A1/P1 and approximately 2% rated A2/P2.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$5,314,543 and the bank balance totaled \$6,576,863. Of the bank balance, \$981,826 was covered by Federal Depository Insurance, \$5,338,551 was covered by the Depositors Insurance Fund, \$245,152 is collateralized, and \$11,334 is uncollateralized and subject to custodial credit risk.

It is the policy of the Town to maintain depository relationships with institutions that fully collateralize Town funds, beyond FDIC and DIF insurance, on deposit. The collateralization requirement is imposed based on balance the need for return on investment along with overall safety of Town cash. Depending on the cash requirements of the

Town there may be a need to maintain depository balances that are above and beyond FDIC, DIF and collateral agreement coverage. In these instances, the Town's uncollateralized deposits may not exceed 5% of an institution's assets and no more than 10% of the Town's cash.

At December 31, 2011, carrying amount of deposits for the system totaled \$741,395 and the bank balance totaled \$671,820. All of the bank balance was covered by the Federal Depository Insurance and none of the funds were exposed to custodial risk.

The pension system does not maintain a policy that addresses the custodial credit risk of deposits.

Investments

As of June 30, 2012, the Town had the following investments:

Investment Type	Maturity		
	Fair Value	Under 1 Year	1-5 Years
<u>Debt Securities</u>			
Federal Home Loan Mortgage Corp.....	\$ 1,598,806	\$ 843,590	\$ 755,216
Federal National Mortgage Association.....	1,209,089	501,058	708,031
Federal Home Loan Banks.....	151,721	-	151,721
United States Treasury Notes.....	2,010,140	750,890	1,259,250
Total Debt Securities.....	4,969,756	\$ 750,890	\$ 1,259,250
<u>Other Investments</u>			
Repurchase Agreement.....	2,659,150		
Money Market Mutual Funds.....	310,244		
MMDT.....	5,711,285		
Total Investments.....	\$ 13,650,435		

As of December 31, 2011, the System had the following investments:

Investment Type	Fair Value
<u>Other Investments</u>	
Pension Reserve Investment Trust (PRIT)	\$ 57,821,524

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the Town's investments, \$4,969,756 of debt securities have custodial credit risk exposure because the related securities are uninsured, unregistered and are not held in the Town's name.

It is the policy of the Town to invest only in the Massachusetts Municipal Depository Trust (MMDT), United States Treasury Notes and United States Agency obligations.

As of June 30, 2012, the Town had a \$2,659,150 investment in an overnight Repurchase Agreement (REPO). The REPO is held by the counterparty and is not in the Town's name. The collateralization consists of Federal National Mortgage Association pass through securities which are AAA rated.

It is the policy of the System to only invest in the Commonwealth of Massachusetts Pension Reserves Investment Trust.

At December 31, 2011, the System's \$57,821,524 investment in PRIT is not subject to custodial credit risk exposure because it is not evidenced by securities that exist in physical or book-entry form.

Interest and Credit Rate Risk

Town policy dictates that funds may not be invested in fixed income securities of the United States government longer than one year from date of purchase.

The System has not adopted a formal policy related to credit risk. At December 31, 2011 the System does not have any rated investments.

Concentration of Credit Risk

Town policy dictates that, with the exception of MMDT and United States Treasuries or Agencies, no more than 10% of the Town's investments can be invested in a single issuer or financial institution.

The Town does not possess any investments that are subject to concentration of credit risk disclosures.

NOTE 3 - RECEIVABLES

At June 30, 2012, receivables for the individual major governmental funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes.....	\$ 984,145	\$ (300,236)	\$ 683,909
Tax liens.....	920,012	(92,001)	828,011
Motor vehicle and other excise taxes.....	535,748	(286,814)	248,934
Departmental and other.....	160,866	(16,087)	144,779
Special assessments.....	19,022	-	19,022
Intergovernmental.....	5,541,298	-	5,541,298
Total	<u>\$ 8,161,091</u>	<u>\$ (695,138)</u>	<u>\$ 7,465,953</u>

At June 30, 2012, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees.....	\$ 4,937,465	\$ -	\$ 4,937,465
Intergovernmental.....	<u>704,657</u>	<u>-</u>	<u>704,657</u>
Total	<u>\$ 6,346,779</u>	<u>\$ -</u>	<u>\$ 6,346,779</u>

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. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Nonmajor Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 436,211	\$ -	\$ 436,211
Tax liens.....	828,011	-	828,011
Motor vehicle and other excise taxes.....	248,934	-	248,934
Departmental and other.....	144,779	-	144,779
Special assessments.....	19,022	-	19,022
Intergovernmental.....	3,897,730	577,514	4,475,244
<u>Other asset type:</u>			
Tax foreclosures.....	<u>244,352</u>	<u>-</u>	<u>244,352</u>
Total.....	<u>\$ 5,819,039</u>	<u>\$ 577,514</u>	<u>\$ 6,396,553</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

Governmental Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 8,138,042	\$ -	\$ -	\$ 8,138,042
Construction in progress.....	1,404,849	260,075	(139,295)	1,525,629
Total capital assets, not being depreciated...	9,542,891	260,075	(139,295)	9,663,671
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	53,575,244	1,124,821	-	54,700,065
Machinery, equipment, and furnishings.....	12,521,321	734,814	-	13,256,135
Infrastructure.....	29,673,368	804,768	-	30,478,136
Total capital assets being depreciated.....	95,769,933	2,664,403	-	98,434,336
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(24,684,174)	(1,349,830)	-	(26,034,004)
Machinery, equipment, and furnishings.....	(8,461,148)	(892,458)	-	(9,353,606)
Infrastructure.....	(21,444,915)	(1,545,183)	-	(22,990,098)
Total accumulated depreciation.....	(54,590,237)	(3,787,471)	-	(58,377,708)
Total capital assets being depreciated, net.....	41,179,696	(1,123,068)	-	40,056,628
Total governmental activities capital assets, net.....	\$ 50,722,587	\$ (862,993)	\$ (139,295)	\$ 49,720,299
Water	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 58,609	\$ -	\$ -	\$ 58,609
Construction in progress.....	6,228,181	131,892	(6,228,181)	131,892
Total capital assets not being depreciated....	6,286,790	131,892	(6,228,181)	190,501
<u>Capital assets being depreciated:</u>				
Machinery, equipment, and furnishings.....	1,275,343	-	-	1,275,343
Infrastructure.....	11,791,808	7,867,718	-	19,659,526
Total capital assets being depreciated.....	13,067,151	7,867,718	-	20,934,869
<u>Less accumulated depreciation for:</u>				
Machinery, equipment, and furnishings.....	(498,375)	(121,298)	-	(619,673)
Infrastructure.....	(5,187,562)	(766,934)	-	(5,954,496)
Total accumulated depreciation.....	(5,685,937)	(888,232)	-	(6,574,169)
Total capital assets being depreciated, net.....	7,381,214	6,979,486	-	14,360,700
Total water activities capital assets, net.....	\$ 13,668,004	\$ 7,111,378	\$ (6,228,181)	\$ 14,551,201

Sewer Activity	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 5,770	\$ -	\$ -	\$ 5,770
Construction in progress.....	9,967,238	418,605	(9,967,238)	418,605
Total capital assets not being depreciated....	9,973,008	418,605	(9,967,238)	424,375
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	128,960	-	-	128,960
Machinery, equipment, and furnishings.....	1,491,719	319,460	-	1,811,179
Infrastructure.....	18,161,932	12,647,897	-	30,809,829
Total capital assets being depreciated.....	19,782,611	12,967,357	-	32,749,968
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(22,633)	(6,448)	-	(29,081)
Machinery, equipment, and furnishings.....	(663,525)	(150,181)	-	(813,706)
Infrastructure.....	(8,329,067)	(787,930)	-	(9,116,997)
Total accumulated depreciation.....	(9,015,225)	(944,559)	-	(9,959,784)
Total capital assets being depreciated, net.....	10,767,386	12,022,798	-	22,790,184
Total water activities capital assets, net.....	\$ 20,740,394	\$ 12,441,403	\$ (9,967,238)	\$ 23,214,559

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government.....	\$ 1,176,697
Public safety.....	392,418
Education.....	932,304
Public works.....	1,180,915
Culture and recreation.....	105,137
Total depreciation expense - governmental activities.....	\$ 3,787,471

Business-Type Activities:

Water.....	\$ 888,232
Sewer.....	944,559
Total depreciation expense - business-type activities.....	\$ 1,832,791

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			
	General Fund	Nonmajor Governmental Funds	Water Enterprise Fund	Total
General Fund.....	\$ -	\$ 66,066	\$ 302,303	\$ 368,369 (1)
Nonmajor Governmental Funds.....	25,000	-	-	25,000 (2)
Water Enterprise Fund.....	346,065	-	-	346,065 (3)
Sewer Enterprise Fund.....	341,187	-	-	341,187 (3)
Total.....	\$ 712,252	\$ 66,066	\$ 302,303	\$ 1,080,621

- (1) Budgeted transfers from the General Fund to the Water Enterprise Fund and various nonmajor governmental funds to cover prior year deficits.
- (2) Budgeted transfer from Cemetery Sale of Lots and Graves to the General Fund.
- (3) Budgeted transfers from the Water and Sewer Enterprise funds to the General Fund for indirect costs.

NOTE 6 - SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).
- Current project costs and other approved expenditures incurred, that are approved to be reimbursed by the Commonwealth, through the issuance of state anticipation notes (SANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the General Fund.

As of June 30, 2012, the Town's short-term debt activity was as follows:

Type	Description	Maturity Date	Rate %	Balance at June 30 2011	Renewed/ Issued	Retired/ Redeemed	Balance at June 30 2012
Governmental Funds							
BAN	Belmonte Middle School Feasibility Study.....	3/13/12	1.50	\$ 168,000	\$ -	\$ (168,000)	\$ -
BAN	High School Improvements.....	3/13/12	1.50	175,000	-	(175,000)	-
BAN	Essex Street Fire House Heating.....	3/13/12	1.50	40,000	-	(40,000)	-
BAN	Belmonte Middle School.....	11/15/12	1.50	-	5,168,000	-	5,168,000
BAN	High School Improvements.....	11/15/12	1.50	-	175,000	-	175,000
BAN	Essex Street Fire House Heating.....	11/15/12	1.50	-	40,000	-	40,000
BAN	Fire Engine.....	11/15/12	1.25	-	600,000	-	600,000
	Governmental Short Term Debt.....			<u>383,000</u>	<u>5,983,000</u>	<u>(383,000)</u>	<u>5,983,000</u>
Enterprise Fund							
BAN	Water Improvements.....	11/15/12	1.25	-	1,515,000	-	1,515,000
BAN	Sewer Improvements.....	11/15/12	1.25	-	510,000	-	510,000
BAN**	Temporary MWPAT financing.....	6/30/13	2.00	-	2,387,235	-	2,387,235
	Sewer Short Term Debt.....			-	2,897,235	-	2,897,235
	Total Short Term Debt.....			<u>\$ 383,000</u>	<u>\$ 10,395,235</u>	<u>\$ (383,000)</u>	<u>\$ 10,395,235</u>

The Massachusetts Water Pollution Abatement Trust (MWPAT) Temporary Financing relates to a program in which the Town is able to rehabilitate, expand, or upgrade the existing sewer infrastructure network. The Town has been preliminarily approved for construction costs of up to \$2,387,235 at a market interest rate of 2%. The Town entered into the financing in July of 2011 and at that time the Town was allowed 2 years to expend funds against the loan. After the two years, the Town will determine the final construction costs and a permanent debt schedule will be agreed upon and payable over 20 years. During the temporary status of the loan the Town is only liable for payment of interest costs.

NOTE 7 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness as of June 30, 2012, and the debt service requirements are as follows:

Bonds Payable Schedule – Governmental Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
General obligation bonds of 2003.....	2023	\$ 16,760,000	4.10	\$ 9,695,000	\$ -	\$ 875,000	\$ 8,820,000
General obligation bonds of 2005.....	2016	9,705,300	3.60	4,515,000	-	1,060,000	3,455,000
General obligation bonds of 2007.....	2017	1,954,000	3.70	1,105,000	-	205,000	900,000
General obligation bonds of 2011.....	2031	2,953,000	3.40	2,953,000	-	253,000	2,700,000
Total.....				\$ 18,268,000	\$ -	\$ 2,393,000	\$ 15,875,000

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 2,345,000	\$ 612,175	\$ 2,957,175
2014.....	2,330,000	525,822	2,855,822
2015.....	2,315,000	440,001	2,755,001
2016.....	1,675,000	365,627	2,040,627
2017.....	1,235,000	308,444	1,543,444
2018.....	1,035,000	261,558	1,296,558
2019.....	1,025,000	220,018	1,245,018
2020.....	895,000	173,834	1,068,834
2021.....	895,000	134,432	1,029,432
2022.....	835,000	93,284	928,284
2023.....	805,000	55,692	860,692
2024.....	165,000	19,494	184,494
2025.....	160,000	12,894	172,894
2026.....	30,000	6,494	36,494
2027.....	30,000	5,294	35,294
2028.....	25,000	4,094	29,094
2029.....	25,000	3,094	28,094
2030.....	25,000	2,064	27,064
2031.....	25,000	1,030	26,030
Total.....	\$ 15,875,000	\$ 3,245,345	\$ 19,120,345

The Town has been approved to receive school construction assistance through the Massachusetts School Building Authority (MSBA). The MSBA provides resources for eligible construction costs and related debt interest and borrowing costs.

The Town is in the process of renovating the Belmonte Middle School with an expected cost of \$20,200,000 million. The MSBA approved total assistance not to exceed \$10,098,000. This represents 53.32% of eligible construction costs. To date the Town has applied for and received reimbursements in the amount of approximately \$1,200,000 as of June 30, 2012.

The Town was approved for grants related to the construction of the Veterans Elementary School. During fiscal year 2012, \$555,000 of such assistance was received. Approximately \$6,100,000 will be received in future fiscal

years. Of this amount, approximately \$2,203,000 represents reimbursement of long-term interest costs, and \$3,898,000 represents reimbursement of approved construction costs. Accordingly, a \$3,898,000 intergovernmental receivable and corresponding deferred revenue has been recorded in the fund based financial statements and the change in the receivable has been recognized as revenue in the conversion to the government-wide financial statements.

Bonds Payable Schedule – Water Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
MWRA.....	2020	\$ 9,007,913	0.00	\$ 4,463,043	\$ 881,750	\$ 857,617	\$ 4,487,176
General obligation bonds of 2006.....	2018	2,000,000	3.70	500,000	-	100,000	400,000
General obligation bonds of 2007.....	2017	60,000	3.70	60,000	-	10,000	50,000
General obligation bonds of 2011.....	2031	1,159,210	3.80	940,000	-	50,000	890,000
Total Water Enterprise Fund.....				\$ 5,963,043	\$ 881,750	\$ 1,017,617	\$ 5,827,176

Debt service requirements for principal and interest for the water enterprise fund bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 1,015,501	\$ 73,518	\$ 1,089,019
2014.....	835,501	64,118	899,619
2015.....	835,501	52,218	887,719
2016.....	745,210	40,318	785,528
2017.....	645,210	28,418	673,628
2018.....	454,629	26,218	480,847
2019.....	399,999	24,218	424,217
2020.....	224,275	22,218	246,493
2021.....	133,175	20,418	153,593
2022.....	133,175	18,168	151,343
2023.....	45,000	16,368	61,368
2024.....	45,000	14,568	59,568
2025.....	45,000	12,768	57,768
2026.....	45,000	10,968	55,968
2027.....	45,000	9,168	54,168
2028.....	45,000	7,368	52,368
2029.....	45,000	5,568	50,568
2030.....	45,000	3,712	48,712
2031.....	45,000	1,856	46,856
Total.....	\$ 5,827,176	\$ 452,174	\$ 6,279,350

Bonds Payable Schedule – Sewer Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
MWPAT.....	2031	\$ 9,797,813	2.00	\$ 9,126,724	\$ 563,736	\$ 547,317	\$ 9,143,143
General obligation bonds of 2007.....	2017	200,000	3.70	60,000	-	10,000	50,000
General obligation bonds of 2011.....	2031	2,270,000	3.80	3,550,000	-	320,000	3,230,000
Total Water Enterprise Fund.....				<u>\$ 12,736,724</u>	<u>\$ 563,736</u>	<u>\$ 877,317</u>	<u>\$ 12,423,143</u>

Debt service requirements for principal and interest for the sewer enterprise fund bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 810,683	\$ 271,943	\$ 1,082,626
2014.....	796,392	236,128	1,032,520
2015.....	806,314	219,798	1,026,112
2016.....	816,615	202,429	1,019,044
2017.....	776,996	185,092	962,088
2018.....	757,567	162,983	920,550
2019.....	638,327	143,544	781,871
2020.....	599,740	130,534	730,274
2021.....	609,593	118,588	728,181
2022.....	619,649	105,299	724,948
2023.....	629,910	93,065	722,975
2024.....	640,384	80,680	721,064
2025.....	636,073	68,141	704,214
2026.....	646,983	54,045	701,028
2027.....	653,116	43,789	696,905
2028.....	613,193	32,084	645,277
2029.....	594,368	21,031	615,399
2030.....	385,634	12,195	397,829
2031.....	391,606	5,447	397,053
Total.....	<u>\$ 12,423,143</u>	<u>\$ 2,186,815</u>	<u>\$ 14,609,958</u>

The Town is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$69,685 and interest costs for \$51,368. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$10,248,902. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2012 principal and interest subsidy totaled approximately \$22,000.

Authorized and Unissued Debt

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2012, the Town had the following authorized and unissued debt:

Purpose	Amount
Sewer system capital improvements.....	\$ 3,130,646
School construction.....	18,937,633
Water system improvements.....	940,000
Fire House Heating.....	40,000
High School ADA Compliance.....	100,000
High School Vents Project.....	75,000
Total.....	<u>\$ 23,223,279</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2012, the following changes occurred in long-term liabilities:

Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable.....	\$ 18,268,000	\$ -	\$ (2,393,000)	\$ 15,875,000	\$ 2,345,000
Compensated absences.....	5,224,000	736,000	(522,000)	5,438,000	2,384,000
Other postemployment benefits.....	14,161,052	5,699,948	(3,338,000)	16,523,000	-
Capital lease liability.....	170,964	-	(170,964)	-	-
Landfill liability.....	927,871	-	(407,871)	520,000	20,000
Total governmental activity long-term liabilities.....	<u>\$ 38,751,887</u>	<u>\$ 6,435,948</u>	<u>\$ (6,831,835)</u>	<u>\$ 38,356,000</u>	<u>\$ 4,749,000</u>

Business-Type Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable.....	\$ 18,699,767	\$ 1,445,486	\$ (1,894,934)	\$ 18,250,319	\$ 1,826,184
Compensated absences.....	127,544	27,211	(12,755)	142,000	39,000
Other postemployment benefits.....	527,947	335,053	(247,000)	616,000	-
Total business type activity long-term liabilities.....	<u>\$ 19,355,258</u>	<u>\$ 1,807,750</u>	<u>\$ (2,154,689)</u>	<u>\$ 19,008,319</u>	<u>\$ 1,865,184</u>

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

At June 30, 2012, \$528,616 has been set aside in a stabilization fund that is classified as part of the general fund in the governmental funds financial statements. Municipal finance laws of the Commonwealth of Massachusetts authorize municipalities to establish stabilization funds on an as needed basis. The number of and exact purpose of the stabilization funds of the Town are dependent upon authorization and approval of Town Meeting. During fiscal year 2012, the fund recognized interest and investment earnings of \$4,781. The stabilization fund balance can be used for general and/or capital purposes upon approval of Town Meeting. Additions to the fund can only be made upon Town Meeting approval.

The Town classifies fund balances according to the constraints imposed on the use of the resources. There are two major types of fund balances: nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The Town's highest level of decision making authority is the Annual Town Meeting.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

As of June 30, 2012, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS			
	General	Major Fund Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES				
Nonspendable:				
Permanent fund principal.....	\$ -	\$ -	\$ 1,150,827	\$ 1,150,827
Restricted for:				
Town federal grant funds.....	-	-	34,322	34,322
Town other funds.....	-	-	1,993,220	1,993,220
School gift funds.....	-	-	59,050	59,050
School federal grant funds.....	-	-	1,002,279	1,002,279
School revolving funds.....	-	-	295,211	295,211
School other funds.....	-	-	103,551	103,551
Expendable permanent funds.....	-	-	133,167	133,167
Assigned to:				
General government.....	46,988	-	-	46,988
Public safety.....	4,538	-	-	4,538
Education.....	93,550	-	-	93,550
Public works.....	22,813	-	-	22,813
Employee benefits.....	18,339	-	-	18,339
Unassigned.....	2,459,898	(136,164)	(163,023)	2,160,711
TOTAL FUND BALANCES.....	\$ 2,646,126	\$ (136,164)	\$ 4,608,604	\$ 7,118,566

NOTE 9 - RISK FINANCING

The Town is self-insured for its police and fire personnel workers' compensation activities. Non public safety personnel are covered by a premium based workers compensation insurance program. All health and life insurance activities are provided by a premium based insurance plan. All activities are accounted for in the general fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many factors. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends, and other economic and social factors.

At June 30, 2012, the Town had no significant workers compensation claims pending under the self-insurance program.

NOTE 10 - PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Saugus Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$8,841,000 for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Saugus Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 25R Main Street, Town Hall Annex, Saugus, Massachusetts 01906. At December 31, 2011, the System's membership consists of the following:

Active members.....	349
Inactive members.....	40
Retirees and beneficiaries currently receiving benefits.....	<u>276</u>
Total.....	<u><u>665</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute 96% of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2012, 2011, and 2010 were \$4,287,242, \$4,120,388, and \$3,977,694, respectively, which equaled its required contribution for each fiscal year. At June 30, 2012, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2011 actuarial valuation using the individual entry age normal actuarial cost method. The actuarial assumptions included an 8.00% investment rate of return and projected salary increases of 4.75%, 5.00%, and 5.25% for groups 1, 2, and 4 respectively. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2011, was 13 years.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 67,248,581	\$ 99,151,437	\$ 31,902,856	\$ 67.8%	\$ 15,092,728	211.4%
01/01/09	55,581,339	92,728,717	37,147,378	59.9%	14,176,916	262.0%
01/01/07	55,897,335	84,272,310	28,374,975	66.3%	14,220,109	199.5%

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description - The Town of Saugus administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town's health insurance plan, which covers both active and retired members, including

teachers. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy - The contribution requirements of plan members and the Town are established and may be amended through collective bargaining. The required contribution is based on projected pay-as-you-go financing requirements. The Town contributes 75 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25 percent of their premium costs.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual other postemployment benefit (OPEB) cost (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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$	6,049,466
Interest on existing net OPEB obligation.....		588,000
Adjustments to annual required contribution.....		<u>(849,466)</u>
Annual OPEB cost (expense).....		5,788,000
Contributions made.....		<u>(3,338,000)</u>
Increase/Decrease in net OPEB obligation.....		2,450,000
Net OPEB obligation - beginning of year.....		<u>14,689,000</u>
Net OPEB obligation - end of year.....	\$	<u><u>17,139,000</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and prior years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/12	\$ 5,788,000	57.7%	\$ 17,139,000
6/30/11	5,707,192	59.0%	14,688,999
6/30/10	9,663,582	36.0%	12,352,704
6/30/09	9,663,582	36.0%	6,176,352

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date, the actuarial liability for benefits was \$83,572,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was not available at year end.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include 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 the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of 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, actuarial liabilities were determined using the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return, and an annual healthcare cost trend rate of 10% initially, graded to 5% after five years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll. The remaining amortization period at June 30, 2012, was twenty-nine years.

NOTE 12 - CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2012, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various other legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012.

NOTE 13 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2012, the following GASB pronouncements were implemented:

- GASB Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This pronouncement did not have a significant impact on the basic financial statements.
- GASB Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. This pronouncement did not have a significant impact on the basic financial statements.

Future implementation of GASB pronouncements:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. Management expects that the implementation of this pronouncement will have an impact on the basic financial statements.

- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement may have an impact on the basic financial statements.
- The GASB issued Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement may have an impact on the basic financial statements.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in fiscal year 2014. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.

Required Supplementary Information

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GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts				
	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance Over/(Under)
REVENUES:					
Real estate and personal property taxes,					
net of tax refunds.....	\$ 50,691,431	\$ 50,691,431	\$ 50,100,268	\$ -	\$ (591,163)
Special assessment - snow and ice override.....	1,127,623	1,127,623	1,096,469	-	(31,154)
Tax liens.....	-	-	951,361	-	951,361
Motor vehicle and other excise taxes.....	2,936,692	2,936,692	3,072,612	-	135,920
Hotel/motel and meals tax.....	1,259,476	1,259,476	1,381,341	-	121,865
Penalties and interest on taxes.....	240,000	240,000	309,989	-	69,989
Fees.....	328,000	328,000	635,182	-	307,182
Rentals.....	211,000	211,000	212,331	-	1,331
Payments in lieu of taxes.....	41,000	41,000	59,276	-	18,276
Licenses and permits.....	925,186	925,186	802,649	-	(122,537)
Fines and forfeitures.....	249,600	249,600	243,801	-	(5,799)
Intergovernmental.....	8,519,914	8,519,914	8,813,844	-	293,930
Departmental and other.....	209,600	209,600	506,876	-	297,276
Investment income.....	37,000	37,000	35,725	-	(1,275)
TOTAL REVENUES.....	66,776,522	66,776,522	68,221,724	-	1,445,202
EXPENDITURES:					
Current:					
General government.....	2,419,582	2,811,901	2,808,772	46,988	(43,859)
Public safety.....	10,001,633	10,140,199	9,946,349	4,538	189,312
Education.....	28,863,549	28,874,838	28,777,259	93,550	4,029
Public works.....	2,989,941	3,097,674	3,412,400	22,813	(337,539)
Public works - snow and ice special assessment.....	1,127,623	1,127,623	-	-	1,127,623
Trash removal and recycling.....	1,374,860	1,307,015	1,305,303	-	1,712
Human services.....	500,436	504,821	493,365	-	11,456
Culture and recreation.....	798,100	782,847	797,234	-	(14,387)
Pension benefits.....	4,287,242	4,346,292	4,333,524	-	12,768
Property and liability insurance.....	603,943	603,943	603,239	-	704
Employee benefits.....	9,720,083	10,263,295	10,224,222	18,339	20,734
State and county charges.....	2,117,864	2,117,864	2,166,227	-	(48,363)
Debt service:					
Principal.....	2,393,000	2,393,000	2,393,000	-	-
Interest.....	709,976	709,976	695,771	-	14,205
TOTAL EXPENDITURES.....	67,907,832	69,081,288	67,956,665	186,228	938,395
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES...	(1,131,310)	(2,304,766)	265,059	(186,228)	2,383,597
OTHER FINANCING SOURCES (USES):					
Other prior year deficits raised.....	-	(126,634)	-	-	126,634
Use of prior year fund balance to fund carryovers.....	585,676	585,676	-	-	(585,676)
Free cash voted to fund fiscal year 2012 budget.....	-	1,300,090	-	-	(1,300,090)
Transfers in.....	912,803	912,803	712,252	-	(200,551)
Transfers out.....	(367,169)	(367,169)	(367,169)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	1,131,310	2,304,766	345,083	-	(1,959,683)
NET CHANGE IN FUND BALANCE.....	-	-	610,142	(186,228)	423,914
BUDGETARY FUND BALANCE, Beginning of year.....	-	-	1,259,767	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ -	\$ -	\$ 1,869,909	\$ (186,228)	\$ 423,914

See notes to required supplementary information.

Retirement System Schedules of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of planned assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions.

**Saugus Contributory Retirement System
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 67,248,581	\$ 99,151,437	\$ 31,902,856	67.8%	\$ 15,092,728	211.4%
01/01/09	55,581,339	92,728,717	37,147,378	59.9%	14,176,916	262.0%
01/01/07	55,897,335	84,272,310	28,374,975	66.3%	14,220,109	199.5%

The Town's share of the UAAL, as of January 1, 2011, is approximately 96.4%.

See notes to required supplementary information.

**Saugus Contributory Retirement System
Schedule of Employer Contributions**

Plan Year Ended December 31	System Wide			Town of Saugus	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) District's Percentage of System Wide Actual Contributions
2011	\$ 4,446,574	\$ 4,446,574	100%	\$ 4,287,242	96.42%
2010	4,271,000	4,271,000	100%	4,120,388	96.47%
2009	4,118,261	4,118,261	100%	3,977,694	96.59%

The Town's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

Other Postemployment Benefits Plan Schedules

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents multi-year trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

**OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2010	\$ -	\$ 83,572,000	\$ 83,572,000	0%	\$ UNAVAILABLE	UNAVAILABLE
7/1/2008	-	97,721,000	97,721,000	0%	30,751,000	317.8%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2012	\$ 5,200,000	\$ 3,338,000	64%
6/30/2011	5,213,000	3,371,000	65%
6/30/2010	9,664,000	3,488,000	36%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

FISCAL YEAR ENDED JUNE 30, 2012

Actuarial Methods:

Valuation date.....	07/01/10
Actuarial cost method.....	Projected Unit Cost Method
Amortization method.....	Level Percentage of Payroll
Remaining amortization period.....	29

Actuarial Assumptions:

Investment rate of return.....	4%
Medical/drug cost trend rate.....	10% initially decreasing to a long term rate of 5%

Plan Membership:

Current retirees, beneficiaries, and dependents...	439
Current active members.....	<u>472</u>
Total.....	<u><u>911</u></u>

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYA. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting. The Board of Selectmen presents an annual budget to the Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Town Meeting approval via a supplemental appropriation.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Town Meeting.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget authorized approximately \$68.3 million in appropriations and other amounts to be raised. During fiscal year 2012, Town Meetings approved supplemental appropriations of approximately \$1.3 million.

The Town Accountant's Office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the Town's accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2012, is presented below:

Net change in fund balance - budgetary basis.....	\$	610,142
<u>Perspective difference:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....	\$	3,581
<u>Basis of accounting differences:</u>		
Net change in recording 60-day receipts accrual.....		(60,088)
Net change in recording tax refunds payable.....		85,665
Increase in revenues due to on-behalf payments.....		8,841,000
Increase in expenditures due to on-behalf payments.....		<u>(8,841,000)</u>
Net change in fund balance - GAAP basis.....	\$	<u>639,300</u>

C. Appropriation Deficits

The Town had expenditures in excess of appropriations for various general government, public works, culture and recreation, and intergovernmental appropriations. These deficits will be funded in Fiscal 2013 through the tax rate.

NOTE B – PENSION PLAN

The Town contributes to the Saugus Contributory Retirement System ("Retirement System"), a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Saugus Contributory Retirement Board. The Retirement System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the Retirement System its share of the system wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

Actuarial Methods and Assumptions:

Valuation Date.....	January 1, 2011
Actuarial Cost Method.....	Individual entry age normal
Amortization Method.....	4.0% increasing
Remaining Amortization Period.....	13 years
Asset Valuation Method.....	Actuarial value, five year smoothing

Actuarial Assumptions:

Investment rate of return.....	8.00%
Projected salary increases.....	Service based table with ultimate rates of 4.75%, 5.00%, and 5.25% for groups 1, 2, and 4 respectively
Cost of living adjustments.....	3.0% per year (of the first \$12,000)

Plan Membership:

Disabled.....	39
Retirees and beneficiaries.....	237
Inactive participants.....	40
Active participants.....	349
Total.....	<u>665</u>

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

The Town of Saugus administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town’s health insurance plan, which covers both active and retired members, including teachers.

The Town currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

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

The Schedule of Employer Contributions presents multi-year trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.