

TOWN OF SAUGUS, MASSACHUSETTS

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

YEAR ENDED JUNE 30, 2018

TOWN OF SAUGUS, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

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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, 2018 (except for the Saugus Contributory Retirement System which is as of and for the year ended December 31, 2017), 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, 2018 (except for the Saugus

Contributory Retirement System which is as of and for the year ended December 31, 2017), 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 January 11, 2019, 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.

Powers & Sullivan, LLC

January 11, 2019

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, 2018. 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 liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$83.5 million at the close of 2018.

Net position of \$73.9 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, \$2.6 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 \$160 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 benefit liability of \$166.7 million and a net pension liability of \$23.9 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 \$115.6 million at the close of 2018. Components of the Town's governmental financial position are listed below.

	2018	2017 (As Revised)
Assets:		
Current assets.....	\$ 88,970,566	\$ 27,371,578
Capital assets, non depreciable.....	21,972,906	11,563,370
Capital assets, net of accumulated depreciation.....	51,975,160	53,508,947
Total assets.....	162,918,632	92,443,895
Deferred outflows of resources.....	8,959,687	13,533,676
Liabilities:		
Current liabilities (excluding debt).....	3,800,443	1,917,308
Noncurrent liabilities (excluding debt).....	193,598,567	198,761,024
Current debt.....	3,239,495	5,159,087
Noncurrent debt.....	81,376,336	16,015,778
Total liabilities.....	282,014,841	221,853,197
Deferred inflows of resources.....	5,491,245	2,122,215
Net position:		
Net investment in capital assets.....	52,209,526	47,729,957
Restricted.....	2,568,728	5,101,839
Unrestricted.....	(170,406,021)	(170,829,637)
Total net position.....	\$ (115,627,767)	\$ (117,997,841)

A significant portion of the Town's governmental activities net position, \$52.2 million, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding.

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

An additional portion of the net position, \$2.6 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 \$170.4 million is due primarily to the recognition of \$165.8 million of other postemployment healthcare benefits payable to current and future retirees of the Town as well as a net pension liability of \$23.2 million. Net deferred inflows of resources related to pension of \$1.8 million relates to the net pension liability and the Town will amortize this

balance over the next five years. Deferred outflows related to OPEB for contributions after the measurement date will be expensed next year.

In addition to the liability for postemployment benefits and the net pension liability, governmental activity liabilities include \$84.6 million in general obligation bonds and short term notes and \$5.1 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:

	2018	2017 (As Revised)
Program Revenues:		
Charges for services.....	\$ 5,275,797	\$ 4,575,271
Operating grants and contributions.....	17,268,708	16,808,370
Capital grants and contributions.....	4,829,819	1,514,306
General Revenues:		
Real estate and personal property taxes, net of tax refunds payable.....	62,171,413	60,155,782
Tax and other liens.....	644,821	722,416
Motor vehicle and other excise taxes.....	4,407,487	4,264,187
Hotel/motel tax.....	608,374	609,170
Meals tax.....	979,820	955,054
Penalties and interest on taxes.....	300,572	415,744
Payments in lieu of taxes.....	70,349	67,618
Grants and contributions not restricted to specific programs.....	3,971,113	4,615,082
Unrestricted investment income.....	581,794	191,320
Total revenues.....	101,110,067	94,894,320
Expenses:		
General government.....	6,027,288	7,082,011
Public safety.....	20,446,635	23,454,077
Education.....	61,010,222	57,400,154
Public works.....	6,172,437	6,684,269
Recycling and trash removal.....	1,592,748	1,503,057
Health and human services.....	1,236,198	1,267,293
Culture and recreation.....	1,738,358	2,228,434
Interest.....	1,531,014	730,357
Total expenses.....	99,754,900	100,349,652
Excess (Deficiency) before transfers.....	1,355,167	(5,455,332)
Transfers.....	1,014,907	997,018
Change in net position.....	2,370,074	(4,458,314)
Net position, beginning of year (as revised).....	(117,997,841)	(113,539,527)
Net position, end of year.....	\$ (115,627,767)	\$ (117,997,841)

The governmental activities net position increased by \$2.4 million over the prior year. This increase is primarily due to the strong performance of the general fund on the budgetary basis as well as an increase in capital grants and contributions.

Beginning net position of the governmental activities has been revised to reflect the implementation of GASB Statement #75. The implementation of this standard required the OPEB liability to be revised due to the use of different methods and assumptions as previously required by GASB Statement #45. Accordingly, previously reported net position of \$(10.0) million has been revised and totals \$(118.0) million.

Business-Type Activities

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

	2018	2017 (As Revised)
Assets:		
Current assets.....	\$ 14,843,646	\$ 15,819,612
Capital assets, non depreciable.....	3,601,353	64,379
Capital assets, net of accumulated depreciation.....	44,256,886	45,434,207
Total assets.....	62,701,885	61,318,198
Deferred outflows of resources.....	209,020	329,943
Liabilities:		
Current liabilities (excluding debt).....	697,617	389,848
Noncurrent liabilities (excluding debt).....	1,793,732	1,946,573
Current debt.....	2,097,830	5,861,393
Noncurrent debt.....	25,988,649	21,979,359
Total liabilities.....	30,577,828	30,177,173
Deferred inflows of resources.....	154,755	56,946
Net position:		
Net investment in capital assets.....	21,731,004	22,867,966
Unrestricted.....	10,447,318	8,546,056
Total net position.....	\$ 32,178,322	\$ 31,414,022
Program Revenues:		
Charges for services.....	\$ 11,214,906	\$ 10,741,963
Capital grants and contributions.....	83,742	135,556
General Revenues:		
Unrestricted investment income.....	-	5,922
Total revenues.....	11,298,648	10,883,441
Expenses:		
Water.....	5,586,854	5,366,245
Sewer.....	3,932,587	3,091,173
Total expenses.....	9,519,441	8,457,418
Excess (Deficiency) before transfers.....	1,779,207	2,426,023
Transfers.....	(1,014,907)	(997,018)
Change in net position.....	764,300	1,429,005
Net position, beginning of year (as revised).....	31,414,022	29,985,017
Net position, end of year.....	\$ 32,178,322	\$ 31,414,022

Total business type activities assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$32.2 million at the close of 2018.

Net position of \$21.7 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 \$10.4 million may be used to meet ongoing obligations.

The Water Enterprise Fund net position increased by \$752,000 primarily due to principal payments on long term debt exceeding depreciation expense as well as prudent management of operating expenses and increases in revenues.

The Sewer Enterprise Fund net position increased by \$12,000 primarily due to principal payments on long term debt exceeding depreciation expense as well as prudent management of operating expenses and increases in revenues.

Beginning net position of the business-type activities has been revised to reflect the implementation of GASB Statement #75. The implementation of this standard required the OPEB liability to be revised due to the use of different methods and assumptions as previously required by GASB Statement #45. Accordingly, previously reported net position of \$31.8 million has been revised and totals \$31.4 million.

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 \$11.7 million, while total fund balance equaled \$12.9 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 13.1% of general fund budgetary expenditures while total fund balance represents 14.4%. The general fund increased by \$468,000 during 2018. This increase is primarily due management adhering to budgetary guidance and implementing prudent cost controls which is resulted in \$1.4 million of unspent appropriations. Also contributing to the increased fund balance is actual revenues being higher than budgeted amounts by \$793,000.

The middle and high school capital projects fund increased by \$61.4 million. This was the result of the Town realizing \$66 million from the issuance of long term debt for the construction of a new combined middle and high school. The fund recorded \$8.8 million of expenditures of which \$4.2 million was reimbursed under a grant from the Massachusetts School Building Authority.

The nonmajor governmental funds increased by \$1.2 million. This was the result of timing differences between grant expenditures and certain construction costs being incurred prior to the receipt grant reimbursements.

As of the end of the year, governmental funds reported combined ending fund balances of \$83.3 million, an increase of \$63 million from the prior year.

General Fund Budgetary Highlights

The difference of \$3.2 million between the original budget of \$84.8 million and the final amended budget of \$88.0 million was due to the approval of supplemental appropriations that were funded by a like amount of free cash. The majority of the supplemental appropriations were made to fund contributions to the Town's Other Post Employment Benefits Trust Fund and the Stabilization Fund. Supplemental appropriations were also made to cover snow and ice costs.

Capital Asset and Debt Administration

Capital Assets - The Town's investment in capital assets for governmental activities as of June 30, 2018, amounts to \$74.1 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 \$12.2 million of governmental activities capital expenditures in 2018. The governmental activities incurred depreciation expense of \$3.1 million.

The Town's investment in capital assets for business type activities as of June 30, 2018 amounts to \$48.1 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 \$4 million of business-type activities capital expenditures in 2018. The business-type activities incurred depreciation expense of \$1.7 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, 2018, the Town had total long term governmental bonded debt of \$84.3 million which mainly consists of outstanding debt relative to school and other general building construction, renovation and upgrades.

The water and sewer enterprise funds have \$28.1 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, 2018

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 77,529,581	\$ 6,580,128	\$ 84,109,709
Investments.....	7,651,004	1,660,216	9,311,220
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	455,452	-	455,452
Tax liens.....	1,168,457	-	1,168,457
Motor vehicle and other excise taxes.....	368,058	-	368,058
User charges.....	-	5,671,126	5,671,126
Departmental and other.....	33,293	-	33,293
Intergovernmental - other.....	1,352,737	932,176	2,284,913
Tax foreclosures.....	411,984	-	411,984
Total current assets.....	<u>88,970,566</u>	<u>14,843,646</u>	<u>103,814,212</u>
NONCURRENT:			
Capital assets, nondepreciable.....	21,972,906	3,601,353	25,574,259
Capital assets, net of accumulated depreciation.....	<u>51,975,160</u>	<u>44,256,886</u>	<u>96,232,046</u>
Total noncurrent assets.....	<u>73,948,066</u>	<u>47,858,239</u>	<u>121,806,305</u>
TOTAL ASSETS.....	<u>162,918,632</u>	<u>62,701,885</u>	<u>225,620,517</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions.....	3,731,830	105,170	3,837,000
Deferred outflows related to other postemployment benefits.....	<u>5,227,857</u>	<u>103,850</u>	<u>5,331,707</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>8,959,687</u>	<u>209,020</u>	<u>9,168,707</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	558,681	420,843	979,524
Accrued payroll.....	367,739	-	367,739
Tax refunds payable.....	627,081	-	627,081
Accrued interest.....	1,107,289	209,774	1,317,063
Other liabilities.....	244,653	-	244,653
Landfill closure.....	20,000	-	20,000
Compensated absences.....	875,000	67,000	942,000
Notes payable.....	290,886	-	290,886
Bonds payable.....	<u>2,948,609</u>	<u>2,097,830</u>	<u>5,046,439</u>
Total current liabilities.....	<u>7,039,938</u>	<u>2,795,447</u>	<u>9,835,385</u>
NONCURRENT:			
Landfill closure.....	360,000	-	360,000
Compensated absences.....	4,231,000	294,000	4,525,000
Net pension liability.....	23,198,226	653,774	23,852,000
Net other postemployment benefits liability.....	165,809,341	845,958	166,655,299
Bonds payable.....	<u>81,376,336</u>	<u>25,988,649</u>	<u>107,364,985</u>
Total noncurrent liabilities.....	<u>274,974,903</u>	<u>27,782,381</u>	<u>302,757,284</u>
TOTAL LIABILITIES.....	<u>282,014,841</u>	<u>30,577,828</u>	<u>312,592,669</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions.....	<u>5,491,245</u>	<u>154,755</u>	<u>5,646,000</u>
NET POSITION			
Net investment in capital assets.....	52,209,526	21,731,004	73,940,530
Restricted for:			
Permanent funds:			
Expendable.....	167,746	-	167,746
Nonexpendable.....	1,268,026	-	1,268,026
Gifts and grants.....	1,132,956	-	1,132,956
Unrestricted.....	<u>(170,406,021)</u>	<u>10,447,318</u>	<u>(159,958,703)</u>
TOTAL NET POSITION.....	<u>\$ (115,627,767)</u>	<u>\$ 32,178,322</u>	<u>\$ (83,449,445)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 6,027,288	\$ 854,817	\$ 855,074	\$ -	\$ (4,317,397)
Public safety.....	20,446,635	2,361,975	183,159	-	(17,901,501)
Education.....	61,010,222	1,535,752	15,571,720	4,187,787	(39,714,963)
Public works.....	6,172,437	177,377	223,151	642,032	(5,129,877)
Trash removal and recycling.....	1,592,748	38,774	-	-	(1,553,974)
Health and human services.....	1,236,198	121,501	82,322	-	(1,032,375)
Culture and recreation.....	1,738,358	185,601	353,282	-	(1,199,475)
Interest.....	1,531,014	-	-	-	(1,531,014)
Total Governmental Activities.....	99,754,900	5,275,797	17,268,708	4,829,819	(72,380,576)
<i>Business-Type Activities:</i>					
Water.....	5,586,854	6,752,294	-	59,000	1,224,440
Sewer.....	3,932,587	4,462,612	-	24,742	554,767
Total Business-Type Activities.....	9,519,441	11,214,906	-	83,742	1,779,207
Total Primary Government.....	\$ 109,274,341	\$ 16,490,703	\$ 17,268,708	\$ 4,913,561	\$ (70,601,369)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (continued)

YEAR ENDED JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ <u>(72,380,576)</u>	\$ <u>1,779,207</u>	\$ <u>(70,601,369)</u>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	62,171,413	-	62,171,413
Tax and other liens.....	644,821	-	644,821
Motor vehicle and other excise taxes.....	4,407,487	-	4,407,487
Hotel/motel tax.....	608,374	-	608,374
Meals tax.....	979,820	-	979,820
Penalties and interest on taxes.....	300,572	-	300,572
Payments in lieu of taxes.....	70,349	-	70,349
Grants and contributions not restricted to specific programs.....	3,971,113	-	3,971,113
Unrestricted investment income.....	581,794	-	581,794
<i>Transfers, net</i>	<u>1,014,907</u>	<u>(1,014,907)</u>	<u>-</u>
Total general revenues and transfers.....	<u>74,750,650</u>	<u>(1,014,907)</u>	<u>73,735,743</u>
Change in net position.....	2,370,074	764,300	3,134,374
<i>Net position:</i>			
Beginning of year (as revised).....	<u>(117,997,841)</u>	<u>31,414,022</u>	<u>(86,583,819)</u>
End of year.....	\$ <u><u>(115,627,767)</u></u>	\$ <u><u>32,178,322</u></u>	\$ <u><u>(83,449,445)</u></u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2018

	General	Middle and High School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents.....	\$ 7,458,317	\$ 61,417,557	\$ 8,653,707	\$ 77,529,581
Investments.....	6,556,585	-	1,094,419	7,651,004
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	455,452	-	-	455,452
Tax liens.....	1,168,457	-	-	1,168,457
Motor vehicle and other excise taxes.....	368,058	-	-	368,058
Departmental and other.....	33,293	-	-	33,293
Intergovernmental.....	375,382	-	977,355	1,352,737
Tax foreclosures.....	411,984	-	-	411,984
TOTAL ASSETS.....	\$ 16,827,528	\$ 61,417,557	\$ 10,725,481	\$ 88,970,566
LIABILITIES				
Warrants payable.....	\$ 12,082	\$ 546,599	\$ -	\$ 558,681
Accrued payroll.....	367,739	-	-	367,739
Tax refunds payable.....	627,081	-	-	627,081
Other liabilities.....	244,653	-	-	244,653
Notes payable.....	-	290,886	-	290,886
TOTAL LIABILITIES.....	1,251,555	837,485	-	2,089,040
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue.....	2,632,219	-	966,947	3,599,166
FUND BALANCES				
Nonspendable.....	-	-	1,268,026	1,268,026
Restricted.....	-	60,580,072	8,490,508	69,070,580
Assigned.....	1,224,078	-	-	1,224,078
Unassigned.....	11,719,676	-	-	11,719,676
TOTAL FUND BALANCES.....	12,943,754	60,580,072	9,758,534	83,282,360
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 16,827,528	\$ 61,417,557	\$ 10,725,481	\$ 88,970,566

See notes to basic financial statements.

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

JUNE 30, 2018

Total governmental fund balances.....	\$ 83,282,360
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	73,948,066
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....	3,599,166
The statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In governmental funds, these amounts are not deferred.....	3,468,442
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(1,107,289)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable.....	(84,324,945)
Net pension liability.....	(23,198,226)
Net other postemployment benefits liability.....	(165,809,341)
Landfill closure.....	(380,000)
Compensated absences.....	(5,106,000)
Net effect of reporting long-term liabilities.....	<u>(278,818,512)</u>
Net position of governmental activities.....	<u>\$ (115,627,767)</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2018

	General	Middle and High School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 61,998,471	\$ -	\$ -	\$ 61,998,471
Tax liens.....	417,270	-	-	417,270
Motor vehicle and other excise taxes.....	4,468,580	-	-	4,468,580
Hotel/motel tax.....	608,374	-	-	608,374
Meals tax.....	979,820	-	-	979,820
Charges for services.....	-	-	1,900,337	1,900,337
Penalties and interest on taxes.....	235,629	-	-	235,629
Fees and rentals.....	553,836	-	-	553,836
Payments in lieu of taxes.....	70,349	-	-	70,349
Licenses and permits.....	2,297,278	-	-	2,297,278
Fines and forfeitures.....	122,472	-	-	122,472
Intergovernmental - School Building Authority.....	-	4,187,787	-	4,187,787
Intergovernmental - Teachers Retirement.....	6,727,970	-	-	6,727,970
Intergovernmental.....	9,761,847	-	3,823,140	13,584,987
Departmental and other.....	759,798	-	32,363	792,161
Contributions and donations.....	-	-	770,074	770,074
Investment income.....	563,726	-	18,068	581,794
TOTAL REVENUES.....	89,565,420	4,187,787	6,543,982	100,297,189
EXPENDITURES:				
Current:				
General government.....	2,983,712	-	913,122	3,896,834
Public safety.....	12,745,169	-	563,221	13,308,390
Education.....	31,978,187	8,779,919	4,079,770	44,837,876
Public works.....	4,333,042	-	1,779,030	6,112,072
Landfill.....	1,531,979	-	-	1,531,979
Health and human services.....	727,716	-	92,700	820,416
Culture and recreation.....	1,006,727	-	575,880	1,582,607
Pension benefits.....	6,484,329	-	-	6,484,329
Pension benefits - Teachers Retirement.....	6,727,970	-	-	6,727,970
Property and liability insurance.....	763,462	-	-	763,462
Employee benefits.....	14,742,974	-	-	14,742,974
State and county charges.....	3,210,876	-	-	3,210,876
Debt service:				
Principal.....	1,682,116	-	-	1,682,116
Interest.....	839,288	-	-	839,288
TOTAL EXPENDITURES.....	89,757,547	8,779,919	8,003,723	106,541,189
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(192,127)	(4,592,132)	(1,459,741)	(6,244,000)
OTHER FINANCING SOURCES (USES):				
Issuance of bonds.....	-	63,874,400	2,295,000	66,169,400
Premium from issuance of bonds.....	-	2,082,600	-	2,082,600
Transfers in.....	1,014,907	-	355,000	1,369,907
Transfers out.....	(355,000)	-	-	(355,000)
TOTAL OTHER FINANCING SOURCES (USES)...	659,907	65,957,000	2,650,000	69,266,907
NET CHANGE IN FUND BALANCES.....	467,780	61,364,868	1,190,259	63,022,907
FUND BALANCES AT BEGINNING OF YEAR.....	12,475,974	(784,796)	8,568,275	20,259,453
FUND BALANCES AT END OF YEAR.....	\$ 12,943,754	\$ 60,580,072	\$ 9,758,534	\$ 83,282,360

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, 2018

Net change in fund balances - total governmental funds.....	\$ 63,022,907
<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.....	11,970,761
Depreciation expense.....	<u>(3,095,012)</u>
Net effect of reporting capital assets.....	8,875,749
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. This amount represents the net change in unavailable revenue.....</p>	
	812,878
<p>The issuance of long-term debt 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 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 unavailable and amortized in the Statement of Activities.</p>	
Issuance of bonds.....	(66,169,400)
Premium from issuance of bonds.....	(2,082,600)
Amortization of premium from issuance of bonds.....	97,313
Debt service principal payments.....	<u>1,682,116</u>
Net effect of reporting long-term debt.....	(66,472,571)
<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.....	658,000
Net change in accrued interest on long-term debt.....	(788,751)
Net change in deferred outflow/(inflow) of resources related to pensions.....	(8,188,842)
Net change in net pension liability.....	10,668,478
Net change in deferred outflow/(inflow) of resources related to other postemployment benefits...	245,535
Net change in net other postemployment benefits liability.....	(6,483,309)
Net change in landfill closure.....	<u>20,000</u>
Net effect of recording long-term liabilities.....	<u>(3,868,889)</u>
Change in net position of governmental activities.....	\$ <u><u>2,370,074</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 2,857,658	\$ 3,722,470	\$ 6,580,128
Investments.....	-	1,660,216	1,660,216
Receivables, net of allowance for uncollectibles:			
User charges.....	3,433,693	2,237,433	5,671,126
Intergovernmental.....	-	932,176	932,176
Total current assets.....	6,291,351	8,552,295	14,843,646
NONCURRENT:			
Capital assets, non depreciable.....	336,095	3,265,258	3,601,353
Capital assets, net of accumulated depreciation.....	18,210,010	26,046,876	44,256,886
Total noncurrent assets.....	18,546,105	29,312,134	47,858,239
TOTAL ASSETS.....	24,837,456	37,864,429	62,701,885
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions.....	52,323	52,847	105,170
Deferred outflows related to other postemployment benefits.....	66,166	37,684	103,850
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	118,489	90,531	209,020
LIABILITIES			
CURRENT:			
Warrants payable.....	85,736	335,107	420,843
Accrued interest.....	41,695	168,079	209,774
Compensated absences.....	30,000	37,000	67,000
Bonds payable.....	854,290	1,243,540	2,097,830
Total current liabilities.....	1,011,721	1,783,726	2,795,447
NONCURRENT:			
Compensated absences.....	119,000	175,000	294,000
Net pension liability.....	325,258	328,516	653,774
Net other postemployment benefits liability.....	334,839	511,119	845,958
Bonds payable.....	5,080,730	20,907,919	25,988,649
Total noncurrent liabilities.....	5,859,827	21,922,554	27,782,381
TOTAL LIABILITIES.....	6,871,548	23,706,280	30,577,828
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions.....	76,992	77,763	154,755
NET POSITION			
Net investment in capital assets.....	13,539,381	8,191,623	21,731,004
Unrestricted.....	4,468,024	5,979,294	10,447,318
TOTAL NET POSITION.....	\$ 18,007,405	\$ 14,170,917	\$ 32,178,322

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2018

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES:			
Charges for services.....	\$ 6,748,204	\$ 4,469,807	\$ 11,218,011
OPERATING EXPENSES:			
Cost of services and administration.....	4,601,688	1,875,140	6,476,828
Salaries and wages.....	362,753	416,557	779,310
Depreciation.....	455,598	1,192,518	1,648,116
TOTAL OPERATING EXPENSES.....	5,420,039	3,484,215	8,904,254
OPERATING INCOME (LOSS).....	1,328,165	985,592	2,313,757
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	4,090	(7,195)	(3,105)
Interest expense.....	(166,815)	(448,372)	(615,187)
Intergovernmental.....	59,000	24,742	83,742
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(103,725)	(430,825)	(534,550)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS.....	1,224,440	554,767	1,779,207
TRANSFERS:			
Transfers out.....	(472,509)	(542,398)	(1,014,907)
CHANGE IN NET POSITION.....	751,931	12,369	764,300
NET POSITION AT BEGINNING OF YEAR (AS REVISED).....	17,255,474	14,158,548	31,414,022
NET POSITION AT END OF YEAR.....	\$ 18,007,405	\$ 14,170,917	\$ 32,178,322

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Receipts from customers and users.....	\$ 6,369,347	\$ 4,055,475	\$ 10,424,822
Payments to vendors.....	(4,601,730)	(1,677,520)	(6,279,250)
Payments to employees.....	(300,619)	(290,729)	(591,348)
NET CASH FROM OPERATING ACTIVITIES.....	1,466,998	2,087,226	3,554,224
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>			
Transfers out.....	(472,509)	(542,398)	(1,014,907)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(472,509)	(542,398)	(1,014,907)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Proceeds from the issuance of bonds.....	722,310	4,674,349	5,396,659
Premium from the issuance of bonds.....	-	114,500	114,500
Acquisition and construction of capital assets.....	(419,620)	(3,588,148)	(4,007,768)
Principal payments on bonds and notes.....	(1,089,438)	(1,549,196)	(2,638,634)
Interest expense.....	(185,128)	(479,889)	(665,017)
Intergovernmental.....	59,000	24,742	83,742
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(912,876)	(803,642)	(1,716,518)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Purchase of investments.....	-	(244,739)	(244,739)
Investment income.....	4,090	(7,195)	(3,105)
NET CASH FROM INVESTING ACTIVITIES.....	4,090	(251,934)	(247,844)
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	85,703	489,252	574,955
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	2,771,955	3,233,218	6,005,173
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 2,857,658	\$ 3,722,470	\$ 6,580,128
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>			
Operating income (loss).....	\$ 1,328,165	\$ 985,592	\$ 2,313,757
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation.....	455,598	1,192,518	1,648,116
Deferred (outflows)/inflows related to pensions.....	105,609	116,498	222,107
Deferred (outflows)/inflows related to other postemployment benefits.....	(2,153)	(1,222)	(3,375)
Changes in assets and liabilities:			
User charges.....	(378,857)	(414,332)	(793,189)
Warrants payable.....	35,096	244,591	279,687
Accrued payroll.....	(6,866)	(4,172)	(11,038)
Compensated absences.....	69,000	130,000	199,000
Net pension liability.....	(101,083)	(153,897)	(254,980)
Other postemployment benefits liability.....	(37,511)	(8,350)	(45,861)
Total adjustments.....	138,833	1,101,634	1,240,467
NET CASH FROM OPERATING ACTIVITIES.....	\$ 1,466,998	\$ 2,087,226	\$ 3,554,224
<u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u>			
Intergovernmental subsidy of debt service.....	\$ 59,000	\$ -	\$ 59,000

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	Pension and Other Postemployment Benefit Trust Funds (1)	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents.....	\$ 324,863	\$ 222,076	\$ 122,007
Investments:			
Investments in Pension Reserve Investment Trust.....	102,609,425	-	-
Other investments.....	-	544,280	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	3,382,250	-	340,153
TOTAL ASSETS	106,316,538	766,356	462,160
LIABILITIES			
Warrants payable.....	391	-	-
Liabilities due depositors.....	-	-	462,160
TOTAL LIABILITIES	391	-	462,160
NET POSITION			
Restricted for pensions.....	105,672,562	-	-
Restricted for other postemployment benefits.....	643,585	-	-
Held in trust for other purposes.....	-	766,356	-
TOTAL NET POSITION	\$ 106,316,147	\$ 766,356	\$ -

(1) Pension plan is as of December 31, 2017.
See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2018

	Pension and Other Postemployment Benefit Trust Funds (1)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer contributions for pension benefits.....	\$ 6,935,257	\$ -
Employer contributions for other postemployment benefit payments...	5,088,707	-
Member contributions.....	1,867,781	-
Transfers from other systems.....	217,636	-
3(8)c contributions from other systems.....	200,474	-
State COLA reimbursements.....	86,939	-
Member makeup payments and redeposits.....	29,015	-
Private donations.....	-	716
	<hr/>	<hr/>
Total contributions.....	14,425,809	716
	<hr/>	<hr/>
Net investment income:		
Investment income.....	15,457,319	(4,134)
Less: investment expense.....	(499,647)	-
	<hr/>	<hr/>
Net investment income (loss).....	14,957,672	(4,134)
	<hr/>	<hr/>
TOTAL ADDITIONS.....	29,383,481	(3,418)
	<hr/>	<hr/>
DEDUCTIONS:		
Administration.....	209,584	-
Transfers to other systems.....	158,862	-
3(8)c transfer to other systems.....	174,733	-
Retirement benefits and refunds.....	8,066,416	-
Other postemployment benefit payments.....	5,088,707	-
Educational scholarships.....	-	5,750
	<hr/>	<hr/>
TOTAL DEDUCTIONS.....	13,698,302	5,750
	<hr/>	<hr/>
NET INCREASE (DECREASE) IN NET POSITION.....	15,685,179	(9,168)
	<hr/>	<hr/>
NET POSITION AT BEGINNING OF YEAR.....	90,630,968	775,524
	<hr/>	<hr/>
NET POSITION AT END OF YEAR.....	\$ 106,316,147	\$ 766,356
	<hr/>	<hr/>

(1) Pension plan is as of December 31, 2017.
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 does 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 Northeast 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 2018 assessment was \$3,601,707.

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 *middle and high school capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays relative to the construction of a new middle and high school building complex.

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 of 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 and OPEB trust funds* are used to account for the activities of the Saugus Contributory Retirement System along with the OPEB Trust, which both accumulates resources to provide pension and other postemployment 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 1st of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st of each year and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

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

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

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

Motor Vehicle Excise

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

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

Water

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

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

Sewer

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

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

Departmental and Other

Departmental and other receivables consist primarily of outstanding police detail and parking tickets receivables, 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 and equipment.....	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 and other postemployment benefits 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. 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 0.15 to 16.31 years.

MMDT maintains a cash portfolio and a short-term bond portfolio. The cash portfolio had a weighted average maturity of 28 days and the short term bond portfolio had a weighted average maturity of approximately 2.5 years. Credit ratings associated with the short-term bond portfolio ranged from BBB to AAA. Approximately 63% of the total was rated AAA, approximately 17% of the total was rated A/AA and approximately 17% 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 \$11,962,069 and the bank balance totaled \$15,788,947. Of the bank balance, \$3,375,793 was covered by Federal Depository Insurance, \$6,721,066 was covered by the Depositors Insurance Fund, \$3,041,267 was covered by the Share Insurance Fund, and \$914,251 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, 2017, carrying amount of deposits for the system totaled \$321,612 and the bank balance totaled \$389,096. 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, 2018, the Town had the following investments:

Investment Type	Fair value	Maturities	
		Under 1 Year	1-5 Years
Debt securities:			
U.S. treasury bonds.....	\$ 1,947,569	\$ 824,803	\$ 1,122,766
Government sponsored enterprises.....	3,599,610	-	3,599,610
Corporate bonds.....	2,716,143	239,147	2,476,996
Total debt securities.....	8,263,322	\$ 1,063,950	\$ 7,199,372
Other investments:			
Equity securities.....	1,569,682		
Equity mutual funds.....	409,980		
Repurchase agreement.....	2,121,673		
Fixed income mutual funds.....	252,850		
Money market mutual funds.....	319,918		
MMDT - Cash portfolio.....	70,053,383		
Total investments.....	\$ 82,990,808		

As of December 31, 2017, the System maintained a \$102.0 million 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, \$8,263,322 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. Trust Funds may be co-mingled and invested in any instruments allowed by the Legal List issued by the Banking Commission each July. Each trust fund must be accounted for separately with the appropriate investment income recorded.

As of June 30, 2018, the Town had an investment with a fair market value of \$2,121,673 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.

Credit Risk

The Town's credit risk policy limits investments to certain securities, prequalifies the financial institution, and diversifies the investment portfolio minimizing losses from any one type of security or from any one issuer. At June 30, 2018, the Town's investments were rated as follows:

Quality Rating	U.S. Treasury Bonds	Government Sponsored Enterprises	Corporate Bonds
AA+.....	\$ 1,947,569	\$ 3,599,610	\$ -
A.....	-	-	214,068
A-.....	-	-	453,689
BBB+.....	-	-	692,055
BBB.....	-	-	1,356,331
Total.....	\$ 1,947,569	\$ 3,599,610	\$ 2,716,143

The Town's investments in MMDT and PRIT are unrated.

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 June 30, 2018, the Town's investments were rated as follows:

At December 31, 2017, the System's \$102.0 million 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, 2017 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, 2018:

Investment Type	June 30, 2018	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)
Investments measured at fair value:				
<u>Debt securities:</u>				
U.S. treasury bonds.....	\$ 1,947,569	\$ 1,947,569	\$ -	\$ -
Government sponsored enterprises.....	3,599,610	3,599,610	-	-
Corporate bonds.....	2,716,143	-	2,716,143	-
Total debt securities.....	8,263,322	5,547,179	2,716,143	-
<u>Other investments:</u>				
Equity securities.....	1,569,682	1,569,682	-	-
Equity mutual funds.....	409,980	409,980	-	-
Repurchase agreement.....	2,121,673	2,121,673	-	-
Fixed income.....	252,850	252,850	-	-
Money market mutual funds.....	319,918	319,918	-	-
Total other investments.....	4,674,103	4,674,103	-	-
Total investments measured at fair value.....	12,937,425	\$ 10,221,282	\$ 2,716,143	\$ -
Investments measured at amortized cost:				
MMDT - Cash portfolio.....	70,053,383			
Total investments.....	\$ 82,990,808			

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 a \$102.0 million recurring fair value measurement in PRIT as of December 31, 2017. 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, 2018, 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
<u>Receivables:</u>			
Real estate and personal property taxes..... \$	832,952	\$ (377,500)	\$ 455,452
Tax liens.....	1,168,457	-	1,168,457
Motor vehicle and other excise taxes.....	495,514	(127,456)	368,058
Departmental and other.....	36,795	(3,502)	33,293
Intergovernmental.....	1,394,446	(41,709)	1,352,737
Total..... \$	<u>3,928,164</u>	<u>\$ (550,167)</u>	<u>\$ 3,377,997</u>

At June 30, 2018, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user charges..... \$	3,433,693	\$ -	\$ 3,433,693
Sewer user charges.....	2,237,433	-	2,237,433
Sewer intergovernmental.....	932,176	-	932,176
Total..... \$	<u>6,603,302</u>	<u>\$ -</u>	<u>\$ 6,603,302</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	Other Governmental Funds	Total
<u>Receivables and other asset types:</u>			
Real estate and personal property taxes.....	\$ 275,045	\$ -	\$ 275,045
Tax liens.....	1,168,457	-	1,168,457
Motor vehicle and other excise taxes.....	368,058	-	368,058
Departmental and other.....	33,293	-	33,293
Intergovernmental - highway improvements.....	-	966,947	966,947
Intergovernmental - other.....	375,382	-	375,382
Tax foreclosures.....	411,984	-	411,984
Total.....	\$ <u>2,632,219</u>	\$ <u>966,947</u>	\$ <u>3,599,166</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 8,138,042	\$ -	\$ -	\$ 8,138,042
Construction in progress.....	3,425,328	10,409,536	-	13,834,864
Total capital assets not being depreciated.....	<u>11,563,370</u>	<u>10,409,536</u>	<u>-</u>	<u>21,972,906</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	72,711,654	254,037	-	72,965,691
Machinery and equipment.....	16,319,435	532,351	-	16,851,786
Infrastructure.....	37,387,990	774,837	-	38,162,827
Total capital assets being depreciated.....	<u>126,419,079</u>	<u>1,561,225</u>	<u>-</u>	<u>127,980,304</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(33,349,587)	(1,589,166)	-	(34,938,753)
Machinery and equipment.....	(13,255,340)	(998,875)	-	(14,254,215)
Infrastructure.....	(26,305,205)	(506,971)	-	(26,812,176)
Total accumulated depreciation.....	<u>(72,910,132)</u>	<u>(3,095,012)</u>	<u>-</u>	<u>(76,005,144)</u>
Total capital assets being depreciated, net.....	<u>53,508,947</u>	<u>(1,533,787)</u>	<u>-</u>	<u>51,975,160</u>
Total governmental activities capital assets, net.....	\$ <u>65,072,317</u>	\$ <u>8,875,749</u>	\$ <u>-</u>	\$ <u>73,948,066</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Water:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 58,609	\$ -	\$ -	\$ 58,609
Construction in progress.....	-	277,486	-	277,486
Total capital assets not being depreciated.....	58,609	277,486	-	336,095
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	1,476,454	142,134	-	1,618,588
Infrastructure.....	26,592,917	-	-	26,592,917
Total capital assets being depreciated.....	28,069,371	142,134	-	28,211,505
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(1,358,899)	(2,820)	-	(1,361,719)
Infrastructure.....	(8,186,998)	(452,778)	-	(8,639,776)
Total accumulated depreciation.....	(9,545,897)	(455,598)	-	(10,001,495)
Total capital assets being depreciated, net.....	18,523,474	(313,464)	-	18,210,010
Total water activities capital assets, net.....	\$ 18,582,083	\$ (35,978)	\$ -	\$ 18,546,105
	Beginning Balance	Increases	Decreases	Ending Balance
Sewer:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 5,770	\$ -	\$ -	\$ 5,770
Construction in progress.....	-	3,259,488	-	3,259,488
Total capital assets not being depreciated.....	5,770	3,259,488	-	3,265,258
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	128,960	-	-	128,960
Machinery and equipment.....	2,203,642	-	-	2,203,642
Infrastructure.....	39,010,434	328,660	-	39,339,094
Total capital assets being depreciated.....	41,343,036	328,660	-	41,671,696
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(61,321)	(6,448)	-	(67,769)
Machinery and equipment.....	(1,524,060)	(174,008)	-	(1,698,068)
Infrastructure.....	(12,846,922)	(1,012,062)	-	(13,858,984)
Total accumulated depreciation.....	(14,432,303)	(1,192,518)	-	(15,624,821)
Total capital assets being depreciated, net.....	26,910,733	(863,858)	-	26,046,875
Total sewer activities capital assets, net.....	\$ 26,916,503	\$ 2,395,630	\$ -	\$ 29,312,133

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

Governmental Activities:

General government.....	\$	544,063
Public safety.....		277,062
Education.....		1,339,686
Public works.....		796,276
Health and human services.....		43,686
Culture and recreation.....		94,239
		<u>3,095,012</u>
Total depreciation expense - governmental activities.....	\$	<u>3,095,012</u>

Business-Type Activities:

Water.....	\$	455,598
Sewer.....		1,192,518
		<u>1,648,116</u>
Total depreciation expense - business-type activities.....	\$	<u>1,648,116</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2018, are summarized as follows:

Transfers In:			
Transfers Out:	General fund	Capital projects	Total
General fund.....	\$ -	\$ 355,000	\$ 355,000 (1)
Water Enterprise fund.....	472,509	-	472,509 (2)
Sewer Enterprise fund.....	542,398	-	542,398 (2)
Total.....	<u>\$ 1,014,907</u>	<u>\$ 355,000</u>	<u>\$ 1,369,907</u>

(1) – This amount represents transfers to capital project funds to pay for upgrades to the DPW gas pump system, various streetlight relocations, and design services relative to upgrades to various Town owned dams.

(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, 2018, the Town's short-term debt activity was as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2017	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2018
Governmental Funds:							
BAN	Municipal Purpose.....	1.00%	08/11/17	\$ 500,000	\$ -	\$ (500,000)	\$ -
BAN	Municipal Purpose.....	1.00%	08/11/17	82,000	-	(82,000)	-
BAN	Municipal Purpose.....	1.00%	08/11/17	200,000	-	(200,000)	-
BAN	Municipal Purpose.....	1.50%	08/11/17	2,540,779	-	(2,540,779)	-
BAN	Municipal Purpose.....	1.30%	08/10/18	-	290,886	-	290,886
Total Governmental Funds.....				\$ 3,322,779	\$ 290,886	\$ (3,322,779)	\$ 290,886
Water Enterprise Fund:							
BAN	Municipal Purpose.....	1.00%	08/11/17	\$ 250,000	\$ -	\$ (250,000)	\$ -
Sewer Enterprise Fund:							
BAN	Municipal Purpose.....	1.00%	08/11/17	200,000	-	(200,000)	-
BAN	Municipal Purpose.....	2.00%	12/31/18	3,292,716	-	(3,292,716)	-
Total Sewer Enterprise Fund.....				\$ 3,492,716	\$ -	\$ (3,492,716)	\$ -
Total Enterprise Fund.....				\$ 3,742,716	\$ -	\$ (3,742,716)	\$ -

Upon maturity, the governmental fund BAN of \$290,886 was paid down.

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, 2018, 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, 2018
General Obligation Bonds of 2003.....	2023	\$ 17,760,000	4.10	\$ 875,000
Municipal Purpose Bonds of 2011.....	2031	2,953,000	3.40	1,340,000
Municipal Purpose Bonds of 2014.....	2034	11,857,000	3.82	9,615,000
Municipal Purpose Bonds of 2016.....	2031	4,407,116	3.50	3,945,000
Municipal Purpose Bonds of 2017.....	2037	1,588,900	2.00-4.00	1,588,900
Municipal Purpose Bonds of 2018.....	2048	64,580,500	3.00-5.00	<u>64,580,500</u>
Total Bonds Payable.....				81,944,400
Add: Unamortized premium on bonds.....				<u>2,380,545</u>
Total Bonds Payable, net.....				<u><u>\$ 84,324,945</u></u>

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

Year	Principal	Interest	Total
2019.....	\$ 2,764,400	\$ 3,245,679	\$ 6,010,079
2020.....	2,685,000	3,118,912	5,803,912
2021.....	2,705,000	2,993,087	5,698,087
2022.....	2,685,000	2,863,663	5,548,663
2023.....	2,580,000	2,738,762	5,318,762
2024.....	2,580,000	2,615,652	5,195,652
2025.....	2,665,000	2,494,400	5,159,400
2026.....	2,625,000	2,371,950	4,996,950
2027.....	2,725,000	2,250,300	4,975,300
2028.....	2,770,000	2,125,000	4,895,000
2029.....	2,695,000	2,001,402	4,696,402
2030.....	2,705,000	1,916,608	4,621,608
2031.....	2,785,000	1,828,791	4,613,791
2032.....	2,760,000	1,719,823	4,479,823
2033.....	2,765,000	1,609,457	4,374,457
2034.....	2,805,000	1,506,316	4,311,316
2035.....	2,210,000	1,416,953	3,626,953
2036.....	2,285,000	1,340,072	3,625,072
2037.....	2,362,500	1,260,603	3,623,103
2038.....	2,417,500	1,175,839	3,593,339
2039.....	2,465,000	1,080,324	3,545,324
2040.....	2,565,000	981,724	3,546,724
2041.....	2,670,000	879,126	3,549,126
2042.....	2,775,000	772,326	3,547,326
2043.....	2,885,000	661,326	3,546,326
2044.....	2,985,000	560,350	3,545,350
2045.....	3,090,000	455,874	3,545,874
2046.....	3,200,000	347,724	3,547,724
2047.....	3,310,000	235,726	3,545,726
2048.....	<u>3,425,000</u>	<u>119,876</u>	<u>3,544,876</u>
Total.....	<u>\$ 81,944,400</u>	<u>\$ 48,687,649</u>	<u>\$ 130,632,049</u>

Bonds Payable Schedule – Enterprise Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2018
Water Enterprise Fund:				
MWRA.....	2023	\$ 8,079,496	0.00	\$ 2,786,945
General Obligation Bonds of 2011.....	2031	940,000	3.80	590,000
General Obligation Bonds of 2015.....	2034	2,100,000	3.82	1,860,000
General Obligation Bonds of 2016.....	2036	460,000	3.63	420,000
General Obligation Bonds of 2017.....	2029	240,100	2.00-4.00	240,100
Sub-total.....				<u>5,897,045</u>
Sewer Enterprise Fund:				
MCWT.....	2033	16,083,914	2.00	16,083,914
General Obligation Bonds of 2011.....	2031	3,550,000	3.80	1,430,000
General Obligation Bonds of 2015.....	2034	780,000	3.82	690,000
General Obligation Bonds of 2016.....	2031	1,772,884	2.95	1,620,000
General Obligation Bonds of 2017.....	2038	921,000	2.00-4.00	921,000
General Obligation Bonds of 2018.....	2038	1,164,500		<u>1,164,500</u>
Sub-total.....				<u>21,909,414</u>
Total Bonds Payable.....				27,806,459
Add: Unamortized premium on bonds.....				<u>280,020</u>
Total Bonds Payable, net.....				<u>\$ 28,086,479</u>

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 \$59,000. This amount has reported as an intergovernmental revenue and interest expense. Debt service requirements for principal and interest for the enterprise fund bonds payable in future years as noted at the top of the following page.

Year	Principal	Interest	Total
2019.....	\$ 2,061,967	\$ 583,783	\$ 2,645,750
2020.....	1,996,061	580,868	2,576,929
2021.....	1,934,494	539,771	2,474,265
2022.....	1,954,445	496,403	2,450,848
2023.....	1,846,641	455,096	2,301,737
2024.....	1,772,618	414,051	2,186,669
2025.....	1,697,021	373,311	2,070,332
2026.....	1,652,504	331,627	1,984,131
2027.....	1,647,722	293,561	1,941,283
2028.....	1,594,058	254,318	1,848,376
2029.....	1,543,517	217,147	1,760,664
2030.....	1,351,538	183,824	1,535,362
2031.....	1,374,524	151,548	1,526,072
2032.....	1,133,537	119,195	1,252,732
2033.....	1,154,804	93,160	1,247,964
2034.....	877,189	66,552	943,741
2035.....	672,559	46,983	719,542
2036.....	570,542	31,946	602,488
2037.....	478,179	18,948	497,127
2038.....	297,950	8,671	306,621
2039.....	194,589	1,946	196,535
Total.....	\$ 27,806,459	\$ 5,262,709	\$ 33,069,168

The Town is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$13,408 and interest costs for \$1,207. Thus, net MCWT loan repayments, including interest, are scheduled to be \$18,275,493. 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 2018 principal and interest subsidy totaled approximately \$14,000.

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, 2018, the Town had the following authorized and unissued debt:

Purpose	Amount
Departmental Equipment.....	\$ 1,142,420
Sewer Capital Improvements.....	5,205,561
School Construction.....	129,757,314
Stormwater System Improvements.....	350,000
MWRA Local Pipeline Assistance.....	2,608,946
Water Pipeline Improvements.....	1,700,000
Various Town Facility Improvements...	1,185,000
Lincol Ave Pump Station.....	2,300,000
Total.....	\$ 144,249,241

Changes in Long-term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Beginning Balance	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increases	Other Decreases	Ending Balance	Due Within One Year
Governmental Activities:							
Long-term bonds payable.....	\$ 17,457,116	\$ 66,169,400	\$ (1,682,116)	\$ -	\$ -	\$ 81,944,400	\$ 2,764,400
Add: Unamortized premium on bonds...	394,970	2,082,600	(97,025)	-	-	2,380,545	184,209
Total bonds payable.....	17,852,086	68,252,000	(1,779,141)	-	-	84,324,945	2,948,609
Landfill closure.....	400,000	-	-	-	(20,000)	380,000	20,000
Compensated absences.....	5,764,000	-	-	268,000	(926,000)	5,106,000	875,000
Net pension liability.....	27,437,277	-	-	7,558,470	(11,797,521)	23,198,226	-
Other postemployment benefits.....	159,326,320	-	-	11,556,171	(5,073,150)	165,809,341	-
Total governmental activity long-term liabilities.....	\$ 210,779,683	\$ 68,252,000	\$ (1,779,141)	\$ 19,382,641	\$ (17,816,671)	\$ 278,818,512	\$ 3,843,609
Business-Type Activities:							
Long-term bonds payable.....	\$ 27,162,541	\$ 2,807,810	\$ (2,068,395)	\$ -	\$ (95,497)	\$ 27,806,459	\$ 2,061,967
Add: Unamortized premium on bonds...	203,469	114,500	(37,949)	-	-	280,020	35,863
Total bonds payable.....	27,366,010	2,922,310	(2,106,344)	-	(95,497)	28,086,479	2,097,830
Compensated absences.....	162,000	-	-	215,000	(16,000)	361,000	67,000
Net pension liability.....	736,232	-	-	250,021	(332,479)	653,774	-
Other postemployment benefits.....	891,819	-	-	57,872	(103,733)	845,958	-
Total business-type activity long-term liabilities.....	\$ 29,156,061	\$ 2,922,310	\$ (2,106,344)	\$ 522,893	\$ (547,709)	\$ 29,947,211	\$ 2,164,830

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, 2018, \$7,534,414 has been set aside in a general stabilization fund, \$159,225 has been set aside in a capital project stabilization fund, and \$334,251 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, 2018, the governmental fund balances consisted of the following:

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:				
Nonspendable:				
Permanent fund principal.....	\$ -	\$ -	\$ 1,268,026	\$ 1,268,026
Restricted for:				
Capital Projects.....	-	-	2,006,334	2,006,334
Town federal grant funds.....	-	-	103,056	103,056
Town other funds.....	-	-	4,304,425	4,304,425
School gift funds.....	-	-	25,464	25,464
School federal grant funds.....	-	-	1,004,436	1,004,436
School revolving.....	-	-	520,347	520,347
School other funds.....	-	-	358,700	358,700
Middle and High School Capital Projects.....	-	60,580,072	-	60,580,072
Expendable permanent funds.....	-	-	167,746	167,746
Assigned to:				
Encumbrances:				
General government.....	72,126	-	-	72,126
Public safety.....	70,966	-	-	70,966
Education.....	693,019	-	-	693,019
Public works.....	328,920	-	-	328,920
Culture and recreation.....	57,166	-	-	57,166
Employee benefits.....	1,881	-	-	1,881
Unassigned.....	11,719,676	-	-	11,719,676
Total Fund Balances.....	\$ <u>12,943,754</u>	\$ <u>60,580,072</u>	\$ <u>9,758,534</u>	\$ <u>83,282,360</u>

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; and natural disasters for which the Town carries commercial insurance.

The Town participates in a premium-based health care plan for its employees. The plan is a health care risk pool and is administered by the Massachusetts Inter-local Insurance Association (Association). The Association was created to establish cost stability for its members with each participant being charged a premium for coverage based on rates established by the Association. The Town is obligated to pay the Association the required premiums as well as a pro-rata share of any Association deficit should the Association terminate operations.

At June 30, 2018, 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, 2017. The Town's portion of the collective pension expense, contributed by the Commonwealth, of \$6,727,970 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 \$64,460,878 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, 2017, the System's membership consists of the following:

Active members.....	372
Inactive members.....	72
Retirees and beneficiaries currently receiving benefits.....	<u>282</u>
Total.....	<u><u>726</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, 2017 was an actuarially determined amount of approximately \$6,692,000. 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 38.21% of covered payroll. The Town's proportionate share of the required contribution was \$6,484,000 which equaled its actual contribution.

Pension Liabilities

The components of the net pension liability of the participating member units at June 30, 2018 were as follows:

Total pension liability.....	\$	130,290,000
Total pension plan's fiduciary net position.....		<u>(105,673,000)</u>
Total net pension liability.....	\$	<u><u>24,617,000</u></u>
The pension plan's fiduciary net position as		
a percentage of the total pension liability.....		81.11%

At June 30, 2018, the Town reported a liability of \$23,852,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017. 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, 2017, the Town's proportion was 96.89%, which is .0004% lower than the proportion measured at December 31, 2016.

Pension Expense

For the year ended June 30, 2018, the Town recognized pension expense of \$3,972,000. At June 30, 2018, the Town reported deferred outflows and (inflows) of resources related to pensions of \$3,837,000 and (\$5,646,000), 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, 2018 consist of the following:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ -	\$ (1,685,000)	\$ (1,685,000)
Difference between projected and actual earnings.....	-	(3,951,000)	(3,951,000)
Changes in assumptions.....	3,757,000	-	3,757,000
Changes in proportion and proportionate share of contributions.....	80,000	(10,000)	70,000
Total deferred outflows/(inflows) of resources.....	\$ <u>3,837,000</u>	\$ <u>(5,646,000)</u>	\$ <u>(1,809,000)</u>

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

Year ended June 30:

2019.....	\$ 395,000
2020.....	333,000
2021.....	(970,000)
2022.....	<u>(1,567,000)</u>
Total.....	\$ <u>(1,809,000)</u>

Actuarial Assumptions

The total pension liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2017:

Valuation date.....	January 1, 2017
Actuarial cost method.....	Individual Entry Age Normal Cost Method.
Amortization method - UAAL.....	Total increasing 3.5% per year until FY25 with a final amortization payment in FY26.
Remaining amortization period.....	8 years from July 1, 2018
Asset valuation method.....	Market value for GASB 67/68. For funding purposes, gains and losses each year are recognized over 5 years.
Investment rate of return.....	7.40%, net of pension plan investment expense, including inflation.
Discount rate.....	7.40%
Inflation rate.....	Not explicitly assumed.
Projected salary increases.....	Groups 1/2: 6% to 4.25% based on service. Group 4: 7% to 4.75% based on service.
Cost of living adjustments.....	3% of the first \$14,000
Mortality rates.....	<p>Pre-retirement mortality reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct).</p> <p>Pre-retirement mortality reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct).</p> <p>For disabled members, the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct).</p> <p>For disabled members, the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct).</p> <p>It is assumed that 55% of pre-retirement deaths are job-related for Group 1 and 2 members and 90% are job-related for Group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.</p>

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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity		
Large cap equities.....	14.50%	7.50%
Small/mid cap equities.....	3.50%	7.75%
International equities.....	16.00%	7.80%
Emerging international equities.....	6.00%	9.30%
Core fixed income		
Core bonds.....	5.00%	3.75%
20+ year treasuries.....	2.00%	3.50%
TIPS.....	5.00%	3.75%
Value added fixed income		
High-yield bonds.....	1.50%	5.50%
Bank loans.....	2.50%	5.50%
EMD (external).....	1.00%	5.00%
EMD (local currency).....	0.00%	6.50%
Distressed debt.....	3.00%	8.80%
Other credit opportunities.....	2.00%	6.50%
Private equity.....	11.00%	9.50%
Real estate.....	10.00%	6.70%
Timberland.....	4.00%	6.25%
Hedge fund and portfolio completion.....	13.00%	6.40%
Total.....	<u>100.00%</u>	

Rate of return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.14%. 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 7.40%. 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 7.40%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.40%) or 1-percentage-point higher (8.40%) than the current rate:

	1% Decrease (6.4%)	Current Discount (7.4%)	1% Increase (8.4%)
The Town's proportionate share of the net pension liability.....	\$ <u>37,850,000</u>	\$ <u>23,852,000</u>	\$ <u>11,999,000</u>
The Sytsem's total net pension liability.....	\$ <u>39,064,000</u>	\$ <u>24,617,000</u>	\$ <u>17,516,000</u>

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description - The Town of Saugus administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town's health insurance plan, which covers both active and retired members, including teachers. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

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

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish a postemployment benefit trust fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities. During 2018, the Town pre-funded future OPEB liabilities totaling approximately \$243,000 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, 2018, the balance of this fund totaled \$643,585.

GASB Statement #74 – OPEB Plan Financial Reporting

Measurement Date – GASB #74 requires the net OPEB liability to be measured as of the OPEB Plan's most recent fiscal year-end. Accordingly, the net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016.

Employees Covered by Benefit Terms – The following table represents the Plan's membership at July 1, 2016:

Active members.....	574
Inactive members currently receiving benefits.....	<u>704</u>
Total.....	<u><u>1,278</u></u>

Components of OPEB Liability – The following table represents the components of the Plan's OPEB liability as of June 30, 2018:

Total OPEB liability.....	\$ 166,061,789
Less: OPEB plan's fiduciary net position.....	<u>(643,585)</u>
Net OPEB liability.....	<u><u>\$ 165,418,204</u></u>
The OPEB plan's fiduciary net position as a percentage of the total OPEB liability.....	0.39%

Rate of return – For the year ended June 30, 2018, the annual money-weighted rate of return on OPEB plan investments was 0.88%. The money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested.

The Town's policy in regard to the allocation of invested assets is established and may be amended by the Board of Selectmen 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 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 of by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The Plan's expected future real rate of return of 4.37% is added to the expected inflation of 2.75% to produce the long-term expected nominal rate of return of 7.12%. Best estimates of geometric real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2018 are summarized in the table on the following page.

<u>Asset Class</u>	<u>Long-Term Expected Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity		
Large cap equities.....	19.33%	4.00%
Small/mid cap equities.....	9.67%	6.00%
International equities.....	12.67%	4.50%
Emerging international equities.....	6.33%	7.00%
Core fixed income		
Core bonds.....	26.00%	2.00%
International fixed income.....	6.00%	3.00%
Alternatives.....	20.00%	6.50%
Real estate.....	0.00%	6.25%
Total.....	100.00%	

Significant Actuarial Methods and Assumptions – The total OPEB liability in the July 1, 2016 actuarial valuation was determined by using the following actuarial assumptions, applied to all periods including the measurement date that was updated to June 30, 2018 to be in accordance with GASB 74:

Valuation date.....	July 1, 2016
Actuarial cost method.....	Individual Entry Age Normal Cost Method.
Asset valuation method.....	The Actuarial Value of Assets is the fair value of assets.
Investment rate of return.....	6.87%, net of pension plan investment expense, including inflation.
Municipal bond rate.....	3.45% as of June 30, 2018 (source: S&P Municipal Bond 20-year High Grade Index - SAPIHG)
Single Equivalent Discount rate.....	3.75%, net of OPEB plan investment expense, including inflation. Using a blend of the Municipal Bond Index Rate for unfunded periods and the Investment Rate of Return for funded periods.
Inflation rate.....	2.75% as of June 30, 2018 and for future periods.
Projected salary increases.....	3.00% annually as of June 30, 2018.

Pre-Retirement.....	RP-2000 Employees Mortality Table (base year 2009) with full generational mortality improvement using Scale BB.
Post-Retirement.....	RP-2000 Healthy Annuitant Mortality Table (base year 2009) with full generational mortality improvement using Scale BB.
Disabled Retiree.....	RP-2000 Healthy Annuitant Table (base year 2012) with full generational mortality improvement using Scale BB.
Mortality Experience Study.....	The mortality assumptions reflect PERAC's recent experience analysis published in 2014 (based on the years 2006-2011), updated to reflect data through January 1, 2015 for post-retirement mortality, and professional judgement. As such, mortality assumptions reflect observed current mortality as well as expected mortality improvements.

Sensitivity of the net other postemployment benefit 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 3.75%, 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 (2.75%) or 1-percentage-point higher (4.75%) than the current rate.

	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
Net OPEB liability.....	\$ 197,118,132	\$ 165,418,204	\$ 141,815,557

Sensitivity of the net other postemployment benefit 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 Trend (5.00%)	1% Increase (6.00%)
Net OPEB liability.....	\$ 137,873,248	\$ 165,418,204	\$ 201,294,807

Changes in Assumptions and Plan Provisions

Effective for the Fiscal Year ending June 30, 2018, the discount rate is 3.75%, previously 3.25%.

There were no changes in plan provisions.

GASB Statement # 75 – OPEB Employer Financial Reporting

Summary of Significant Accounting Policies – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts (repurchase agreements) that have a maturity at the time of purchase of one year or less, which are reported at cost.

Measurement Date – GASB Statement #75 requires the net OPEB liability to be measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the end of the employer's current fiscal year, consistently applied from period to period. Accordingly, the net OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016.

Plan Membership – The following table represents the Plan's membership at July 1, 2017:

Active members.....	577
Inactive employees or beneficiaries currently receiving benefits.....	<u>704</u>
Total.....	<u><u>1,281</u></u>

Significant Actuarial Methods and Assumptions – The total OPEB liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified, that was updated to June 30, 2017, to be in accordance with GASB Statement #75:

Valuation date.....	July 1, 2016
Actuarial cost method.....	Individual Entry Age Normal Cost Method.
Asset valuation method.....	The Actuarial Value of Assets is the fair value of assets.
Investment rate of return.....	6.87%, net of pension plan investment expense, including inflation.

Municipal bond rate.....	3.13% as of July 1, 2017 (source: S&P Municipal Bond 20-year High Grade Index - SAPIHG)
Discount rate.....	3.5%, per annum (previously 4.00%)
Inflation rate.....	2.75% as of June 30, 2018 and for future periods.
Projected salary increases.....	3.00% annually as of June 30, 2018.
Mortality rates:	
Pre-Retirement.....	RP-2000 Employees Mortality Table (base year 2009) with full generational mortality improvement using Scale BB.
Post-Retirement.....	RP-2000 Healthy Annuitant Mortality Table (base year 2009) with full generational mortality improvement using Scale BB.
Disabled Retiree.....	RP-2000 Healthy Annuitant Table (base year 2012) with full generational mortality improvement using Scale BB.
Mortality Experience Study.....	The mortality assumptions reflect PERAC's recent experience analysis published in 2014 (based on the years 2006-2011), updated to reflect data through January 1, 2015 for post-retirement mortality, and professional judgement. As such, mortality assumptions reflect observed current mortality as well as expected mortality improvements.

Rate of Return – For the year ended June 30, 2018, the annual money-weighted rate of return on OPEB plan investments was 1.79%. The money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested.

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 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 of by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The Plan's expected future real rate of return of 4.37% is added to the expected inflation of 2.75% to produce the long-term expected nominal rate of return of 7.12%. Best estimates of geometric real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Global equity		
Large cap equities.....	19.33%	4.00%
Small/mid cap equities.....	9.67%	6.00%
International equities.....	12.67%	4.50%
Emerging international equities.....	6.33%	7.00%
Core fixed income		
Core bonds.....	26.00%	2.00%
International fixed income.....	6.00%	3.00%
Alternatives.....	20.00%	6.50%
Real estate.....	0.00%	6.25%
Total.....	100.00%	

Discount rate – The discount rate used to measure the total OPEB liability was 3.5% as of July 1, 2017 measurement date. The projection of cash flows used to determine the discount rate assumed that contributions will be made in accordance with the Plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments to current plan members. Therefore the long-term expected rate of return on the OPEB plan assets was applied to the first funded periods of projected future benefits payments and a yield or index rate for 20 year, tax exempt general obligation municipal bonds with an average rate of AA/Aa or higher, which was based on the S&P Municipal Bond 20 – Year High Grade Index as of June 30, 2017, was applied to all periods thereafter that were unfunded.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2016.....	\$ 160,371,284	\$ 153,145	\$ 160,218,139
Changes for the year:			
Service cost.....	5,867,367	-	5,867,367
Interest.....	5,732,988	-	5,732,988
Net investment income.....	-	4,873	(4,873)
Employer contributions to Trust.....	-	5,158,322	(5,158,322)
Benefit payments withdrawn from Trust.....	-	(4,920,322)	4,920,322
Benefit payments.....	(4,920,322)	-	(4,920,322)
Net change.....	6,680,033	242,873	6,437,160
Balances at June 30, 2017.....	\$ 167,051,317	\$ 396,018	\$ 166,655,299

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following table presents the net other postemployment benefit liability, calculated using the discount rate of 3.50%, as well as what the net other postemployment benefit liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage-point higher (4.50%) than the current discount rate.

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Net OPEB liability.....	\$ 200,469,658	\$ 166,655,299	\$ 142,356,857

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following table presents the net other postemployment benefit liability, calculated using the current healthcare trend rate of 5.00%, as well as what the net other postemployment benefit liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher.

	1% Decrease (4.00%)	Current Trend (5.00%)	1% Increase (6.00%)
Net OPEB liability.....	\$ 138,410,252	\$ 166,655,299	\$ 203,587,514

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2017, the GASB Statement #75 measurement date, the Town recognized OPEB expense of \$6,437,160.

The Town has recognized deferred outflows of resources equal to the \$5,331,707 contribution after the measurement date. The amount deferred will be recognized in OPEB expense in fiscal year 2019.

NOTE 12 – FINANCIAL STATEMENTS FOR PENSION AND OTHER POSTEMPLOYMENT BENEFITS TRUST FUNDS

GAAP requires that all Pension and Other Postemployment Trust Funds be combined and presented in one column in the Fiduciary Funds financial statements and that the individual financial statements for each trust fund plan are reported in the notes to the financial statements. Provided below are the individual financial statements for the pension and OPEB plans that are included in the Fiduciary Funds as Pension and Other Postemployment Benefit Trust Funds.

	Pension Trust Fund (as of December 31, 2017)	Other Postemployment Benefit Trust Fund	Total Pension and Other Postemployment Benefit Trust Funds
ASSETS			
Cash and cash equivalents.....	\$ 321,612	\$ 3,251	\$ 324,863
Investments:			
Investments in Pension Reserve Investment Trust.....	101,969,091	640,334	102,609,425
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	3,382,250	-	3,382,250
TOTAL ASSETS.....	105,672,953	643,585	106,316,538
LIABILITIES			
Warrants payable.....	391	-	391
NET POSITION			
Restricted for pensions.....	105,672,562	-	105,672,562
Restricted for other postemployment benefits.....	-	643,585	643,585
TOTAL NET POSITION.....	\$ 105,672,562	\$ 643,585	\$ 106,316,147

	Pension Trust Fund (as of December 31, 2017)	Other Postemployment Benefit Trust Fund	Total Pension and Other Postemployment Benefit Trust Funds
ADDITIONS:			
Contributions:			
Employer contributions.....	\$ 6,692,257	\$ 243,000	\$ 6,935,257
Employer contributions for other postemployment benefit payments.....	-	5,088,707	5,088,707
Member contributions.....	1,867,781	-	1,867,781
Transfers from other systems.....	217,636	-	217,636
3(8)c contributions from other systems.....	200,474	-	200,474
State COLA reimbursements.....	86,939	-	86,939
Member makeup payments and redeposits.....	29,015	-	29,015
Total contributions.....	9,094,102	5,331,707	14,425,809
Net investment income:			
Investment income.....	15,452,752	4,567	15,457,319
Less: investment expense.....	(499,647)	-	(499,647)
Net investment income (loss).....	14,953,105	4,567	14,957,672
TOTAL ADDITIONS.....	24,047,207	5,336,274	29,383,481
DEDUCTIONS:			
Administration.....	209,584	-	209,584
Transfers to other systems.....	158,862	-	158,862
3(8)c transfer to other systems.....	174,733	-	174,733
Retirement benefits and refunds.....	8,066,416	-	8,066,416
Other postemployment benefit payments.....	-	5,088,707	5,088,707
TOTAL DEDUCTIONS.....	8,609,595	5,088,707	13,698,302
NET INCREASE (DECREASE) IN NET POSITION.....	15,437,612	247,567	15,685,179
NET POSITION AT BEGINNING OF YEAR.....	90,234,950	396,018	90,630,968
NET POSITION AT END OF YEAR.....	\$ 105,672,562	\$ 643,585	\$ 106,316,147

NOTE 13 – 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 \$380,000 as the estimate of the landfill closure liability at June 30, 2018. This amount is based on estimates of what it would cost to perform all future closure and post closure care in 2018. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 14 – COMMITMENTS

The Commonwealth of Massachusetts has approved school constructions assistance to the Town for the construction of the new middle and high school. The assistance program is administered by the Massachusetts School Building Authority (MSBA) and provides resources to fund school construction under a grant program. This is a reimbursement grant program based on a percentage of allowable costs incurred. The MSBA has approved \$92.8 million of grant funding for the Middle and High School Project which represents a 57.72% reimbursement rate of eligible costs. Through the end of the current fiscal year the Town has expended approximately \$5.6 million and has been approved for \$160.7 million in construction reimbursement. The Town has budgeted \$186.4 million in expenses for the projected and is scheduled to be completed in fiscal year 2021.

NOTE 15 – 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, 2018, 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, 2018, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2018.

NOTE 16 – REVISION OF NET POSITION PREVIOUSLY REPORTED

Beginning net position of governmental activities, business-type activities and each applicable enterprise fund has been revised to reflect the implementation of GASB Statement #75. The revised balances are summarized in the following table.

	06/30/2017 Previously Reported Balances	Implementation of GASB #75	06/30/2017 Revised Balances
Government-Wide Financial Statements			
Governmental activities.....	\$ (9,958,953)	\$ (108,038,888)	\$ (117,997,841)
Business-type activities.....	<u>31,826,116</u>	<u>(412,094)</u>	<u>31,414,022</u>
Total.....	<u>\$ 21,867,163</u>	<u>\$ (108,450,982)</u>	<u>\$ (86,583,819)</u>
Business-type Activities - Enterprise Funds			
Water Enterprise fund.....	\$ 17,303,171	\$ (111,710)	\$ 17,191,461
Sewer Enterprise fund.....	<u>14,522,945</u>	<u>(400,859)</u>	<u>14,122,086</u>
Total.....	<u>\$ 31,826,116</u>	<u>\$ (512,569)</u>	<u>\$ 31,313,547</u>

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 11, 2019, which is the date the financial statements were available to be issued.

NOTE 18 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2018, the following GASB pronouncements were implemented:

- GASB Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The basic financial statements, related notes and required supplementary information were updated to be in compliance with this pronouncement.
- GASB Statement #81, *Irrevocable Split-Interest Agreements*. This pronouncement did not impact the basic financial statements.
- GASB Statement #85, *Omnibus 2017*. This pronouncement did not impact the basic financial statements.
- GASB Statement #86, *Certain Debt Extinguishment Issues*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- 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 2019.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.
- The GASB issued Statement #88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is required to be implemented in 2019.
- The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2021.
- The GASB issued Statement #90, *Majority Equity Interests – an amendment of GASB Statements #14 and #61*, which is required to be implemented in 2020.

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

Required Supplementary Information

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

YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Amounts	Variance
	Original	Final	Budgetary	Carried Forward	to Final
	Budget	Budget	Amounts	To Next Year	Budget
REVENUES:					
Real estate and personal property taxes,					
net of tax refunds.....	\$ 62,861,255	\$ 62,861,255	\$ 62,445,662	\$ -	\$ (415,593)
Tax liens.....	-	-	417,270	-	417,270
Motor vehicle and other excise taxes.....	4,590,763	4,590,763	4,468,580	-	(122,183)
Hotel/motel tax.....	634,000	634,000	608,374	-	(25,626)
Meals tax.....	955,000	955,000	979,820	-	24,820
Penalties and interest on taxes.....	277,000	277,000	235,629	-	(41,371)
Fees and rentals.....	641,000	641,000	559,284	-	(81,716)
Payments in lieu of taxes.....	67,000	67,000	70,349	-	3,349
Licenses and permits.....	1,665,000	1,665,000	2,297,278	-	632,278
Fines and forfeitures.....	145,000	145,000	122,472	-	(22,528)
Intergovernmental.....	10,047,560	10,047,560	9,761,847	-	(285,713)
Departmental and other.....	527,300	527,300	759,798	-	232,498
Investment income.....	155,000	155,000	632,333	-	477,333
TOTAL REVENUES.....	82,565,878	82,565,878	83,358,696	-	792,818
EXPENDITURES:					
Current:					
General government.....	3,555,315	3,423,763	2,983,712	72,126	367,925
Public safety.....	13,049,686	12,989,180	12,745,169	70,966	173,045
Education.....	32,885,496	32,690,504	31,978,187	693,019	19,298
Public works.....	4,146,653	4,921,390	4,333,042	328,920	259,428
Trash removal and recycling.....	1,548,352	1,670,560	1,531,979	-	138,581
Health and human services.....	851,375	861,875	727,716	-	134,159
Culture and recreation.....	1,130,320	1,119,717	1,006,727	57,166	55,824
Pension benefits.....	6,484,329	6,484,329	6,484,329	-	-
Property and liability insurance.....	669,000	819,000	763,462	-	55,538
Employee benefits.....	14,656,073	14,806,073	14,742,974	1,881	61,218
State and county charges.....	3,371,870	3,371,870	3,210,876	-	160,994
Debt service:					
Principal.....	1,682,116	1,682,116	1,682,116	-	-
Interest.....	815,980	815,980	844,736	-	(28,756)
TOTAL EXPENDITURES.....	84,846,565	85,656,357	83,035,025	1,224,078	1,397,254
EXCESS (DEFICIENCY) OF REVENUES					
OVER (UNDER) EXPENDITURES.....	(2,280,687)	(3,090,479)	323,671	(1,224,078)	2,190,072
OTHER FINANCING SOURCES (USES):					
Use of prior year reserves.....	1,077,242	917,034	-	-	(917,034)
Use of free cash to fund snow and ice deficit.....	-	820,000	-	-	(820,000)
Use of free cash to fund transfers out.....	-	2,505,000	-	-	(2,505,000)
Transfers in.....	1,203,445	1,203,445	1,014,907	-	(188,538)
Transfers out.....	-	(2,355,000)	(2,355,000)	-	-
TOTAL OTHER FINANCING					
SOURCES (USES).....	2,280,687	3,090,479	(1,340,093)	-	(4,430,572)
NET CHANGE IN FUND BALANCE.....	-	-	(1,016,422)	(1,224,078)	(2,240,500)
BUDGETARY FUND BALANCE, Beginning of year.....	6,471,799	6,471,799	6,471,799	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 6,471,799	\$ 6,471,799	\$ 5,455,377	\$ (1,224,078)	\$ (2,240,500)

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.

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

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Total pension liability:				
Service cost.....	\$ 2,254,000	\$ 2,655,000	\$ 2,814,000	\$ 2,909,000
Interest.....	8,349,000	8,483,000	9,063,000	9,251,000
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.....	(7,092,000)	(7,213,000)	(7,414,000)	(7,979,000)
Net change in total pension liability.....	3,511,000	8,132,000	5,949,000	4,181,000
Total pension liability - beginning.....	108,517,000	112,028,000	120,160,000	126,109,000
Total pension liability - ending (a).....	<u>\$ 112,028,000</u>	<u>\$ 120,160,000</u>	<u>\$ 126,109,000</u>	<u>\$ 130,290,000</u>
Plan fiduciary net position:				
Employer contributions.....	\$ 5,249,000	\$ 5,669,000	\$ 6,123,000	\$ 6,692,000
Employer contributions - payroll deductions.....	1,610,000	1,648,000	1,698,000	1,868,000
Employer contributions - transfers from other systems.....	208,000	169,000	135,000	218,000
Member make-up and redeposits.....	73,000	20,000	55,000	29,000
Retirement benefits- 3(8)c contributions from other systems.....	180,000	198,000	200,000	200,000
Net investment income (loss).....	5,740,000	547,000	6,140,000	14,953,000
Administrative expenses.....	(143,000)	(170,000)	(160,000)	(210,000)
Member contributions - transfers to other systems.....	(236,000)	(602,000)	(257,000)	(159,000)
Member contributions - 3(8)c payments to other systems.....	(143,000)	(158,000)	(159,000)	(175,000)
Retirement benefits and refunds.....	(7,092,000)	(7,213,000)	(7,414,000)	(7,979,000)
Net increase (decrease) in fiduciary net position.....	5,446,000	108,000	6,361,000	15,437,000
Fiduciary net position - beginning of year.....	78,320,000	83,766,000	83,874,000	90,235,000
Fiduciary net position - end of year (b).....	<u>\$ 83,766,000</u>	<u>\$ 83,874,000</u>	<u>\$ 90,235,000</u>	<u>\$ 105,672,000</u>
Net pension liability - ending (a)-(b).....	<u>\$ 28,262,000</u>	<u>\$ 36,286,000</u>	<u>\$ 35,874,000</u>	<u>\$ 24,618,000</u>
Plan fiduciary net position as a percentage of the total pension liability.....	74.77%	69.80%	71.55%	81.11%
Covered payroll.....	\$ 14,541,000	\$ 17,092,000	\$ 17,092,000	\$ 17,516,000
Net pension liability as a percentage of covered payroll.....	194.36%	212.30%	209.89%	140.55%

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.

**SCHEDULE OF CONTRIBUTIONS
SAUGUS CONTRIBUTORY RETIREMENT SYSTEM**

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
December 31, 2017.....	\$ 6,692,000	\$ (6,692,000)	\$ -	\$ 17,516,000	38.21%
December 31, 2016.....	\$ 6,123,000	\$ (6,123,000)	\$ -	\$ 17,092,000	35.82%
December 31, 2015.....	\$ 5,669,000	\$ (5,669,000)	\$ -	\$ 17,092,000	33.17%
December 31, 2014.....	\$ 5,249,000	\$ (5,249,000)	\$ -	\$ 14,541,000	36.10%

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
SAUGUS CONTRIBUTORY RETIREMENT SYSTEM

<u>Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
December 31, 2017.....	17.14%
December 31, 2016.....	7.58%
December 31, 2015.....	0.68%
December 31, 2014.....	7.62%

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.

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**

<u>Year</u>	<u>Proportion of the net pension liability (asset)</u>	<u>Proportionate share of the net pension liability (asset)</u>	<u>Covered payroll</u>	<u>Net pension liability as a percentage of covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
December 31, 2017.....	96.89%	\$ 23,852,151	\$ 16,971,779	140.54%	81.11%
December 31, 2016.....	96.94%	\$ 34,775,458	\$ 16,568,605	209.89%	71.55%
December 31, 2015.....	96.94%	\$ 35,145,580	\$ 16,554,822	212.30%	69.80%
December 31, 2014.....	96.50%	\$ 27,272,383	\$ 14,035,695	194.31%	74.77%

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

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

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
December 31, 2017.....	\$ 6,484,329	\$ (6,484,329)	\$ -	\$ 16,971,779	38.21%
December 31, 2016.....	\$ 5,935,500	\$ (5,935,500)	\$ -	\$ 16,568,605	35.82%
December 31, 2015.....	\$ 5,490,831	\$ (5,490,831)	\$ -	\$ 16,554,822	33.17%
December 31, 2014.....	\$ 5,065,202	\$ (5,065,202)	\$ -	\$ 14,035,695	36.09%

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

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

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Therefore, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the associated collective net pension liability; the portion of the collective pension expense as both a revenue and pension expense recognized; and the Plan's fiduciary net position as a percentage of the total liability.

Year	Commonwealth's 100% Share of the Associated Net Pension Liability	Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2018.....	\$ 64,460,878	\$ 6,727,970	54.25%
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 – Plan and Employer Reporting

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.

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 Returns presents multi-year trend information on the money-weighted investment return on the Plan's other postemployment 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.

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

	June 30, 2017	June 30, 2018
Total OPEB Liability		
Service Cost.....	\$ 5,867,367	\$ 5,307,475
Interest.....	5,732,988	6,404,564
Changes of benefit terms.....	-	-
Differences between expected and actual experience...	-	(342,227)
Changes of assumptions.....	-	(7,270,633)
Benefit payments.....	<u>(4,920,322)</u>	<u>(5,088,707)</u>
Net change in total OPEB liability.....	6,680,033	(989,528)
Total OPEB liability - beginning.....	<u>160,371,284</u>	<u>167,051,317</u>
Total OPEB liability - ending (a).....	<u><u>\$ 167,051,317</u></u>	<u><u>\$ 166,061,789</u></u>
Plan fiduciary net position		
Employer contributions.....	\$ 238,000	\$ 243,000
Employer contributions for OPEB payments.....	4,920,322	5,088,707
Net investment income.....	4,873	4,567
Benefit payments.....	<u>(4,920,322)</u>	<u>(5,088,707)</u>
Net change in plan fiduciary net position.....	242,873	247,567
Plan fiduciary net position - beginning of year.....	<u>153,145</u>	<u>396,018</u>
Plan fiduciary net position - end of year (b).....	<u><u>\$ 396,018</u></u>	<u><u>\$ 643,585</u></u>
Net OPEB liability - ending (a)-(b).....	<u><u>\$ 166,655,299</u></u>	<u><u>\$ 165,418,204</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability.....	0.24%	0.39%
Covered-employee payroll.....	\$ 33,363,113	\$ 34,364,006
Net OPEB liability as a percentage of covered-employee payroll.....	499.52%	481.37%

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 - PLAN FINANCIAL REPORTING**

<u>Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered- employee payroll</u>	<u>Contributions as a percentage of covered- employee payroll</u>
June 30, 2018.....	\$ 14,665,661	\$ (5,331,707)	\$ 9,333,954	\$ 34,364,006	15.52%
June 30, 2017.....	14,622,218	(5,158,322)	9,463,896	33,363,113	15.46%

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 - PLAN FINANCIAL REPORTING

Year	Annual money-weighted rate of return, net of investment expense
June 30, 2018.....	0.88%
June 30, 2017.....	2.65%

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.

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 difference of \$3.2 million between the original budget of \$84.8 million and the final amended budget of \$88.0 million was due to the approval of supplemental appropriations that were funded by a like amount of free cash. These supplemental appropriations were mainly made to fund the Town's OPEB Trust fund and Stabilization Fund as well as to cover snow and ice costs.

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, 2018, is presented at the top of the following page.

Net change in fund balance - budgetary basis.....	\$ (1,016,422)
<u>Perspective differences:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	2,105,403
<u>Basis of accounting differences:</u>	
Net change in recording tax refunds payable.....	(471,391)
Net change in recording 60 day receipts.....	(24,200)
Net change in market value of investments.....	(171,552)
Net change in recording accrued payroll.....	45,942
Recognition of revenue for on-behalf payments.....	6,727,970
Recognition of expenditures for on-behalf payments.....	<u>(6,727,970)</u>
Net change in fund balance - GAAP basis.....	\$ <u>467,780</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 – TownA. 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

The System reduced the discount rate from 7.60% to 7.40%. There were no changes in assumptions.

E. Changes in Plan Provisions:

There were no changes in provisions.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

The Other Postemployment Benefit Plan – Plan Financial Reporting

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.

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-employee payroll. Actuarially contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates are as follows:

Valuation date.....	July 1, 2016
Actuarial cost method.....	Individual Entry Age Normal Cost Method.
Asset valuation method.....	The Actuarial Value of Assets is the fair value of assets.
Investment rate of return.....	6.87%, net of pension plan investment expense, including inflation.
Municipal bond rate.....	3.45% as of June 30, 2018 (source: S&P Municipal Bond 20-year High Grade Index - SAPIHG)
Single Equivalent Discount rate.....	3.75%, net of OPEB plan investment expense, including inflation. Using a blend of the Municipal Bond Index Rate for unfunded periods and the Investment Rate of Return for funded periods.
Inflation rate.....	2.75% as of June 30, 2018 and for future periods.
Projected salary increases.....	3.00% annually as of June 30, 2018.
Mortality rates:	
Pre-Retirement.....	RP-2000 Employees Mortality Table (base year 2009) with full generational mortality improvement using Scale BB.
Post-Retirement.....	RP-2000 Healthy Annuitant Mortality Table (base year 2009) with full generational mortality improvement using Scale BB.
Disabled Retiree.....	RP-2000 Healthy Annuitant Table (base year 2012) with full generational mortality improvement using Scale BB.

Schedule of Investment Returns

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

Changes of Assumptions and Provisions

None.