

**TOWN OF MONTAGUE, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Montague, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Montague, Massachusetts, as of and for the year ended June 30, 2012 (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2011), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Montague's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Montague, Massachusetts, as of June 30, 2012 (except for the Montague Contributory Retirement System which is as of December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2012 on our consideration of the Town's 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress 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 evidence sufficient to express an opinion or provide any assurance.

*Melanson Heath + Company P.C.*

Greenfield, Massachusetts

October 25, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Town of Montague, we offer readers this narrative overview and analysis of the financial activities of the Town of Montague for the fiscal year ended June 30, 2012.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town of Montague's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other 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 our finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include sewer enterprise fund and airport enterprise fund activities.

**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 financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, the enterprise funds are used to account for sewer and airport operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for sewer and airport operations, which are both considered to be a major funds.

**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 statements 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 proprietary funds.

**Notes to financial statements.** The notes provide additional information that are essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

**B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 19,934,822 (i.e., net assets), an increase of \$ 868,053 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 3,359,463, a decrease of \$ (357,144) in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 965,393, a decrease of \$ (264,192) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 11,164,844, an increase of \$ 382,995 in comparison to the prior year.

**C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>2012</u>	<u>2011</u> <u>Restated</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u> <u>Restated</u>
Current and other assets	\$ 4,963,346	\$ 5,097,094	\$ 766,800	\$ 734,591	\$ 5,730,146	\$ 5,831,685
Capital assets	<u>12,432,348</u>	<u>11,641,129</u>	<u>17,149,530</u>	<u>16,754,021</u>	<u>29,581,878</u>	<u>28,395,150</u>
Total assets	17,395,694	16,738,223	17,916,330	17,488,612	35,312,024	34,226,835
Long-term liabilities outstanding	10,012,754	9,850,960	4,416,545	3,595,763	14,429,299	13,446,723
Other liabilities	<u>779,056</u>	<u>558,602</u>	<u>168,847</u>	<u>1,154,741</u>	<u>947,903</u>	<u>1,713,343</u>
Total liabilities	10,791,810	10,409,562	4,585,392	4,750,504	15,377,202	15,160,066
Net assets:						
Invested in capital assets, net	5,397,452	4,453,402	13,074,932	12,443,394	18,472,384	16,896,796
Restricted	656,250	725,471	-	-	656,250	725,471
Unrestricted	<u>550,182</u>	<u>1,149,788</u>	<u>256,006</u>	<u>294,714</u>	<u>806,188</u>	<u>1,444,502</u>
Total net assets	<u>\$ 6,603,884</u>	<u>\$ 6,328,661</u>	<u>\$ 13,330,938</u>	<u>\$ 12,738,108</u>	<u>\$ 19,934,822</u>	<u>\$ 19,066,769</u>

CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
		<u>Restated</u>				<u>Restated</u>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 826,597	\$ 748,215	\$ 1,643,644	\$ 1,465,294	\$ 2,470,241	\$ 2,213,509
Operating grants and contributions	924,125	572,165	-	-	924,125	572,165
Capital grants and contributions	594,429	557,533	899,399	2,447,408	1,493,828	3,004,941
General revenues:						
Property taxes	13,063,697	12,697,769	-	-	13,063,697	12,697,769
Excises	615,960	619,350	-	-	615,960	619,350
Penalties, interest and other taxes	129,334	125,985	-	-	129,334	125,985
Investment income	8,211	9,314	371	468	8,582	9,782
Grants and contributions not restricted	1,386,646	1,391,203	-	-	1,386,646	1,391,203
Miscellaneous	72,936	140,100	-	-	72,936	140,100
Total revenues	<u>17,621,935</u>	<u>16,861,634</u>	<u>2,543,414</u>	<u>3,913,170</u>	<u>20,165,349</u>	<u>20,774,804</u>
<b>Expenses:</b>						
General government	1,849,484	1,522,630	-	-	1,849,484	1,522,630
Public safety	1,860,341	1,714,191	-	-	1,860,341	1,714,191
Education	8,396,048	8,140,815	-	-	8,396,048	8,140,815
Public works	2,001,597	2,008,683	-	-	2,001,597	2,008,683
Health and human services	236,185	260,732	-	-	236,185	260,732
Culture and recreation	37,928	580,076	-	-	37,928	580,076
Employee benefits	2,317,872	2,276,782	-	-	2,317,872	2,276,782
Interest	282,453	296,537	-	-	282,453	296,537
Intergovernmental	167,121	161,907	-	-	167,121	161,907
Sewer operations	-	-	1,908,472	1,770,837	1,908,472	1,770,837
Airport operations	-	-	239,795	110,055	239,795	110,055
Total expenses	<u>17,149,029</u>	<u>16,962,353</u>	<u>2,148,267</u>	<u>1,880,892</u>	<u>19,297,296</u>	<u>18,843,245</u>
Change in net assets before transfers	472,906	(100,719)	395,147	2,032,278	868,053	1,931,559
Transfers in (out)	<u>(197,683)</u>	<u>(221,997)</u>	<u>197,683</u>	<u>221,997</u>	<u>-</u>	<u>-</u>
Change in net assets	275,223	(322,716)	592,830	2,254,275	868,053	1,931,559
Net assets - beginning of year, as restated	<u>6,328,661</u>	<u>6,651,377</u>	<u>12,738,108</u>	<u>10,483,833</u>	<u>19,066,769</u>	<u>17,135,210</u>
Net assets - end of year	<u>\$ 6,603,884</u>	<u>\$ 6,328,661</u>	<u>\$ 13,330,938</u>	<u>\$ 12,738,108</u>	<u>\$ 19,934,822</u>	<u>\$ 19,066,769</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 19,934,822, an increase of \$ 868,053 from the prior year.

The largest portion of net assets, \$ 18,472,384, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available

for future spending. Although the investment in capital assets is reported net of 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 net assets, \$ 656,250, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 806,188, may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in an increase in net assets of \$ 275,223. Key elements of this change are as follows:

General Fund Operating Results:	
Tax revenue collected in excess of budget	\$ 31,765
State and local revenues over budget	197,890
Budgetary appropriations unspent by departments	378,573
Use of free cash (fund balance) and other surplus as funding sources for non-recurring items	(726,420)
Excess of current year encumbrances to be spent in the subsequent year over prior year encumbrances spent in the current year	90,608
Change in Stabilization funds	(65,403)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	(264,157)
Depreciation expense in excess of principal debt service	(277,369)
Capital expenditures funded by non-bond funds, net of disposals	1,434,564
Change in other post employment benefit (OPEB) liability	(560,035)
Changes in accruals and long-term liabilities other than debt	<u>35,207</u>
Total	<u>\$ 275,223</u>

**Business-type activities.** Business-type activities for the year resulted in an increase in net assets of \$ 592,830. Key elements of this change are as follows:

Sewer fund revenues in excess of expenditures	\$ 280,445
Airport fund revenues in excess of expenditures	114,702
Transfers from general fund to sewer and airport funds	<u>197,683</u>
Total	<u>\$ 592,830</u>

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used 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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 3,359,463, a decrease of \$ (357,144) in comparison with the prior year. Key elements of this change are as follows:

General Fund Operating Results:	
Tax revenue collected in excess of budget	\$ 31,765
State and local revenues over budget	197,890
Budgetary appropriations unspent by departments	378,573
Use of free cash (fund balance) and other surplus as funding sources for non-recurring items	(726,420)
Excess of current year encumbrances to be spent in the subsequent year over prior year encumbrances spent in the current year	90,608
Change in Stabilization funds	(65,403)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	<u>(264,157)</u>
Total	<u>\$ (357,144)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 965,393 while total fund balance was \$ 2,832,765. 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 general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>% of Total 2012 General Fund Expenditures</u>
Unassigned fund balance	\$ 965,393	\$ 1,229,585	\$ (264,192)	6.1%
Total fund balance	2,832,765	2,925,752	(92,987)	17.9%

The total fund balance of the general fund changed by \$ (92,987) during the current fiscal year. Key elements of this change are as follows:

General Fund Operating Results:	
Tax revenue collected in excess of budget	\$ 31,765
State and local revenues over budget	197,890
Budgetary appropriations unspent by departments	378,573
Use of free cash (fund balance) and other surplus as funding sources for non-recurring items	(726,420)
Excess of current year encumbrances to be spent in the subsequent year over prior year encumbrances spent in the current year	90,608
Change in Stabilization funds	<u>(65,403)</u>
Total	<u>\$ (92,987)</u>

Included in the total general fund balance are the Town's stabilization funds with the following balances:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
General stabilization	\$ 1,073,091	\$ 1,138,506	\$ (65,415)
Franklin County Technical School stabilization	24,487	24,475	12
Gill-Montague Regional School District stabilization	44	44	-

**Proprietary funds.** Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 256,006, a decrease of \$ (38,708) in comparison with the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

## **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 159,149. Reasons for these amendments include:

- \$ 23,239 for collective bargaining and pay classification study.
- \$ 36,910 increase general government budget appropriation.
- \$ 9,000 for preserving town records.
- \$ 9,000 increase dispatch budget appropriation.
- \$ 71,000 for capital repairs.
- \$ 10,000 transfer to conservation fund.

Of this increase, \$ 68,239 was funded from a one-time state aid increase, \$ 57,000 was transferred from the stabilization fund and \$ 33,910 was from free cash.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 29,581,878 (net of accumulated depreciation), an increase of \$ 1,186,730 from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, construction in progress, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- \$(1,145,021) depreciation expense.
- \$ 33,999 library books.
- \$ 34,534 Police Department vehicle.
- \$ 340,652 Town hall improvements.
- \$ 520,800 Unity Park improvements.
- \$ 352,351 Department of Public Works loader and sweeper.
- \$ 43,516 sidewalk improvements.
- \$ 537,907 construction in progress – related to combined sewer overflow (CSO).
- \$ 359,280 construction in progress – airport runway replacement.
- \$ 162,474 land foreclosures.
- \$ (53,762) sale of land.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 11,164,844, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Montague'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:

Ms. Carolyn Olsen  
Accountant  
Town of Montague  
One Avenue A  
Turners Falls, MA 01376

TOWN OF MONTAGUE, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 3,911,239	\$ 559,307	\$ 4,470,546
Receivables, net of allowance for uncollectible:			
Property taxes	599,053	-	599,053
Excises	94,374	-	94,374
User fees	-	207,493	207,493
Intergovernmental	135,451	-	135,451
Departmental and other	18,992	-	18,992
Other assets	78,761	-	78,761
Noncurrent:			
Property taxes	125,476	-	125,476
Land and construction in progress	1,231,191	351,058	1,582,249
Capital assets, net of accumulated depreciation	<u>11,201,157</u>	<u>16,798,472</u>	<u>27,999,629</u>
<b>TOTAL ASSETS</b>	<b>17,395,694</b>	<b>17,916,330</b>	<b>35,312,024</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	364,631	60,205	424,836
Accrued payroll and withholdings	71,505	7,176	78,681
Accrued interest payable	-	101,466	101,466
Notes payable	269,059	-	269,059
Intergovernmental payable	55,810	-	55,810
Other liabilities	18,051	-	18,051
Current portion of long-term liabilities:			
Bonds payable	377,001	225,698	602,699
Capital lease	48,760	-	48,760
Landfill closure	12,500	-	12,500
Noncurrent:			
Bonds payable, net of current portion	6,713,245	3,848,900	10,562,145
Capital lease, net of current portion	51,338	-	51,338
Landfill closure, net of current portion	212,500	-	212,500
Accrued compensated absences	187,773	18,137	205,910
Net OPEB obligation	<u>2,409,637</u>	<u>323,810</u>	<u>2,733,447</u>
<b>TOTAL LIABILITIES</b>	<b>10,791,810</b>	<b>4,585,392</b>	<b>15,377,202</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,397,452	13,074,932	18,472,384
Restricted for:			
Grants and other statutory restrictions	539,821	-	539,821
Permanent funds:			
Nonexpendable	65,161	-	65,161
Expendable	51,268	-	51,268
Unrestricted	<u>550,182</u>	<u>256,006</u>	<u>806,188</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>6,603,884</u></b>	<b>\$ <u>13,330,938</u></b>	<b>\$ <u>19,934,822</u></b>

See notes to financial statements.



TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

<b>ASSETS</b>	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 3,000,511	\$ 910,728	\$ 3,911,239
Receivables:			
Property taxes	956,915	-	956,915
Excises	102,062	-	102,062
Intergovernmental	25,698	109,753	135,451
Departmental and other	7,169	11,876	19,045
Other assets	<u>78,761</u>	<u>-</u>	<u>78,761</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>4,171,116</u></b>	<b>\$ <u>1,032,357</u></b>	<b>\$ <u>5,203,473</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Warrants payable	\$ 143,971	\$ 220,660	\$ 364,631
Accrued payroll and withholdings	65,149	6,356	71,505
Notes payable	-	269,059	269,059
Deferred revenues	1,064,954	-	1,064,954
Intergovernmental payable	55,810	-	55,810
Other liabilities	<u>8,467</u>	<u>9,584</u>	<u>18,051</u>
<b>TOTAL LIABILITIES</b>	<b>1,338,351</b>	<b>505,659</b>	<b>1,844,010</b>
Fund Balances:			
Nonspendable	-	65,161	65,161
Restricted	-	591,089	591,089
Committed	1,471,372	51,588	1,522,960
Assigned	396,000	-	396,000
Unassigned	<u>965,393</u>	<u>(181,140)</u>	<u>784,253</u>
<b>TOTAL FUND BALANCES</b>	<b><u>2,832,765</u></b>	<b><u>526,698</u></b>	<b><u>3,359,463</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>4,171,116</u></b>	<b>\$ <u>1,032,357</u></b>	<b>\$ <u>5,203,473</u></b>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET ASSETS OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2012

<b>Total Governmental Fund Balances</b>	\$ 3,359,463
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	12,432,348
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection.</li></ul>	824,827
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, capital leases, landfill closure, accrued compensated absences and net OPEB obligation are not due and payable in the current period and, therefore are not reported in the governmental funds.</li></ul>	<u>(10,012,754)</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 6,603,884</u></u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 13,047,632	\$ -	\$ 13,047,632
Excises	630,568	-	630,568
Penalties, interest and other taxes	129,334	-	129,334
Charges for services	315,768	369,418	685,186
Intergovernmental	1,564,560	1,340,640	2,905,200
Licenses and permits	110,140	-	110,140
Fines and forfeitures	29,786	-	29,786
Investment income	6,469	1,742	8,211
Miscellaneous	<u>80,941</u>	<u>22,806</u>	<u>103,747</u>
Total Revenues	15,915,198	1,734,606	17,649,804
<b>Expenditures:</b>			
Current:			
General government	948,897	1,107,595	2,056,492
Public safety	1,580,726	219,037	1,799,763
Education	8,326,303	-	8,326,303
Public works	1,797,611	466,208	2,263,819
Health and human services	222,464	12,614	235,078
Culture and recreation	396,689	157,734	554,423
Employee benefits	1,757,837	-	1,757,837
Debt service	605,329	43,100	648,429
Intergovernmental	<u>167,121</u>	<u>-</u>	<u>167,121</u>
Total Expenditures	<u>15,802,977</u>	<u>2,006,288</u>	<u>17,809,265</u>
Excess (deficiency) of revenues over expenditures	112,221	(271,682)	(159,461)
<b>Other Financing Sources (Uses):</b>			
Transfers in	2,475	10,000	12,475
Transfers (out)	<u>(207,683)</u>	<u>(2,475)</u>	<u>(210,158)</u>
Total Other Financing Sources (Uses)	<u>(205,208)</u>	<u>7,525</u>	<u>(197,683)</u>
Change in fund balance	(92,987)	(264,157)	(357,144)
Fund Equity, at Beginning of Year	<u>2,925,752</u>	<u>790,855</u>	<u>3,716,607</u>
Fund Equity, at End of Year	<u>\$ 2,832,765</u>	<u>\$ 526,698</u>	<u>\$ 3,359,463</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2012

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (357,144)</b>				
<ul style="list-style-type: none"> <li>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: <table> <tr> <td style="padding-left: 40px;">Capital outlay purchases, net of disposals</td> <td style="text-align: right;">1,434,564</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(643,345)</td> </tr> </table> </li> </ul>		Capital outlay purchases, net of disposals	1,434,564	Depreciation	(643,345)
Capital outlay purchases, net of disposals	1,434,564				
Depreciation	(643,345)				
<ul style="list-style-type: none"> <li>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the change in deferred revenue, net of allowance for uncollectibles. <table> <tr> <td style="text-align: right;">2,942</td> </tr> </table> </li> </ul>		2,942			
2,942					
<ul style="list-style-type: none"> <li>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table> <tr> <td style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">365,976</td> </tr> <tr> <td style="padding-left: 40px;">Capital lease payments</td> <td style="text-align: right;">46,310</td> </tr> </table> </li> </ul>		Repayments of debt	365,976	Capital lease payments	46,310
Repayments of debt	365,976				
Capital lease payments	46,310				
<ul style="list-style-type: none"> <li>Some expenses reported in the statement of activities, such as landfill closure liability, accrued compensated absences, and net OPEB obligation, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td style="text-align: right;"><u>(574,080)</u></td> </tr> </table> </li> </ul>		<u>(574,080)</u>			
<u>(574,080)</u>					
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u>275,223</u></b>				

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES -  
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 13,015,867	\$ 13,015,867	\$ 13,015,867	\$ -
Excise	580,400	580,400	630,568	50,168
Penalties, interest and other taxes	107,000	107,000	129,334	22,334
Charges for services	250,600	250,600	315,768	65,168
Intergovernmental	1,409,580	1,477,819	1,528,013	50,194
Licenses and permits	105,700	105,700	110,140	4,440
Fines and forfeits	30,800	30,800	29,786	(1,014)
Investment income	4,500	4,500	4,314	(186)
Miscellaneous	76,630	76,630	80,941	4,311
Transfers in	433,509	490,509	492,984	2,475
Other sources	692,510	726,420	726,420	-
<b>Total Revenues and Other Sources</b>	<b>16,707,096</b>	<b>16,866,245</b>	<b>17,064,135</b>	<b>197,890</b>
<b>Expenditures and Other Uses:</b>				
General government	972,277	1,087,426	1,041,179	46,247
Public safety	1,603,220	1,612,220	1,588,504	23,716
Education	8,292,396	8,292,396	8,289,756	2,640
Public works	1,914,802	1,939,802	1,780,751	159,051
Health and human services	252,348	252,348	222,464	29,884
Culture and recreation	405,892	405,892	404,097	1,795
Employee benefits	1,853,200	1,853,200	1,757,837	95,363
Debt service	644,659	644,659	605,329	39,330
Intergovernmental	170,619	170,619	167,121	3,498
Transfers out	597,683	607,683	630,634	(22,951)
<b>Total Expenditures and Other Uses</b>	<b>16,707,096</b>	<b>16,866,245</b>	<b>16,487,672</b>	<b>378,573</b>
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 576,463	\$ 576,463

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<b><u>ASSETS</u></b>			
Current:			
Cash and short-term investments	\$ 534,846	\$ 24,461	\$ 559,307
User fees, net of allowance for uncollectible	<u>207,493</u>	<u>-</u>	<u>207,493</u>
Total current assets	742,339	24,461	766,800
Noncurrent:			
Land and construction in progress	145,835	205,223	351,058
Capital assets, net of accumulated depreciation	<u>10,882,286</u>	<u>5,916,186</u>	<u>16,798,472</u>
Total noncurrent assets	<u>11,028,121</u>	<u>6,121,409</u>	<u>17,149,530</u>
<b>TOTAL ASSETS</b>	11,770,460	6,145,870	17,916,330
<b><u>LIABILITIES</u></b>			
Current:			
Warrants payable	58,630	1,575	60,205
Accrued payroll	6,915	261	7,176
Accrued interest payable	101,466	-	101,466
Current portion of long-term liabilities:			
Bonds payable	<u>225,698</u>	<u>-</u>	<u>225,698</u>
Total current liabilities	392,709	1,836	394,545
Noncurrent:			
Bonds payable, net of current portion	3,848,900	-	3,848,900
Accrued compensated absences	18,137	-	18,137
Net OPEB obligation	<u>313,480</u>	<u>10,330</u>	<u>323,810</u>
Total noncurrent liabilities	<u>4,180,517</u>	<u>10,330</u>	<u>4,190,847</u>
<b>TOTAL LIABILITIES</b>	4,573,226	12,166	4,585,392
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	6,953,523	6,121,409	13,074,932
Unrestricted	<u>243,711</u>	<u>12,295</u>	<u>256,006</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 7,197,234</u>	<u>\$ 6,133,704</u>	<u>\$ 13,330,938</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<b>Operating Revenues:</b>			
Charges for services	\$ <u>1,614,229</u>	\$ <u>29,415</u>	\$ <u>1,643,644</u>
Total Operating Revenues	1,614,229	29,415	1,643,644
<b>Operating Expenses:</b>			
Operating expenses	1,464,166	40,766	1,504,932
Depreciation	<u>302,647</u>	<u>199,029</u>	<u>501,676</u>
Total Operating Expenses	<u>1,766,813</u>	<u>239,795</u>	<u>2,006,608</u>
Operating (Loss)	(152,584)	(210,380)	(362,964)
<b>Nonoperating Revenues (Expenses):</b>			
Investment income	269	102	371
Grant income	574,419	324,980	899,399
Interest expense	<u>(141,659)</u>	<u>-</u>	<u>(141,659)</u>
Total Nonoperating Revenues (Expenses), Net	<u>433,029</u>	<u>325,082</u>	<u>758,111</u>
Income Before Transfers	280,445	114,702	395,147
<b>Transfers:</b>			
Transfers in	<u>191,519</u>	<u>6,164</u>	<u>197,683</u>
Change in Net Assets	471,964	120,866	592,830
Net Assets, at Beginning of Year	<u>6,725,270</u>	<u>6,012,838</u>	<u>12,738,108</u>
Net Assets, at End of Year	\$ <u><u>7,197,234</u></u>	\$ <u><u>6,133,704</u></u>	\$ <u><u>13,330,938</u></u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<b><u>Cash Flows From Operating Activities:</u></b>			
Receipts from customers and users	\$ 1,677,967	\$ 29,415	\$ 1,707,382
Payments to vendors and employees	(1,416,109)	(38,917)	(1,455,026)
Net Cash Provided By (Used For) Operating Activities	261,858	(9,502)	252,356
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>			
Operating transfers in	191,519	6,164	197,683
Net Cash Provided By Noncapital Financing Activities	191,519	6,164	197,683
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>			
Acquisition and construction of capital assets	(537,905)	(359,282)	(897,187)
Principal payments on bonds and notes	(209,029)	-	(209,029)
Issuance of bonds	958,000	-	958,000
Payments of bond anticipation notes	(985,000)	-	(985,000)
Grant income	574,419	324,980	899,399
Interest expense	(120,646)	-	(120,646)
Net Cash (Used For) Capital and Related Financing Activities	(320,161)	(34,302)	(354,463)
<b><u>Cash Flows From Investing Activities:</u></b>			
Investment income	269	102	371
Net Cash Provided By Investing Activities	269	102	371
Net Change in Cash and Short-Term Investments	133,485	(37,538)	95,947
Cash and Short Term Investments, Beginning of Year	401,361	61,999	463,360
Cash and Short Term Investments, End of Year	\$ 534,846	\$ 24,461	\$ 559,307
<b><u>Reconciliation of Operating (Loss) to Net Cash Provided By (Used For) Operating Activities:</u></b>			
Operating (loss)	\$ (152,584)	\$ (210,380)	\$ (362,964)
Adjustments to reconcile operating (loss) to net cash provided by (used for) operating activities:			
Depreciation	302,647	199,029	501,676
Changes in assets and liabilities:			
User fees	63,738	-	63,738
Warrants and accounts payable	(23,537)	(558)	(24,095)
Other liabilities	71,594	2,407	74,001
Net Cash Provided By (Used For) Operating Activities	\$ 261,858	\$ (9,502)	\$ 252,356

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Private Purpose Trust Funds	Pension Trust Fund (As of <u>December 31, 2011</u> )
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 129,057	\$ 78,671
Investments	<u>-</u>	<u>24,627,686</u>
Total Assets	129,057	24,706,357
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Deferred revenue	<u>-</u>	<u>732,879</u>
Total Liabilities	<u>-</u>	<u>732,879</u>
<b><u>NET ASSETS</u></b>		
Total net assets held in trust for pension benefits and other purposes	\$ <u><u>129,057</u></u>	\$ <u><u>23,973,478</u></u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Private Purpose Trust Funds	Pension Trust Fund (For The Year Ended December 31, 2011)
<b>Additions:</b>		
Contributions:		
Employers	\$ -	\$ 1,434,674
Other systems and Commonwealth of Massachusetts	-	105,495
Plan members	-	<u>596,021</u>
Total contributions	-	2,136,190
Investment Income:		
Interest and dividends	3,561	754,044
Decrease in fair value of investments	-	(750,090)
Less: management fees	-	(123,806)
Net investment income	<u>3,561</u>	<u>(119,852)</u>
Total additions	3,561	2,016,338
<b>Deductions:</b>		
Benefit payments to plan members and beneficiaries	-	1,914,020
Refunds to plan members	-	124,595
Administrative expenses	-	64,177
Scholarships awarded	<u>4,400</u>	<u>-</u>
Total deductions	<u>4,400</u>	<u>2,102,792</u>
Net (decrease)	(839)	(86,454)
<b>Net assets:</b>		
Beginning of year	<u>129,896</u>	<u>24,059,932</u>
End of year	<u>\$ 129,057</u>	<u>\$ 23,973,478</u>

See notes to financial statements.

## Town of Montague, Massachusetts

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Montague (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

##### A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2012, it was determined that no entities met the required GASB-39 criteria of component units, other than as described below.

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

In the Fiduciary Funds: The Montague Contributory Retirement System, which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 1 Avenue A, Turners Falls, MA 01376.

##### B. Government-Wide and Fund Financial Statements

###### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from

certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given 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 (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter 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.

### 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*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

#### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they

are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, all revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental fund:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- The *sewer enterprise fund*, which accounts for operations of the Town's wastewater treatment facility and supporting infrastructure.
- The *airport enterprise fund*, which accounts for operating the Town's airport and supporting infrastructure.

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 *pension trust fund* accounts for the activities of the Montague Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

#### D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

#### E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System consist of investments in a State pool and are carried at market value.

#### F. Property Tax Limitations

Legislation known as "Proposition 2 ½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2012 tax levy reflected an excess capacity of \$ 5,861.

#### G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated

capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land and improvements	20 - 30
Building improvements	20
Infrastructure	50
Vehicles	5 - 10
Office equipment	5 - 10
Computer equipment	5 - 10

#### *H. Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### *I. Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

#### *J. Fund Equity*

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure.

Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

#### *K. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and

expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

## 2. **Stewardship, Compliance and Accountability**

### A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the reserve fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

### B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

### C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 15,915,198	\$ 15,802,977
Other financing sources/uses (GAAP basis)	<u>2,475</u>	<u>207,683</u>
Subtotal (GAAP Basis)	15,917,673	16,010,660
Remove the effect of adding Town's stabilization funds per GASB 54:		
Reverse the adjustment eliminating interfund transfers	490,509	422,951
Remove stabilization fund income	(2,155)	-
Adjust tax revenue to accrual basis	(31,765)	
Reverse beginning of year appropriation carry-forwards from expenditures	-	(283,142)
Add end of year appropriation carryforwards to expenditures	-	373,750
To reverse the effect of non-budgeted State contributions for teachers retirement	(36,547)	(36,547)
Recognize the use of fund balance and overlay surplus as funding sources	<u>726,420</u>	<u>-</u>
Budgetary basis	<u>\$ 17,064,135</u>	<u>\$ 16,487,672</u>

**D. Deficit Fund Equity**

The following funds had deficits as of June 30, 2012:

Public Safety Facility CPF	\$ (101,299)
School Projects CPF	(65,730)
Town Buildings CPF	(14,111)

The deficits in these funds will be eliminated through future bond proceeds.

**3. Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts General Laws Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty

per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess.” Massachusetts General Law Chapter 32, Section 23, limits the System’s deposits “in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company.” The Town and the Contributory Retirement System do not have a deposit policy for custodial credit risk.

As of June 30, 2012, \$ 1,263,396 of the Town’s bank balance of \$ 4,707,947 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank’s trust department not in the Town’s name.

As of December 31, 2011, none of the Contributory Retirement System’s bank balance of \$ 102,167 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank’s trust department not in the System’s name.

#### **4. Investments**

##### **A. Credit Risk**

Massachusetts General Law, Chapter 32, Section 23, limits the investment of Retirement System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

All of the System’s investments are comprised of shares in the Pension Reserve Investment Trust (PRIT) Fund, which is exempt from credit risk disclosure.

Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

##### **B. Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a govern-

ment will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System does not have policies for custodial credit risk.

*C. Concentration of Credit Risk*

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

The System does not have an investment in one issuer greater than 5% of total investments other than the PRIT Fund.

*D. Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Contributory Retirement System's investments to market interest rate fluctuations is not applicable as all of the System's investments are immediately liquid.

*E. Foreign Currency Risk*

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have policies for foreign currency risk.

**5. Taxes Receivable**

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on a semi-annual basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to

foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2012 consist of the following (in thousands):

Real Estate		
2012	\$ 404	
2011	182	
2010	36	
2009 and Prior	<u>4</u>	626
Personal Property		
2012	2	
2011	2	
2010	<u>3</u>	7
Tax Liens		81
Tax Foreclosures		<u>243</u>
Total		<u>\$ 957</u>

#### 6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands).

	<u>Governmental</u>	<u>Sewer Enterprise</u>
Property taxes - current	\$ 34	\$ -
Property taxes - noncurrent	199	-
Excises	8	-
Other	-	26

#### 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012.

#### 8. Other Assets

The Town collects certain receivables on behalf of several Districts located within Town. The balance in other assets consist primarily of these receivables, which are offset by an intergovernmental payable.

## 9. Capital Assets

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

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
<b>Governmental Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 13,076,752	\$ 760,670	\$ -	\$ -	\$ 13,837,422
Machinery, equipment, vehicles and furnishings	2,756,317	133,457	(111,462)	293,251	3,071,563
Infrastructure	<u>273,792</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>273,792</u>
Total capital assets, being depreciated	16,106,861	894,127	(111,462)	293,251	17,182,777
Less accumulated depreciation for:					
Buildings and improvements	(3,267,271)	(414,966)	-	-	(3,682,237)
Machinery, equipment, vehicles and furnishings	(1,979,997)	(219,289)	111,462	-	(2,087,824)
Infrastructure	<u>(202,469)</u>	<u>(9,090)</u>	<u>-</u>	<u>-</u>	<u>(211,559)</u>
Total accumulated depreciation	<u>(5,449,737)</u>	<u>(643,345)</u>	<u>111,462</u>	<u>-</u>	<u>(5,981,620)</u>
Total capital assets, being depreciated, net	10,657,124	250,782	-	293,251	11,201,157
Capital assets, not being depreciated:					
Land	734,271	-	(53,762)	-	680,509
Construction in progress	<u>249,734</u>	<u>594,199</u>	<u>-</u>	<u>(293,251)</u>	<u>550,682</u>
Total capital assets, not being depreciated	<u>984,005</u>	<u>594,199</u>	<u>(53,762)</u>	<u>(293,251)</u>	<u>1,231,191</u>
Governmental activities capital assets, net	<u>\$ 11,641,129</u>	<u>\$ 844,981</u>	<u>\$ (53,762)</u>	<u>\$ -</u>	<u>\$ 12,432,348</u>
<b>Business-Type Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 8,060,390	\$ -	\$ -	\$ 4,971,905	\$ 13,032,295
Machinery, equipment, vehicles and furnishings	103,705	-	-	-	103,705
Infrastructure	<u>3,516,632</u>	<u>-</u>	<u>-</u>	<u>6,684,500</u>	<u>10,201,132</u>
Total capital assets, being depreciated	11,680,727	-	-	11,656,405	23,337,132
Less accumulated depreciation for:					
Buildings and improvements	(4,222,589)	(350,826)	-	-	(4,573,415)
Machinery, equipment, vehicles and furnishings	(37,483)	(13,672)	-	-	(51,155)
Infrastructure	<u>(1,776,912)</u>	<u>(137,178)</u>	<u>-</u>	<u>-</u>	<u>(1,914,090)</u>
Total accumulated depreciation	<u>(6,036,984)</u>	<u>(501,676)</u>	<u>-</u>	<u>-</u>	<u>(6,538,660)</u>
Total capital assets, being depreciated, net	5,643,743	(501,676)	-	11,656,405	16,798,472
Capital assets, not being depreciated:					
Land	266,750	-	-	-	266,750
Construction in progress	<u>10,843,526</u>	<u>897,187</u>	<u>-</u>	<u>(11,656,405)</u>	<u>84,308</u>
Total capital assets, not being depreciated	<u>11,110,276</u>	<u>897,187</u>	<u>-</u>	<u>(11,656,405)</u>	<u>351,058</u>
Business-type activities capital assets, net	<u>\$ 16,754,019</u>	<u>\$ 395,511</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,149,530</u>

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 276,132
Public safety	95,853
Education	69,745
Public works	168,882
Culture and recreation	<u>32,733</u>
Total depreciation expense - governmental activities	<u>\$ 643,345</u>
Business-Type Activities:	
Sewer	\$ 302,647
Airport	<u>199,029</u>
Total depreciation expense - business-type activities	<u>\$ 501,676</u>

**10. Warrants Payable**

Warrants payable represent 2012 expenditures paid by July 15, 2012 as permitted by law.

**11. Deferred Revenue**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the general fund deferred revenues account is equal to the total of all June 30, 2012 receivable balances.

**12. Notes Payable**

The Town had the following short-term notes outstanding at June 30, 2012:

	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2012</u>
<u>Governmental Activities</u>				
State anticipation	0.60%	06/26/12	08/27/12	\$ 93,537
Bond anticipation	0.55%	05/24/12	05/23/13	65,730
Bond anticipation	0.55%	05/24/12	05/23/13	<u>109,792</u>
Total Governmental Activities				<u>\$ 269,059</u>

The following summarizes activity in short-term notes payable during fiscal year 2012:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
<u>Governmental Activities</u>				
State anticipation	\$ 145,872	\$ 93,537	\$ (145,872)	\$ 93,537
Bond anticipation	175,522	175,522	(175,522)	175,522
Revenue anticipation	<u>-</u>	<u>3,000,000</u>	<u>(3,000,000)</u>	<u>-</u>
Total Governmental	<u>\$ 321,394</u>	<u>\$ 3,269,059</u>	<u>\$ (3,321,394)</u>	<u>\$ 269,059</u>
<u>Business-Type Activities</u>				
Bond anticipation	\$ <u>985,000</u>	\$ <u>-</u>	\$ <u>(985,000)</u>	\$ <u>-</u>
Total Business-Type	<u>\$ 985,000</u>	<u>\$ -</u>	<u>\$ (985,000)</u>	<u>\$ -</u>

### 13. Capital Lease Obligations

The Town is the lessee of two highway department dump trucks under capital leases expiring on September 1, 2013. Future minimum lease payments consisted of the following as of June 30, 2012:

2013	\$ 54,055
2014	<u>54,055</u>
Total minimum lease payments	108,110
Less amounts representing interest	<u>(8,012)</u>
Present Value of Minimum Lease Payments	<u>\$ 100,098</u>

### 14. Long-Term Debt

#### A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2012
<u>Governmental Activities:</u>			
Landfill	08/15/19	5.25%	\$ 285,000
Colle Opera House	06/15/22	4.25%	115,000
Municipal purpose	11/01/26	4.11%	605,000
Combined sewer overflow (MWPAT)	07/15/27	2.00%	301,598
Municipal purpose	11/15/27	4.50%	4,700,000
Combined sewer overflow (MWPAT)	01/15/39	2.41%	692,764
USDA	11/01/45	4.38%	390,884
Total Governmental Activities			<u>\$ 7,090,246</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2012
<u>Business-Type Activities:</u>			
Millers Falls sewer (MWPAT)	08/01/15	N/A	\$ 45,288
Millers Falls sewer (MWPAT)	02/01/17	N/A	329,281
Combined sewer overflow (MWPAT)	02/01/18	N/A	89,431
Sewer - multiple purpose	06/15/23	4.42%	315,000
Sewer - property acquisition	06/15/23	4.34%	50,000
Sewer - multiple purpose	11/01/26	4.11%	210,000
Combined sewer overflow (MWPAT)	07/15/27	2.00%	452,126
Combined sewer overflow (MWPAT)	01/15/39	2.41%	1,039,145
USDA	11/01/45	4.38%	586,327
USDA	09/21/47	4.13%	958,000
Total Business-Type Activities			<u>\$ 4,074,598</u>

**B. State Revolving Loan**

The U.S. Environmental Protection Agency sponsors a low interest rate loan program. The loans are administered by the States and are used by local communities to improve their sewer systems.

In fiscal years 1996, 1997, 2007 and 2008 the Town was issued loans through the Massachusetts Water Pollution Abatement Trust (MWPAT) Revolving Loan Program to improve its sewer infiltration/inflow system. The total is included in the Town's proprietary fund.

	<u>Loan Authorized</u>	<u>Subsidy</u>	<u>Repayment Obligation</u>	<u>Balance at June 30, 2012</u>
Millers Falls sewer	\$ 159,435	\$ 25,497	\$ 133,938	\$ 45,288
Millers Falls sewer	907,181	232,451	674,730	329,281
Combined sewer overflow	205,196	47,169	158,027	89,431
Combined sewer overflow	957,448	-	957,448	753,724
Combined sewer overflow	<u>1,911,052</u>	<u>-</u>	<u>1,911,052</u>	<u>1,731,909</u>
Total	<u>\$ 4,140,312</u>	<u>\$ 305,117</u>	<u>\$ 3,835,195</u>	<u>\$ 2,949,633</u>

C. Future Debt Service

The annual payments to retire all general obligation long-term bonds outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 377,001	\$ 261,093	\$ 638,094
2014	378,054	249,760	627,814
2015	389,136	237,181	626,317
2016	395,247	223,143	618,390
2017	406,389	208,943	615,332
2018 - 2022	1,985,196	812,728	2,797,924
2023 - 2027	2,118,861	419,271	2,538,132
2028 and thereafter	<u>1,040,362</u>	<u>197,163</u>	<u>1,237,525</u>
Total	<u>\$ 7,090,246</u>	<u>\$ 2,609,282</u>	<u>\$ 9,699,528</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 225,698	\$ 148,514	\$ 374,212
2014	225,981	138,986	364,967
2015	225,923	129,344	355,267
2016	214,251	119,777	334,028
2017	218,606	110,609	329,215
2018 - 2022	705,262	460,232	1,165,494
2023 - 2027	598,673	351,196	949,869
2028 and thereafter	<u>1,660,204</u>	<u>649,332</u>	<u>2,309,536</u>
Total	<u>\$ 4,074,598</u>	<u>\$ 2,107,990</u>	<u>\$ 6,182,588</u>

D. Changes in General Long-Term Liabilities

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

	Total Balance July 1, 2011	Additions	Reductions	Total Balance June 30, 2012	Less Current Portion	Long-Term Portion June 30, 2012
<u>Governmental Activities</u>						
Bonds payable	\$ 7,456,222	\$ -	\$ (365,976)	\$ 7,090,246	(377,001)	6,713,245
Capital lease	146,408	-	(46,310)	100,098	(48,760)	51,338
Landfill closure	237,500	-	(12,500)	225,000	(12,500)	212,500
Accrued compensated absences	161,228	26,545	-	187,773	-	187,773
Net OPEB obligation	<u>1,849,602</u>	<u>560,035</u>	<u>-</u>	<u>2,409,637</u>	<u>-</u>	<u>2,409,637</u>
Totals	<u>\$ 9,850,960</u>	<u>\$ 586,580</u>	<u>\$ (424,786)</u>	<u>\$ 10,012,754</u>	<u>\$ (438,261)</u>	<u>\$ 9,574,493</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 3,325,627	\$ 958,000	\$ (209,029)	\$ 4,074,598	\$ (225,698)	\$ 3,848,900
Accrued compensated absences	12,774	5,363	-	18,137	-	18,137
Net OPEB obligation	<u>257,362</u>	<u>66,448</u>	<u>-</u>	<u>323,810</u>	<u>-</u>	<u>323,810</u>
Totals	<u>\$ 3,595,763</u>	<u>\$ 1,029,811</u>	<u>\$ (209,029)</u>	<u>\$ 4,416,545</u>	<u>\$ (225,698)</u>	<u>\$ 4,190,847</u>

#### 15. Landfill Closure and Post-closure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$ 225,000 reported as landfill liability at June 30, 2012 represents the estimated cost of monitoring the landfill for the next 18 years. This amount is based on what it would cost to perform all closure and post-closure care in 2012. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

#### 16. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

## 17. Governmental Funds – Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2012:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, capital project accounts funded by appropriation, and stabilization funds set aside by Town Meeting vote (now reported as part of the general fund per GASB 54).

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes fund balance (free cash) voted to be used in the subsequent fiscal year.

Unassigned - Represents amounts that are available to be spent in future periods. This fund balance classification also includes funds with deficit balances at June 30, 2012.

Following is a breakdown of the Town's fund balances at June 30, 2012:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 65,161	\$ 65,161
Total Nonexpendable	<u>\$ -</u>	<u>\$ 65,161</u>	<u>\$ 65,161</u>
Restricted			
Special revenue funds	\$ -	\$ 539,821	\$ 539,821
Expendable permanent funds	-	51,268	51,268
Total Restricted	<u>\$ -</u>	<u>\$ 591,089</u>	<u>\$ 591,089</u>
Committed			
Special articles	\$ 373,750	\$ -	\$ 373,750
Stabilization funds	1,097,622	-	1,097,622
Capital project funds	-	51,588	51,588
Total Committed	<u>\$ 1,471,372</u>	<u>\$ 51,588</u>	<u>\$ 1,522,960</u>
Assigned			
Reserved for expenditures	\$ 396,000	\$ -	\$ 396,000
Total Assigned	<u>\$ 396,000</u>	<u>\$ -</u>	<u>\$ 396,000</u>
Unassigned			
Unassigned	\$ 965,393	\$ -	\$ 965,393
Deficit capital project funds	-	(181,140)	(181,140)
Total Unassigned	<u>\$ 965,393</u>	<u>\$ (181,140)</u>	<u>\$ 784,253</u>
Total Fund Balance	<u>\$ 2,832,765</u>	<u>\$ 526,698</u>	<u>\$ 3,359,463</u>

## 18. Subsequent Events

### Debt

Subsequent to June 30, 2012, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Revenue anticipation note	\$ 1,500,000	0.8%	07/23/12	10/10/12

**19. Commitments and Contingencies**

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

**20. Contributory Retirement System**

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, (as amended by GASB 50) with respect to the employees' retirement funds.

*A. Plan Description and Contribution Information*

Substantially all employees of the Town are members of the Montague Contributory Retirement System (MCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the MCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the MCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The MCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at January 1, 2010, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	109
Terminated plan members entitled to but not yet receiving benefits	6
Active plan members	<u>200</u>
Total	<u><u>315</u></u>
Number of participating employers	5

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The Town's Schedule of Employer Contributions is as follows:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2003	\$ 891,738	100%
2004	957,687	100%
2005	1,086,874	100%
2006	1,207,814	100%
2007	1,242,144	100%
2008	1,283,279	100%
2009	1,323,415	100%
2010	1,368,167	100%
2011	1,403,594	100%
2012	1,465,757	100%

**B. Summary of Significant Accounting Policies**

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value in accordance with PERAC requirements.

**C. Funded Status and Funding Progress**

The information presented below is from the Montague Contributory Retirement System's most recent valuation (in thousands):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent- age of Covered Payroll [(b-a)/c]</u>
01/01/10	\$ 25,000	\$ 31,100	\$ 6,100	80.4%	\$ 6,047	100.8%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

*D. Actuarial Methods and Assumptions*

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 6.1 million was calculated. The actuarial assumptions included (a) 8.0% investment rate of return and (b) a projected salary increase of 4.75%, 5.00% and 5.25% per year for Groups 1, 2 and 4 respectively. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.0%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of January 1, 2010 the unfunded actuarially accrued liability is being amortized over 7 years using an open group method which assumes a 4.75%, 5.00% and 5.25% per year increase in payroll for Groups 1, 2 and 4 respectively.

*E. Teachers*

In fiscal year 2012, the Commonwealth of Massachusetts contributed \$ 36,547 to the Massachusetts Teachers Retirement System (MTRS) on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

**21. Post-Employment Health Care and Life Insurance Benefits**

The Town's fiscal 2012 annual other post-employment benefits (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2012, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2010.

Annual Required Contribution (ARC)	\$ 1,118,605
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost	1,118,605
Contributions made	<u>(492,122)</u>
	<hr/>
Increase in net OPEB obligation	626,483
	<hr/>
Net OPEB obligation - beginning of year	<u>2,106,964</u>
Net OPEB obligation - end of year	<u><u>\$ 2,733,447</u></u>

The Town's net OPEB obligation as of June 30, 2012 is recorded as separate line item in the accompanying government-wide financial statements.

A. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2010, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 13,631,138
Actuarial value of plan assets	-
	<hr/>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 13,631,138</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>N/A</u>
UAAL as a percentage of covered payroll	<u>N/A</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**B. Actuarial Methods and Assumptions**

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

In the July 1, 2010 actuarial valuation the entry age normal method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return. This has been calculated assuming the amortization payment increases at a rate of 2.5%.

**22. Risk Management**

The government 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 government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

**23. Beginning Net Asset Restatement**

The beginning (July 1, 2011) net assets of the Town have been restated as follows:

	Governmental <u>Activities</u>
As previously reported	\$ 6,189,961
Restate for change in landfill closure estimate	<u>138,700</u>
As restated	<u>\$ 6,328,661</u>

**24. Implementation of New GASB Standard**

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Town of Montague's actuarially accrued liability.

**TOWN OF MONTAGUE, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
(Unaudited)  
(In Thousands)**

**Employees' Retirement System  
December 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
12/31/92	\$ 4,391	\$ 10,120	\$ 5,729	43.3%	N/A	N/A
12/31/94	\$ 5,230	\$ 10,664	\$ 5,434	49.0%	\$ 3,315	163.9%
12/31/98	\$ 9,382	\$ 15,525	\$ 6,143	60.4%	\$ 4,151	148.0%
12/31/00	\$ 13,933	\$ 18,247	\$ 4,314	76.4%	\$ 1,876	88.0%
01/01/02	\$ 13,286	\$ 20,462	\$ 7,176	64.9%	\$ 5,007	143.3%
01/01/04	\$ 15,396	\$ 22,436	\$ 7,040	69.0%	\$ 4,612	153.0%
01/01/06	\$ 19,737	\$ 25,382	\$ 5,645	78.0%	\$ 5,429	104.0%
01/01/08	\$ 24,264	\$ 28,794	\$ 4,530	84.0%	\$ 6,021	75.2%
01/01/10	\$ 25,000	\$ 31,100	\$ 6,100	80.4%	\$ 6,047	100.8%

**Other Post-Employment Benefits  
June 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
12/31/07	\$ -	\$ 17,231	\$ 17,231	0.0%	N/A	N/A
07/01/10	\$ -	\$ 13,631	\$ 13,631	0.0%	N/A	N/A

See Independent Auditors' Report.