

***TOWN OF SAUGUS, MASSACHUSETTS***

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

***YEAR ENDED JUNE 30, 2017***

TOWN OF SAUGUS, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

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## **Independent Auditor's Report**

To the Honorable Board of Selectmen  
Town of Saugus, Massachusetts

## **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Saugus, Massachusetts as of and for the year ended June 30, 2017 (except for the Saugus Contributory Retirement System which is as of and for the year ended December 31, 2016), 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, 2017 (except for the Saugus

Contributory Retirement System which is as of and for the year ended December 31, 2016), 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 15, 2018, 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 15, 2018

## ***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, 2017. 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$21.9 million at the close of 2017. This balance was virtually unchanged from the prior year.

Net position of \$70.6 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, \$5.1 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 \$53.8 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 healthcare benefits liability of \$46.7 million and a net pension liability of \$34.8 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 and deferred inflows of governmental activities exceeded assets and deferred outflows by \$10 million at the close of 2017. Components of the Town's governmental financial position are listed below.

	<u>2017</u>	<u>2016</u>
<b>Assets:</b>		
Current assets.....	\$ 27,371,578	\$ 22,352,172
Capital assets.....	65,072,317	62,688,707
Total assets.....	<u>92,443,895</u>	<u>85,040,879</u>
<b>Deferred Outflows of Resources</b> .....	<u>8,551,642</u>	<u>83,281,280</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	1,917,308	1,486,447
Noncurrent liabilities (excluding debt).....	85,740,102	78,961,154
Current debt.....	5,159,087	2,562,949
Noncurrent debt.....	<u>16,015,778</u>	<u>15,380,830</u>
Total liabilities.....	<u>108,832,275</u>	<u>98,391,380</u>
<b>Deferred Inflows of Resources</b> .....	<u>2,122,215</u>	<u>462,198</u>
<b>Net Position:</b>		
Net investment in capital assets.....	47,729,957	46,975,316
Restricted.....	5,101,839	4,494,045
Unrestricted.....	<u>(62,790,749)</u>	<u>(56,900,780)</u>
<b>Total net position</b> .....	<u><u>\$ (9,958,953)</u></u>	<u><u>\$ (5,431,419)</u></u>

A significant portion of the Town's governmental activities net position, \$47.7 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, \$5.1 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 \$62.8 million is due primarily to the recognition of \$46.3 million of postemployment healthcare benefits liability to current and future retirees of the Town as well as a net pension liability of \$33.9 million. Net deferred outflows of resources related to pension of \$6.4 million offsets the net pension liability and the Town will amortize this balance over the next five years.

In addition to the liability for postemployment benefits and the net pension liability, governmental activity liabilities include \$21.2 million in general obligation bonds and short term notes and \$5.8 million in compensated absence liabilities for unused sick and vacation leave that will be payable to employees upon the end of their employment with the Town.

The following summarizes the current and prior year governmental activities:

	<u>2017</u>	<u>2016</u>
<b>Program Revenues:</b>		
Charges for services.....	\$ 4,575,271	\$ 4,341,135
Operating grants and contributions.....	16,808,370	14,562,212
Capital grants and contributions.....	1,514,306	924,856
<b>General Revenues:</b>		
Real estate and personal property taxes.....	60,155,782	58,409,053
Special assessment - snow and ice override.....		
Tax liens.....	722,416	546,759
Motor vehicle and other excise taxes.....	4,264,188	4,217,195
Hotel/motel and meals tax.....	1,564,224	1,594,588
Penalties and interest on taxes.....	346,523	440,460
Payments in lieu of taxes.....	67,618	64,183
Grants and contributions not restricted to specific programs.....	4,615,082	4,030,348
Unrestricted investment income.....	191,320	170,169
<b>Total revenues.....</b>	<b><u>94,825,100</u></b>	<b><u>89,300,958</u></b>
<b>Expenses:</b>		
General government.....	7,082,011	5,996,684
Public safety.....	23,454,077	22,695,861
Education.....	57,400,154	54,301,866
Public works.....	6,684,269	5,607,744
Recycling and trash disposal.....	1,503,057	1,440,178
Human services.....	1,267,293	1,226,707
Culture and recreation.....	2,228,434	1,753,243
Interest.....	730,357	653,297
<b>Total expenses.....</b>	<b><u>100,349,652</u></b>	<b><u>93,675,580</u></b>
<b>Excess (deficit) before transfers.....</b>	<b><u>(5,524,552)</u></b>	<b><u>(4,374,622)</u></b>
<b>Transfers, net.....</b>	<b><u>997,018</u></b>	<b><u>915,620</u></b>
<b>Change in net position.....</b>	<b><u>(4,527,534)</u></b>	<b><u>(3,459,002)</u></b>
<b>Net position - beginning.....</b>	<b><u>(5,431,419)</u></b>	<b><u>(1,972,417)</u></b>
<b>Net position - ending.....</b>	<b><u>\$ (9,958,953)</u></b>	<b><u>\$ (5,431,419)</u></b>

The governmental activities net position decreased by \$4.5 million over the prior year. This decrease is primarily due to an increase of \$7.2 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 strong performance of the general fund on the budgetary basis.

## Business-Type Activities

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

	<u>2017</u>	<u>2016</u>
<b>Assets:</b>		
Current assets.....	\$ 15,819,612	\$ 11,164,580
Capital assets.....	45,498,586	45,073,307
Total assets.....	<u>61,318,198</u>	<u>56,237,887</u>
<b>Deferred Outflows of Resources.....</b>	<u>229,468</u>	<u>224,897</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	389,848	221,229
Noncurrent liabilities (excluding debt).....	1,434,004	1,414,426
Current debt.....	5,861,393	3,823,623
Noncurrent debt.....	<u>21,979,359</u>	<u>20,593,993</u>
Total liabilities.....	29,664,604	26,053,271
<b>Deferred Inflows of Resources.....</b>	<u>56,946</u>	<u>12,402</u>
<b>Net Position:</b>		
Net investment in capital assets.....	22,867,966	21,944,256
Unrestricted.....	8,958,150	8,452,855
<b>Total net position.....</b>	<u><u>\$ 31,826,116</u></u>	<u><u>\$ 30,397,111</u></u>
<b>Program Revenues:</b>		
Charges for services.....	\$ 10,741,963	\$ 10,318,987
Capital grants and contributions.....	135,556	89,000
<b>General Revenues:</b>		
Unrestricted investment income.....	5,922	34,041
Total revenues.....	<u>10,883,441</u>	<u>10,442,028</u>
<b>Expenses:</b>		
Water.....	5,366,245	4,668,070
Sewer.....	<u>3,091,173</u>	<u>2,763,777</u>
Total expenses.....	<u>8,457,418</u>	<u>7,431,847</u>
<b>Excess before transfers.....</b>	<u>2,426,023</u>	<u>3,010,181</u>
<b>Transfers, net.....</b>	<u>(997,018)</u>	<u>(915,620)</u>
<b>Change in net position.....</b>	<u>1,429,005</u>	<u>2,094,561</u>
<b>Net position - beginning.....</b>	<u>30,397,111</u>	<u>28,302,550</u>
<b>Net position - ending.....</b>	<u><u>\$ 31,826,116</u></u>	<u><u>\$ 30,397,111</u></u>

Total business type activities assets exceeded liabilities by \$31.8 million at the close of 2017.

Net position of \$22.9 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 \$9 million may be used to meet ongoing obligations.

User charge revenues exceeding budgeted amounts along with principal payments on long term debt exceeding depreciation expense were a significant reason for the \$917,000 increase in net position of the Water Enterprise Fund.

User charge revenues exceeding budgeted amounts along with capital asset acquisitions exceeding depreciation expense were a significant reason for the \$511,000 increase in net position of the Sewer Enterprise Fund.

### ***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 \$11.4 million, while total fund balance equaled \$12.5 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 13.3% of general fund budgetary expenditures while total fund balance represents 14.5%. The general fund increased by \$2.5 million during 2017. This increase is primarily due management adhering to budgetary guidance and implementing prudent cost controls which resulted in \$2.6 million of unspent appropriations. Also contributing to the increased fund balance is actual revenues being higher than budgeted amounts by \$1.3 million.

The nonmajor governmental funds increased by \$511,000. This was the result of timing differences between grant expenditures and certain construction costs being incurred prior to the receipt grant reimbursements and the issuance of long term debt.

As of the end of the year, governmental funds reported combined ending fund balances of \$20.3 million, an increase of \$3.0 million from the prior year.

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

The difference of \$3.2 million between the original budget of \$81.1 million and the final amended budget of \$84.3 million was due to the approval of supplemental appropriations that were mainly funded with free cash. These supplemental appropriations were mainly made to fund the Town's Stabilization Fund, various capital and maintenance needs, and funding a \$150,000 contribution to the Town's OPEB Trust Fund.

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

**Capital Assets** - The Town's investment in capital assets for governmental activities as of June 30, 2017, amounts to \$65.1 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 \$5.4 million of governmental activities capital expenditures in 2017. The governmental activities incurred depreciation expense of \$3 million.

The Town's investment in capital assets for business type activities as of June 30, 2017 amounts to \$45.5 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 \$2.0 million of business-type activities capital expenditures in 2017. The business-type activities incurred depreciation expense of \$1.6 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, 2017, the Town had total long term governmental bonded debt of \$17.9 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 \$24.1 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, 2017

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 18,434,938	\$ 6,005,173	\$ 24,440,111
Investments.....	5,982,698	1,415,477	7,398,175
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	258,595	-	258,595
Tax liens.....	976,443	-	976,443
Motor vehicle and other excise taxes.....	429,150	-	429,150
User fees.....	-	4,877,937	4,877,937
Departmental and other.....	28,197	-	28,197
Special assessments.....	850	-	850
Intergovernmental.....	883,336	3,521,025	4,404,361
Tax foreclosures.....	377,371	-	377,371
<b>NONCURRENT:</b>			
Capital assets, not being depreciated.....	11,563,370	64,379	11,627,749
Capital assets, net of accumulated depreciation.....	53,508,947	45,434,207	98,943,154
<b>TOTAL ASSETS.....</b>	<b>92,443,895</b>	<b>61,318,198</b>	<b>153,762,093</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions.....	8,551,642	229,468	8,781,110
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	245,922	141,156	387,078
Accrued payroll.....	413,681	11,038	424,719
Tax refunds payable.....	155,690	-	155,690
Accrued interest.....	318,538	221,654	540,192
Payroll withholdings.....	158,863	-	158,863
Abandoned property.....	28,614	-	28,614
Compensated absences.....	576,000	16,000	592,000
Landfill postclosure care liability.....	20,000	-	20,000
Notes payable.....	3,322,779	3,742,716	7,065,495
Bonds payable.....	1,836,308	2,118,677	3,954,985
<b>NONCURRENT:</b>			
Compensated absences.....	5,188,000	146,000	5,334,000
Landfill postclosure care liability.....	380,000	-	380,000
Net pension liability.....	33,866,704	908,754	34,775,458
Other postemployment benefits.....	46,305,398	379,250	46,684,648
Bonds payable.....	16,015,778	21,979,359	37,995,137
<b>TOTAL LIABILITIES.....</b>	<b>108,832,275</b>	<b>29,664,604</b>	<b>138,496,879</b>
<b>DEFERRED INTFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions.....	2,122,215	56,946	2,179,161
<b>NET POSITION</b>			
Net investment in capital assets.....	47,729,957	22,867,966	70,597,923
Restricted for:			
Permanent funds:			
Expendable.....	158,540	-	158,540
Nonexpendable.....	1,267,961	-	1,267,961
Grants and gifts.....	3,675,338	-	3,675,338
Unrestricted.....	(62,790,749)	8,958,150	(53,832,599)
<b>TOTAL NET POSITION.....</b>	<b>\$ (9,958,953)</b>	<b>\$ 31,826,116</b>	<b>\$ 21,867,163</b>

See notes to basic financial statements.

# STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 7,082,011	\$ 872,979	\$ 805,294	\$ -	\$ (5,403,738)
Public safety.....	23,454,077	1,532,409	655,067	-	(21,266,601)
Education.....	57,400,154	1,605,981	14,824,206	1,042,494	(39,927,473)
Public works.....	6,684,269	256,562	126,297	471,812	(5,829,598)
Trash removal and recycling.....	1,503,057	-	-	-	(1,503,057)
Human services.....	1,267,293	117,578	136,259	-	(1,013,456)
Culture and recreation.....	2,228,434	189,762	261,247	-	(1,777,425)
Interest.....	730,357	-	-	-	(730,357)
Total Governmental Activities.....	100,349,652	4,575,271	16,808,370	1,514,306	(77,451,705)
<i>Business-Type Activities:</i>					
Water.....	5,366,245	6,679,603	-	76,000	1,389,358
Sewer.....	3,091,173	4,062,360	-	59,556	1,030,743
Total Business-Type Activities.....	8,457,418	10,741,963	-	135,556	2,420,101
Total Primary Government.....	\$ 108,807,070	\$ 15,317,234	\$ 16,808,370	\$ 1,649,862	\$ (75,031,604)

See notes to basic financial statements.

(Continued)

# STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page.....	\$ <b>(77,451,705)</b>	\$ <b>2,420,101</b>	\$ <b>(75,031,604)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	60,155,782	-	60,155,782
Tax liens.....	722,416	-	722,416
Motor vehicle and other excise taxes.....	4,264,188	-	4,264,188
Hotel/motel and meals tax.....	1,564,224	-	1,564,224
Penalties and interest on taxes.....	346,523	-	346,523
Payments in lieu of taxes.....	67,618	-	67,618
Grants and contributions not restricted to specific programs.....	4,615,082	-	4,615,082
Unrestricted investment income.....	191,320	5,922	197,242
<i>Transfers, net</i> .....	997,018	(997,018)	-
Total general revenues and transfers.....	72,924,171	(991,096)	71,933,075
Change in net position.....	(4,527,534)	1,429,005	(3,098,529)
<i>Net Position:</i>			
Beginning of year.....	(5,431,419)	30,397,111	24,965,692
End of year.....	\$ <b>(9,958,953)</b>	\$ <b>31,826,116</b>	\$ <b>21,867,163</b>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 8,328,620	\$ 10,106,318	\$ 18,434,938
Investments.....	4,985,954	996,744	5,982,698
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	258,595	-	258,595
Tax liens.....	976,443	-	976,443
Motor vehicle and other excise taxes.....	429,150	-	429,150
Departmental and other.....	28,197	-	28,197
Special assessments.....	850	-	850
Intergovernmental.....	223,255	660,081	883,336
Tax foreclosures.....	377,371	-	377,371
<b>TOTAL ASSETS.....</b>	<b>\$ 15,608,435</b>	<b>\$ 11,763,143</b>	<b>\$ 27,371,578</b>
<b>LIABILITIES</b>			
Warrants payable.....	\$ 237,954	\$ 7,968	\$ 245,922
Accrued payroll.....	413,681	-	413,681
Tax refunds payable.....	155,690	-	155,690
Payroll withholdings.....	158,863	-	158,863
Abandoned property.....	28,614	-	28,614
Notes payable.....	-	3,322,779	3,322,779
<b>TOTAL LIABILITIES.....</b>	<b>994,802</b>	<b>3,330,747</b>	<b>4,325,549</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenues.....	2,137,659	648,917	2,786,576
<b>FUND BALANCES</b>			
Nonspendable.....	-	1,267,961	1,267,961
Restricted.....	-	6,515,518	6,515,518
Assigned.....	1,077,242	-	1,077,242
Unassigned.....	11,398,732	-	11,398,732
<b>TOTAL FUND BALANCES.....</b>	<b>12,475,974</b>	<b>7,783,479</b>	<b>20,259,453</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....</b>	<b>\$ 15,608,435</b>	<b>\$ 11,763,143</b>	<b>\$ 27,371,578</b>

See notes to basic financial statements.

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

JUNE 30, 2017

Total governmental fund balances.....		\$ 20,259,453
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		65,072,317
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		2,786,576
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.....		6,429,427
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(318,538)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(17,852,086)	
Landfill postclosure care.....	(400,000)	
Net pension liability.....	(33,866,704)	
Other postemployment benefits liability.....	(46,305,398)	
Compensated absences.....	(5,764,000)	
Net effect of reporting long-term liabilities.....		<u>(104,188,188)</u>
Net position of governmental activities.....		<u>\$ (9,958,953)</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Real estate and personal property taxes, net of tax refunds.....	\$ 60,297,248	\$ -	\$ 60,297,248
Special assessment - snow and ice override.....	-	-	-
Tax liens.....	590,422	-	590,422
Motor vehicle and other excise taxes.....	4,386,802	-	4,386,802
Hotel/motel and meals tax.....	1,564,224	-	1,564,224
Charges for services.....	-	1,827,381	1,827,381
Penalties and interest on taxes.....	277,303	-	277,303
Fees.....	303,328	-	303,328
Rentals.....	277,807	-	277,807
Payments in lieu of taxes.....	67,618	-	67,618
Licenses and permits.....	1,615,219	-	1,615,219
Fines and forfeitures.....	142,392	-	142,392
Intergovernmental.....	16,537,892	5,845,782	22,383,674
Departmental and other.....	725,439	30,046	755,485
Contributions.....	-	736,250	736,250
Investment income.....	145,285	46,035	191,320
<b>TOTAL REVENUES.....</b>	<b>86,930,979</b>	<b>8,485,494</b>	<b>95,416,473</b>
<b>EXPENDITURES:</b>			
Current:			
General government.....	3,135,295	391,266	3,526,561
Public safety.....	11,925,363	932,470	12,857,833
Education.....	37,913,750	4,844,649	42,758,399
Public works.....	4,041,631	1,955,339	5,996,970
Trash removal and recycling.....	1,405,885	-	1,405,885
Human services.....	724,429	85,762	810,191
Culture and recreation.....	982,460	2,525,901	3,508,361
Pension benefits.....	5,951,534	-	5,951,534
Property and liability insurance.....	716,304	-	716,304
Employee benefits.....	13,280,979	-	13,280,979
State and county charges.....	2,928,284	-	2,928,284
Debt service:			
Principal.....	1,415,000	-	1,415,000
Interest.....	622,834	-	622,834
<b>TOTAL EXPENDITURES.....</b>	<b>85,043,748</b>	<b>10,735,387</b>	<b>95,779,135</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>1,887,231</b>	<b>(2,249,893)</b>	<b>(362,662)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Issuance of long term debt.....	-	1,992,000	1,992,000
Premium from issuance of bonds.....	394,970	-	394,970
Transfers in.....	997,018	768,720	1,765,738
Transfers out.....	(768,720)	-	(768,720)
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>623,268</b>	<b>2,760,720</b>	<b>3,383,988</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>2,510,499</b>	<b>510,827</b>	<b>3,021,326</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>9,965,475</b>	<b>7,272,652</b>	<b>17,238,127</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 12,475,974</b>	<b>\$ 7,783,479</b>	<b>\$ 20,259,453</b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds.....		\$ 3,021,326
<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.....	5,420,707	
Depreciation expense.....	<u>(3,037,097)</u>	
Net effect of reporting capital assets.....		2,383,610
<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>		
		(591,374)
<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>		
Issuance of long term debt.....	(1,992,000)	
Premium from issuance of bonds.....	(394,970)	
Debt service principal payments.....	<u>1,415,000</u>	
Net effect of reporting long-term debt.....		(971,970)
<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.....	69,000	
Net change in other postemployment benefits accrual.....	(7,221,398)	
Net change in accrued interest on long-term debt.....	(107,523)	
Net change in accrued landfill postclosure care liability.....	20,000	
Net change in net pension liability.....	360,450	
Net change in deferred outflows/(inflows) of resources related to pensions.....	<u>(1,489,655)</u>	
Net effect of recording long-term liabilities.....		<u>(8,369,126)</u>
Change in net position of governmental activities.....		<u>\$ (4,527,534)</u>

See notes to basic financial statements.

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

JUNE 30, 2017

	Water Fund	Sewer Fund	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 2,771,955	\$ 3,233,218	\$ 6,005,173
Investments.....	-	1,415,477	1,415,477
Receivables, net of allowance for uncollectibles:			
User fees.....	3,054,836	1,823,101	4,877,937
Intergovernmental.....	-	3,521,025	3,521,025
Total current assets.....	5,826,791	9,992,821	15,819,612
<b>NONCURRENT:</b>			
Capital assets, not being depreciated.....	58,609	5,770	64,379
Capital assets, net of accumulated depreciation.....	18,523,474	26,910,733	45,434,207
Total noncurrent assets.....	18,582,083	26,916,503	45,498,586
<b>TOTAL ASSETS.....</b>	<b>24,408,874</b>	<b>36,909,324</b>	<b>61,318,198</b>
<b>DEFERRED OUTFLOWS</b>			
Deferred outflows of resources related to pensions.....	107,655	121,813	229,468
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	50,640	90,516	141,156
Accrued payroll.....	6,866	4,172	11,038
Accrued interest.....	50,108	171,546	221,654
Compensated absences.....	8,000	8,000	16,000
Notes payable.....	250,000	3,492,716	3,742,716
Bonds payable.....	849,338	1,269,339	2,118,677
Total current liabilities.....	1,214,952	5,036,289	6,251,241
<b>NONCURRENT:</b>			
Compensated absences.....	72,000	74,000	146,000
Net pension liability.....	426,341	482,413	908,754
Other postemployment benefits.....	260,640	118,610	379,250
Bonds payable.....	5,212,710	16,766,649	21,979,359
Total noncurrent liabilities.....	5,971,691	17,441,672	23,413,363
<b>TOTAL LIABILITIES.....</b>	<b>7,186,643</b>	<b>22,477,961</b>	<b>29,664,604</b>
<b>DEFERRED OUTFLOWS</b>			
Deferred inflows of resources related to pensions.....	26,715	30,231	56,946
<b>NET POSITION</b>			
Net investment in capital assets.....	13,087,834	9,780,132	22,867,966
Unrestricted.....	4,215,337	4,742,813	8,958,150
<b>TOTAL NET POSITION.....</b>	<b>\$ 17,303,171</b>	<b>\$ 14,522,945</b>	<b>\$ 31,826,116</b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2017

	Water Fund	Sewer Fund	Total
<b>OPERATING REVENUES:</b>			
Charges for services .....	\$ 6,679,603	\$ 4,062,360	\$ 10,741,963
<b>OPERATING EXPENSES:</b>			
Cost of services and administration .....	4,712,398	1,537,584	6,249,982
Depreciation.....	451,734	1,150,686	1,602,420
<b>TOTAL OPERATING EXPENSES .....</b>	<b>5,164,132</b>	<b>2,688,270</b>	<b>7,852,402</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>1,515,471</b>	<b>1,374,090</b>	<b>2,889,561</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income.....	769	5,153	5,922
Interest expense.....	(202,113)	(402,903)	(605,016)
Intergovernmental.....	76,000	59,556	135,556
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(125,344)</b>	<b>(338,194)</b>	<b>(463,538)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>1,390,127</b>	<b>1,035,896</b>	<b>2,426,023</b>
<b>TRANSFERS:</b>			
Transfers out.....	(472,664)	(524,354)	(997,018)
<b>CHANGE IN NET POSITION.....</b>	<b>917,463</b>	<b>511,542</b>	<b>1,429,005</b>
<b>NET POSITION AT BEGINNING OF YEAR.....</b>	<b>16,385,708</b>	<b>14,011,403</b>	<b>30,397,111</b>
<b>NET POSITION AT END OF YEAR.....</b>	<b>\$ 17,303,171</b>	<b>\$ 14,522,945</b>	<b>\$ 31,826,116</b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2017

	Water Fund	Sewer Fund	Total
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>			
Receipts from customers and users.....	\$ 7,077,569	\$ 4,268,830	\$ 11,346,399
Payments to vendors.....	(4,353,694)	(1,160,362)	(5,514,056)
Payments to employees.....	(285,649)	(269,463)	(555,112)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>2,438,226</b>	<b>2,839,005</b>	<b>5,277,231</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>			
Transfers out.....	(472,664)	(524,354)	(997,018)
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>			
Proceeds from the issuance of bonds and notes.....	710,000	3,751,129	4,461,129
Premiums from the issuance of bonds and notes.....	47,875	155,594	203,469
Acquisition and construction of capital assets.....	(280,309)	(1,747,390)	(2,027,699)
Principal payments on bonds and notes.....	(985,019)	(3,048,773)	(4,033,792)
Interest expense.....	(190,832)	(366,828)	(557,660)
Intergovernmental revenue.....	76,000	59,556	135,556
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(622,285)</b>	<b>(1,196,712)</b>	<b>(1,818,997)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>			
Purchase of investments.....	-	(111,448)	(111,448)
Investment income.....	769	5,153	5,922
<b>NET CASH FROM INVESTING ACTIVITIES.....</b>	<b>769</b>	<b>(106,295)</b>	<b>(105,526)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>1,344,046</b>	<b>1,011,644</b>	<b>2,355,690</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>1,427,909</b>	<b>2,221,574</b>	<b>3,649,483</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 2,771,955</b>	<b>\$ 3,233,218</b>	<b>\$ 6,005,173</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b>			
Operating income (loss).....	\$ 1,515,471	\$ 1,374,090	\$ 2,889,561
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	451,734	1,150,686	1,602,420
Deferred outflows/(inflows) related to pensions.....	(80,940)	(91,582)	(172,522)
Changes in assets and liabilities:			
User fees.....	397,966	206,470	604,436
Warrants payable.....	41,400	75,266	116,666
Accrued payroll.....	3,801	796	4,597
Accrued compensated absences.....	(1,000)	7,000	6,000
Net pension liability.....	95,154	107,669	202,823
Other postemployment benefits.....	14,640	8,610	23,250
<b>Total adjustments.....</b>	<b>922,755</b>	<b>1,464,915</b>	<b>2,387,670</b>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 2,438,226</b>	<b>\$ 2,839,005</b>	<b>\$ 5,277,231</b>
<b><u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u></b>			
Intergovernmental MCWT debt service subsidy.....	\$ 76,000	\$ 59,556	\$ 135,556
Intergovernmental receivable and notes payables from MCWT.....	-	(3,521,025)	(3,521,025)

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Pension Trust Fund (as of December 31, 2014)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>				
<b>CURRENT:</b>				
Cash and cash equivalents.....	\$ 286,769	\$ 99,910	\$ 242,749	\$ 113,349
Investments.....	86,881,653	296,108	532,775	-
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	3,066,983	-	-	229,252
<b>TOTAL ASSETS.....</b>	<b>90,235,405</b>	<b>396,018</b>	<b>775,524</b>	<b>342,601</b>
<b>LIABILITIES</b>				
Warrants payable.....	455	-	-	-
Liabilities due depositors.....	-	-	-	342,601
<b>TOTAL LIABILITIES.....</b>	<b>455</b>	<b>-</b>	<b>-</b>	<b>342,601</b>
<b>NET POSITION</b>				
Restricted for pension benefits.....	90,234,950	-	-	-
Restricted for OPEB benefits.....	-	396,018	-	-
Held in trust for other purposes.....	-	-	775,524	-
Held in trust for pension benefits and other purposes.....	\$ 90,234,950	\$ 396,018	\$ 775,524	\$ -

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED JUNE 30, 2017**

	Pension Trust Fund (as of December 31, 2016)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Contributions:			
Employer contribution to trusts.....	\$ 6,123,000	\$ 238,000	\$ -
Employer contributions to pay benefit payments.....	-	5,088,707	-
Employee - payroll deductions.....	1,697,898	-	-
Employee - transfers from other systems.....	135,498	-	-
Members make-up and redeposits.....	54,877	-	-
Retirement benefits - 3(8)c contributions from other systems.....	199,514	-	-
Private donations.....	-	-	94
Total contributions.....	8,210,787	5,326,707	94
Net investment income (loss):			
Net change in fair value of investments.....	4,181,095	-	-
Interest and dividends.....	2,409,920	4,873	3,746
Total investment income (loss).....	6,591,015	4,873	3,746
Less: investment expense.....	(450,602)	-	-
Net investment income (loss).....	6,140,413	4,873	3,746
TOTAL ADDITIONS.....	14,351,200	5,331,580	3,840
<b>DEDUCTIONS:</b>			
Administration.....	160,323	-	-
Member contributions - transfers to other systems.....	256,911	-	-
Retirement benefits - 3(8)c payments to other systems.....	158,813	-	-
Retirement benefits and refunds.....	7,414,331	-	-
Benefit Payments.....	-	5,088,707	-
Educational scholarships.....	-	-	7,050
TOTAL DEDUCTIONS.....	7,990,378	5,088,707	7,050
CHANGE IN NET POSITION.....	6,360,822	242,873	(3,210)
NET POSITION AT BEGINNING OF YEAR.....	83,874,128	153,145	778,734
NET POSITION AT END OF YEAR.....	\$ 90,234,950	\$ 396,018	\$ 775,524

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 2017 assessment was \$2,973,765.

**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. Fair Value Measurements

The Town reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town's financial instruments, see Note 2 – Cash and Investments.

#### F. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

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

#### **Real Estate, Personal Property Taxes and Tax Liens**

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> of each year and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

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

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

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

**Motor Vehicle Excise**

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

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

**Water**

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

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

**Sewer**

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

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

**Departmental and Other**

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

**Intergovernmental**

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

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

**G. 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.

H. 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.

I. 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 pensions 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 has reported deferred inflows of resources related to pensions in this category.

*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.

J. 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.

K. 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. The Town has not reporting any committed portions government funds fund balance.

“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 \$682,858. This deficit will be funded through future grant reimbursements and the issuance of long-term debt.

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 .45 to 24.23 years.

MMDT maintains a cash portfolio and a short-term bond portfolio. The cash portfolio had a weighted average maturity of 43 days and the short term bond portfolio had a weighted average maturity of approximately 2.85 years. Credit ratings associated with the short-term bond portfolio ranged from BBB to AAA. Approximately 63% of the total was rated AAA, approximately 15% of the total was rated A/AA and approximately 22% rated BBB.

**Custodial Credit Risk – Deposits - Town**

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 \$7,566,490 and the bank balance totaled \$9,126,537. Of the bank balance, \$3,410,003 was covered by Federal Depository Insurance, \$2,099,541 was covered by the Depositors Insurance Fund, \$2,511,774 was covered by the Share Insurance Fund, and \$1,105,219 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.

**Custodial Credit Risk – Deposits – Retirement System**

At December 31, 2016, carrying amount of deposits for the system totaled \$286,769 and the bank balance totaled \$305,560. 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, 2017, the Town had the following investments:

	Maturity			
Investment Type	Fair Value	Under 1 Year	1-5 Years	Rating
<u>Debt Securities</u>				
Federal Home Loan Mortgage Corp.....	\$ 3,031,788	\$ -	\$ 3,031,788	AA+
Federal Home Loan Banks.....	444,924	-	444,924	AA+
United States Treasury Notes.....	985,859	-	985,859	AA+
Corporate Bonds.....	2,095,157	894,170	1,200,987	BBB+/A-
Total Debt Securities.....	6,557,728	\$ 894,170	\$ 5,663,558	
<u>Other Investments</u>				
Equity Securities.....	1,120,467			
Equity Mutual Funds.....	548,863			
Repurchase Agreement.....	4,544,206			
Money Market Mutual Funds.....	123,796			
MMDT.....	12,661,627			
Total Investments.....	\$ 25,556,687			

As of December 31, 2016, the System maintained an \$86,881,653 investment with PRIT.

### Custodial Credit Risk – Investments - Town

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, \$6,557,728 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, 2017, the Town had an investment with a fair market value of \$4,544,206 in an overnight Repurchase Agreement (REPO). Under the terms of the REPO, the bank agrees to sell and buy back a portion of the Bank's securities portfolio at the purchase price plus interest. The REPO is held by the bank, acting as the Town's agent. In the event of default, the Town has the right to direct the bank to sell the securities and apply the proceeds in satisfaction of the Repurchase Agreement. The REPO is not in the Town's name; however, it is fully collateralized with Collateralized Debt Securities issued by the U.S. Government and U.S. Government Sponsored Enterprises. The REPO is not rated, and the collateral has a Standard & Poor's rating of AA+. The REPO is classified in Level 1 of the fair value hierarchy and is valued using prices quoted in active markets for those securities.

Custodial Credit Risk – Investments – Retirement System

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

At December 31, 2016, the System's \$86,881,653 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, 2016 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.

Fair Market Value of Investments

The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town's mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town chooses a tabular format for disclosing the levels within the fair value hierarchy.

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following recurring fair value measurements as of June 30, 2017:

Investment Type	6/30/2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value level:</b>				
<u>Debt Securities</u>				
Federal Home Loan Mortgage Corp.....	\$ 3,031,788	\$ 3,031,788	\$ -	\$ -
Federal Home Loan Banks.....	444,924	444,924	-	-
United States Treasury.....	985,859	985,859	-	-
Corporate Bonds.....	2,095,157	-	2,095,157	-
Total debt securities.....	6,557,728	4,462,571	2,095,157	-
<u>Other investments</u>				
Equity Securities.....	1,120,467	1,120,467	-	-
Equity Mutual Funds.....	548,863	548,863	-	-
Repurchase agreements.....	4,544,206	4,544,206	-	-
Money Market Mutual Funds.....	123,796	123,796	-	-
Total other investments.....	6,337,332	6,337,332	-	-
Total investments measured at fair value level.....	12,895,060	\$ 10,799,903	\$ 2,095,157	\$ -
<b>Investments measured at amortized cost:</b>				
MMDT.....	12,661,627			
Total Investments.....	\$ 25,556,687			

U.S. government treasuries and government sponsored enterprises, equity securities, equity mutual funds, negotiable certificates of deposit classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate bonds and municipal bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

MMDT investments are valued at amortized cost. Under the amortized cost method, an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

### Retirement System

The retiree pension defined benefit plan holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the plan's activities, the plan shows greater disaggregation in its disclosures. The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System has an \$86,881,653 recurring fair value measurement in PRIT as of December 31, 2016. The investment is measured at net asset value.

PRIT Investments are valued using the net asset value method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension

Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

### NOTE 3 - RECEIVABLES

At June 30, 2017, receivables for the individual major and nonmajor governmental funds 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.....	\$ 621,983	\$ (363,388)	\$ 258,595
Tax liens.....	976,443	-	976,443
Motor vehicle and other excise taxes.....	538,323	(109,173)	429,150
Departmental and other.....	56,986	(27,939)	29,047
Intergovernmental.....	883,336	-	883,336
Total .....	<u>\$ 3,077,071</u>	<u>\$ (500,500)</u>	<u>\$ 2,576,571</u>

At June 30, 2017, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees.....	\$ 4,877,937	\$ -	\$ 4,877,937
Intergovernmental.....	3,521,025	-	3,521,025
Total .....	<u>\$ 8,398,962</u>	<u>\$ -</u>	<u>\$ 8,398,962</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.....	\$ 102,398	\$ -	\$ 102,398
Tax liens.....	976,443	-	976,443
Motor vehicle and other excise taxes.....	429,150	-	429,150
Departmental and other.....	29,047	-	29,047
Intergovernmental.....	223,255	648,917	872,172
<u>Other asset type:</u>			
Tax foreclosures.....	377,366	-	377,366
Total.....	<u>\$ 2,137,659</u>	<u>\$ 648,917</u>	<u>\$ 2,786,576</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 8,138,042	\$ -	\$ -	\$ 8,138,042
Construction in progress.....	288,059	3,137,269	-	3,425,328
Total capital assets, not being depreciated....	8,426,101	3,137,269	-	11,563,370
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	72,711,654	-	-	72,711,654
Machinery, equipment, and furnishings.....	15,038,998	1,280,437	-	16,319,435
Infrastructure.....	36,384,989	1,003,001	-	37,387,990
Total capital assets being depreciated.....	124,135,641	2,283,438	-	126,419,079
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(31,676,225)	(1,673,362)	-	(33,349,587)
Machinery, equipment, and furnishings.....	(12,376,352)	(878,988)	-	(13,255,340)
Infrastructure.....	(25,820,458)	(484,747)	-	(26,305,205)
Total accumulated depreciation.....	(69,873,035)	(3,037,097)	-	(72,910,132)
Total capital assets being depreciated, net.....	54,262,606	(753,659)	-	53,508,947
Total governmental activities capital assets, net.....	\$ 62,688,707	\$ 2,383,610	\$ -	\$ 65,072,317
<b>Water Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 58,609	\$ -	\$ -	\$ 58,609
<u>Capital assets being depreciated:</u>				
Machinery, equipment, and furnishings.....	1,315,505	160,949	-	1,476,454
Infrastructure.....	26,473,557	119,360	-	26,592,917
Total capital assets being depreciated.....	27,789,062	280,309	-	28,069,371
<u>Less accumulated depreciation for:</u>				
Machinery, equipment, and furnishings.....	(1,273,541)	(85,358)	-	(1,358,899)
Infrastructure.....	(7,820,622)	(366,376)	-	(8,186,998)
Total accumulated depreciation.....	(9,094,163)	(451,734)	-	(9,545,897)
Total capital assets being depreciated, net.....	18,694,899	(171,425)	-	18,523,474
Total water activities capital assets, net.....	\$ 18,753,508	\$ (171,425)	\$ -	\$ 18,582,083

<b>Sewer Activities</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 5,770	\$ -	\$ -	\$ 5,770
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	128,960	-	-	128,960
Machinery, equipment, and furnishings.....	1,941,846	261,796	-	2,203,642
Infrastructure.....	37,524,840	1,485,594	-	39,010,434
Total capital assets being depreciated.....	39,595,646	1,747,390	-	41,343,036
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(54,873)	(6,448)	-	(61,321)
Machinery, equipment, and furnishings.....	(1,362,865)	(161,195)	-	(1,524,060)
Infrastructure.....	(11,863,879)	(983,043)	-	(12,846,922)
Total accumulated depreciation.....	(13,281,617)	(1,150,686)	-	(14,432,303)
Total capital assets being depreciated, net.....	26,314,029	596,704	-	26,910,733
Total water activities capital assets, net.....	\$ 26,319,799	\$ 596,704	\$ -	\$ 26,916,503

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

**Governmental Activities:**

General government.....	\$ 626,878
Public safety.....	287,756
Education.....	1,306,046
Public works.....	700,339
Human services.....	43,686
Culture and recreation.....	72,392
Total depreciation expense - governmental activities.....	\$ 3,037,097

**Business-Type Activities:**

Water.....	\$ 451,734
Sewer.....	1,150,686
Total depreciation expense - business-type activities.....	\$ 1,602,420

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2017, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 768,720	\$ 768,720 (1)
Water Enterprise Fund.....	472,664	-	472,664 (2)
Sewer Enterprise Fund.....	524,354	-	524,354 (2)
Total.....	\$ <u>997,018</u>	\$ <u>768,720</u>	\$ <u>1,765,738</u>

(1) – This amount represents a transfer from the General Fund to School, Public Works and Recreation related capital project funds.

(2) - 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, 2017, the Town's short-term debt activity was as follows:

Type	Description	Maturity Date	Rate %	Balance at June 30 2016	Renewed/ Issued	Retired/ Redeemed	Balance at June 30 2017
<b>Governmental Funds</b>							
BAN	Bond anticipation note.....	1/29/16	0.60	\$ 788,663	\$ -	\$ (788,663)	\$ -
BAN	Bond anticipation note.....	8/12/16	1.30	275,000	-	(275,000)	-
BAN	Bond anticipation note.....	8/11/17	1.00	-	500,000	-	500,000
BAN	Bond anticipation note.....	8/11/17	1.00	-	82,000	-	82,000
BAN	Bond anticipation note.....	8/11/17	1.00	-	200,000	-	200,000
BAN	Bond anticipation note.....	8/11/17	1.50	-	2,540,779	-	2,540,779
Governmental Short Term Debt.....				1,063,663	3,322,779	(1,063,663)	3,322,779
<b>Business-Type Activities</b>							
<i>Water Enterprise Fund</i>							
BAN	Bond anticipation note.....	8/11/17	1.00	-	250,000	-	250,000
<i>Sewer Enterprise Fund</i>							
BAN	Bond anticipation note.....	8/11/17	1.00	-	200,000	-	200,000
BAN	Bond anticipation note.....	8/12/16	1.30	10,000	-	(10,000)	-
BAN	Massachusetts Clean Water Trust Financing.....	12/31/18	2.00	-	3,292,716	-	3,292,716
BAN	Massachusetts Clean Water Trust Financing.....	12/31/17	2.00	1,855,109	-	(1,855,109)	-
Sewer Short Term Debt.....				1,865,109	3,492,716	(1,865,109)	3,492,716
Total Short Term Debt.....				\$ 2,928,772	\$ 7,065,495	\$ (2,928,772)	\$ 7,065,495

The Massachusetts Clean Water Trust (MCWT) Temporary Financing relates to a program in which the Town is able to rehabilitate, expand, or upgrade the existing sewer infrastructure network. The Town has been preliminarily approved to participate in a loan pool administered by MCWT. The loan pool finances eligible water and sewer infrastructure construction projects. Loans administered under the program are repaid with a 2% interest which is equal to market for similar short term notes. The Town has been allowed 2 years to expend funds against the loan. Upon completion of the construction project, the Town will determine the final construction costs and a permanent debt schedule will be agreed upon and payable over 20 years. During the temporary status of the loan the Town is only liable for payment of interest costs.

During the temporary financing phase of the project the Town must expend funds first and then apply for reimbursement from the MCWT. At June 30, 2017, the Town had not received reimbursements equal to the June 30, 2017 balance of the temporary loan authorizations. The difference between what has been spent and what is available to draw down is \$3,496,385. This amount has been recorded as an intergovernmental receivable in the Sewer Enterprise Fund.

## 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, 2017, 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, 2016	Issued	Redeemed	Outstanding at June 30, 2017
General obligation bonds of 2003.....	2023	\$ 16,760,000	4.10	\$ 1,660,000	\$ -	\$ 410,000	\$ 1,250,000
General obligation bonds of 2007.....	2017	1,954,000	3.70	180,000	-	180,000	-
General obligation bonds of 2011.....	2031	2,953,000	3.40	1,705,000	-	185,000	1,520,000
General obligation bonds of 2014.....	2034	11,857,000	3.82	10,920,000	-	640,000	10,280,000
General obligation bonds of 2016.....	2031	2,415,116	3.50	2,415,116	1,992,000	-	4,407,116
Total General Obligation Bonds.....				16,880,116	1,992,000	1,415,000	17,457,116
Unamortized Premium on Bonds.....				-	394,970	-	394,970
Total General Obligation Bonds.....				\$ 16,880,116	\$ 2,386,970	\$ 1,415,000	\$ 17,852,086

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

Year	Principal	Interest	Total
2018.....	\$ 1,682,116	\$ 777,975	\$ 2,460,091
2019.....	1,460,000	645,064	2,105,064
2020.....	1,335,000	582,300	1,917,300
2021.....	1,300,000	522,875	1,822,875
2022.....	1,230,000	462,501	1,692,501
2023.....	1,080,000	409,000	1,489,000
2024.....	1,015,000	359,988	1,374,988
2025.....	1,030,000	316,088	1,346,088
2026.....	920,000	274,488	1,194,488
2027.....	945,000	237,188	1,182,188
2028.....	915,000	199,888	1,114,888
2029.....	820,000	167,288	987,288
2030.....	780,000	138,045	918,045
2031.....	805,000	107,479	912,479
2032.....	705,000	76,711	781,711
2033.....	670,000	47,295	717,295
2034.....	690,000	17,228	707,228
2035.....	25,000	1,641	26,641
2036.....	25,000	984	25,984
2037.....	25,000	328	25,328
Total.....	\$ 17,457,116	\$ 5,344,357	\$ 22,723,520

**Bonds Payable Schedule – Water Enterprise Fund**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
MWRA.....	2023	\$ 1,766,250	0.00	\$ 3,824,192	\$ -	\$ 850,019	\$ 2,974,173
General obligation bonds of 2007.....	2017	200,000	3.70	10,000	-	10,000	-
General obligation bonds of 2011.....	2031	940,000	3.80	690,000	-	50,000	640,000
General obligation bonds of 2015.....	2034	2,100,000	3.82	2,015,000	-	75,000	1,940,000
General obligation bonds of 2017.....	2026	460,000	3.63	-	460,000	-	460,000
Total General Obligation Bonds.....				6,539,192	460,000	985,019	6,014,173
Unamortized Premium on Bonds.....				-	47,875	-	47,875
Total Water Enterprise Fund.....				\$ 6,539,192	\$ 507,875	\$ 985,019	\$ 6,062,048

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 \$76,000. 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
2018.....\$	839,438	\$ 132,870	\$ 972,308
2019.....	784,808	118,855	903,663
2020.....	614,084	111,531	725,615
2021.....	527,984	103,755	631,739
2022.....	527,984	55,755	583,739
2023.....	444,810	87,305	532,115
2024.....	349,985	78,980	428,965
2025.....	278,145	70,955	349,100
2026.....	211,935	63,355	275,290
2027.....	190,000	55,755	245,755
2028.....	175,000	48,455	223,455
2029.....	180,000	41,455	221,455
2030.....	185,000	34,137	219,137
2031.....	195,000	26,332	221,332
2032.....	155,000	18,188	173,188
2033.....	160,000	11,495	171,495
2034.....	165,000	4,394	169,394
2035.....	10,000	656	10,656
2036.....	10,000	394	10,394
2037.....	10,000	131	10,131
Total.....\$	\$ 6,014,173	\$ 1,064,752	\$ 7,078,925

**Bonds Payable Schedule – Sewer Enterprise Fund**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
MCWT.....	2033	\$ 6,387,395	2.00	\$ 12,632,266	\$ 1,795,553	\$ 720,309	\$ 13,707,510
General obligation bonds of 2007.....	2017	2,387,235	3.70	10,000	-	10,000	-
General obligation bonds of 2011.....	2031	2,455,000	3.80	1,950,000	-	270,000	1,680,000
General obligation bonds of 2015.....	2034	780,000	3.82	750,000	-	30,000	720,000
General obligation bonds of 2016.....	2031	506,384	2.95	506,384	1,266,500	-	1,772,884
Total General Obligation Bonds.....				15,848,650	3,062,053	1,030,309	17,880,394
Unamortized Premium on Bonds.....				-	155,594	-	155,594
Total Sewer Enterprise Fund.....				\$ 15,848,650	\$ 3,217,647	\$ 1,030,309	\$ 18,035,988

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

Year	Principal	Interest	Total
2018.....\$	1,110,747	\$ 320,725	\$ 1,431,472
2019.....	1,079,425	286,885	1,366,310
2020.....	1,101,148	266,415	1,367,563
2021.....	1,118,227	246,626	1,364,853
2022.....	1,090,662	225,253	1,315,915
2023.....	1,113,466	204,821	1,318,287
2024.....	1,106,646	183,997	1,290,643
2025.....	1,125,209	162,972	1,288,181
2026.....	1,144,164	140,470	1,284,634
2027.....	1,102,233	121,580	1,223,813
2028.....	1,091,574	101,017	1,192,591
2029.....	891,185	81,237	972,422
2030.....	905,685	63,688	969,373
2031.....	701,138	47,949	749,087
2032.....	713,766	33,231	746,997
2033.....	427,434	23,629	451,063
2034.....	374,006	13,698	387,704
2035.....	268,108	7,613	275,721
2036.....	174,281	2,759	177,040
2037.....	1,241,290	269	1,241,559
Total.....\$	<u>17,880,394</u>	<u>\$ 2,534,837</u>	<u>\$ 20,415,231</u>

The Town is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$24,640 and interest costs for \$3,688. Thus, net MCWT loan repayments, including interest, are scheduled to be \$15,885,376. 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 2017 principal and interest subsidy totaled \$11,000.

Authorized and Unissued Debt

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2017, the Town had the following authorized and unissued debt:

Purpose	Amount
Capital Equipment.....	\$ 802,420
Sewer system capital improvements.....	5,205,561
School construction.....	195,632,314
Water system improvements.....	3,466,956
Drainage and pump stations.....	5,200,000
Total.....	<u>\$ 210,307,251</u>

Changes in Long-term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

**Governmental Activities:**

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable.....	\$ 16,880,116	\$ 2,386,970	\$ (1,415,000)	\$ 17,852,086	\$ 1,836,308
Compensated absences.....	5,833,000	514,000	(583,000)	5,764,000	576,000
Other postemployment benefits.....	39,084,000	12,284,246	(5,062,848)	46,305,398	-
Net pension liability.....	34,689,352	15,461,197	(16,283,845)	33,866,704	-
Landfill liability.....	420,000	-	(20,000)	400,000	20,000
Total governmental activity long-term liabilities.....	<u>\$ 96,906,468</u>	<u>\$ 30,646,413</u>	<u>\$ (23,364,693)</u>	<u>\$ 104,188,188</u>	<u>\$ 2,432,308</u>

**Business-Type Activities:**

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable.....	\$ 22,387,842	\$ 3,725,522	\$ (2,015,328)	\$ 24,098,036	\$ 1,958,514
Compensated absences.....	156,000	21,000	(15,000)	162,000	15,000
Net pension liability.....	930,828	414,876	(436,950)	908,754	-
Other postemployment benefits.....	356,000	118,724	(95,474)	379,250	-
Total business type activity long-term liabilities.....	<u>\$ 23,830,670</u>	<u>\$ 4,280,122</u>	<u>\$ (2,562,752)</u>	<u>\$ 25,548,040</u>	<u>\$ 1,973,514</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, 2017, \$5,510,475 has been set aside in a general stabilization fund, \$156,404 has been set aside in a capital project stabilization fund, and \$328,597 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, 2017, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS		
	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>			
Nonspendable:			
Permanent fund principal.....	\$ -	\$ 1,267,961	\$ 1,267,961
Restricted for:			
Town federal grant funds.....	-	44,499	44,499
Town other funds.....	-	4,173,867	4,173,867
School gift funds.....	-	26,460	26,460
School federal grant funds.....	-	892,297	892,297
School revolving funds.....	-	375,830	375,830
School other funds.....	-	323,135	323,135
Town capital projects.....	-	520,890	520,890
Expendable permanent funds.....	-	158,540	158,540
Assigned to:			
General government.....	83,574	-	83,574
Public safety.....	40,218	-	40,218
Education.....	674,628	-	674,628
Public works.....	245,881	-	245,881
Human services.....	150	-	150
Culture and recreation.....	32,791	-	32,791
Unassigned.....	8,888,233	-	8,888,233
<b>TOTAL FUND BALANCES.....</b>	<b>\$ 9,965,475</b>	<b>\$ 7,783,479</b>	<b>\$ 17,748,954</b>

## NOTE 9 - RISK FINANCING

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

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

At June 30, 2017, 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, 2016. The Town's portion of the collective pension expense, contributed by the Commonwealth, of \$6,627,138 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 \$64,967,765 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, 2016, the System's membership consists of the following:

Active members.....	374
Inactive members.....	76
Retirees and beneficiaries currently receiving benefits.....	<u>284</u>
Total.....	<u><u>734</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, 2016 was an actuarially determined amount of approximately \$6,123,000. 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 33% of covered payroll. The Town's proportionate share of the required contribution was \$v which equaled its actual contribution.

#### *Pension Liabilities*

The components of the net pension liability of the participating member units at June 30, 2016 were as follows:

Total pension liability.....	\$ 126,109,000
The pension plan's fiduciary net position.....	<u>(90,235,000)</u>
The net pension liability.....	<u><u>\$ 35,874,000</u></u>

At June 30, 2017, the Town reported a liability of \$34,775,458 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015. 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, 2016, the Town's proportion was 96.938%, which is .081% higher than the proportion measured at December 31, 2015.

#### *Pension Expense*

For the year ended June 30, 2017, the Town recognized pension expense of \$7,095,066. At June 30, 2017, the Town reported deferred outflows and (inflows) of resources related to pensions of \$8,781,110 and (\$2,179,161), respectively, from changes in assumptions and the net differences between projected and actual investment earnings on pension plan investments.

The balances of the deferred outflows and inflows at June 30, 2017 consist of the following:

Deferred category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ -	\$ (2,179,161)	\$ (2,179,161)
Changes of assumptions.....	4,996,173	-	4,996,173
Difference between projected and actual earnings.....	3,684,605	-	3,684,605
Changes in proportionate share of contributions.....	100,332	-	100,332
Total Deferred Outflows/(Inflows) of Resources.....	\$ 8,781,110	\$ (2,179,161)	\$ 6,601,949

The Town's net deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Total
2018.....	\$ 2,008,048
2019.....	2,008,048
2020.....	1,945,048
2021.....	621,116
2022.....	19,689
Total.....	\$ 6,601,949

#### Actuarial Assumptions

The total pension liability was determined based on the result of the January 1, 2017 actuarial valuation and was measured using data as of December 31, 2016. The assumptions used were the same assumptions used in the January 1, 2015 valuation. Those assumptions are listed below:

Valuation date.....	January 1, 2015
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	2% increasing amortization through FY25 with FY16 and FY17 payments maintained from the prior schedule.
Remaining amortization period.....	9 years from July 1, 2016
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 generationally with a Scale BB and a base year of 2009 (gender distinct).
Post Retirement.....	The RP-2000 Healthy Annuitant Mortality Table projected generationally with a Scale BB and a base year of 2009 (gender distinct).
Disabled Retiree.....	The RP-2000 Healthy Annuitant Mortality Table projected generationally with a Scale BB and a base year of 2012 (gender distinct).
Investment rate of return/Discount rate.....	7.40%, 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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equities.....	14.50%	7.50%
Small/Mid Cap Equities.....	3.50%	7.75%
International Equities.....	16.00%	7.83%
Emerging International Equities.....	6.00%	9.61%
High-Yield Bonds.....	1.50%	5.75%
Bank Loans.....	1.50%	6.00%
EMD (External).....	1.00%	5.75%
EMD (Local Currency).....	2.00%	6.50%
20 + Year Treasury Strips.....	5.00%	3.75%
TIPS.....	3.00%	3.75%
Core Bonds.....	5.00%	4.00%
Private Equity.....	10.00%	9.50%
Private Debt.....	4.00%	9.06%
Real Estate.....	10.00%	6.50%
Hedge Funds.....	13.00%	6.48%
Timberland.....	4.00%	6.00%
	<u>100.00%</u>	

#### Rate of return

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.58%. 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 7.4%. 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 (6.40%)	Current Discount (7.40%)	1% Increase (8.40%)
The Town's proportionate share of the net pension liability.....	\$ <u>48,471,796</u>	\$ <u>34,775,458</u>	\$ <u>23,182,669</u>
The Systems's total net pension liability.....	\$ <u>50,003,000</u>	\$ <u>35,874,000</u>	\$ <u>23,915,000</u>

*Changes in Assumptions and Plan Provisions*

The System reduced the discount rate from 7.6% to 7.40%. There were no plan provisions changes in the January 1, 2016 actuarial valuation.

**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.

*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. For 2017, the Town’s age adjusted contribution to the plan totaled \$5.2 million. For the year ended June 30, 2017, the Town’s average contribution rate was 14.75% of covered-employee payroll.

During 2017, the Town pre-funded future OPEB liabilities in the amount of \$238,000 by contributing funds to the Other Postemployment Benefit Fund in excess of the pay-as-you-go required contribution. These funds are reported within the Fiduciary Funds financial statements. As of June 30, 2017, the balance of this fund totaled \$396,000.

The annual money-weighted rate of return on OPEB plan investments was 2.65%. The money weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested. Currently the Town has deposited the OPEB funds with an investment manager who manages other trust funds of the Town. Other than to disclose that the Trust invests according to Massachusetts General Laws, there is not a specific investment strategy relating to OPEB funds. The Town is currently working on an investment policy for these funds and expects it to be implemented in the next fiscal year.

As of July 1, 2016, the most recent actuarial valuation date, the Plan’s membership consists of the following:

Active members.....	575
Retirees, disabled, survivors and beneficiaries.....	<u>704</u>
Total.....	<u><u>1,279</u></u>

*Components of OPEB Liability* – The following table represents the components of the Plan’s OPEB liability as of June 30, 2017:

Total OPEB liability.....	\$ 173,502,257
The OPEB plan's fiduciary net position.....	<u>(396,018)</u>
The net OPEB liability.....	<u>\$ 173,106,239</u>
The OPEB plan's fiduciary net position as a percentage of the total OPEB liability.....	0.2%

*Significant Actuarial Methods and Assumptions* – The total OPEB liability in the June 30, 2017 actuarial valuation was determined by using the following actuarial assumptions, applied to all periods including the measurement date that was updated to June 30, 2017 to be in accordance with GASB #74:

Valuation date.....	June 30, 2017
Actuarial cost method.....	Individual Entry Age Normal Cost Method.
Asset valuation method.....	Market value of Assets as of June 30, 2017.
Nominal investment rate of return.....	2.75%, including inflation of 2.75%
Long-term expected real rate of investment return.....	Net of 2.75% inflation long term real rate is expected to be 0.
Municipal Bond Index Rate.....	3.13%, as of June30, 2017
Single equivalent discount rate.....	3.25%, net of OPEB plan investment expense, including inflation
Inflation rate.....	2.75%
Projected salary increases.....	3% annually as of June 30, 2017 and for future periods
Mortality Rates:	
Pre-Retirement.....	The RP-2000 Employee Mortality Table projected generationally with a Scale BB and a base year of 2009 for males and females.
Post Retirement.....	The RP-2000 Healthy Annuitant Mortality Table projected generationally with a Scale BB and a base year of 2009 for males and females.
Disabled Retiree.....	The RP-2000 Healthy Annuitant Mortality Table projected generationally with a Scale BB and a base year of 2012 for males and females.

#### *Investment Policy*

The Town's policy in regard to the allocation of invested assets is established and may be amended by the Town Council by a majority vote of its members. The OPEB plan's 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 OPEB plan.

The long-term real rate of return on OPEB investments was determined using the Town's investment policy. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future rates of return (expected returns, net of 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 and subtracting expected investment expenses and a risk margin. The arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expense, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity - Large Cap.....	0.00%	4.00%
Domestic Equity - Small/Mid Cap.....	0.00%	6.00%
International Equity - Developed Market.....	0.00%	4.50%
International Equity - Emerging Market.....	0.00%	7.00%
Domestic Fixed Income.....	0.00%	2.00%
International Fixed Income.....	0.00%	3.00%
Alternatives.....	0.00%	6.50%
Real Estate.....	0.00%	6.23%
Cash.....	100.00%	0.00%
	<u>100%</u>	

The Town's blended discount rate is the rate determined based on the assets in the OPEB trust fund, the Town's funding policy, the June 30, 2017 Municipal Bond index rate of 3.13% and the expected return on assets which resulted in a selected discount rate of 3.25%.

*Sensitivity of the net OPEB liability to changes in the discount rate* – The following table presents the net other postemployment benefit liability and service cost, calculated using the discount rate of 3.25%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a discount rate that is 1-percentage-point lower (2.25%) or 1-percentage-point higher (4.25%) than the current rate.

	1% Decrease (2.25%)	Current Discount (3.25%)	1% Increase (4.25%)
The Town's proportionate share of the net OPEB liability.....	\$ <u>210,067,957</u>	\$ <u>173,106,239</u>	\$ <u>147,337,195</u>

*Sensitivity of the net OPEB liability to changes in the healthcare trend* – The following table presents the net other postemployment benefit liability and service cost, calculated using the current healthcare trend rate of 5.00%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%).

	1% Decrease (4.00%)	Current Discount (5.00%)	1% Increase (6.00%)
The Town's proportionate share of the net OPEB liability.....	\$ <u>143,207,838</u>	\$ <u>173,106,239</u>	\$ <u>212,344,377</u>

*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.....	\$ 10,719,396
Interest on existing net OPEB obligation.....	1,577,600
Adjustments to annual required contribution.....	(2,193,093)
Amortization of actuarial (gains)/losses.....	<u>2,299,067</u>
Annual OPEB cost (expense).....	12,402,970
Contributions made.....	<u>(5,158,322)</u>
Increase/(Decrease) in net OPEB obligation.....	7,244,648
Net OPEB obligation - beginning of year.....	<u>39,440,000</u>
Net OPEB obligation - end of year.....	\$ <u><u>46,684,648</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 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>
6/30/17	\$	12,402,970	41.6%	\$	46,684,648
6/30/16		10,220,000	39.2%		39,440,000
6/30/15		9,790,000	37.1%		33,230,000

*Funded Status and Funding Progress* – The funded status of the Plan as of the most recent actuarial valuations dates is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
7/1/2016	\$ 153,518	\$ 147,429,213	\$ 147,275,695	0.10%	\$ 33,363,113	441.4%
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%

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 June 30, 2017, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return, and an annual healthcare cost trend rate of 5%. 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 June 30, 2017, was 27 years.

#### *Changes in Assumptions and Plan Provisions*

The following assumption changes were reflected in the July 1, 2016 actuarial valuation:

- The discount rate was updated to comply with the requirements of GASB Statement No. 74.
- The funding method was changed to comply with the requirements of GASB Statement No. 74.

- The investment rate of return was decreased from 4.50% to 4.00% per annum.

There were no plan provisions changes in the July 1, 2016 actuarial valuation.

#### **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 \$400,000 as the estimate of the landfill closure liability at June 30, 2017. This amount is based on estimates of what it would cost to perform all future closure and post closure care in 2017. 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* through June 30, 2017, 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, 2017, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2017.

#### **NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 15, 2018, which is the date the financial statements were available to be issued.

#### **NOTE 15 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2017, the following GASB pronouncements were implemented:

- GASB Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The basic financial statements, related notes and required supplementary information were updated to be in compliance with this pronouncement.
- GASB Statement #77, *Tax Abatement Disclosures*. This pronouncement did not impact the basic financial statements.
- GASB Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This pronouncement did not impact the basic financial statements.
- GASB Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*. This pronouncement did not impact the basic financial statements.

- GASB Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- 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 #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2020.
- The GASB issued Statement #85, *Omnibus 2017*, which is required to be implemented in 2018.
- The GASB issued Statement #86, *Certain Debt Extinguishment Issues*, which is required to be implemented in 2018.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

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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, 2017

	Budgeted Amounts				
	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance Over/(Under)
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 60,772,331	\$ 60,819,434	\$ 60,487,843	\$ -	\$ (331,591)
Tax liens.....	-	-	590,422	-	590,422
Motor vehicle and other excise taxes.....	4,130,845	4,130,845	4,386,802	-	255,957
Hotel/motel and meals tax.....	1,594,000	1,594,000	1,564,224	-	(29,776)
Penalties and interest on taxes.....	362,000	362,000	277,303	-	(84,697)
Fees.....	453,000	392,150	303,328	-	(88,822)
Rentals.....	276,000	296,000	277,807	-	(18,193)
Payments in lieu of taxes.....	64,000	64,000	67,618	-	3,618
Licenses and permits.....	1,335,000	1,335,000	1,615,219	-	280,219
Fines and forfeitures.....	147,000	147,000	142,392	-	(4,608)
Intergovernmental.....	9,783,146	9,783,043	9,910,754	-	127,711
Departmental and other.....	313,000	306,850	725,439	-	418,589
Investment income.....	35,000	35,000	106,892	-	71,892
TOTAL REVENUES.....	79,265,322	79,265,322	80,456,043	-	1,190,721
<b>EXPENDITURES:</b>					
Current:					
General government.....	3,318,303	3,538,420	3,135,295	83,574	319,551
Public safety.....	12,313,229	12,562,619	11,925,363	40,218	597,038
Education.....	32,209,165	32,045,995	31,286,612	674,628	84,755
Public works.....	4,496,491	4,666,881	4,041,631	245,881	379,369
Trash removal and recycling.....	1,409,400	1,548,147	1,405,885	-	142,262
Human services.....	853,934	853,934	724,429	150	129,355
Culture and recreation.....	785,034	1,070,993	982,460	32,791	55,742
Pension benefits.....	6,052,553	5,935,500	5,951,534	-	(16,034)
Property and liability insurance.....	727,060	752,060	716,304	-	35,756
Employee benefits.....	13,663,790	13,814,223	13,280,979	-	533,244
State and county charges.....	3,091,400	3,091,400	2,928,284	-	163,116
Debt service:					
Principal.....	1,515,000	1,515,000	1,415,000	-	100,000
Interest.....	673,544	673,544	622,834	-	50,710
TOTAL EXPENDITURES.....	81,108,903	82,068,716	78,416,610	1,077,242	2,574,864
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,843,581)	(2,803,394)	2,039,433	(1,077,242)	3,765,585
<b>OTHER FINANCING SOURCES (USES):</b>					
Premium from issuance of bonds.....	-	-	394,970	-	394,970
Use of prior year fund balance to fund court judgements.....	-	112,918	-	-	(112,918)
Use of prior year fund balance to fund carryovers.....	846,563	843,458	-	-	(843,458)
Free cash voted to fund 2017 budget.....	-	3,118,720	-	-	(3,118,720)
Transfers in.....	997,018	997,018	997,018	-	-
Transfers out.....	-	(2,268,720)	(2,268,720)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	1,843,581	2,803,394	(876,732)	-	(3,680,126)
NET CHANGE IN FUND BALANCE.....	-	-	1,162,701	(1,077,242)	85,459
BUDGETARY FUND BALANCE, Beginning of year.....	5,309,098	5,309,098	5,309,098	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 5,309,098	\$ 5,309,098	\$ 6,471,799	\$ (1,077,242)	\$ 85,459

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**

	December 31, 2014	December 31, 2015	December 31, 2016
<b>Total pension liability:</b>			
Service cost.....	\$ 2,254,000	\$ 2,655,000	\$ 2,814,000
Interest.....	8,349,000	8,483,000	9,063,000
Changes in benefit terms.....	-	-	1,288,000
Differences between expected and actual experience.....	-	(593,000)	(2,268,000)
Changes in assumptions.....	-	4,800,000	2,466,000
Benefit payments, including refunds of employee contributions.....	(7,092,000)	(7,213,000)	(7,414,000)
Net change in total pension liability.....	3,511,000	8,132,000	5,949,000
Total pension liability, beginning.....	108,517,000	112,028,000	120,160,000
Total pension liability, ending (a).....	\$ 112,028,000	\$ 120,160,000	\$ 126,109,000
<b>Plan fiduciary net position:</b>			
Employer contributions.....	\$ 5,249,000	\$ 5,669,000	\$ 6,123,000
Employee contributions - payroll deductions.....	1,610,000	1,648,000	1,698,000
Employee contributions - transfers from other systems.....	208,000	169,000	135,000
Members make-up and redeposits.....	73,000	20,000	55,000
Retirement benefits - 3(8)c contributions from other systems.....	180,000	198,000	200,000
Net investment income (loss).....	5,740,000	547,000	6,140,000
Administrative expenses.....	(143,000)	(170,000)	(160,000)
Member contributions - transfers to other systems.....	(236,000)	(602,000)	(257,000)
Member contributions - 3(8)c payments to other systems.....	(143,000)	(158,000)	(159,000)
Retirement benefits and refunds.....	(7,092,000)	(7,213,000)	(7,414,000)
Net increase (decrease) in fiduciary net position.....	5,446,000	108,000	6,361,000
Fiduciary net position at beginning of year.....	78,320,000	83,766,000	83,874,000
Fiduciary net position at end of year (b).....	\$ 83,766,000	\$ 83,874,000	\$ 90,235,000
<b>Net pension liability - ending (a) - (b).....</b>	<b>\$ 28,262,000</b>	<b>\$ 36,286,000</b>	<b>\$ 35,874,000</b>
Plan fiduciary net position as a percentage of the total pension liability.....	74.77%	69.80%	71.55%
Covered-employee payroll.....	\$ 14,545,000	\$ 17,092,000	\$ 17,092,000
Net pension liability as a percentage of covered-employee payroll.....	194.3%	212.3%	209.9%

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**

	December 31, 2014	December 31, 2015	December 31, 2016
Actuarially determined contribution.....	\$ 5,249,000	\$ 5,669,000	\$ 6,123,000
Contributions in relation to the actuarially determined contribution.....	<u>5,249,000</u>	<u>5,669,000</u>	<u>6,123,000</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 14,545,000	\$ 17,092,000	\$ 17,092,000
Contributions as a percentage of covered- employee payroll.....	36.09%	33.17%	35.82%

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**

<u>Year ended December 31,</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
2014.....	7.62%
2015.....	0.68%
2016.....	7.58%

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	December 31, 2015	December 31, 2016
Town's proportion of the net pension liability (asset).....	96.50%	96.94%	96.94%
Town's proportionate share of the net pension liability (asset)..... \$	27,272,383	\$ 35,145,580	\$ 34,775,458
Town's covered employee payroll..... \$	14,035,695	\$ 16,554,822	\$ 16,568,605
Net pension liability as a percentage of covered-employee payroll.....	194.31%	212.30%	209.89%
Plan fiduciary net position as a percentage of the total pension liability.....	74.77%	69.80%	71.55%

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**

	June 30, 2015	June 30, 2016	June 30, 2017
Actuarially determined contribution.....	\$ 5,065,202	\$ 5,490,831	\$ 5,935,500
Contributions in relation to the actuarially determined contribution.....	<u>5,065,202</u>	<u>5,490,831</u>	<u>5,935,500</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 14,035,695	\$ 16,554,822	\$ 16,568,605
Contributions as a percentage of covered- employee payroll.....	36.09%	33.17%	35.82%

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 liability.

<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>
2017.....	\$ 64,967,765	\$ 6,627,138	52.73%
2016.....	\$ 59,689,320	\$ 4,841,335	55.38%
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 Changes in the Town's Net Other Postemployment Benefit Liability presents multi-year trend information on the Plan's net other postemployment benefit liability and related ratios.

The Schedule of the Town's Contributions presents multi-year trend information on the Town's actual contributions to the other postemployment benefit plan and related ratios.

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

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.

**SCHEDULE OF CHANGES IN THE  
TOWN'S NET OPEB LIABILITY AND RELATED RATIOS  
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	<u>June 30, 2017</u>
<b>Total OPEB Liability</b>	
Service Cost.....	\$ 5,983,985
Interest.....	5,539,388
Changes of benefit terms.....	-
Differences between expected and actual experience.....	-
Changes of assumptions.....	-
Benefit payments.....	<u>(5,088,707)</u>
Net change in total OPEB liability.....	6,434,666
Total OPEB liability- beginning.....	<u>167,067,591</u>
Total OPEB liability- ending (a).....	<u>\$ 173,502,257</u>
<b>Plan fiduciary net position</b>	
Employer contribution to trusts.....	\$ 238,000
Employer contributions to pay benefit payments.....	5,088,707
Net investment income.....	4,873
Benefit payments.....	<u>(5,088,707)</u>
Net change in plan fiduciary net position.....	242,873
Plan fiduciary net position- beginning.....	<u>153,145</u>
Plan fiduciary net position- ending (b).....	<u>\$ 396,018</u>
<b>Town's net OPEB liability- ending (a)-(b).....</b>	<b><u>\$ 173,106,239</u></b>
Plan fiduciary net position as a percentage of the total OPEB liability.....	0.23%
Covered-employee payroll.....	34,364,006
Town's net OPEB liability as a percentage of covered-employee payroll.....	503.74%

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 TOWN'S CONTRIBUTIONS  
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	<u>June 30, 2017</u>
Actuarially determined contribution.....	\$ 14,332,133
Contributions in relation to the actuarially determined contribution.....	<u>(4,920,322)</u>
Contribution deficiency (excess).....	<u>\$ 9,411,811</u>
Covered-employee payroll.....	\$ 34,364,006
Contributions as a percentage of covered- employee payroll.....	14.32%

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 INVESTMENT RETURNS**  
**OTHER POSTEMPLOYMENT BENEFIT PLAN**

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June 30, 2017

Annual money-weighted rate of return, net of investment expense.....	2.65%
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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.

See notes to required supplementary information.

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

JUNE 30, 2017

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)
7/1/2016	\$ 396,018	\$ 147,429,213	\$ 147,033,195	0.27%	\$ 33,363,113	440.7%
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%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2017	\$ 10,719,396	\$ 5,158,322	48%
6/30/2016	10,670,000	4,010,000	38%
6/30/2015	10,160,000	3,630,000	36%

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

YEAR ENDED JUNE 30, 2017

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Actuarial Methods:

Valuation date.....	June 30, 2016
Actuarial cost method.....	Individual Entry Age Normal
Amortization method.....	Level dollar basis/open; over 30 years
Remaining amortization period.....	28 years at June 30, 2016

Actuarial Assumptions:

Investment rate of return.....	4.00%
Medical/drug cost trend rate.....	5.00%

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 2017 approved budget authorized approximately \$81.1 million in appropriations and other amounts to be raised. During 2017, Town Meetings approved supplemental appropriations of approximately \$3.2 million which mainly funded a \$1.5 million transfer to the Stabilization Fund, \$150,000 funding increase to the Town's OPEB Trust and increased appropriations of roughly \$1,455,000 for various general government, public safety, public works, and culture and recreation functions.

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, 2017, is presented below:

Net change in fund balance - budgetary basis.....	\$ 1,162,701
<u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	1,543,814
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts accrual.....	(190,595)
Net change in market value of investments.....	(5,421)
Increase in revenues due to on-behalf payments.....	6,627,138
Increase in expenditures due to on-behalf payments.....	<u>(6,627,138)</u>
Net change in fund balance - GAAP basis.....	\$ <u>2,510,499</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.

**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 insurance for eligible retirees and their spouses through the Town's group health insurance plan, which covers both active and retired members, including teachers.

#### **The Other Postemployment Benefit Plan**

##### A. Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios

The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered employee payroll.

##### B. Schedule of the Town's Contributions

The Schedule of the Town's Contributions includes the Town's annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered employee payroll. The Town is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered payroll.

##### C. Schedule of Investment Return

The Schedule of Investment Return includes the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

#### **The Town**

The Town currently finances its other postemployment benefits (OPEB) on a combined pre-funded and 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 0.1%. 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.

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.

A. Schedule of Funding Progress

The Schedule of Funding Progress presents multiyear trend information which compares, over time, the Town's actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

B. Schedule of Employer Contributions

The Schedule of Employer Contributions presents multiyear trend information for the Town's required and actual contributions relating to the plan.

C. Schedule of Actuarial Methods and Assumptions

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