

TOWN OF SAUGUS, MASSACHUSETTS

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

YEAR ENDED JUNE 30, 2015

TOWN OF SAUGUS, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2015

TABLE OF CONTENTS

Independent Auditor's Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements	12
Statement of net position	13
Statement of activities	14
Governmental funds – balance sheet	16
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net position	17
Governmental funds – statement of revenues, expenditures and changes in fund balances	18
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	19
Proprietary funds – statement of net position	20
Proprietary funds – statement of revenues, expenses and changes in net position	21
Proprietary funds – statement of cash flows.....	22
Fiduciary funds – statement of fiduciary net position.....	23
Fiduciary funds – statement of changes in fiduciary net position	24
Notes to basic financial statements	25
Required Supplementary Information.....	57
Schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual	59
Pension Plan Schedules – Retirement System	60
Schedule of changes in the net pension liability	61
Schedule of contributions	62
Schedule of investment return	63
Pension Plan Schedules – Town	64
Schedule of the Town's proportionate share of the net pension liability	65
Schedule of the contributions	66
Schedule of special funding amounts	67
Other Postemployment Benefits Plan Schedules	68
Other postemployment benefit plan schedule of funding progress.....	69
Other postemployment benefit plan actuarial methods and assumptions	70
Notes to Required Supplementary Information.....	71



100 Quannapowitt Parkway

Suite 101

Wakefield, MA 01880

T. 781-914-1700

F. 781-914-1701

www.powersandsullivan.com

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, 2015 (except for the Saugus Contributory Retirement System which is as of and for the year ended December 31, 2014), 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, 2015 (except for the Saugus

Contributory Retirement System which is as of and for the year ended December 31, 2014), 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 28, 2016, 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 28, 2016

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, 2015. 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 \$26.3 million at the close of 2015. This balance was virtually unchanged from the prior year.

Net position of \$67.2 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, \$3.8 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 \$44.6 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 \$33.2 million and a net pension liability of \$27.3 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 liabilities of governmental activities exceeded assets by \$2 million at the close of 2015. Components of the Town's governmental financial position are listed below.

	FY2015	As Revised FY2014
Assets:		
Current assets.....	\$ 18,066,447	\$ 18,417,642
Capital assets.....	63,305,364	64,197,748
Total assets.....	<u>81,371,811</u>	<u>82,615,390</u>
Deferred Outflows of Resources.....	<u>240,580</u>	<u>-</u>
Liabilities:		
Current liabilities (excluding debt).....	1,706,329	1,821,053
Noncurrent liabilities (excluding debt).....	63,859,700	59,265,210
Current debt.....	3,620,613	3,798,779
Noncurrent debt.....	14,398,166	16,315,000
Total liabilities.....	<u>83,584,808</u>	<u>81,200,042</u>
Net Position:		
Net investment in capital assets.....	46,249,610	45,561,125
Restricted.....	3,788,567	3,699,297
Unrestricted.....	(52,010,594)	(47,845,074)
Total net position.....	\$ <u>(1,972,417)</u>	\$ <u>1,415,348</u>

A significant portion of the Town's governmental activities net position, \$46.2 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, \$3.8 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 \$52 million is due primarily to the recognition of \$32 million of postemployment healthcare benefits payable to current and future retirees of the Town as well as a net pension liability of \$26.6 million. These liabilities are recognized in accordance with *Governmental Accounting Standards Board Statements # 45, #68 and #71*. 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 and the net pension liability, governmental activity liabilities include \$18 million in general obligation bonds and short term notes and \$5.4 million in compensated absence

liabilities for unused sick and vacation leave that will be payable to employees upon the end of their employment with the Town.

The following summarizes the current and prior year governmental activities:

	FY2015	FY2014
Program Revenues:		
Charges for services.....	\$ 3,914,998	\$ 3,505,780
Operating grants and contributions.....	12,577,351	18,939,078
Capital grants and contributions.....	685,941	2,039,973
General Revenues:		
Real estate and personal property taxes.....	56,977,115	53,718,144
Tax liens.....	706,131	964,937
Motor vehicle and other excise taxes.....	3,818,531	3,643,811
Hotel/motel and meals tax.....	1,488,132	1,469,679
Penalties and interest on taxes.....	355,932	157,584
Payments in lieu of taxes.....	78,948	46,962
Grants and contributions not restricted to specific programs.....	3,597,430	3,574,925
Unrestricted investment income.....	33,588	93,250
Total revenues.....	84,234,097	88,154,123
Expenses:		
General government.....	5,702,180	5,909,222
Public safety.....	19,721,739	19,111,715
Education.....	51,041,526	54,664,728
Public works.....	6,511,828	5,683,633
Recycling and trash disposal.....	1,437,082	1,448,604
Human services.....	1,273,492	1,094,586
Culture and recreation.....	1,522,691	1,384,663
Interest.....	1,196,671	358,465
Total expenses.....	88,407,209	89,655,616
Excess (deficit) before transfers.....	(4,173,112)	(1,501,493)
Transfers, net.....	785,347	759,576
Change in net position.....	(3,387,765)	(741,917)
Net position - beginning (as revised).....	1,415,348	2,157,265
Net position - ending.....	\$ (1,972,417)	\$ 1,415,348

The governmental activities net position decreased by \$3.4 million over the prior year. This decrease is primarily due to an increase of \$5.9 million to the OPEB liability. Since this liability is not budgeted for or funded by the Town any increases to the liability will always have a negative impact on the overall financial performance of the Town. The increase in the OPEB liability was partially offset by the difference between the contributions made to the contributory retirement system by the Town and the related pension expense recognized in accordance with GASB #68.

Annually, the Town recognizes offsetting operating grant revenues and education expense for on-behalf contributions made by the Commonwealth of Massachusetts to the Massachusetts Teachers Retirement System (MTRS) for teacher employed by the Town. This amount recognized by the Town is determined by the MTRS. In 2014, the amount recognized by the Town was \$9,444,318. As a result of the implementation of GASB

Statement #68 and #71, the MTRS changed the methodology used to determine the on-behalf amount recognized by the Town. As a result, the amount recognized by the Town decreased \$6,212,533 in 2015 to \$3,231,785.

Business-Type Activities

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

	FY2015	As Revised FY2014
Assets:		
Current assets.....	\$ 13,066,403	\$ 10,564,907
Capital assets.....	42,974,540	42,780,980
Total assets.....	56,040,943	53,345,887
Deferred Outflows of Resources.....	6,456	-
Liabilities:		
Current liabilities (excluding debt).....	823,772	462,404
Noncurrent liabilities (excluding debt).....	2,040,683	1,851,452
Current debt.....	2,579,001	2,205,987
Noncurrent debt.....	22,301,393	21,795,903
Total liabilities.....	27,744,849	26,315,746
Net Position:		
Net investment in capital assets.....	20,900,872	20,541,850
Unrestricted.....	7,401,678	6,488,291
Total net position.....	\$ 28,302,550	\$ 27,030,141
Program Revenues:		
Charges for services.....	\$ 10,031,093	\$ 8,656,117
Capital grants and contributions.....	92,000	191,265
General Revenues:		
Unrestricted investment income.....	9,748	69,920
Total revenues.....	10,132,841	8,917,302
Expenses:		
Water.....	4,955,879	4,292,199
Sewer.....	3,119,206	3,019,588
Total expenses.....	8,075,085	7,311,787
Excess before transfers.....	2,057,756	1,605,515
Transfers, net.....	(785,347)	(759,576)
Change in net position.....	1,272,409	845,939
Net position - beginning (as revised).....	27,030,141	26,184,202
Net position - ending.....	\$ 28,302,550	\$ 27,030,141

Total business type activities assets exceeded liabilities by \$28.3 million at the close of 2015.

Net position of \$20.9 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 \$7.4 million may be used to meet ongoing obligations. The beginning net position of business-type activities has been revised to reflect the implementation of GASB Statements #68 and #71. The cumulative effect of this revision was to reduce the prior

year total net position by \$761,452. Previously reported net position of \$27,791,593 has been revised to \$27,030,141.

The Water Enterprise Fund net position increased by \$952,000 primarily due to the following items:

- An increase of \$418,000 in operating costs mainly as a result of increased assessments from the MWRA;
- An increase of \$950,000 in charges for services due to additional service accounts and an increase in rates over the prior year;
- Principal payments on long term debt exceeding depreciation expense.

The Sewer Enterprise Fund net position increased by \$321,000 primarily due to principal payments on long term debt exceeding depreciation expense as well as prudent management of operating expenses which only increased \$108,000 while operating revenues increased \$425,000.

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 \$6.8 million, while total fund balance equaled \$7.5 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 8.7% of general fund budgetary expenditures while total fund balance represents 9.6%. The general fund increased by \$530,000 during 2015. This increase is primarily due \$563,000 of tax lien collections which is unbudgeted.

The nonmajor governmental funds decreased by \$422,000. This was the result of timing differences between grant expenditures and certain construction costs being incurred prior to the receipt grant reimbursements.

As of the end of the year, governmental funds reported combined ending fund balances of \$12 million, an increase of \$108,000 from the prior year.

General Fund Budgetary Highlights

The difference of \$2.8 million between the original budget of \$75.3 million and the final amended budget of \$78.1 million was due to the approval of supplemental appropriations that were funded by a like amount of free cash. These supplemental appropriations were made to fund snow and ice removal costs and employee benefits.

Capital Asset and Debt Administration

Capital Assets - The Town's investment in capital assets for governmental activities as of June 30, 2015, amounts to \$63.3 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 capitalized \$2 million of governmental activities capital expenditures in 2015. The governmental activities incurred depreciation expense of \$3 million.

The Town's investment in capital assets for business type activities as of June 30, 2015 amounts to \$43 million, net of accumulated depreciation. The investment in capital assets for the business type activities predominately relates to water and sewer infrastructure. The Town capitalized \$1.5 million of business-type activities capital expenditures in 2015. The business-type activities incurred depreciation expense of \$1.3 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, 2015, the Town had total long term governmental bonded debt of \$16.3 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 \$24.4 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, 2015

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 10,383,892	\$ 4,486,231	\$ 14,870,123
Investments.....	3,772,482	1,421,337	5,193,819
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	226,310	-	226,310
Tax liens.....	1,392,031	-	1,392,031
Motor vehicle and other excise taxes.....	293,356	-	293,356
User fees.....	-	4,810,825	4,810,825
Departmental and other.....	57,002	-	57,002
Special assessments.....	1,850	-	1,850
Intergovernmental.....	1,580,487	2,348,010	3,928,497
Tax foreclosures.....	359,037	-	359,037
Capital assets, not being depreciated.....	10,107,487	3,135,055	13,242,542
Capital assets, net of accumulated depreciation.....	53,197,877	39,839,485	93,037,362
TOTAL ASSETS.....	81,371,811	56,040,943	137,412,754
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions.....	240,580	6,456	247,036
LIABILITIES			
CURRENT:			
Warrants payable.....	3,549	621,064	624,613
Accrued payroll.....	406,391	10,624	417,015
Tax refunds payable.....	185,939	-	185,939
Accrued interest.....	233,397	177,084	410,481
Payroll withholdings.....	300,720	-	300,720
Abandoned property.....	20,333	-	20,333
Compensated absences.....	536,000	15,000	551,000
Landfill postclosure care liability.....	20,000	-	20,000
Notes payable.....	1,703,779	516,384	2,220,163
Bonds payable.....	1,916,834	2,062,617	3,979,451
NONCURRENT:			
Compensated absences.....	4,824,000	134,000	4,958,000
Landfill postclosure care liability.....	440,000	-	440,000
Net pension liability.....	26,559,700	712,683	27,272,383
Other postemployment benefits.....	32,036,000	1,194,000	33,230,000
Bonds payable.....	14,398,166	22,301,393	36,699,559
TOTAL LIABILITIES.....	83,584,808	27,744,849	111,329,657
NET POSITION			
Net investment in capital assets.....	46,249,610	20,900,872	67,150,482
Restricted for:			
Permanent funds:			
Expendable.....	143,471	-	143,471
Nonexpendable.....	1,204,423	-	1,204,423
Grants and gifts.....	2,440,673	-	2,440,673
Unrestricted.....	(52,010,594)	7,401,678	(44,608,916)
TOTAL NET POSITION.....	\$ (1,972,417)	\$ 28,302,550	\$ 26,330,133

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

		Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	
Primary Government:						
<i>Governmental Activities:</i>						
General government.....	\$ 5,702,180	\$ 935,257	\$ 592,675	\$ -	\$ (4,174,248)	
Public safety.....	19,721,739	960,855	852,013	-	(17,908,871)	
Education.....	51,041,526	1,541,597	11,043,576	-	(38,456,353)	
Public works.....	6,511,828	155,722	175	685,941	(5,669,990)	
Trash removal and recycling.....	1,437,082	30,795	-	-	(1,406,287)	
Human services.....	1,273,492	113,119	49,326	-	(1,111,047)	
Culture and recreation.....	1,522,691	177,653	39,586	-	(1,305,452)	
Interest.....	1,196,671	-	-	-	(1,196,671)	
Total Governmental Activities.....	88,407,209	3,914,998	12,577,351	685,941	(71,228,919)	
<i>Business-Type Activities:</i>						
Water.....	4,955,879	6,226,953	-	92,000	1,363,074	
Sewer.....	3,119,206	3,804,140	-	-	684,934	
Total Business-Type Activities.....	8,075,085	10,031,093	-	92,000	2,048,008	
Total Primary Government.....	\$ 96,482,294	\$ 13,946,091	\$ 12,577,351	\$ 777,941	\$ (69,180,911)	

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ <u>(71,228,919)</u>	\$ <u>2,048,008</u>	\$ <u>(69,180,911)</u>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	56,977,115	-	56,977,115
Tax liens.....	706,131	-	706,131
Motor vehicle and other excise taxes.....	3,818,531	-	3,818,531
Hotel/motel and meals tax.....	1,488,132	-	1,488,132
Penalties and interest on taxes.....	355,932	-	355,932
Payments in lieu of taxes.....	78,948	-	78,948
Grants and contributions not restricted to specific programs.....	3,597,430	-	3,597,430
Unrestricted investment income.....	33,588	9,748	43,336
<i>Transfers, net</i>	<u>785,347</u>	<u>(785,347)</u>	<u>-</u>
Total general revenues and transfers.....	<u>67,841,154</u>	<u>(775,599)</u>	<u>67,065,555</u>
Change in net position.....	(3,387,765)	1,272,409	(2,115,356)
<i>Net Position:</i>			
Beginning of year (as revised).....	<u>1,415,348</u>	<u>27,030,141</u>	<u>28,445,489</u>
End of year.....	\$ <u>(1,972,417)</u>	\$ <u>28,302,550</u>	\$ <u>26,330,133</u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2015

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents.....	\$ 5,230,509	\$ 5,153,383	\$ 10,383,892
Investments.....	2,876,561	895,921	3,772,482
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	226,310	-	226,310
Tax liens.....	1,392,031	-	1,392,031
Motor vehicle and other excise taxes.....	293,356	-	293,356
Departmental and other.....	57,002	-	57,002
Special assessments.....	1,850	-	1,850
Intergovernmental.....	216,934	1,363,553	1,580,487
Tax foreclosures.....	359,037	-	359,037
TOTAL ASSETS.....	\$ 10,653,590	\$ 7,412,857	\$ 18,066,447
LIABILITIES			
Warrants payable.....	\$ 3,549	\$ -	\$ 3,549
Accrued payroll.....	390,844	15,547	406,391
Tax refunds payable.....	185,939	-	185,939
Payroll withholdings.....	300,720	-	300,720
Abandoned property.....	20,333	-	20,333
Notes payable.....	-	1,703,779	1,703,779
TOTAL LIABILITIES.....	901,385	1,719,326	2,620,711
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues.....	2,263,215	1,173,062	3,436,277
FUND BALANCES			
Nonspendable.....	-	1,204,423	1,204,423
Restricted.....	-	3,988,163	3,988,163
Assigned.....	712,252	-	712,252
Unassigned.....	6,776,738	(672,117)	6,104,621
TOTAL FUND BALANCES.....	7,488,990	4,520,469	12,009,459
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 10,653,590	\$ 7,412,857	\$ 18,066,447

See notes to basic financial statements.

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

JUNE 30, 2015

Total governmental fund balances.....		\$ 12,009,459
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		63,305,364
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		3,436,277
Changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....		240,580
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(233,397)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(16,315,000)	
Landfill postclosure care.....	(460,000)	
Net pension liability.....	(26,559,700)	
Other postemployment benefits liability.....	(32,036,000)	
Compensated absences.....	(5,360,000)	
Net effect of reporting long-term liabilities.....		<u>(80,730,700)</u>
Net position of governmental activities.....		<u>\$ (1,972,417)</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2015

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 57,205,493	\$ -	\$ 57,205,493
Tax liens.....	563,491	-	563,491
Motor vehicle and other excise taxes.....	3,768,896	-	3,768,896
Hotel/motel and meals tax.....	1,488,132	-	1,488,132
Charges for services.....	-	1,762,674	1,762,674
Penalties and interest on taxes.....	281,379	-	281,379
Fees.....	250,045	-	250,045
Rentals.....	254,134	-	254,134
Payments in lieu of taxes.....	78,948	-	78,948
Licenses and permits.....	1,038,908	-	1,038,908
Fines and forfeitures.....	156,908	-	156,908
Intergovernmental.....	12,382,817	4,143,055	16,525,872
Departmental and other.....	505,607	26,875	532,482
Contributions.....	-	530,614	530,614
Investment income.....	47,070	10,105	57,175
TOTAL REVENUES.....	78,021,828	6,473,323	84,495,151
EXPENDITURES:			
Current:			
General government.....	2,704,609	348,893	3,053,502
Public safety.....	10,489,299	933,410	11,422,709
Education.....	33,771,052	3,862,241	37,633,293
Public works.....	5,227,280	1,501,420	6,728,700
Trash removal and recycling.....	1,366,287	-	1,366,287
Human services.....	755,190	84,342	839,532
Culture and recreation.....	793,776	165,654	959,430
Pension benefits.....	5,065,202	-	5,065,202
Property and liability insurance.....	610,506	-	610,506
Employee benefits.....	11,641,424	-	11,641,424
State and county charges.....	2,588,659	-	2,588,659
Debt service:			
Principal.....	2,207,000	-	2,207,000
Interest.....	1,056,692	-	1,056,692
TOTAL EXPENDITURES.....	78,276,976	6,895,960	85,172,936
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(255,148)	(422,637)	(677,785)
OTHER FINANCING SOURCES (USES):			
Transfers in.....	785,347	-	785,347
NET CHANGE IN FUND BALANCES.....	530,199	(422,637)	107,562
FUND BALANCES AT BEGINNING OF YEAR.....	6,958,791	4,943,106	11,901,897
FUND BALANCES AT END OF YEAR.....	\$ 7,488,990	\$ 4,520,469	\$ 12,009,459

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, 2015

Net change in fund balances - total governmental funds.....	\$	107,562
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	2,064,332	
Depreciation expense.....	<u>(2,956,716)</u>	
Net effect of reporting capital assets.....		(892,384)
<p>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.....</p>		
		(261,054)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net 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.</p>		
Debt service principal payments.....		2,207,000
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(548,000)	
Net change in other postemployment benefits accrual.....	(5,939,000)	
Net change in accrued interest on long-term debt.....	(139,979)	
Net change in accrued landfill postclosure care liability.....	20,000	
Net change in net pension liability.....	240,580	
Net change in deferred outflows/(inflows) of resources related to pensions.....	<u>1,817,510</u>	
Net effect of recording long-term liabilities.....		<u>(4,548,889)</u>
Change in net position of governmental activities.....	\$	<u><u>(3,387,765)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2015

	Water Fund	Sewer Fund	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 1,932,988	\$ 2,553,243	\$ 4,486,231
Investments.....	-	1,421,337	1,421,337
Receivables, net of allowance for uncollectibles:			
User fees.....	3,017,895	1,792,930	4,810,825
Intergovernmental.....	-	2,348,010	2,348,010
Total current assets.....	4,950,883	8,115,520	13,066,403
NONCURRENT:			
Capital assets, not being depreciated.....	417,689	2,717,366	3,135,055
Capital assets, net of accumulated depreciation.....	18,104,706	21,734,779	39,839,485
Total noncurrent assets.....	18,522,395	24,452,145	42,974,540
TOTAL ASSETS.....	23,473,278	32,567,665	56,040,943
DEFERRED OUTFLOWS			
Deferred outflows of resources related to pensions.....	3,029	3,427	6,456
LIABILITIES			
CURRENT:			
Warrants payable.....	-	621,064	621,064
Accrued payroll.....	5,730	4,894	10,624
Accrued interest.....	43,893	133,191	177,084
Compensated absences.....	8,000	7,000	15,000
Notes payable.....	-	516,384	516,384
Bonds payable.....	1,058,085	1,004,532	2,062,617
Total current liabilities.....	1,115,708	2,287,065	3,402,773
NONCURRENT:			
Compensated absences.....	69,000	65,000	134,000
Net pension liability.....	334,355	378,328	712,683
Other postemployment benefits.....	651,000	543,000	1,194,000
Bonds payable.....	6,319,848	15,981,545	22,301,393
Total noncurrent liabilities.....	7,374,203	16,967,873	24,342,076
TOTAL LIABILITIES.....	8,489,911	19,254,938	27,744,849
NET POSITION			
Net investment in capital assets.....	12,176,884	8,723,988	20,900,872
Unrestricted.....	2,809,512	4,592,166	7,401,678
TOTAL NET POSITION.....	\$ 14,986,396	\$ 13,316,154	\$ 28,302,550

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2015

	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 6,226,953	\$ 3,804,140	\$ 10,031,093
OPERATING EXPENSES:			
Cost of services and administration	4,067,796	1,990,811	6,058,607
Depreciation.....	583,712	749,110	1,332,822
TOTAL OPERATING EXPENSES	4,651,508	2,739,921	7,391,429
OPERATING INCOME (LOSS).....	1,575,445	1,064,219	2,639,664
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	2,549	7,199	9,748
Interest expense.....	(304,371)	(379,285)	(683,656)
Intergovernmental.....	92,000	-	92,000
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(209,822)	(372,086)	(581,908)
INCOME (LOSS) BEFORE TRANSFERS.....	1,365,623	692,133	2,057,756
TRANSFERS:			
Transfers out.....	(413,914)	(371,433)	(785,347)
CHANGE IN NET POSITION.....	951,709	320,700	1,272,409
NET POSITION AT BEGINNING OF YEAR (as revised).....	14,034,687	12,995,454	27,030,141
NET POSITION AT END OF YEAR.....	\$ 14,986,396	\$ 13,316,154	\$ 28,302,550

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

	Water Fund	Sewer Fund	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Receipts from customers and users.....	\$ 5,791,635	\$ 3,597,903	\$ 9,389,538
Payments to vendors.....	(3,650,194)	(1,658,758)	(5,308,952)
Payments to employees.....	(313,332)	(253,659)	(566,991)
NET CASH FROM OPERATING ACTIVITIES.....	1,828,109	1,685,486	3,513,595
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>			
Transfers out.....	(413,914)	(371,433)	(785,347)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Proceeds from the issuance of bonds and notes.....	662,100	923,377	1,585,477
Acquisition and construction of capital assets.....	(405,684)	(782,446)	(1,188,130)
Principal payments on bonds and notes.....	(1,027,166)	(1,316,333)	(2,343,499)
Interest expense.....	(278,734)	(381,695)	(660,429)
Intergovernmental revenue.....	92,000	-	92,000
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(957,484)	(1,557,097)	(2,514,581)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Purchase (sales) of investments.....	-	(20,076)	(20,076)
Investment income.....	2,549	7,199	9,748
NET CASH FROM INVESTING ACTIVITIES.....	2,549	(12,877)	(10,328)
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	459,260	(255,921)	203,339
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	1,473,728	2,809,164	4,282,892
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 1,932,988	\$ 2,553,243	\$ 4,486,231
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u>			
<u>FROM OPERATING ACTIVITIES:</u>			
Operating income (loss).....	\$ 1,575,445	\$ 1,064,219	\$ 2,639,664
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	583,712	749,110	1,332,822
Deferred outflows related to pensions.....	(3,029)	(3,427)	(6,456)
Changes in assets and liabilities:			
User fees.....	(435,318)	(206,237)	(641,555)
Accrued payroll.....	(822)	(289)	(1,111)
Accrued compensated absences.....	11,000	7,000	18,000
Net pension liability.....	(22,879)	(25,890)	(48,769)
Other postemployment benefits.....	120,000	101,000	221,000
Total adjustments.....	252,664	621,267	873,931
NET CASH FROM OPERATING ACTIVITIES.....	\$ 1,828,109	\$ 1,685,486	\$ 3,513,595

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

	Pension Trust Fund (as of December 31, 2014)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 491,334	\$ 227,328	\$ 142,939
Investments.....	80,653,954	543,893	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	2,624,795	-	211,305
TOTAL ASSETS.....	83,770,083	771,221	354,244
LIABILITIES			
Warrants payable.....	3,906	-	-
Accrued liabilities.....	-	-	31,879
Liabilities due depositors.....	-	-	322,365
TOTAL LIABILITIES.....	3,906	-	354,244
NET POSITION			
Held in trust for pension benefits and other purposes.....	\$ 83,766,177	\$ 771,221	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2015

	Pension Trust Fund (as of December 31, 2014)	Private Purpose Trust Funds
<u>ADDITIONS:</u>		
Contributions:		
Employer.....	\$ 5,249,000	\$ -
Employee - payroll deductions.....	1,609,970	-
Employee - transfers from other systems.....	207,937	-
Members make-up and redeposits.....	73,003	-
Retirement benefits - 3(8)c contributions from other systems.....	180,152	-
Private donations.....	-	159
	<u>7,320,062</u>	<u>159</u>
Total contributions.....		
	<u>7,320,062</u>	<u>159</u>
Net investment income (loss):		
Net change in fair value of investments.....	3,928,185	-
Interest and dividends.....	2,231,211	6,189
	<u>6,159,396</u>	<u>6,189</u>
Total investment income (loss).....		
	<u>6,159,396</u>	<u>6,189</u>
Less: investment expense.....	(419,647)	-
	<u>5,739,749</u>	<u>6,189</u>
Net investment income (loss).....		
	<u>5,739,749</u>	<u>6,189</u>
TOTAL ADDITIONS.....	<u>13,059,811</u>	<u>6,348</u>
<u>DEDUCTIONS:</u>		
Administration.....	142,880	-
Member contributions - transfers to other systems.....	235,772	-
Retirement benefits - 3(8)c payments to other systems.....	142,613	-
Retirement benefits and refunds.....	7,092,224	-
Educational scholarships.....	-	6,100
	<u>7,613,489</u>	<u>6,100</u>
TOTAL DEDUCTIONS.....		
	<u>7,613,489</u>	<u>6,100</u>
CHANGE IN NET POSITION.....	5,446,322	248
NET POSITION AT BEGINNING OF YEAR.....	<u>78,319,855</u>	<u>770,973</u>
NET POSITION AT END OF YEAR.....	<u>\$ 83,766,177</u>	<u>\$ 771,221</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.

Joint Venture

The Town is a member of the North Metropolitan Regional Vocational Technical School District that provides for the vocational education for the Town's students who are of high school age. The members share in the operations of the District and each member is responsible for its proportionate share of the operational and capital cost of the District, which are paid in the form of assessments. The Town does not have an equity interest in the District and the 2015 assessment was \$3,339,047.

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 student activity funds, police and fire special detail pay, and various planning board deposits. Agency funds apply the accrual basis of accounting but do not have a measurement approach.

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st 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 has reported deferred outflows of resources related to pension in this category.

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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of both the Saugus Contributory Retirement System (SCRS) and the Massachusetts Teachers Retirement System and additions to/deductions from the Systems’ fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. 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.

O. 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.

P. 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.

Q. 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.

R. Individual Fund Deficits

The Belmonte Middle School capital project fund balance has a deficit of \$642,836. This deficit will be funded through future grant reimbursements and the issuance of long-term debt. The Town Federal and State Grant Funds fund balance has a deficit of \$29,281. This deficit will be funded through future grant reimbursements.

S. 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 1.33 to 21.81 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 \$11,334,481 and the bank balance totaled \$13,692,100. Of the bank balance, \$1,042,924 was covered by Federal Depository Insurance, \$6,655,190 was covered by the Depositors Insurance Fund, \$3,591,226 was covered by the Share Insurance Fund, and \$2,402,760 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, 2014, carrying amount of deposits for the system totaled \$491,334 and the bank balance totaled \$522,327. 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, 2015, the Town had the following investments:

Investment Type	Maturity			
	Fair Value	Under 1 Year	1-5 Years	Rating
<u>Debt Securities</u>				
Federal Home Loan Mortgage Corp.....	\$ 1,528,502	\$ 250,765	\$ 1,277,737	AA+
Federal National Mortgage Association.....	805,095	250,408	554,687	AA+
Federal Home Loan Banks.....	368,901	-	368,901	AA+
United States Treasury Notes.....	1,107,406	350,548	756,858	AA+
Corporate Bonds.....	590,908	-	590,908	BBB+/A-
Total Debt Securities.....	4,400,812	\$ 851,721	\$ 3,549,091	
<u>Other Investments</u>				
Equity Securities.....	757,293			
Equity Mutual Funds.....	579,607			
Repurchase Agreement.....	2,195,880			
Money Market Mutual Funds.....	8,776			
MMDT.....	1,701,253			
Total Investments.....	\$ 9,643,621			

As of December 31, 2014, the System maintained an \$80,653,954 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, \$4,400,812 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, 2015, the Town had a \$2,195,880 investment in an overnight Repurchase Agreement (REPO). The REPO is held by the counterparty and is not in the Town's name. The agreement 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, 2014, the System's \$80,653,954 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, 2014 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, 2015, 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.....	\$ 564,562	\$ (338,252)	\$ 226,310
Tax liens.....	1,392,031	-	1,392,031
Motor vehicle and other excise taxes.....	620,196	(326,840)	293,356
Departmental and other.....	89,290	(30,438)	58,852
Intergovernmental.....	1,580,487	-	1,580,487
Total	<u>\$ 4,246,566</u>	<u>\$ (695,530)</u>	<u>\$ 3,551,036</u>

At June 30, 2015, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees.....	\$ 4,810,825	\$ -	\$ 4,810,825
Intergovernmental.....	2,348,010	-	2,348,010
Total	<u>\$ 7,158,835</u>	<u>\$ -</u>	<u>\$ 7,158,835</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.....	\$ (56,990)	\$ -	\$ (56,990)
Tax liens.....	1,392,031	-	1,392,031
Motor vehicle and other excise taxes.....	293,356	-	293,356
Departmental and other.....	58,852	-	58,852
Intergovernmental.....	216,934	1,173,062	1,389,996
<u>Other asset type:</u>			
Tax foreclosures.....	359,032	-	359,032
Total.....	\$ 2,263,215	\$ 1,173,062	\$ 3,436,277

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 8,138,042	\$ -	\$ -	\$ 8,138,042
Construction in progress.....	1,484,943	484,502	-	1,969,445
Total capital assets, not being depreciated.....	9,622,985	484,502	-	10,107,487
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	72,711,654	-	-	72,711,654
Machinery, equipment, and furnishings.....	14,236,257	658,380	-	14,894,637
Infrastructure.....	32,181,766	921,450	-	33,103,216
Total capital assets being depreciated.....	119,129,677	1,579,830	-	120,709,507
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(28,768,514)	(1,691,191)	-	(30,459,705)
Machinery, equipment, and furnishings.....	(10,949,890)	(780,154)	-	(11,730,044)
Infrastructure.....	(24,836,510)	(485,371)	-	(25,321,881)
Total accumulated depreciation.....	(64,554,914)	(2,956,716)	-	(67,511,630)
Total capital assets being depreciated, net.....	54,574,763	(1,376,886)	-	53,197,877
Total governmental activities capital assets, net.....	\$ 64,197,748	\$ (892,384)	\$ -	\$ 63,305,364

Water Activities	<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	359,080	(22,695)	359,080
Total capital assets not being depreciated.....	81,304	359,080	(22,695)	417,689
<u>Capital assets being depreciated:</u>				
Machinery, equipment, and furnishings.....	1,275,343	-	-	1,275,343
Infrastructure.....	25,260,894	36,743	-	25,297,637
Total capital assets being depreciated.....	26,536,237	36,743	-	26,572,980
<u>Less accumulated depreciation for:</u>				
Machinery, equipment, and furnishings.....	(843,535)	(216,720)	-	(1,060,255)
Infrastructure.....	(7,041,027)	(366,992)	-	(7,408,019)
Total accumulated depreciation.....	(7,884,562)	(583,712)	-	(8,468,274)
Total capital assets being depreciated, net.....	18,651,675	(546,969)	-	18,104,706
Total water activities capital assets, net.....	\$ 18,732,979	\$ (187,889)	\$ (22,695)	\$ 18,522,395
Sewer Activities	<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	1,128,298	-	2,711,596
Total capital assets not being depreciated.....	1,589,068	1,128,298	-	2,717,366
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	128,960	-	-	128,960
Machinery, equipment, and furnishings.....	1,815,705	24,956	-	1,840,661
Infrastructure.....	32,263,757	-	-	32,263,757
Total capital assets being depreciated.....	34,208,422	24,956	-	34,233,378
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(41,977)	(6,448)	-	(48,425)
Machinery, equipment, and furnishings.....	(1,096,787)	(126,491)	-	(1,223,278)
Infrastructure.....	(10,610,725)	(616,171)	-	(11,226,896)
Total accumulated depreciation.....	(11,749,489)	(749,110)	-	(12,498,599)
Total capital assets being depreciated, net.....	22,458,933	(724,154)	-	21,734,779
Total water activities capital assets, net.....	\$ 24,048,001	\$ 404,144	\$ -	\$ 24,452,145

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

Governmental Activities:

General government.....	\$	688,771
Public safety.....		322,716
Education.....		1,275,264
Public works.....		573,695
Human services.....		43,686
Culture and recreation.....		<u>52,584</u>
Total depreciation expense - governmental activities.....	\$	<u>2,956,716</u>

Business-Type Activities:

Water.....	\$	583,712
Sewer.....		<u>749,110</u>
Total depreciation expense - business-type activities.....	\$	<u>1,332,822</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2015, are summarized as follows:

	<u>Operating Transfers In:</u>
<u>Operating Transfers Out:</u>	<u>General Fund</u>
Water Enterprise Fund.....	413,914
Sewer Enterprise Fund.....	<u>371,433</u>
Total.....	\$ <u>785,347</u>

These amounts represent 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, 2015, the Town's short-term debt activity was as follows:

Type	Description	Maturity Date	Rate %	Balance at June 30 2014	Renewed/ Issued	Retired/ Redeemed	Balance at June 30 2015
Governmental Funds							
BAN	Bond anticipation note.....	6/19/15	0.85	\$ 1,591,779	\$ -	\$ (1,591,779)	\$ -
BAN	Bond anticipation note.....	1/29/16	0.60	-	1,703,779	-	1,703,779
	Governmental Short Term Debt.....			1,591,779	1,703,779	(1,591,779)	1,703,779
Business-Type Activities							
<i>Sewer Enterprise Fund</i>							
BAN	Bond anticipation note.....	6/19/15	0.85	271,384	-	(271,384)	-
BAN	Bond anticipation note.....	1/29/16	0.60	-	516,384	-	516,384
	Sewer Short Term Debt.....			271,384	516,384	(271,384)	516,384
	Total Short Term Debt.....			\$ 1,863,163	\$ 2,220,163	\$ (1,863,163)	\$ 2,220,163

On January 29, 2016, the outstanding BANS were renewed. The new BANS will mature on August 12, 2016 at an interest rate of 1.3%

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, 2015, 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, 2014	Issued	Redeemed	Outstanding at June 30, 2015
General obligation bonds of 2003.....	2023	\$ 16,760,000	4.10	\$ 2,535,000	\$ -	\$ 450,000	\$ 2,085,000
General obligation bonds of 2005.....	2016	9,705,300	3.60	1,390,000	-	1,010,000	380,000
General obligation bonds of 2007.....	2017	1,954,000	3.70	540,000	-	180,000	360,000
General obligation bonds of 2011.....	2031	2,953,000	3.40	2,200,000	-	250,000	1,950,000
General obligation bonds of 2014.....	2034	11,857,000	3.82	11,857,000	-	317,000	11,540,000
Total.....				\$ 18,522,000	\$ -	\$ 2,207,000	\$ 16,315,000

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

Year	Principal	Interest	Total
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.....	\$ 16,315,000	\$ 5,653,410	\$ 21,968,410

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, 2015, 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, 2015. 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, 2014	Issued	Redeemed	Outstanding at June 30, 2015
MWRA.....	2023	\$ 1,766,250	0.00	\$ 4,622,999	\$ 662,100	\$ 852,166	\$ 4,432,933
General obligation bonds of 2006.....	2018	2,000,000	3.70	200,000	-	100,000	100,000
General obligation bonds of 2007.....	2017	200,000	3.70	30,000	-	10,000	20,000
General obligation bonds of 2011.....	2031	940,000	3.80	790,000	-	50,000	740,000
General obligation bonds of 2015.....	2034	2,100,000	3.82	2,100,000	-	15,000	2,085,000
Total Water Enterprise Fund.....				\$ 7,742,999	\$ 662,100	\$ 1,027,166	\$ 7,377,933

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 \$92,000. 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:

Year	Principal	Interest	Total
2016.....	\$ 1,058,085	\$ 129,280	\$ 1,187,365
2017.....	963,085	114,830	1,077,915
2018.....	777,504	109,530	887,034
2019.....	722,874	104,330	827,204
2020.....	552,150	98,605	650,755
2021.....	466,050	92,430	558,480
2022.....	471,050	85,555	556,605
2023.....	387,875	78,880	466,755
2024.....	293,050	71,955	365,005
2025.....	221,210	65,330	286,540
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.....	\$ <u>7,377,933</u>	\$ <u>1,235,622</u>	\$ <u>8,613,555</u>

Bonds Payable Schedule – Sewer Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2014	Issued	Redeemed	Outstanding at June 30, 2015
MCWT.....	2033	\$ 6,387,395	2.00	\$ 12,587,507	\$ 2,054,455	\$ 720,885	\$ 13,921,077
General obligation bonds of 2007.....	2017	2,387,235	3.70	30,000	-	10,000	20,000
General obligation bonds of 2011.....	2031	2,455,000	3.80	2,590,000	-	320,000	2,270,000
General obligation bonds of 2015.....	2034	780,000	3.82	780,000	-	5,000	775,000
Total Sewer Enterprise Fund.....				\$ <u>15,987,507</u>	\$ <u>2,054,455</u>	\$ <u>1,055,885</u>	\$ <u>16,986,077</u>

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

Year	Principal	Interest	Total
2016.....	\$ 1,004,532	\$ 318,044	\$ 1,322,576
2017.....	973,495	294,448	1,267,943
2018.....	1,028,804	310,369	1,339,173
2019.....	927,844	282,950	1,210,794
2020.....	895,461	264,151	1,159,612
2021.....	916,100	244,025	1,160,125
2022.....	932,069	223,309	1,155,378
2023.....	948,372	203,524	1,151,896
2024.....	970,018	183,340	1,153,358
2025.....	972,013	162,948	1,134,961
2026.....	989,366	141,067	1,130,433
2027.....	1,007,085	122,791	1,129,876
2028.....	973,888	102,832	1,076,720
2029.....	961,938	83,385	1,045,323
2030.....	765,228	65,847	831,075
2031.....	778,377	50,086	828,463
2032.....	572,451	35,378	607,829
2033.....	583,669	25,786	609,455
2034.....	295,894	15,856	311,750
2035.....	240,994	9,788	250,782
2036.....	122,918	4,970	127,888
2037.....	125,561	2,511	128,072
Total.....	\$ 16,986,077	\$ 3,147,405	\$ 20,133,482

The Town is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$47,018 and interest costs for \$14,785. Thus, net MCWT loan repayments, including interest, are scheduled to be \$15,897,067. 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 2015 principal and interest subsidy totaled approximately \$18,268.

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, 2015, the Town had the following authorized and unissued debt:

Purpose	Amount
Capital Equipment.....	\$ 1,587,000
Sewer system capital improvements.....	1,750,000
School construction.....	1,850,000
Water system improvements.....	662,100
Total.....	\$ 5,849,100

Changes in Long-term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities:

Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable.....	\$ 18,522,000	\$ -	\$ (2,207,000)	\$ 16,315,000	\$ 1,850,000
Compensated absences.....	4,812,000	1,029,000	(481,000)	5,360,000	536,000
Other postemployment benefits.....	26,097,000	9,439,000	(3,500,000)	32,036,000	-
Net pension liability.....	28,377,210	3,115,328	(4,932,838)	26,559,700	-
Landfill liability.....	480,000	-	(20,000)	460,000	20,000
Total governmental activity long-term liabilities.....	<u>\$ 78,288,210</u>	<u>\$ 13,583,328</u>	<u>\$ (11,140,838)</u>	<u>\$ 80,730,700</u>	<u>\$ 2,406,000</u>

Business-Type Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable.....	\$ 23,730,506	\$ 2,716,555	\$ (2,083,051)	\$ 24,364,010	\$ 2,062,617
Compensated absences.....	131,000	32,000	(14,000)	149,000	15,000
Net pension liability.....	761,452	83,595	(132,364)	712,683	-
Other postemployment benefits.....	973,000	351,000	(130,000)	1,194,000	-
Total business type activity long-term liabilities.....	<u>\$ 25,595,958</u>	<u>\$ 3,183,150</u>	<u>\$ (2,359,415)</u>	<u>\$ 26,419,693</u>	<u>\$ 2,077,617</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, 2015, \$2,348,826 has been set aside in a general stabilization fund, \$152,203 has been set aside in a capital project stabilization fund, and \$319,778 has been set aside in a health stabilization fund. These funds 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, 2015, the governmental fund balances consisted of the following:

GOVERNMENTAL FUNDS			
	General	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES			
Nonspendable:			
Permanent fund principal.....	\$ -	\$ 1,204,423	\$ 1,204,423
Restricted for:			
Town other funds.....	-	2,746,778	2,746,778
School gift funds.....	-	22,316	22,316
School federal grant funds.....	-	554,945	554,945
School revolving funds.....	-	179,957	179,957
School other funds.....	-	248,123	248,123
Town capital projects.....	-	92,573	92,573
Expendable permanent funds.....	-	143,471	143,471
Assigned to:			
General government.....	40,693	-	40,693
Public safety.....	6,224	-	6,224
Education.....	521,453	-	521,453
Public works.....	114,022	-	114,022
Culture and recreation.....	18,815	-	18,815
Unassigned.....	6,776,738	(672,117)	6,104,621
TOTAL FUND BALANCES.....	\$ 7,477,945	\$ 4,520,469	\$ 11,998,414

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, 2015, the Town had no significant workers' compensation claims pending under the self-insurance program.

NOTE 10 - PENSION PLAN

Plan Descriptions

The Town is a member of the Saugus Contributory Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 2 member units. The system is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System is a component unit and is reported as a pension trust fund in the fiduciary fund financial statements.

The Town is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports>.

Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the Town to the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2014. The Town's portion of the collective pension expense, contributed by the Commonwealth, of \$3,231,785 is reported in the general fund as intergovernmental revenue and employee benefits and other fixed charges in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the Town is \$46,517,370 as of the measurement date.

Benefits Provided

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five

consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

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 Board and are funded by the System.

At December 31, 2014, 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><u>625</u></u>

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the SCRS a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2014 was an actuarially determined amount of approximately \$5,249,000. This amount when combined with plan member contributions is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The total member unit's contribution is equal to 36% of covered payroll. The Town's proportionate share of the required contribution was \$5,065,202 which equaled its actual contribution.

Pension Liabilities

The components of the net pension liability of the participating member units at June 30, 2015 were as follows:

Total pension liability.....	\$ 112,028,000
The pension plan's fiduciary net position.....	<u>(83,766,177)</u>
The net pension liability.....	<u><u>\$ 28,261,823</u></u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....	74.8%

At June 30, 2015, the Town reported a liability of \$27,272,383 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2013. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2014, the Town's proportion was 96.50%, which did not change from its proportion measured at December 31, 2013.

Pension Expense

For the year ended June 30, 2015, the Town recognized pension expense of \$2,951,887. At June 30, 2015, the Town reported deferred outflows of resources related to pensions of \$247,036, from the net difference between projected and actual investment earnings on pension plan investments. Since the system performs an actuarial valuation bi-annually, there are no reported differences between expected and actual experience or changes of assumptions as of December 31, 2014.

The deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016.....	\$	61,759
2017.....		61,759
2018.....		61,759
2019.....		61,759
Total.....	\$	<u>247,036</u>

Actuarial Assumptions

The total pension liability in the January 1, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2014:

Valuation date.....	January 1, 2013
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Payments increase at 8.0% per year until FY2017 then amortization of remaining non-ERI UAL on a 2% annually increasing basis until FY2025. Amortization of ERI on a 3% annually increasing basis until FY2028.
Remaining amortization period.....	13 years from July 1, 2015
Asset valuation method.....	Market value for GASB 67/68. For funding purposes, gains and losses each year are recognized over 5 years.

Inflation rate.....	Not explicitly assumed.
Projected salary increases.....	Select and ultimate by job group: ultimate rates 4.25% for Group 1 and 4.75% for Group 4.
Cost of living adjustments.....	3.0% of the first \$12,000 of retirement income.
Mortality Rates:	
Pre-Retirement.....	The RP-2000 Employee Mortality Table projected 20 years with a Scale AA (gender distinct).
Post Retirement.....	The RP-2000 Healthy Annuitant Mortality Table projected 15 years with a Scale AA (gender distinct).
Disabled Retiree.....	The RP-2000 Healthy Annuitant Mortality Table set forward two years.
Investment rate of return/Discount rate.....	7.75%, net of pension plan investment expense, including inflation

Investment policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equities.....	7.75%	14.50%
Small/Mid Cap Equities.....	8.00%	3.50%
International Equities (Unhedged).....	8.25%	16.00%
Emerging International Equities.....	9.50%	6.00%
High-Yield Bonds.....	6.00%	1.50%
Bank Loans.....	6.25%	1.50%
EMD (External).....	7.00%	1.00%
EMD (Local Currency).....	7.25%	2.00%
TIPS.....	4.50%	3.00%
Long Treasuries.....	4.25%	10.00%
Private Equity.....	9.75%	10.00%
Private Debt.....	8.25%	4.00%
Real Estate (Core).....	6.50%	10.00%
Hedge Funds.....	7.00%	9.00%
Timber/Natural Resources.....	6.88%	4.00%
Portfolio Completion.....	NA	4.00%

Rate of return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.62%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
The Town's proportionate share of the net pension liability.....	\$ 38,720,956	\$ 27,272,383	\$ 17,378,400
The Systems's total net pension liability.....	\$ 40,126,000	\$ 28,262,000	\$ 18,009,000

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, 2015, the Plan's membership consists of the following:

Active members.....	564
Retirees, disabled, survivors and beneficiaries.....	429
Total.....	993

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.....	\$ 10,160,000
Interest on existing net OPEB obligation.....	1,220,000
Adjustments to annual required contribution.....	<u>(1,590,000)</u>
Annual OPEB cost (expense).....	9,790,000
Contributions made.....	<u>(3,630,000)</u>
Increase/Decrease in net OPEB obligation.....	6,160,000
Net OPEB obligation - beginning of year.....	<u>27,070,000</u>
Net OPEB obligation - end of year.....	<u><u>\$ 33,230,000</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and prior years is as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/15	\$ 9,790,000	37.1%	\$ 33,230,000
6/30/14	9,570,000	47.0%	27,070,000
6/30/13	9,271,000	47.6%	22,000,000

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date, the actuarial liability for benefits was \$104,860,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$32,870,000.

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, 2014, 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, 2014, was 30 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 recognized \$460,000 as the estimate of the landfill closure liability at June 30, 2015. This amount is based on estimates of what it would cost to perform all future closure and post closure care in 2015. 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, 2015, 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, 2015, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2015.

NOTE 14 – FINANCIAL STATEMENT REVISIONS

Beginning net position of the governmental activities, the business-type activities, and each applicable enterprise fund has been revised to reflect the implementation of GASB Statements #68 and #71. The revised balances are summarized in the following table:

Description	6/30/2014 Previously Reported Balances	Implementation of GASB's 68 & 71	6/30/2014 Revised Balances
Government-Wide Financial Statements			
Governmental activities.....\$	29,792,558	\$ (28,377,210)	\$ 1,415,348
Business-type activities.....	27,791,593	(761,452)	27,030,141
Total.....\$	57,584,151	\$ (29,138,662)	\$ 28,445,489
Proprietary Fund Financial Statements			
Sewer Fund.....\$	13,399,672	\$ (404,218)	\$ 12,995,454
Water Fund.....	14,391,921	(357,234)	14,034,687
Total.....\$	27,791,593	\$ (761,452)	\$ 27,030,141

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 28, 2016, which is the date the financial statements were available to be issued.

NOTE 16 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2015, the following GASB pronouncements were implemented:

- GASB Statement #67, *Financial Reporting for Pension Plans*; GASB Statement #68, *Accounting and Financial Reporting for Pensions*; and GASB Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Financial statement changes include the recognition of a net pension liability, pension expense and deferred outflows/inflows of resources depending on the nature of the change each year. The financial statements also recognized a restatement of the beginning net position to reflect the net pension liability at the beginning of the year. The notes to the basic financial statements and the required supplementary information were expanded to include additional required schedules and disclosures.
- GASB Statement #69, *Governmental Combinations and Disposals of Government Operations*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future years:

- The GASB issued Statement #72, *Fair Value Measurement and Application*, which is required to be implemented in 2016.
- The GASB issued Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB*

Statements 67 and 68. The provisions of this Statement are effective for 2016—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which is required to be implemented in 2017.

- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in 2016.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements. Except for the matter discussed below, management does not expect these new GASB statements to have a significant effect on the basic financial statements.

GASB Statement #75 will substantially change the reporting for the postemployment benefits other than pensions liabilities and expenses. Certain changes in liability and expenses will be immediately recognized and report as a functional expense on the Statement of Activities or reported as a deferred outflow, or deferred inflow, of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine information for GAAP reporting purposes will be required. Current actuarial methods may continue to be used to determine future amounts.

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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, 2015

	Budgeted Amounts				
	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance Over/(Under)
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 56,535,452	\$ 57,819,253	\$ 57,368,132	\$ -	\$ (451,121)
Tax liens.....	-	-	563,491	-	563,491
Motor vehicle and other excise taxes.....	3,646,523	3,550,023	3,768,896	-	218,873
Hotel/motel and meals tax.....	1,468,500	1,465,000	1,488,132	-	23,132
Penalties and interest on taxes.....	300,000	300,000	281,379	-	(18,621)
Fees.....	300,000	287,000	250,045	-	(36,955)
Rentals.....	235,000	248,000	254,134	-	6,134
Payments in lieu of taxes.....	59,000	59,000	78,948	-	19,948
Licenses and permits.....	746,000	746,000	1,038,908	-	292,908
Fines and forfeitures.....	150,000	150,000	156,908	-	6,908
Intergovernmental.....	9,456,369	9,467,935	9,151,032	-	(316,903)
Departmental and other.....	422,000	272,000	505,607	-	233,607
Investment income.....	30,000	30,000	35,543	-	5,543
TOTAL REVENUES.....	73,348,844	74,394,211	74,941,155	-	546,944
EXPENDITURES:					
Current:					
General government.....	3,012,088	3,053,535	2,704,609	40,693	308,233
Public safety.....	11,105,703	10,844,771	10,489,299	6,224	349,248
Education.....	31,082,407	31,060,720	30,539,267	521,453	-
Public works.....	3,544,091	5,691,424	5,227,280	114,022	350,122
Trash removal and recycling.....	1,359,698	1,371,698	1,366,287	-	5,411
Human services.....	801,290	790,475	755,190	-	35,285
Culture and recreation.....	836,985	853,275	793,776	18,815	40,684
Pension benefits.....	5,065,202	5,065,202	5,065,202	-	-
Property and liability insurance.....	617,116	616,100	610,506	-	5,594
Employee benefits.....	10,857,200	11,727,338	11,641,424	11,044	74,870
State and county charges.....	2,830,775	2,830,775	2,588,659	-	242,116
Debt service:					
Principal.....	2,207,000	2,207,000	2,207,000	-	-
Interest.....	1,052,201	1,056,701	1,056,692	-	9
TOTAL EXPENDITURES.....	74,371,756	77,169,014	75,045,191	712,251	1,411,572
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES....	(1,022,912)	(2,774,803)	(104,036)	(712,251)	1,958,516
OTHER FINANCING SOURCES (USES):					
Other prior year deficits raised.....	(32,422)	(32,422)	-	-	32,422
Use of prior year fund balance to fund debt service.....	97,866	97,866	-	-	(97,866)
Use of prior year fund balance to fund carryovers.....	865,111	865,111	-	-	(865,111)
Free cash voted to fund 2015 budget.....	219,010	1,963,679	-	-	(1,963,679)
Transfers in.....	785,347	785,347	785,347	-	-
Transfers out.....	(912,000)	(904,778)	(904,778)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	1,022,912	2,774,803	(119,431)	-	(2,894,234)
NET CHANGE IN FUND BALANCE.....	-	-	(223,467)	(712,251)	(935,718)
BUDGETARY FUND BALANCE, Beginning of year.....	4,775,140	4,775,140	4,775,140	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 4,775,140	\$ 4,775,140	\$ 4,551,673	\$ (712,251)	\$ (935,718)

See notes to required supplementary information.

Pension Plan Schedules – Retirement System

The Pension Plan's Schedule of Changes in the Net Pension Liability presents multi-year trend information about the net pension liability and related ratios.

The Pension Plan's Schedule of Contributions presents multi-year trend information about the required and actual contributions to the pension plan and related ratios.

The Pension Plan's Schedule of Investment Return presents multi-year trend information about the money-weighted investment return on retirement assets, net of investment expense.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SAUGUS CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS**

	2014
Total pension liability:	
Service cost.....	\$ 2,254,000
Interest.....	8,349,000
Benefit payments, including refunds of employee contributions.....	<u>(7,092,000)</u>
Net change in total pension liability.....	3,511,000
Total pension liability, beginning.....	<u>108,517,000</u>
Total pension liability, ending (a).....	<u><u>\$ 112,028,000</u></u>
Plan fiduciary net position:	
Employer contributions.....	\$ 5,249,000
Employee contributions - payroll deductions.....	1,610,000
Employee contributions - transfers from other systems.....	208,000
Members make-up and redeposits.....	73,000
Retirement benefits - 3(8)c contributions from other systems.....	180,000
Net investment income (loss).....	5,740,000
Administration.....	(143,000)
Member contributions - transfers to other systems.....	(236,000)
Member contributions - 3(8)c payments to other systems.....	(143,000)
Retirement benefits and refunds.....	<u>(7,092,000)</u>
Net increase (decrease) in fiduciary net position.....	5,446,000
Fiduciary net position at beginning of year.....	<u>78,320,000</u>
Fiduciary net position at end of year (b).....	<u><u>\$ 83,766,000</u></u>
Net pension liability - ending (a) - (b).....	<u>\$ 28,262,000</u>
Plan fiduciary net position as a percentage of the total pension liability.....	74.77%
Covered-employee payroll.....	\$ 14,545,000
Net pension liability as a percentage of covered-employee payroll.....	194.3%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SAUGUS CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS**

	2014
Actuarially determined contribution..... \$	1,610,000
Contributions in relation to the actuarially determined contribution.....	1,610,000
Contribution deficiency (excess)..... \$	-
Covered-employee payroll (*)..... \$	14,545,000
Contributions as a percentage of covered- employee payroll.....	11.07%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

See notes to required supplementary information.

**SAUGUS CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT RETURN**

2014

Annual money-weighted rate of return, net of investment expense.....	7.62%
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Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

The annual money-weighted rate of return has been calculated by
the Pension Reserves Investment Management Board (PRIM).

See notes to required supplementary information.

Pension Plan Schedules – Town

The Schedule of the Town's Proportionate Share of the Net Pension Liability presents multi-year trend information about the town's net pension liability and related ratios.

The Schedule of Contributions presents multi-year trend information about the Town's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the Town along with related ratios.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
SAUGUS CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014
Town's proportion of the net pension liability (asset).....	96.50%
Town's proportionate share of the net pension liability (asset)..... \$	27,272,383
Town's covered employee payroll..... \$	14,035,695
Net pension liability as a percentage of covered-employee payroll.....	194.31%
Plan fiduciary net position as a percentage of the total pension liability.....	74.77%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for
which information is available.

See notes to required supplementary information.

**SAUGUS CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF THE TOWN's CONTRIBUTIONS**

	<u>2014</u>
Actuarially determined contribution.....	\$ 5,065,202
Contributions in relation to the actuarially determined contribution.....	<u>5,065,202</u>
Contribution deficiency	\$ <u><u>-</u></u>
Covered-employee payroll.....	\$ 14,035,695
Contributions as a percentage of covered- employee payroll.....	36.09%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS
OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both a revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total

<u>Fiscal Year</u>	<u>Commonwealth's 100% Share of the Net Pension Liability Associated with the Town</u>	<u>Town's Expense and Revenue Recognized for the Commonwealth's Support</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Liability</u>
2015.....	\$ 46,517,370	\$ 3,231,785	61.64%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

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, 2015

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)
7/1/2014	\$ -	\$ 104,860,000	\$ 104,860,000	0%	\$ 32,870,000	319.0%
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

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2015	\$ 10,160,000	\$ 3,630,000	36%
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, 2015

Actuarial Methods:

Valuation date.....	July 1, 2014
Actuarial cost method.....	Projected Unit Cost Method
Amortization method.....	Level dollar basis/open; over 30 years
Remaining amortization period.....	30 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...	564
Current active members.....	<u>429</u>
Total.....	<u><u>993</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 2015 approved budget authorized approximately \$75.3 million in appropriations and other amounts to be raised. During 2015, Town Meetings approved supplemental appropriations of approximately \$2.8 million relating to a \$1.9 million use of free cash to fund the snow and ice deficit from the January and February winter storms and a \$592,000 increase in employee health insurance appropriations.

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, 2015, is presented below:

Net change in fund balance - budgetary basis.....	\$ (223,467)
<u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	926,170
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts accrual.....	(162,639)
Net change in market value of investments.....	(9,865)
Increase in revenues due to on-behalf payments.....	3,231,785
Increase in expenditures due to on-behalf payments.....	<u>(3,231,785)</u>
Net change in fund balance - GAAP basis.....	\$ <u>530,199</u>

NOTE B – PENSION PLAN***Pension Plan Schedules – Retirement System*****A. Schedule of Changes in the Net Pension Liability and Related Ratios**

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the systems total pension liability, changes in the systems net position, and the ending net pension liability. It also demonstrates the plan's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

Since the retirement system performs an actuarial valuation bi-annually, there are no reported amounts for changes in benefit terms or for differences between expected and actual experience and changes in assumptions as of December 31, 2014.

B. Schedule of Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The total appropriations are payable on July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual employer contributions may be less than the "total appropriation". The pension fund appropriations are allocated amongst employers based on covered payroll.

C. Schedule of Investment Return

The money weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money weighted rate of return calculation are determined monthly.

Pension Plan Schedules – Town**A. Schedule of the Town's Proportionate Share of the Net Pension Liability**

The Schedule of the Town's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

B. Schedule of Town's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The Town may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the Town based on covered payroll.

C. Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

D. Changes in Plan Assumptions

There were no changes in assumptions.

E. Changes in Plan Provisions:

There were no changes in provisions.

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.