

***TOWN OF SAUGUS, MASSACHUSETTS***

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

***YEAR ENDED JUNE 30, 2014***

TOWN OF SAUGUS, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

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## **Independent Auditor's Report**

To the Honorable Board of Selectmen  
Town of Saugus, Massachusetts

## **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Saugus, Massachusetts as of and for the year ended June 30, 2014 (except for the Saugus Contributory Retirement System which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

## **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Saugus, Massachusetts, as of June 30, 2014 (except for the Saugus

Contributory Retirement System which is as of and for the year ended December 31, 2013), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015, on our consideration of the Town of Saugus, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Saugus, Massachusetts' internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Bowers & Sullivan LLC", is written over a horizontal line.

March 27, 2015

## ***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 year ended June 30, 2014. 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 position* presents information on all assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent year. All changes in net position 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 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 three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds** - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund 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 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 data from the other funds that 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.

**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 position may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$57.6 million at the close of 2014. This balance was virtually unchanged from the prior year.

Net position of \$66.1 million reflects its net 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 position, \$3.7 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$12 million.

At the end of the current year the Town is able to report positive balances in two of the three categories of net position for the Town as a whole. Unrestricted net position is negative due primarily to the impact of the recognition of a postemployment liability of \$27.1 million.

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

### Governmental Activities

As noted earlier net position may serve, over time, as a useful indicator of a government's financial position. The assets of governmental activities exceeded liabilities by \$29.8 million at the close of 2014. Components of the Town's governmental financial position are listed below.

	<u>FY2014</u>	<u>FY2013</u>
<b>Assets:</b>		
Current assets.....	\$ 18,417,642	\$ 19,643,557
Capital assets.....	64,197,748	59,708,791
Total assets.....	<u>82,615,390</u>	<u>79,352,348</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	1,821,053	2,193,453
Noncurrent liabilities (excluding debt).....	30,888,000	26,485,000
Current debt.....	3,798,779	2,097,420
Noncurrent debt.....	<u>16,315,000</u>	<u>18,522,000</u>
Total liabilities.....	<u>52,822,832</u>	<u>49,297,873</u>
<b>Net Position:</b>		
Net investment in capital assets.....	45,561,125	44,484,917
Restricted.....	3,699,297	6,396,886
Unrestricted.....	<u>(19,467,864)</u>	<u>(20,347,328)</u>
Total net position.....	<u>\$ 29,792,558</u>	<u>\$ 30,534,475</u>

A significant portion of the Town's governmental activities net position, \$45.6 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 position, \$3.7 million, represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of unrestricted net position in the amount of \$19.5 million is due primarily to the recognition of \$26.1 million 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.

In addition to the liability for postemployment benefits, governmental activity liabilities include \$18.5 million in general obligation bonds and \$4.8 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:

	<u>FY2014</u>	<u>FY2013</u>
<b>Program Revenues:</b>		
Charges for services..... \$	3,505,780	\$ 4,012,139
Operating grants and contributions.....	19,675,726	19,766,958
Capital grants and contributions.....	1,303,325	6,797,999
<b>General Revenues:</b>		
Real estate and personal property taxes.....	53,718,144	51,705,599
Tax liens.....	964,937	1,238,484
Motor vehicle and other excise taxes.....	3,643,811	3,422,233
Hotel/motel and meals tax.....	1,469,679	1,408,076
Penalties and interest on taxes.....	157,584	240,602
Payments in lieu of taxes.....	46,962	58,981
Grants and contributions not restricted to specific programs.....	3,574,925	3,433,722
Unrestricted investment income.....	93,250	53,823
<b>Total revenues.....</b>	<b>88,154,123</b>	<b>92,138,616</b>
<b>Expenses:</b>		
General government.....	5,909,222	6,076,028
Public safety.....	19,111,715	18,238,034
Education.....	54,664,728	53,009,595
Public works.....	5,683,633	5,345,057
Recycling and trash disposal.....	1,448,604	1,375,231
Human services.....	1,094,586	971,094
Culture and recreation.....	1,384,663	1,375,588
Interest.....	358,465	557,742
<b>Total expenses.....</b>	<b>89,655,616</b>	<b>86,948,369</b>
<b>Excess (deficit) before transfers.....</b>	<b>(1,501,493)</b>	<b>5,190,247</b>
<b>Transfers, net.....</b>	<b>759,576</b>	<b>687,342</b>
<b>Change in net position.....</b>	<b>(741,917)</b>	<b>5,877,589</b>
<b>Net position - beginning.....</b>	<b>30,534,475</b>	<b>24,656,886</b>
<b>Net position - ending..... \$</b>	<b>\$ 29,792,558</b>	<b>\$ 30,534,475</b>

The governmental activities net position decreased by (\$742,000) over the prior year. This decrease is primarily due to the following items:

- Timing differences between grant expenses being incurred prior to the receipt of reimbursements from the granting agencies;
- Positive budgetary results.

## Business-Type Activities

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

	<b>FY2014</b>	<b>FY2013</b>
<b>Assets:</b>		
Current assets.....	\$ 10,564,907	\$ 9,714,458
Capital assets.....	42,780,980	41,450,687
Total assets.....	<u>53,345,887</u>	<u>51,165,145</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	462,404	500,158
Noncurrent liabilities (excluding debt).....	1,090,000	914,000
Current debt.....	2,205,987	1,825,796
Noncurrent debt.....	21,795,903	20,979,537
Total liabilities.....	<u>25,554,294</u>	<u>24,219,491</u>
<b>Net Position:</b>		
Net investment in capital assets.....	20,541,850	19,793,820
Unrestricted.....	7,249,743	7,151,834
<b>Total net position.....</b>	<b>\$ <u>27,791,593</u></b>	<b>\$ <u>26,945,654</u></b>
<b>Program Revenues:</b>		
Charges for services.....	\$ 8,656,117	\$ 8,459,700
Capital grants and contributions.....	191,265	2,514,402
<b>General Revenues:</b>		
Unrestricted investment income.....	69,920	60,732
<b>Total revenues.....</b>	<b><u>8,917,302</u></b>	<b><u>11,034,834</u></b>
<b>Expenses:</b>		
Water.....	4,292,199	4,887,900
Sewer.....	3,019,588	3,144,330
<b>Total expenses.....</b>	<b><u>7,311,787</u></b>	<b><u>8,032,230</u></b>
<b>Excess before transfers.....</b>	<b>1,605,515</b>	<b>3,002,604</b>
<b>Transfers, net.....</b>	<b><u>(759,576)</u></b>	<b><u>(687,342)</u></b>
<b>Change in net position.....</b>	<b>845,939</b>	<b>2,315,262</b>
<b>Net position - beginning.....</b>	<b><u>26,945,654</u></b>	<b><u>24,630,392</u></b>
<b>Net position - ending.....</b>	<b>\$ <u>27,791,593</u></b>	<b>\$ <u>26,945,654</u></b>

Total business type activities assets exceeded liabilities by \$27.8 million at the close of 2014.

Net position of \$20.5 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 position of \$7.3 million may be used to meet ongoing obligations.

The Water Enterprise Fund net position increased by \$768,000 primarily due to the following items:

- \$153,000 capital contribution received in connection with new construction associated with an economic development project;

- A decrease of \$217,000 in operating costs mainly as a result of decreased assessments from the MWRA;
- An increase of \$169,000 in charges for services;
- Principal payments on long term debt exceeding depreciation expense.

The Sewer Enterprise Fund net position increased by \$78,000 primarily due to a \$38,000 grant receipt from the Massachusetts Clean Water Trust and principal payments on long term debt exceeding depreciation expense.

## ***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 year.

### ***General Fund***

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund equaled \$6.1 million, while total fund balance equaled \$7 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 7.6% of general fund budgetary expenditures while total fund balance represents 8.7%. The general fund increased by \$2.5 million during 2014. This increase is primarily due to positive budgetary results of \$1.2 million; which was mainly the result of \$883,000 of tax lien collections which is unbudgeted and motor vehicle excise revenue being \$486,000 higher than anticipated.

The nonmajor governmental funds decreased by (\$4.9) million. This was the result of timing differences between grant expenditures and certain construction costs being incurred prior to the receipt of grant reimbursements and the Town permanently bonding for the underlying construction costs.

As of the end of the year, governmental funds reported combined ending fund balances of \$11.9 million, a decrease of \$2.5 million from the prior year.

## ***General Fund Budgetary Highlights***

The difference of \$2 million between the original budget of \$72.2 million and the final amended budget of \$74.2 million was due to the approval of supplemental appropriations that were funded by a like amount of free cash. These supplemental appropriations were as follows:

- \$1,150,000 transfer to the stabilization fund;
- \$825,400 to fund the snow and ice deficit;
- \$120,000 to fund veterans benefits;
- \$120,000 to fund the legal costs.

## ***Capital Asset and Debt Administration***

**Capital Assets** - The Town's investment in capital assets for governmental activities as of June 30, 2014, amounts to \$63.9 million, net of accumulated depreciation. The investment in capital assets includes land; construction in progress; buildings and improvements, machinery and equipment and public works infrastructure. The Town's additional investment in governmental capital assets in 2014 was \$4.1 million inclusive of depreciation expense of \$2.7 million.

The Town's investment in capital assets for business type activities as of June 30, 2014 amounts to \$42.8 million, net of accumulated depreciation. The investment in capital assets for the business type activities predominately relates to water and sewer infrastructure. The Town's additional investment in business-type activities capital assets in 2014 was \$1.3 million inclusive of depreciation expense of \$1.2 million.

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, 2014, the Town had total long term governmental bonded debt of \$18.5 million which mainly consists of outstanding debt relative to school and other general building construction, renovation and upgrades.

The water and sewer enterprise funds have \$23.7 million in long-term debt that is supported by the water and sewer rates.

Additional information on the Town's debt activity may be found in Notes 6 & 7 to the basic financial statements.

## ***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 Treasurer/Collector, Town of Saugus, Town Hall, 298 Central Street, Saugus, MA 01906.

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## ***Basic Financial Statements***

# STATEMENT OF NET POSITION

JUNE 30, 2014

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
CURRENT:			
Cash and cash equivalents.....	\$ 10,703,581	\$ 4,282,892	\$ 14,986,473
Investments.....	3,718,002	1,401,261	5,119,263
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	431,385	-	431,385
Tax liens.....	1,250,929	-	1,250,929
Motor vehicle and other excise taxes.....	243,720	-	243,720
User fees.....	-	4,169,270	4,169,270
Departmental and other.....	80,964	-	80,964
Intergovernmental.....	1,629,712	711,484	2,341,196
Tax foreclosures.....	359,349	-	359,349
NONCURRENT:			
Capital assets, not being depreciated.....	9,622,985	1,670,372	11,293,357
Capital assets, net of accumulated depreciation.....	54,574,763	41,110,608	95,685,371
<b>TOTAL ASSETS.....</b>	<b>82,615,390</b>	<b>53,345,887</b>	<b>135,961,277</b>
<b>LIABILITIES</b>			
CURRENT:			
Warrants payable.....	345,145	282,812	627,957
Accrued payroll.....	380,920	11,735	392,655
Accrued interest.....	93,418	153,857	247,275
Payroll withholdings.....	482,563	-	482,563
Abandoned property.....	18,007	-	18,007
Compensated absences.....	481,000	14,000	495,000
Landfill postclosure care liability.....	20,000	-	20,000
Notes payable.....	1,591,779	271,384	1,863,163
Bonds payable.....	2,207,000	1,934,603	4,141,603
NONCURRENT:			
Compensated absences.....	4,331,000	117,000	4,448,000
Landfill postclosure care liability.....	460,000	-	460,000
Other postemployment benefits.....	26,097,000	973,000	27,070,000
Bonds payable.....	16,315,000	21,795,903	38,110,903
<b>TOTAL LIABILITIES.....</b>	<b>52,822,832</b>	<b>25,554,294</b>	<b>78,377,126</b>
<b>NET POSITION</b>			
Net investment in capital assets.....	45,561,125	20,541,850	66,102,975
Restricted for:			
Permanent funds:			
Expendable.....	150,705	-	150,705
Nonexpendable.....	1,190,619	-	1,190,619
Grants and gifts.....	2,357,973	-	2,357,973
Unrestricted.....	(19,467,864)	7,249,743	(12,218,121)
<b>TOTAL NET POSITION.....</b>	<b>\$ 29,792,558</b>	<b>\$ 27,791,593</b>	<b>\$ 57,584,151</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2014

		Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	
<b>Primary Government:</b>						
<i>Governmental Activities:</i>						
General government.....	\$ 5,909,222	\$ 641,027	\$ 842,311	\$ -	\$ (4,425,884)	
Public safety.....	19,111,715	845,025	378,044	-	(17,888,646)	
Education.....	54,664,728	1,562,247	17,092,708	1,303,325	(34,706,448)	
Public works.....	5,683,633	147,975	846,384	-	(4,689,274)	
Trash removal and recycling.....	1,448,604	26,333	-	-	(1,422,271)	
Human services.....	1,094,586	131,251	60,141	-	(903,194)	
Culture and recreation.....	1,384,663	151,922	17,796	-	(1,214,945)	
Interest.....	358,465	-	438,342	-	79,877	
Total Governmental Activities.....	89,655,616	3,505,780	19,675,726	1,303,325	(65,170,785)	
<i>Business-Type Activities:</i>						
Water.....	4,292,199	5,276,988	-	153,174	1,137,963	
Sewer.....	3,019,588	3,379,129	-	38,091	397,632	
Total Business-Type Activities.....	7,311,787	8,656,117	-	191,265	1,535,595	
Total Primary Government.....	\$ 96,967,403	\$ 12,161,897	\$ 19,675,726	\$ 1,494,590	\$ (63,635,190)	

See notes to basic financial statements.

(Continued)



**STATEMENT OF ACTIVITIES (Continued)**

YEAR ENDED JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page.....	\$ <u>(65,170,785)</u>	\$ <u>1,535,595</u>	\$ <u>(63,635,190)</u>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	53,718,144	-	53,718,144
Tax liens.....	964,937	-	964,937
Motor vehicle and other excise taxes.....	3,643,811	-	3,643,811
Hotel/motel and meals tax.....	1,469,679	-	1,469,679
Penalties and interest on taxes.....	157,584	-	157,584
Payments in lieu of taxes.....	46,962	-	46,962
Grants and contributions not restricted to specific programs.....	3,574,925	-	3,574,925
Unrestricted investment income.....	93,250	69,920	163,170
<i>Transfers, net</i> .....	<u>759,576</u>	<u>(759,576)</u>	<u>-</u>
Total general revenues and transfers.....	<u>64,428,868</u>	<u>(689,656)</u>	<u>63,739,212</u>
Change in net position.....	(741,917)	845,939	104,022
<i>Net Position:</i>			
Beginning of year.....	<u>30,534,475</u>	<u>26,945,654</u>	<u>57,480,129</u>
End of year.....	\$ <u><u>29,792,558</u></u>	\$ <u><u>27,791,593</u></u>	\$ <u><u>57,584,151</u></u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 4,727,880	\$ 5,975,700	\$ 10,703,580
Investments.....	2,832,187	885,815	3,718,002
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	431,385	-	431,385
Tax liens.....	1,250,929	-	1,250,929
Motor vehicle and other excise taxes.....	243,720	-	243,720
Departmental and other.....	80,964	-	80,964
Intergovernmental.....	143,688	1,486,024	1,629,712
Tax foreclosures.....	359,349	-	359,349
<b>TOTAL ASSETS.....</b>	<b>\$ 10,070,102</b>	<b>\$ 8,347,539</b>	<b>\$ 18,417,641</b>
<b>LIABILITIES</b>			
Warrants payable.....	\$ -	\$ 345,145	\$ 345,145
Accrued payroll.....	360,707	20,213	380,920
Payroll withholdings.....	482,563	-	482,563
Abandoned property.....	18,007	-	18,007
Notes payable.....	-	1,591,779	1,591,779
<b>TOTAL LIABILITIES.....</b>	<b>861,277</b>	<b>1,957,137</b>	<b>2,818,414</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenues.....	2,250,034	1,447,296	3,697,330
<b>FUND BALANCES</b>			
Nonspendable.....	-	1,190,619	1,190,619
Restricted.....	-	4,395,323	4,395,323
Assigned.....	865,111	-	865,111
Unassigned.....	6,093,680	(642,836)	5,450,844
<b>TOTAL FUND BALANCES.....</b>	<b>6,958,791</b>	<b>4,943,106</b>	<b>11,901,897</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....</b>	<b>\$ 10,070,102</b>	<b>\$ 8,347,539</b>	<b>\$ 18,417,641</b>

See notes to basic financial statements.

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

JUNE 30, 2014

Total governmental fund balances.....		\$	11,901,897
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....			64,197,749
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....			3,697,330
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....			(93,418)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds			
Bonds payable.....	(18,522,000)		
Landfill postclosure care.....	(480,000)		
Other postemployment benefits liability.....	(26,097,000)		
Compensated absences.....	<u>(4,812,000)</u>		
Net effect of reporting long-term liabilities.....			<u>(49,911,000)</u>
Net position of governmental activities.....		\$	<u>29,792,558</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Real estate and personal property taxes, net of tax refunds.....	\$ 53,730,629	\$ -	\$ 53,730,629
Tax liens.....	882,278	-	882,278
Motor vehicle and other excise taxes.....	3,684,940	-	3,684,940
Hotel/motel and meals tax.....	1,469,679	-	1,469,679
Charges for services.....	-	1,726,011	1,726,011
Penalties and interest on taxes.....	227,432	-	227,432
Fees.....	311,021	-	311,021
Rentals.....	194,673	-	194,673
Payments in lieu of taxes.....	46,962	-	46,962
Licenses and permits.....	943,926	-	943,926
Fines and forfeitures.....	166,309	-	166,309
Intergovernmental.....	18,687,979	4,154,254	22,842,233
Departmental and other.....	542,669	137,622	680,291
Contributions.....	-	505,069	505,069
Investment income.....	73,943	19,307	93,250
Miscellaneous.....	-	71,324	71,324
<b>TOTAL REVENUES.....</b>	<b>80,962,440</b>	<b>6,613,587</b>	<b>87,576,027</b>
<b>EXPENDITURES:</b>			
Current:			
General government.....	2,995,150	405,301	3,400,451
Public safety.....	10,419,200	619,708	11,038,908
Education.....	38,356,515	8,554,599	46,911,114
Public works.....	4,002,496	1,653,612	5,656,108
Trash removal and recycling.....	1,377,153	-	1,377,153
Human services.....	679,553	129,031	808,584
Culture and recreation.....	703,428	151,753	855,181
Pension benefits.....	4,761,389	-	4,761,389
Property and liability insurance.....	769,986	-	769,986
Employee benefits.....	10,510,949	-	10,510,949
State and county charges.....	2,811,285	-	2,811,285
Debt service:			
Principal.....	1,920,000	-	1,920,000
Interest.....	368,942	-	368,942
<b>TOTAL EXPENDITURES.....</b>	<b>79,676,046</b>	<b>11,514,004</b>	<b>91,190,050</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>1,286,394</b>	<b>(4,900,417)</b>	<b>(3,614,023)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Premium from issuance of bonds.....	438,342	-	438,342
Transfers in.....	759,576	28,000	787,576
Transfers out.....	(28,000)	-	(28,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>1,169,918</b>	<b>28,000</b>	<b>1,197,918</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>2,456,312</b>	<b>(4,872,417)</b>	<b>(2,416,105)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>4,502,479</b>	<b>9,815,523</b>	<b>14,318,002</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 6,958,791</b>	<b>\$ 4,943,106</b>	<b>\$ 11,901,897</b>

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**

YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds.....	\$	(2,416,105)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	7,185,518	
Depreciation expense.....	<u>(2,696,561)</u>	

Net effect of reporting capital assets.....		4,488,957
---	--	-----------

Revenues in the Statement of Activities that do not provide current financial resources are fully unavailable 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 unavailable revenue.....

139,755

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 position. 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.

Debt service principal payments.....	<u>1,920,000</u>	
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Net effect of reporting long-term debt.....		1,920,000
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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.

Net change in compensated absences accrual.....	(18,000)	
Net change in other postemployment benefits accrual.....	(4,887,000)	
Net change in accrued interest on long-term debt.....	10,477	
Net change in accrued landfill postclosure care liability.....	<u>20,000</u>	

Net effect of recording long-term liabilities.....		<u>(4,874,523)</u>
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Change in net position of governmental activities.....	\$	<u>ERROR</u>
--	----	--------------

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**

JUNE 30, 2014

	Water Fund	Sewer Fund	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 1,473,728	\$ 2,809,164	\$ 4,282,892
Investments.....	-	1,401,261	1,401,261
Receivables, net of allowance for uncollectibles:			
User fees.....	2,582,577	1,586,693	4,169,270
Intergovernmental.....	-	711,484	711,484
Total current assets.....	4,056,305	6,508,602	10,564,907
<b>NONCURRENT:</b>			
Capital assets, not being depreciated.....	81,304	1,589,068	1,670,372
Capital assets, net of accumulated depreciation.....	18,651,675	22,458,933	41,110,608
Total noncurrent assets.....	18,732,979	24,048,001	42,780,980
<b>TOTAL ASSETS.....</b>	<b>22,789,284</b>	<b>30,556,603</b>	<b>53,345,887</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	32,556	250,256	282,812
Accrued payroll.....	6,552	5,183	11,735
Accrued interest.....	18,256	135,601	153,857
Compensated absences.....	7,000	7,000	14,000
Notes payable.....	-	271,384	271,384
Bonds payable.....	1,027,166	907,437	1,934,603
Total current liabilities.....	1,091,530	1,576,861	2,668,391
<b>NONCURRENT:</b>			
Compensated absences.....	59,000	58,000	117,000
Other postemployment benefits.....	531,000	442,000	973,000
Bonds payable.....	6,715,833	15,080,070	21,795,903
Total noncurrent liabilities.....	7,305,833	15,580,070	22,885,903
<b>TOTAL LIABILITIES.....</b>	<b>8,397,363</b>	<b>17,156,931</b>	<b>25,554,294</b>
<b>NET POSITION</b>			
Net investment in capital assets.....	11,684,625	8,857,225	20,541,850
Unrestricted.....	2,707,296	4,542,447	7,249,743
<b>TOTAL NET POSITION.....</b>	<b>\$ 14,391,921</b>	<b>\$ 13,399,672</b>	<b>\$ 27,791,593</b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2014

	Water Fund	Sewer Fund	Total
<b><u>OPERATING REVENUES:</u></b>			
Charges for services .....	\$ 5,276,988	\$ 3,379,129	\$ 8,656,117
<b><u>OPERATING EXPENSES:</u></b>			
Cost of services and administration .....	3,763,179	1,882,371	5,645,550
Depreciation.....	469,797	755,814	1,225,611
 TOTAL OPERATING EXPENSES .....	 4,232,976	 2,638,185	 6,871,161
 OPERATING INCOME (LOSS).....	 1,044,012	 740,944	 1,784,956
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>			
Investment income.....	31,595	38,325	69,920
Interest expense.....	(152,223)	(381,403)	(533,626)
Intergovernmental.....	93,000	38,091	131,091
 TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	 (27,628)	 (304,987)	 (332,615)
 INCOME (LOSS) BEFORE TRANSFERS.....	 1,016,384	 435,957	 1,452,341
<b><u>TRANSFERS:</u></b>			
Transfers out.....	(401,234)	(358,342)	(759,576)
 CAPITAL CONTRIBUTION.....	 153,174	 -	 153,174
 CHANGE IN NET POSITION.....	 768,324	 77,615	 845,939
 NET POSITION AT BEGINNING OF YEAR.....	 13,623,597	 13,322,057	 26,945,654
 NET POSITION AT END OF YEAR.....	 \$ 14,391,921	 \$ 13,399,672	 \$ 27,791,593

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2014

	Water Fund	Sewer Fund	Total
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>			
Receipts from customers and users.....	\$ 5,362,856	\$ 3,566,926	\$ 8,929,782
Payments to vendors.....	(3,380,462)	(1,653,948)	(5,034,410)
Payments to employees.....	(272,431)	(229,494)	(501,925)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>1,709,963</b>	<b>1,683,484</b>	<b>3,393,447</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>			
Transfers out.....	(401,234)	(358,342)	(759,576)
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>			
Proceeds from the issuance of bonds and notes.....	768,400	2,253,953	3,022,353
Capital contributions.....	153,174	-	153,174
Acquisition and construction of capital assets.....	(972,605)	(1,583,298)	(2,555,903)
Principal payments on bonds and notes.....	(935,326)	(1,370,782)	(2,306,108)
Interest expense.....	(156,591)	(348,005)	(504,596)
Intergovernmental revenue.....	93,000	38,091	131,091
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(1,049,948)</b>	<b>(1,010,041)</b>	<b>(2,059,989)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>			
Purchase (sales) of investments.....	-	10,848	10,848
Investment income.....	31,595	38,325	69,920
<b>NET CASH FROM INVESTING ACTIVITIES.....</b>	<b>31,595</b>	<b>49,173</b>	<b>80,768</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>290,376</b>	<b>364,274</b>	<b>654,650</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>1,183,352</b>	<b>2,444,890</b>	<b>3,628,242</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 1,473,728</b>	<b>\$ 2,809,164</b>	<b>\$ 4,282,892</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b>			
Operating income (loss).....	\$ 1,044,012	\$ 740,944	\$ 1,784,956
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	469,797	755,814	1,225,611
Changes in assets and liabilities:			
User fees.....	85,868	187,797	273,665
Warrants payable.....	11,245	(78,388)	(67,143)
Accrued payroll.....	41	317	358
Accrued compensated absences.....	(1,000)	(6,000)	(7,000)
Other postemployment benefits.....	100,000	83,000	183,000
<b>Total adjustments.....</b>	<b>665,951</b>	<b>942,540</b>	<b>1,608,491</b>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 1,709,963</b>	<b>\$ 1,683,484</b>	<b>\$ 3,393,447</b>

See notes to basic financial statements.



**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
CURRENT:			
Cash and cash equivalents.....	\$ 232,327	\$ 233,569	\$ 202,229
Investments.....	75,388,946	537,404	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	2,701,040	-	208,280
<b>TOTAL ASSETS</b> .....	<b>78,322,313</b>	<b>770,973</b>	<b>410,509</b>
<b>LIABILITIES</b>			
Warrants payable.....	2,458	-	-
Accrued liabilities.....	-	-	32,015
Liabilities due depositors.....	-	-	378,494
<b>TOTAL LIABILITIES</b> .....	<b>2,458</b>	<b>-</b>	<b>410,509</b>
<b>NET POSITION</b>			
Held in trust for pension benefits and other purposes.....	\$ 78,319,855	\$ 770,973	\$ -

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

YEAR ENDED JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Private Purpose Trust Funds
<b>ADDITIONS:</b>		
Contributions:		
Employer.....	\$ 4,859,863	\$ -
Employee.....	1,475,164	-
Private donations.....	-	36,543
	<u>6,335,027</u>	<u>36,543</u>
Total contributions.....		
	<u>6,335,027</u>	<u>36,543</u>
Net investment income (loss):		
Net change in fair value of investments.....	7,961,237	-
Interest.....	2,049,809	13,241
	<u>10,011,046</u>	<u>13,241</u>
Total investment income (loss).....		
	<u>10,011,046</u>	<u>13,241</u>
Intergovernmental.....	126,399	-
	<u>126,399</u>	<u>-</u>
Transfers from other systems.....	708,568	-
	<u>708,568</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>17,181,040</u>	<u>49,784</u>
<b>DEDUCTIONS:</b>		
Administration.....	501,625	-
Transfers to other systems.....	418,757	-
Retirement benefits and refunds.....	6,880,698	-
Educational scholarships.....	-	29,454
	<u>7,801,080</u>	<u>29,454</u>
TOTAL DEDUCTIONS.....		
	<u>7,801,080</u>	<u>29,454</u>
CHANGE IN NET POSITION.....	9,379,960	20,330
NET POSITION AT BEGINNING OF YEAR.....	<u>68,939,895</u>	<u>750,643</u>
NET POSITION AT END OF YEAR.....	<u>\$ 78,319,855</u>	<u>\$ 770,973</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 five member 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.

*Component Unit Presented as a Fiduciary Fund* – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of the relationship between the Town and the component unit.

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 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. 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 did not issue a separate audited financial statement. The System issues a publicly available unaudited 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 position and the statement of changes in net position) 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 total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets and deferred outflows of resources, liabilities and deferred inflows or resources, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- If the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

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 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 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 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 as 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 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> of each 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 year of the levy.

Real estate tax liens are processed during the fourth quarter of every year on delinquent properties and are recorded as receivables in the 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 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 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 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 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
Machinery, equipment, and furnishings.....	5 - 10
Infrastructure.....	30 - 50

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 year of the purchase.



## H. Deferred Outflows/Inflows of Resources

### *Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town does not have transactions that qualify for reporting in this category at year-end.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town does not have transactions that qualify for reporting in this category at year-end.

### *Governmental Fund Financial Statements*

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The Town has recorded unavailable revenue as deferred inflows of resources in the governmental funds balance sheet.

Unavailable 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. Unavailable revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

## I. 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 position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position 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.

## J. 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 position. 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.

## L. Net Position and Fund Equity

### *Government-Wide Financial Statements (Net Position)*

Net position reported as "net investment in capital assets" 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 position is reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has 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.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

### *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, by adoption of a Town Meeting warrant article, 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.

Sometimes 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 Town’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.

#### M. 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 position. 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.

#### N. 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.

O. 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.

P. 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 year. Actual results could vary from estimates that were used.

Q. Individual Fund Deficits

The Belmonte Middle School capital project fund has a deficit of \$643,000. This deficit will be funded through future grant reimbursements and the issuance of long-term debt.

R. 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 Cash Equivalents". 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 .25 to 10.78 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 year-end, the carrying amount of deposits totaled \$12,916,405 and the bank balance totaled \$14,286,498. Of the bank balance, \$1,070,208 was covered by Federal Depository Insurance, \$8,948,616 was covered by the Depositors Insurance Fund, \$2,368,542 was covered by the Share Insurance Fund, \$714,720 is collateralized, and \$1,184,412 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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, 2013, carrying amount of deposits for the system totaled \$232,327 and the bank balance totaled \$260,019. 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, 2014, the Town had the following investments:

	Maturity		
Investment Type	Fair Value	Under 1 Year	1-5 Years
<u>Debt Securities</u>			
Federal Home Loan Mortgage Corp.....	\$ 1,442,415	\$ 254,187	\$ 1,188,228
Federal National Mortgage Association.....	811,037	-	811,037
Federal Home Loan Banks.....	349,969	-	349,969
United States Treasury Notes.....	1,771,653	505,108	1,266,545
Total Debt Securities.....	4,375,074	\$ 759,295	\$ 3,615,779
<u>Other Investments</u>			
Equity Securities.....	725,438		
Equity Mutual Funds.....	556,155		
Repurchase Agreement.....	1,460,746		
Money Market Mutual Funds.....	9,166		
MMDT.....	1,035,954		
Total Investments.....	\$ 8,162,533		

As of December 31, 2013, the System maintained a \$75,388,946 investment with PRIT.

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, \$4,375,074 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, 2014, the Town had a \$1,460,746 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, 2013, the System's \$75,388,946 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, 2013 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, 2014, 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.....	\$ 763,446	\$ (332,061)	\$ 431,385
Tax liens.....	1,250,929	-	1,250,929
Motor vehicle and other excise taxes.....	555,921	(312,201)	243,720
Departmental and other.....	105,925	(24,961)	80,964
Intergovernmental.....	1,629,712	-	1,629,712
Total .....	<u>\$ 4,305,933</u>	<u>\$ (669,223)</u>	<u>\$ 3,636,710</u>

At June 30, 2014, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees.....	\$ 4,169,270	\$ -	\$ 4,169,270
Intergovernmental.....	711,484	-	711,484
Total .....	<u>\$ 4,880,754</u>	<u>\$ -</u>	<u>\$ 4,880,754</u>

Governmental funds report *unavailable 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 year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

	General Fund	Nonmajor Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 171,385	\$ -	\$ 171,385
Tax liens.....	1,250,929	-	1,250,929
Motor vehicle and other excise taxes.....	243,720	-	243,720
Departmental and other.....	80,964	-	80,964
Intergovernmental.....	143,688	1,447,296	1,590,984
<u>Other asset type:</u>			
Tax foreclosures.....	359,349	-	359,349
Total.....	\$ 2,250,035	\$ 1,447,296	\$ 3,697,331

#### NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 8,138,042	\$ -	\$ -	\$ 8,138,042
Construction in progress.....	14,165,622	6,339,782	(19,020,461)	1,484,943
Total capital assets, not being depreciated.....	22,303,664	6,339,782	(19,020,461)	9,622,985
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	54,700,065	18,011,589	-	72,711,654
Machinery, equipment, and furnishings.....	13,512,647	723,610	-	14,236,257
Infrastructure.....	31,050,768	1,130,998	-	32,181,766
Total capital assets being depreciated.....	99,263,480	19,866,197	-	119,129,677
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(27,299,805)	(1,468,709)	-	(28,768,514)
Machinery, equipment, and furnishings.....	(10,169,508)	(780,382)	-	(10,949,890)
Infrastructure.....	(24,389,040)	(447,470)	-	(24,836,510)
Total accumulated depreciation.....	(61,858,353)	(2,696,561)	-	(64,554,914)
Total capital assets being depreciated, net.....	37,405,127	17,169,636	-	54,574,763
Total governmental activities capital assets, net.....	\$ 59,708,791	\$ 23,509,418	\$ (19,020,461)	\$ 64,197,748



<b>Water Activities</b>	<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.....	-	22,695	-	22,695
Total capital assets not being depreciated.....	58,609	22,695	-	81,304
<u>Capital assets being depreciated:</u>				
Machinery, equipment, and furnishings.....	1,275,343	-	-	1,275,343
Infrastructure.....	24,310,984	949,910	-	25,260,894
Total capital assets being depreciated.....	25,586,327	949,910	-	26,536,237
<u>Less accumulated depreciation for:</u>				
Machinery, equipment, and furnishings.....	(731,324)	(112,211)	-	(843,535)
Infrastructure.....	(6,683,442)	(357,585)	-	(7,041,027)
Total accumulated depreciation.....	(7,414,766)	(469,796)	-	(7,884,562)
Total capital assets being depreciated, net.....	18,171,561	480,114	-	18,651,675
Total water activities capital assets, net.....	\$ 18,230,170	\$ 502,809	\$ -	\$ 18,732,979
<b>Sewer Activities</b>	<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.....	-	1,583,298	-	1,583,298
Total capital assets not being depreciated.....	5,770	1,583,298	-	1,589,068
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	128,960	-	-	128,960
Machinery, equipment, and furnishings.....	1,815,705	-	-	1,815,705
Infrastructure.....	32,263,757	-	-	32,263,757
Total capital assets being depreciated.....	34,208,422	-	-	34,208,422
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(35,529)	(6,448)	-	(41,977)
Machinery, equipment, and furnishings.....	(973,418)	(123,369)	-	(1,096,787)
Infrastructure.....	(9,984,728)	(625,997)	-	(10,610,725)
Total accumulated depreciation.....	(10,993,675)	(755,814)	-	(11,749,489)
Total capital assets being depreciated, net.....	23,214,747	(755,814)	-	22,458,933
Total water activities capital assets, net.....	\$ 23,220,517	\$ 827,484	\$ -	\$ 24,048,001

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

**Governmental Activities:**

General government.....	\$	607,622
Public safety.....		329,206
Education.....		1,074,766
Public works.....		589,606
Human services.....		43,686
Culture and recreation.....		51,674

Total depreciation expense - governmental activities..... \$ 2,696,560

**Business-Type Activities:**

Water.....	\$	469,797
Sewer.....		755,814

Total depreciation expense - business-type activities..... \$ 1,225,611

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2014, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 28,000	\$ 28,000 (1)
Water Enterprise Fund.....	401,234	-	401,234 (2)
Sewer Enterprise Fund.....	358,342	-	358,342 (2)
Total.....	\$ <u>759,576</u>	\$ <u>28,000</u>	\$ <u>787,576</u>

- (1) Budgeted transfer from the General Fund to fund deficits in nonmajor special revenue funds.  
 (2) 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, 2014, the Town's short-term debt activity was as follows:

Type	Description	Maturity Date	Rate %	Balance at June 30 2013	Renewed/ Issued	Retired/ Redeemed	Balance at June 30 2014
<b>Governmental Funds</b>							
BAN	Bond anticipation note.....	7/26/13	1.75	\$ 177,420	\$ -	\$ (177,420)	\$ -
BAN	Bond anticipation note.....	6/19/15	0.85	-	1,591,779	-	1,591,779
	Governmental Short Term Debt.....			177,420	1,591,779	(177,420)	1,591,779
<b>Business-Type Activities</b>							
<i>Sewer Enterprise Fund</i>							
BAN	Bond anticipation note.....	6/19/15	0.85	-	271,384	-	271,384
	Sewer Short Term Debt.....			-	271,384	-	271,384
	Total Short Term Debt.....			\$ 177,420	\$ 1,863,163	\$ (177,420)	\$ 1,863,163

**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, 2014, 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, 2013	Issued	Redeemed	Outstanding at June 30, 2014
General obligation bonds of 2003.....	2023	\$ 16,760,000	4.10	\$ 3,000,000	\$ -	\$ 465,000	\$ 2,535,000
General obligation bonds of 2005.....	2016	9,705,300	3.60	2,415,000	-	1,025,000	1,390,000
General obligation bonds of 2007.....	2017	1,954,000	3.70	720,000	-	180,000	540,000
General obligation bonds of 2011.....	2031	2,953,000	3.40	2,450,000	-	250,000	2,200,000
General obligation bonds of 2014.....	2034	11,857,000	3.82	11,857,000	-	-	11,857,000
Total.....				\$ 20,442,000	\$ -	\$ 1,920,000	\$ 18,522,000

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

Fiscal Year	Principal	Interest	Total
2015.....	\$ 2,207,000	\$ 1,043,200	\$ 3,250,200
2016.....	1,850,000	669,471	2,519,471
2017.....	1,415,000	608,546	2,023,546
2018.....	1,220,000	554,532	1,774,532
2019.....	1,010,000	508,396	1,518,396
2020.....	885,000	463,632	1,348,632
2021.....	885,000	421,507	1,306,507
2022.....	820,000	377,633	1,197,633
2023.....	795,000	338,032	1,133,032
2024.....	745,000	300,120	1,045,120
2025.....	765,000	266,920	1,031,920
2026.....	655,000	235,920	890,920
2027.....	685,000	209,120	894,120
2028.....	705,000	181,220	886,220
2029.....	610,000	154,920	764,920
2030.....	635,000	129,227	764,227
2031.....	660,000	101,736	761,736
2032.....	665,000	73,080	738,080
2033.....	645,000	44,436	689,436
2034.....	665,000	14,962	679,962
Total.....	\$ 18,522,000	\$ 6,696,610	\$ 25,218,610

The Town has completed the process of renovating the Belmonte Middle School which was funded with long-term debt and a construction grant from the MSBA. At June 30, 2014, the Town was in the process of closing out the construction with the MSBA. Once this project is complete the Town expects to receive the last grant reimbursement from the MSBA. At the time of grant approval the project carried an expected total cost of \$20,200,000. The MSBA has approved total assistance for this project at a reimbursement rate of 53.32% of eligible construction costs not to exceed approximately \$10,098,000. To date the Town has applied for and received reimbursements in the amount of approximately \$8 million. The final reimbursement amount cannot be quantified at June 30, 2014. Future reimbursements will be recognized in the period received.

### Bonds Payable Schedule – Water Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
MWRA.....	2023	\$ 1,766,250	0.00	\$ 4,629,925	\$ 768,400	\$ 775,326	\$ 4,622,999
General obligation bonds of 2006....	2018	2,000,000	3.70	300,000	-	100,000	200,000
General obligation bonds of 2007....	2017	200,000	3.70	40,000	-	10,000	30,000
General obligation bonds of 2011....	2031	940,000	3.80	840,000	-	50,000	790,000
General obligation bonds of 2014....	2034	2,100,000	3.82	2,100,000	-	-	2,100,000
Total Water Enterprise Fund.....				\$ 7,909,925	\$ 768,400	\$ 935,326	\$ 7,742,999

The MWRA has provided grants to subsidize 100% of the interest expense on the debt outstanding. The Town has estimated the current year subsidy to be approximately \$93,000. This amount has reported as an intergovernmental revenue and interest expense. Debt service requirements for principal and interest for the water enterprise fund bonds payable in future years are as follows:

Fiscal Year	Principal	Interest	Total
2015.....	\$ 1,027,166	\$ 196,733	\$ 1,223,899
2016.....	991,875	129,280	1,121,155
2017.....	896,875	114,830	1,011,705
2018.....	711,294	109,530	820,824
2019.....	656,664	104,330	760,994
2020.....	485,940	98,605	584,545
2021.....	399,840	92,430	492,270
2022.....	404,840	85,555	490,395
2023.....	321,665	78,880	400,545
2024.....	226,840	71,955	298,795
2025.....	155,000	65,330	220,330
2026.....	160,000	59,030	219,030
2027.....	160,000	52,630	212,630
2028.....	165,000	46,130	211,130
2029.....	170,000	39,430	209,430
2030.....	175,000	32,312	207,312
2031.....	185,000	24,719	209,719
2032.....	145,000	16,807	161,807
2033.....	150,000	10,351	160,351
2034.....	155,000	3,488	158,488
Total.....	\$ 7,742,999	\$ 1,432,355	\$ 9,175,354

**Bonds Payable Schedule – Sewer Enterprise Fund**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
MCWT.....	2033	\$ 6,387,395	2.00	\$ 11,165,408	\$ 1,982,569	\$ 560,470	\$ 12,587,507
General obligation bonds of 2007....	2017	2,387,235	3.70	40,000	-	10,000	30,000
General obligation bonds of 2011....	2031	2,455,000	3.80	2,910,000	-	320,000	2,590,000
General obligation bonds of 2014....	2034	780,000	3.82	780,000	-	-	780,000
Total Sewer Enterprise Fund.....				\$ 14,895,408	\$ 1,982,569	\$ 890,470	\$ 15,987,507

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

Fiscal Year	Principal	Interest	Total
2015.....	\$ 907,437	\$ 319,315	\$ 1,226,752
2016.....	1,020,025	319,888	1,339,913
2017.....	989,285	297,076	1,286,361
2018.....	973,818	270,067	1,243,885
2019.....	858,626	245,650	1,104,276
2020.....	824,175	227,426	1,051,601
2021.....	843,254	209,913	1,053,167
2022.....	857,630	190,842	1,048,472
2023.....	872,303	172,738	1,045,041
2024.....	892,285	154,270	1,046,555
2025.....	892,581	135,633	1,028,214
2026.....	908,195	115,543	1,023,738
2027.....	924,138	99,099	1,023,237
2028.....	889,127	81,010	970,137
2029.....	875,322	63,471	938,793
2030.....	676,718	47,885	724,603
2031.....	687,929	34,118	722,047
2032.....	480,024	21,444	501,468
2033.....	315,876	13,930	329,806
2034.....	178,096	6,124	184,220
2035.....	120,663	2,412	123,075
Total.....	\$ 15,987,507	\$ 3,027,854	\$ 19,015,361

The Town is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$57,954 and interest costs for \$22,117. Thus, net MCWT loan repayments, including interest, are scheduled to be \$14,545,229. 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 2014 principal and interest subsidy totaled approximately \$19,000.

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, 2014, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Sewer system capital improvements.....	\$ 5,611,000
School construction.....	9,502,854
Water system improvements.....	662,100
Police cruisers.....	<u>420</u>
Total.....	<u>\$ 15,776,374</u>

Changes in Long-term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities:

**Governmental Activities:**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable.....	\$ 20,442,000	\$ -	\$ (1,920,000)	\$ 18,522,000	\$ 2,207,000
Premium on long-term debt.....	-	438,342	(438,342)	-	-
Compensated absences.....	4,794,000	497,000	(479,000)	4,812,000	481,000
Other postemployment benefits.....	21,210,000	9,226,000	(4,339,000)	26,097,000	-
Landfill liability.....	<u>500,000</u>	<u>-</u>	<u>(20,000)</u>	<u>480,000</u>	<u>20,000</u>
Total governmental activity long-term liabilities.....	<u>\$ 46,946,000</u>	<u>\$ 10,161,342</u>	<u>\$ (7,196,342)</u>	<u>\$ 49,911,000</u>	<u>\$ 2,708,000</u>

**Business-Type Activities:**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable.....	\$ 22,805,333	\$ 2,750,969	\$ (1,825,796)	\$ 23,730,506	\$ 1,934,603
Compensated absences.....	138,000	7,000	(14,000)	131,000	14,000
Other postemployment benefits.....	<u>790,000</u>	<u>345,000</u>	<u>(162,000)</u>	<u>973,000</u>	<u>-</u>
Total business type activity long-term liabilities.....	<u>\$ 23,733,333</u>	<u>\$ 3,102,969</u>	<u>\$ (2,001,796)</u>	<u>\$ 24,834,506</u>	<u>\$ 1,948,603</u>

The governmental activities long-term liabilities are generally liquidated by the general fund. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures.

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

At June 30, 2014, \$1,743,095 has been set aside in a general stabilization fund, and \$150,539 has been set aside in a capital project stabilization fund, both of which are 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. The balance of the stabilization funds 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, 2014, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS		
	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>			
Nonspendable:			
Permanent fund principal.....	\$ -	\$ 1,190,619	\$ 1,190,619
Restricted for:			
Town federal grant funds.....	-	7,375	7,375
Town other funds.....	-	2,584,996	2,584,996
School gift funds.....	-	26,678	26,678
School federal grant funds.....	-	582,333	582,333
School revolving funds.....	-	278,684	278,684
School other funds.....	-	197,611	197,611
Town capital projects.....	-	566,941	566,941
Expendable permanent funds.....	-	150,705	150,705
Assigned to:			
General government.....	71,812	-	71,812
Public safety.....	3,764	-	3,764
Education.....	729,870	-	729,870
Public works.....	55,690	-	55,690
Culture and recreation.....	2,959	-	2,959
Property and liability insurance.....	1,016	-	1,016
Unassigned.....	6,093,680	(642,836)	5,450,844
<b>TOTAL FUND BALANCES.....</b>	<b>\$ 6,958,791</b>	<b>\$ 4,943,106</b>	<b>\$ 11,901,897</b>

## NOTE 9 - RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Non public safety personnel are covered by a premium based workers' compensation insurance program. The Town is self-insured for its police and fire personnel workers' compensation activities. All health and life insurance activities are provided by a premium based insurance plan. All activities are accounted for in the in the general fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

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, 2014, 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 \$9,444,318 for the year ended June 30, 2014, 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, 2013, the System's membership consists of the following:

Active members.....	336
Inactive members.....	10
Retirees and beneficiaries currently receiving benefits.....	<u>279</u>
Total.....	<u>625</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 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 years ended June 30, 2014, 2013, and 2012 were \$4,685,798, \$4,506,330, and \$4,287,242, respectively, which equaled its required contribution for each year. At June 30, 2014, the Town did not have a net pension obligation. The annual required contribution for 2014 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, 2013, was 12 years.

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)
01/01/13	\$ 67,378,206	\$ 104,859,786	\$ 37,481,580	64.3%	\$ 14,545,631	257.7%
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 the 446 active and 426 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.

At June 30, 2014, the Plan’s membership consists of the following:

Active members.....	446
Retirees, disabled, survivors and beneficiaries.....	<u>426</u>
Total.....	<u><u>872</u></u>

*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.....	\$ 9,870,000
Interest on existing net OPEB obligation.....	990,000
Adjustments to annual required contribution.....	<u>(1,290,000)</u>
Annual OPEB cost (expense).....	9,570,000
Contributions made.....	<u>(4,500,000)</u>
Increase/Decrease in net OPEB obligation.....	5,070,000
Net OPEB obligation - beginning of year.....	<u>22,000,000</u>
Net OPEB obligation - end of year.....	<u>\$ 27,070,000</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and prior years is as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of Annual</u> <u>OPEB Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/14	\$ 9,570,000	47.0%	\$ 27,070,000
6/30/13	9,271,000	47.6%	22,000,000
6/30/12	5,788,000	57.7%	17,139,000
6/30/11	5,707,000	59.0%	14,689,000

*Funded Status and Funding Progress* - As of July 1, 2012, the most recent actuarial valuation date, the actuarial liability for benefits was \$107,500,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$30,260,000.

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, 2012, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method was used. The actuarial assumptions included a 4.50% investment rate of return, and an annual healthcare cost trend rate of 9.5% initially, graded to 5% after ten 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 on an open level dollar basis over 30 years. The remaining amortization period at July 1, 2012, was 29 years.

**NOTE 12 – LANDFILL CLOSURE**

State and federal laws and regulations required the Town to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town operated a solid waste landfill that ceased operations in 1973 and has recently completed the capping of the landfill.

The Town has reflected \$480,000 as the estimate of the landfill closure liability at June 30, 2014. This amount is based on estimates of what it would cost to perform all future closure and post closure care in 2014. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**NOTE 13 - 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, 2014, 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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2014.

**NOTE 13 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, *Items Previously Reported as Assets and Liabilities*. Financial statement changes include the presentation of deferred outflows and inflows in the Statement of Net Position and Balance Sheet. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future years:

- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in 2015.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in 2015.
- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented simultaneously with GASB Statement #68 in 2015.

Management is currently assessing the impact the implementation of these pronouncements will have 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**

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts				
	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance Over/(Under)
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 54,275,670	\$ 54,275,670	\$ 53,676,229	\$ -	\$ (599,441)
Tax liens.....	-	-	882,278	-	882,278
Motor vehicle and other excise taxes.....	3,199,300	3,199,300	3,684,940	-	485,640
Hotel/motel and meals tax.....	1,407,000	1,407,000	1,469,679	-	62,679
Penalties and interest on taxes.....	280,000	280,000	227,432	-	(52,568)
Fees.....	375,000	375,000	311,021	-	(63,979)
Rentals.....	192,000	192,000	194,673	-	2,673
Payments in lieu of taxes.....	59,000	59,000	46,962	-	(12,038)
Licenses and permits.....	1,052,054	1,052,054	943,926	-	(108,128)
Fines and forfeitures.....	190,000	190,000	166,309	-	(23,691)
Intergovernmental.....	9,442,846	9,442,846	9,243,661	-	(199,185)
Departmental and other.....	388,140	388,140	542,669	-	154,529
Investment income.....	35,000	35,000	32,584	-	(2,416)
<b>TOTAL REVENUES.....</b>	<b>70,896,010</b>	<b>70,896,010</b>	<b>71,422,363</b>	<b>-</b>	<b>526,353</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	3,367,394	3,548,296	2,995,149	71,812	481,335
Public safety.....	10,902,154	10,892,656	10,419,200	3,764	469,692
Education.....	29,606,928	29,646,928	28,912,197	729,870	4,861
Public works.....	3,447,506	4,300,376	4,002,496	55,690	242,190
Trash removal and recycling.....	1,387,191	1,387,192	1,377,153	-	10,039
Human services.....	622,138	731,638	679,553	-	52,085
Culture and recreation.....	758,453	762,463	703,428	2,959	56,076
Pension benefits.....	4,750,579	4,761,579	4,761,389	-	190
Property and liability insurance.....	668,773	818,773	769,986	1,016	47,771
Employee benefits.....	10,901,500	10,556,950	10,510,949	-	46,001
State and county charges.....	3,292,232	3,292,232	2,811,285	-	480,947
Debt service:					
Principal.....	1,920,000	1,920,000	1,920,000	-	-
Interest.....	430,992	430,992	368,942	-	62,050
<b>TOTAL EXPENDITURES.....</b>	<b>72,055,840</b>	<b>73,050,075</b>	<b>70,231,727</b>	<b>865,111</b>	<b>1,953,237</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(1,159,830)</b>	<b>(2,154,065)</b>	<b>1,190,636</b>	<b>(865,111)</b>	<b>2,479,590</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Premium from issuance of bonds.....	-	-	438,342	-	438,342
Use of prior year fund balance to fund debt service.....	106,266	106,266	-	-	(106,266)
Use of prior year fund balance to fund carryovers.....	443,988	443,988	-	-	(443,988)
Free cash voted to fund fiscal year 2014 budget.....	-	2,022,235	-	-	(2,022,235)
Transfers in.....	759,576	759,576	759,576	-	-
Transfers out.....	(150,000)	(1,178,000)	(1,178,000)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>1,159,830</b>	<b>2,154,065</b>	<b>19,918</b>	<b>-</b>	<b>(2,134,147)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>-</b>	<b>-</b>	<b>1,210,554</b>	<b>(865,111)</b>	<b>345,443</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>3,564,586</b>	<b>3,564,586</b>	<b>3,564,586</b>	<b>-</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 3,564,586</b>	<b>\$ 3,564,586</b>	<b>\$ 4,775,140</b>	<b>\$ (865,111)</b>	<b>\$ 345,443</b>

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)
01/01/13	\$ 67,378,206	\$ 104,859,786	\$ 37,481,580	64.3%	\$ 14,545,631	257.7%
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, 2013, is approximately 96.7%.

See notes to required supplementary information.

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

<b>System Wide</b>				<b>Town of Saugus</b>	
Plan Year Ended December 31	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) District's Percentage of System Wide Actual Contributions
2013	\$ 4,859,863	\$ 4,859,863	100%	\$ 4,685,798	96.42%
2012	4,662,637	\$ 4,662,637	100%	4,506,330	96.65%
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, 2014

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)
7/1/2012	\$ -	\$ 107,500,000	\$ 107,500,000	0%	\$ 30,260,000	355.3%
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
6/30/2014	\$ 9,870,000	\$ 4,500,000	46%
6/30/2013	9,510,000	4,410,000	46%
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**

YEAR ENDED JUNE 30, 2014

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Actuarial Methods:

Valuation date.....	July 1, 2012
Actuarial cost method.....	Projected Unit Cost Method
Amortization method.....	Level dollar basis/open; over 30 years
Remaining amortization period.....	29 years

Actuarial Assumptions:

Investment rate of return.....	4.50%
Medical/drug cost trend rate.....	9.5% initially decreasing to a long term rate of 5%

Plan Membership:

Current retirees, beneficiaries, and dependents...	426
Current active members.....	<u>446</u>
Total.....	<u><u>872</u></u>

See notes to required supplementary information.

**NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY****A. 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 year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent 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 2014 approved budget authorized approximately \$72.2 million in appropriations and other amounts to be raised. During 2014, Town Meetings approved supplemental appropriations of approximately \$2 million relating to a \$1 million transfer to stabilization, as well as primarily relating to additional appropriations in the public works line item.

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 year ended June 30, 2014, is presented below:

Net change in fund balance - budgetary basis.....	\$ 1,210,554
<u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP .....	1,177,489
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts accrual.....	54,400
Net change in market value of investments.....	13,870
Increase in revenues due to on-behalf payments.....	9,444,318
Increase in expenditures due to on-behalf payments.....	(9,444,318)
Net change in fund balance - GAAP basis.....	<u>\$ 2,456,313</u>



**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, 2013
Actuarial Cost Method.....	Individual entry age normal
Amortization Method.....	2.0% increasing after FY2017
Remaining Amortization Period.....	12 years (ERI is 15 years)
Asset Valuation Method.....	Actuarial value, five year smoothing

## Actuarial Assumptions:

Investment rate of return.....	7.75%
Projected salary increases.....	Service based table with ultimate rates of 4.25%, 4.50%, and 4.75% for groups 1, 2, and 4 respectively
Cost of living adjustments.....	3.0% per year (of the first \$12,000)

## Plan Membership:

Disabled.....	37
Retirees and beneficiaries.....	242
Inactive participants.....	10
Active participants.....	<u>336</u>
Total.....	<u><u>625</u></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.