

**TOWN OF MONTAGUE, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2014

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**Additional Offices:**

Nashua, NH  
Manchester, NH  
Andover, MA  
Ellsworth, ME

## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Montague, 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 Montague, Massachusetts, as of and for the year ended June 30, 2014, (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

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

The Town's 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 Montague, Massachusetts, as of June 30, 2014, (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2013) and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

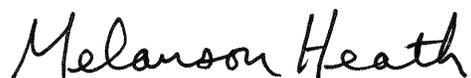
### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014 on our consideration of the Town of Montague'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 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 Town's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Melanson Heath".

October 22, 2014

## **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 for the fiscal year ended June 30, 2014.

### **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 position presents information on all assets and liabilities, 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 Town's net position changed during the most recent fiscal 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 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 Town'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 \$19,386,660 (i.e., net position), a change of \$297,059 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$3,821,139, a change of \$693,762 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,463,030, a change of \$369,305 in comparison with the prior year.
- Total long-term debt (i.e., long-term notes and bonds payable) at the close of the current fiscal year was \$10,211,531, a change of \$(470,265) 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.

**NET POSITION**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 5,232,838	\$ 4,719,112	\$ 1,184,441	\$ 728,938	\$ 6,417,279	\$ 5,448,050
Capital assets	<u>12,267,347</u>	<u>12,655,281</u>	<u>18,123,178</u>	<u>17,085,060</u>	<u>30,390,525</u>	<u>29,740,341</u>
Total assets	17,500,185	17,374,393	19,307,619	17,813,998	36,807,804	35,188,391
Long-term liabilities outstanding	10,743,721	10,443,004	4,107,845	4,233,208	14,851,566	14,676,212
Other liabilities	<u>689,303</u>	<u>799,070</u>	<u>1,880,275</u>	<u>623,508</u>	<u>2,569,578</u>	<u>1,422,578</u>
Total liabilities	11,433,024	11,242,074	5,988,120	4,856,716	17,421,144	16,098,790
Net position						
Net investment in capital assets	5,691,512	5,620,726	12,810,243	12,771,466	18,501,755	18,392,192
Restricted	764,577	650,182	-	-	764,577	650,182
Unrestricted	<u>(388,928)</u>	<u>(138,589)</u>	<u>509,256</u>	<u>185,816</u>	<u>120,328</u>	<u>47,227</u>
Total net position	\$ <u>6,067,161</u>	\$ <u>6,132,319</u>	\$ <u>13,319,499</u>	\$ <u>12,957,282</u>	\$ <u>19,386,660</u>	\$ <u>19,089,601</u>

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 871,817	\$ 779,172	\$ 1,833,226	\$ 1,689,361	\$ 2,705,043	\$ 2,468,533
Operating grants and contributions	794,799	1,050,411	-	-	794,799	1,050,411
Capital grants and contributions	676,261	637,508	798,507	133,840	1,474,768	771,348
General revenues:						
Property taxes	14,382,810	13,508,799	-	-	14,382,810	13,508,799
Excises	694,149	674,107	-	-	694,149	674,107
Penalties, interest and other taxes	118,289	130,858	-	-	118,289	130,858
Investment income	8,428	7,659	225	205	8,653	7,864
Grants and contributions not restricted	1,405,030	1,376,353	-	-	1,405,030	1,376,353
Miscellaneous	<u>377,923</u>	<u>118,870</u>	<u>-</u>	<u>-</u>	<u>377,923</u>	<u>118,870</u>
Total revenues	19,329,506	18,283,737	2,631,958	1,823,406	21,961,464	20,107,143
Expenses:						
General government	1,875,265	2,442,923	-	-	1,875,265	2,442,923
Public safety	2,016,917	1,902,989	-	-	2,016,917	1,902,989
Education	8,773,160	8,692,727	-	-	8,773,160	8,692,727
Public works	2,683,412	2,208,401	-	-	2,683,412	2,208,401
Health and human services	340,831	298,251	-	-	340,831	298,251
Culture and recreation	621,067	161,191	-	-	621,067	161,191
Employee benefits	2,444,625	2,378,334	-	-	2,444,625	2,378,334
Interest	260,278	268,110	-	-	260,278	268,110
Intergovernmental	167,489	166,090	-	-	167,489	166,090
Sewer operations	-	-	2,068,779	2,074,384	2,068,779	2,074,384
Airport operations	-	-	<u>412,582</u>	<u>358,964</u>	<u>412,582</u>	<u>358,964</u>
Total expenses	<u>19,183,044</u>	<u>18,519,016</u>	<u>2,481,361</u>	<u>2,433,348</u>	<u>21,664,405</u>	<u>20,952,364</u>
Change in net position before transfers	146,462	(235,279)	150,597	(609,942)	297,059	(845,221)
Transfers in (out)	<u>(211,620)</u>	<u>(236,286)</u>	<u>211,620</u>	<u>236,286</u>	<u>-</u>	<u>-</u>
Change in net position	(65,158)	(471,565)	362,217	(373,656)	297,059	(845,221)
Net position - beginning of year	<u>6,132,319</u>	<u>6,603,884</u>	<u>12,957,282</u>	<u>13,330,938</u>	<u>19,089,601</u>	<u>19,934,822</u>
Net position - end of year	<u>\$ 6,067,161</u>	<u>\$ 6,132,319</u>	<u>\$ 13,319,499</u>	<u>\$ 12,957,282</u>	<u>\$ 19,386,660</u>	<u>\$ 19,089,601</u>

As noted earlier, net position 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 position was \$19,386,660, a change of \$297,059 from the prior year.

The largest portion of net position, \$18,501,755, reflects our investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), 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 position, \$764,577, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$(388,928) (governmental) and \$509,256 (business-type), may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(65,158). Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 233,202
State and local revenues over budget	508,347
Budgetary appropriations unspent by departments	322,413
Use of free cash (fund balance) as a funding source for non-recurring items	(497,000)
Difference between current year encumbrances to be spent in the subsequent year and prior year encumbrances spent in the current year	48,193
Change in Stabilization funds	(197,657)
Non-major fund revenues, proceeds of notes, and transfers in in excess of expenditures and transfers out	276,264
Depreciation expense in excess of principal debt service	(359,383)
Reverse note proceeds from revenue	(142,374)
Capital assets purchased from taxation and grants	442,144
Net OPEB obligation liability increase	(631,916)
Other timing differences	<u>(67,391)</u>
Total	<u>\$ (65,158)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$362,217. Key elements of this change are as follows:

Sewer fund expenditures in excess of revenues	\$ (223,955)
Airport fund revenues in excess of expenditures	374,552
Transfers from general fund to sewer and airport funds	<u>211,620</u>
Total	<u>\$ 362,217</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 \$3,821,139, a change of \$693,762 in comparison with the prior year. Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 233,202
State and local revenues over budget	508,347
Budgetary appropriations unspent by departments	322,413
Use of free cash (fund balance) as a funding source for non-recurring items	(497,000)
Difference between current year encumbrances to be spent in the subsequent year and prior year encumbrances spent in the current year	48,193
Change in Stabilization funds	(197,657)
Non-major fund revenues, proceeds of notes, and transfers in excess of expenditures and transfers out	<u>276,264</u>
Total	<u>\$ 693,762</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 \$2,463,030 while total fund balance was \$3,125,095. 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>2014</u>	<u>2013</u>	<u>Change</u>	<u>% of Total 2014 General Fund Expenditures</u>
Unassigned fund balance <sup>1</sup>	\$ 2,463,030	\$ 2,093,725	\$ 369,305	14.6%
Total fund balance	3,125,095	2,707,597	417,498	18.5%

<sup>1</sup> Includes Stabilization funds.

The total fund balance of the general fund changed by \$417,498 during the current fiscal year. Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 233,202
State and local revenues over budget	508,347
Budgetary appropriations unspent by departments	322,413
Use of free cash (fund balance) as a funding source for non-recurring items	(497,000)
Difference between current year encumbrances to be spent in the subsequent year and prior year encumbrances spent in the current year	48,193
Change in Stabilization funds	<u>(197,657)</u>
Total	<u>\$ 417,498</u>

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

	<u>2014</u>	<u>2013</u>	<u>Change</u>
General stabilization	\$ 811,293	\$ 1,008,950	\$ (197,657)
Franklin County Technical School stabilization	487	487	-
Gill-Montague Regional School District stabilization	<u>44</u>	<u>44</u>	<u>-</u>
Total Stabilization funds	<u>\$ 811,824</u>	<u>\$ 1,009,481</u>	<u>\$ (197,657)</u>

**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 position of the enterprise funds at the end of the year amounted to \$509,256, a change of \$323,440 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 \$62,000. Reasons for these amendments include:

- \$ 20,000 increase in police budget appropriation.
- \$ 12,000 increase in veterans budget appropriation.
- \$ 15,000 Unity Park handicap repairs.
- \$ 5,000 increase in legal fees.
- \$ 10,000 transfer to conservation fund.

Of this increase, \$15,000 was transferred in from the general stabilization fund and \$47,000 was funded through the use of 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 \$30,390,525 (net of accumulated depreciation), a change of \$650,184 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:

- \$ (746,178) depreciation expense – governmental activities.
- \$ (310,790) depreciation expense – sewer fund.
- \$ (362,988) depreciation expense – airport fund.
- \$ (83,900) capital asset disposals.
- \$ 35,475 purchase of library books.
- \$ 37,634 purchase of police vehicle.
- \$ 139,617 purchase of dump truck and bucket truck.
- \$ 180,526 property foreclosures.
- \$ 48,892 Sheffield school boiler replacement.
- \$ 916,735 construction in progress – industrial park emergency sewer repairs and sewer line replacement.
- \$ 795,161 construction in progress – airport runway replacement.

**Change in credit rating.** During the fiscal year, the Town's credit rating was upgraded from a Standard & Poor's rating of A+ to AA-.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$10,072,810, 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 Town'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  
Town Accountant  
Town of Montague  
One Avenue A  
Turners Falls, MA 01376

TOWN OF MONTAGUE, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 4,174,973	\$ 927,537	\$ 5,102,510
Receivables, net of allowance for uncollectibles:			
Property taxes	545,589	-	545,589
Excises	87,351	-	87,351
User fees	-	256,904	256,904
Intergovernmental	226,693	-	226,693
Departmental and other	1,591	-	1,591
Other assets	107,152	-	107,152
Noncurrent:			
Tax liens, net of allowance for uncollectible	89,489	-	89,489
Land and construction in progress	1,762,625	1,020,105	2,782,730
Capital assets, net of accumulated depreciation	<u>10,504,722</u>	<u>17,103,073</u>	<u>27,607,795</u>
<b>TOTAL ASSETS</b>	<b>17,500,185</b>	<b>19,307,619</b>	<b>36,807,804</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	225,265	73,326	298,591
Accounts payable	-	30,163	30,163
Accrued payroll and withholdings	113,953	9,247	123,200
Accrued interest payable	-	67,539	67,539
Notes payable	191,712	1,700,000	1,891,712
Intergovernmental payable	76,750	-	76,750
Other liabilities	81,623	-	81,623
Current portion of long-term liabilities:			
Notes payable	18,721	-	18,721
Bonds payable	394,352	225,901	620,253
Capital lease	37,777	-	37,777
Landfill closure	12,500	-	12,500
Noncurrent:			
Notes payable, net of current portion	120,000	-	120,000
Bonds payable, net of current portion	6,065,523	3,387,034	9,452,557
Capital lease, net of current portion	80,929	-	80,929
Landfill closure, net of current portion	187,500	-	187,500
Accrued compensated absences	230,937	20,392	251,329
Net OPEB obligation	<u>3,595,482</u>	<u>474,518</u>	<u>4,070,000</u>
<b>TOTAL LIABILITIES</b>	<b>11,433,024</b>	<b>5,988,120</b>	<b>17,421,144</b>
<b>NET POSITION</b>			
Net investment in capital assets	5,691,512	12,810,243	18,501,755
Restricted for:			
Grants and other statutory restrictions	672,885	-	672,885
Permanent funds:			
Nonexpendable	65,297	-	65,297
Expendable	26,395	-	26,395
Unrestricted	<u>(388,928)</u>	<u>509,256</u>	<u>120,328</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>6,067,161</u></b>	<b>\$ <u>13,319,499</u></b>	<b>\$ <u>19,386,660</u></b>

The accompanying notes are an integral part of these financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 1,875,265	\$ 94,336	\$ 521,969	\$ -	\$ (1,258,960)	\$ -	\$ (1,258,960)
Public safety	2,016,917	276,048	62,844	-	(1,678,025)	-	(1,678,025)
Education	8,773,160	-	6,198	-	(8,766,962)	-	(8,766,962)
Public works	2,683,412	302,734	750	676,261	(1,703,667)	-	(1,703,667)
Health and human services	340,831	27,140	136,686	-	(177,005)	-	(177,005)
Culture and recreation	621,067	171,559	66,352	-	(383,156)	-	(383,156)
Employee benefits	2,444,625	-	-	-	(2,444,625)	-	(2,444,625)
Interest	260,278	-	-	-	(260,278)	-	(260,278)
Intergovernmental	167,489	-	-	-	(167,489)	-	(167,489)
Total Governmental Activities	19,183,044	871,817	794,799	676,261	(16,840,167)	-	(16,840,167)
<b>Business-Type Activities:</b>							
Sewer operations	2,068,779	1,802,396	-	42,283	-	(224,100)	(224,100)
Airport operations	412,582	30,830	-	756,224	-	374,472	374,472
Total Business-Type Activities	2,481,361	1,833,226	-	798,507	-	150,372	150,372
Total All Activities	\$ 21,664,405	\$ 2,705,043	\$ 794,799	\$ 1,474,768	(16,840,167)	150,372	(16,689,795)
<b>General Revenues and Transfers:</b>							
Property taxes					14,382,810	-	14,382,810
Excises					694,149	-	694,149
Penalties, interest and other taxes					118,289	-	118,289
Investment income					8,428	225	8,653
Grants and contributions not restricted					1,405,030	-	1,405,030
Miscellaneous					377,923	-	377,923
Transfers, net					(211,620)	211,620	-
Total general revenues and transfers					16,775,009	211,845	16,986,854
Change in Net Position					(65,158)	362,217	297,059
<b>Net Position:</b>							
Beginning of year					6,132,319	12,957,282	19,089,601
End of year					\$ 6,067,161	\$ 13,319,499	\$ 19,386,660

The accompanying notes are an integral part of these financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 3,421,659	\$ 753,314	\$ 4,174,973
Receivables:			
Property taxes	691,441	-	691,441
Excises	95,086	-	95,086
Intergovernmental	-	226,693	226,693
Departmental and other	4,525	-	4,525
Other assets	<u>107,152</u>	<u>-</u>	<u>107,152</u>
TOTAL ASSETS	<u>\$ 4,319,863</u>	<u>\$ 980,007</u>	<u>\$ 5,299,870</u>
<b>LIABILITIES</b>			
Warrants payable	\$ 145,358	\$ 79,907	\$ 225,265
Accrued payroll and withholdings	111,192	2,761	113,953
Notes payable	-	191,712	191,712
Intergovernmental payable	76,750	-	76,750
Other liabilities	<u>72,040</u>	<u>9,583</u>	<u>81,623</u>
TOTAL LIABILITIES	405,340	283,963	689,303
<b>DEFERRED INFLOWS OF RESOURCES</b>	789,428	-	789,428
<b>FUND BALANCES</b>			
Nonspendable	-	65,297	65,297
Restricted	-	649,613	649,613
Committed	412,065	90,927	502,992
Assigned	250,000	-	250,000
Unassigned	<u>2,463,030</u>	<u>(109,793)</u>	<u>2,353,237</u>
TOTAL FUND BALANCES	<u>3,125,095</u>	<u>696,044</u>	<u>3,821,139</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 4,319,863</u>	<u>\$ 980,007</u>	<u>\$ 5,299,870</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET POSITIONS OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET POSITIONS

JUNE 30, 2014

<b>Total Governmental Fund Balances</b>	\$ 3,821,139
<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>	12,267,347
<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>	722,396
<ul style="list-style-type: none"><li>• Long-term liabilities, including notes payable, 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>(10,743,721)</u>
<b>Net Position of Governmental Activities</b>	<u>\$ 6,067,161</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 14,238,240	\$ -	\$ 14,238,240
Excises	722,752	-	722,752
Penalties, interest and other taxes	118,289	-	118,289
Charges for services	325,252	404,919	730,171
Intergovernmental	1,595,367	1,280,723	2,876,090
Licenses and permits	109,732	-	109,732
Fines and forfeitures	37,625	-	37,625
Investment income	4,419	4,009	8,428
Miscellaneous	<u>313,646</u>	<u>140,680</u>	<u>454,326</u>
Total Revenues	17,465,322	1,830,331	19,295,653
<b>Expenditures:</b>			
Current:			
General government	1,037,234	561,960	1,599,194
Public safety	1,715,043	173,045	1,888,088
Education	8,752,307	-	8,752,307
Public works	2,008,530	695,891	2,704,421
Health and human services	312,556	27,475	340,031
Culture and recreation	444,877	176,456	621,333
Employee benefits	1,812,709	-	1,812,709
Debt service	606,485	40,588	647,073
Intergovernmental	<u>167,489</u>	<u>-</u>	<u>167,489</u>
Total Expenditures	<u>16,857,230</u>	<u>1,675,415</u>	<u>18,532,645</u>
Excess (deficiency) of revenues over expenditures	608,092	154,916	763,008
<b>Other Financing Sources (Uses):</b>			
Proceeds of notes	-	142,374	142,374
Transfers in	72,377	51,351	123,728
Transfers (out)	<u>(262,971)</u>	<u>(72,377)</u>	<u>(335,348)</u>
Total Other Financing Sources (Uses)	<u>(190,594)</u>	<u>121,348</u>	<u>(69,246)</u>
Change in fund balance	417,498	276,264	693,762
Fund Equity, at Beginning of Year	<u>2,707,597</u>	<u>419,780</u>	<u>3,127,377</u>
Fund Equity, at End of Year	<u>\$ 3,125,095</u>	<u>\$ 696,044</u>	<u>\$ 3,821,139</u>

The accompanying notes are an integral part of these 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, 2014

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 693,762</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;">358,243</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(746,178)</td> </tr> </table> </li> <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></td> <td style="text-align: right;">(70,269)</td> </tr> </table> </li> <li>The issuance of long-term debt (e.g., notes, bonds and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td style="padding-left: 40px;">Issuance of debt</td> <td style="text-align: right;">(142,374)</td> </tr> <tr> <td style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">386,795</td> </tr> <tr> <td style="padding-left: 40px;">Capital lease payments</td> <td style="text-align: right;">87,430</td> </tr> </table> </li> <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></td> <td style="text-align: right;"><u>(632,567)</u></td> </tr> </table> </li> </ul>		Capital outlay purchases, net of disposals	358,243	Depreciation	(746,178)		(70,269)	Issuance of debt	(142,374)	Repayments of debt	386,795	Capital lease payments	87,430		<u>(632,567)</u>
Capital outlay purchases, net of disposals	358,243														
Depreciation	(746,178)														
	(70,269)														
Issuance of debt	(142,374)														
Repayments of debt	386,795														
Capital lease payments	87,430														
	<u>(632,567)</u>														
<b>Change in Net Position of Governmental Activities</b>	<b>\$ <u>(65,158)</u></b>														

The accompanying notes are an integral part of these 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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 14,005,038	\$ 14,005,038	\$ 14,005,038	\$ -
Excises	651,000	651,000	722,752	71,752
Penalties, interest and other taxes	110,500	110,500	118,289	7,789
Charges for services	269,200	269,200	325,252	56,052
Intergovernmental	1,541,316	1,541,316	1,589,169	47,853
Licenses and permits	105,400	105,400	109,732	4,332
Fines and forfeitures	25,800	25,800	37,625	11,825
Investment income	4,000	4,000	3,021	(979)
Miscellaneous	76,300	76,300	313,646	237,346
Transfers in	384,055	399,055	471,432	72,377
Other sources	450,000	497,000	497,000	-
<b>Total Revenues and Other Sources</b>	<b>17,622,609</b>	<b>17,684,609</b>	<b>18,192,956</b>	<b>508,347</b>
<b>Expenditures and Other Uses:</b>				
General government	1,071,712	1,071,712	1,001,937	69,775
Public safety	1,735,032	1,755,032	1,718,130	36,902
Education	8,807,216	8,807,216	8,807,216	-
Public works	2,079,025	2,079,025	2,016,432	62,593
Health and human services	313,406	325,406	312,556	12,850
Culture and recreation	446,792	466,792	456,271	10,521
Employee benefits	1,924,380	1,924,380	1,812,709	111,671
Debt service	628,152	628,152	606,485	21,667
Intergovernmental	163,923	163,923	167,489	(3,566)
Transfers out	452,971	462,971	462,971	-
<b>Total Expenditures and Other Uses</b>	<b>17,622,609</b>	<b>17,684,609</b>	<b>17,362,196</b>	<b>322,413</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 830,760	\$ 830,760

The accompanying notes are an integral part of these financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 899,902	\$ 27,635	\$ 927,537
User fees, net of allowance for uncollectible	256,904	-	256,904
Total current assets	1,156,806	27,635	1,184,441
Noncurrent:			
Land and construction in progress	824,818	195,287	1,020,105
Capital assets, net of accumulated depreciation	11,006,201	6,096,872	17,103,073
Total noncurrent assets	11,831,019	6,292,159	18,123,178
<b>TOTAL ASSETS</b>	12,987,825	6,319,794	19,307,619
<b>LIABILITIES</b>			
Current:			
Warrants payable	69,414	3,912	73,326
Accounts payable	-	30,163	30,163
Accrued payroll	8,884	363	9,247
Accrued interest payable	67,539	-	67,539
Notes payable	1,700,000	-	1,700,000
Current portion of long-term liabilities:			
Bonds payable	225,901	-	225,901
Total current liabilities	2,071,738	34,438	2,106,176
Noncurrent:			
Bonds payable, net of current portion	3,387,034	-	3,387,034
Accrued compensated absences	20,392	-	20,392
Net OPEB obligation	474,518	-	474,518
Total noncurrent liabilities	3,881,944	-	3,881,944
<b>TOTAL LIABILITIES</b>	5,953,682	34,438	5,988,120
<b>NET POSITION</b>			
Net investment in capital assets	6,518,084	6,292,159	12,810,243
Unrestricted	516,059	(6,803)	509,256
<b>TOTAL NET POSITION</b>	<u>\$ 7,034,143</u>	<u>\$ 6,285,356</u>	<u>\$ 13,319,499</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<b>Operating Revenues:</b>			
Charges for services	\$ <u>1,802,396</u>	\$ <u>30,830</u>	\$ <u>1,833,226</u>
Total Operating Revenues	1,802,396	30,830	1,833,226
<b>Operating Expenses:</b>			
Operating expenses	1,616,763	49,594	1,666,357
Depreciation	<u>310,790</u>	<u>362,988</u>	<u>673,778</u>
Total Operating Expenses	<u>1,927,553</u>	<u>412,582</u>	<u>2,340,135</u>
Operating Income (Loss)	(125,157)	(381,752)	(506,909)
<b>Nonoperating Revenues (Expenses):</b>			
Investment income	145	80	225
Grant income	42,283	756,224	798,507
Interest expense	<u>(141,226)</u>	<u>-</u>	<u>(141,226)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(98,798)</u>	<u>756,304</u>	<u>657,506</u>
Income (Loss) Before Transfers	(223,955)	374,552	150,597
Transfers in	<u>200,620</u>	<u>11,000</u>	<u>211,620</u>
Change in Net Position	(23,335)	385,552	362,217
Net Position at Beginning of Year	<u>7,057,478</u>	<u>5,899,804</u>	<u>12,957,282</u>
Net Position at End of Year	\$ <u>7,034,143</u>	\$ <u>6,285,356</u>	\$ <u>13,319,499</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds		Total
	Sewer Fund	Airport Fund	Business-Type Activities
<b><u>Cash Flows From Operating Activities:</u></b>			
Receipts from customers and users	\$ 1,779,950	\$ 30,830	\$ 1,810,780
Payments to vendors and employees	<u>(1,990,075)</u>	<u>(15,719)</u>	<u>(2,005,794)</u>
Net Cash Provided By (Used For) Operating Activities	(210,125)	15,111	(195,014)
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>			
Transfers in	<u>200,620</u>	<u>11,000</u>	<u>211,620</u>
Net Cash Provided By Noncapital Financing Activities	200,620	11,000	211,620
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>			
Acquisition and construction of capital assets	(916,736)	(795,160)	(1,711,896)
Issuance of short-term debt	1,700,000	-	1,700,000
Principal payments on bonds and notes	(225,844)	-	(225,844)
Grant income	42,283	756,224	798,507
Interest paid	<u>(144,540)</u>	<u>-</u>	<u>(144,540)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	455,163	(38,936)	416,227
<b><u>Cash Flows From Investing Activities:</u></b>			
Investment income	<u>145</u>	<u>80</u>	<u>225</u>
Net Cash Provided By Investing Activities	145	80	225
Net Change in Cash and Short-Term Investments	445,803	(12,745)	433,058
Cash and Short Term Investments, Beginning of Year	<u>454,099</u>	<u>40,380</u>	<u>494,479</u>
Cash and Short Term Investments, End of Year	<u>\$ 899,902</u>	<u>\$ 27,635</u>	<u>\$ 927,537</u>
<b><u>Reconciliation of Operating (Loss) to Net Cash Provided By (Used For) Operating Activities:</u></b>			
Operating (loss)	\$ (125,157)	\$ (381,752)	\$ (506,909)
Adjustments to reconcile operating (loss) to net cash provided by (used for) operating activities:			
Depreciation	310,790	362,988	673,778
Changes in assets and liabilities:			
User fees	(22,445)	-	(22,445)
Warrants and accounts payable	(476,178)	33,778	(442,400)
Other liabilities	<u>102,865</u>	<u>97</u>	<u>102,962</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ (210,125)</u>	<u>\$ 15,111</u>	<u>\$ (195,014)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Private Purpose Trust <u>Funds</u>	Pension Trust Fund (As of <u>December 31, 2013</u> )
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 127,123	\$ 184,894
Investments	-	32,001,982
Accounts receivable	-	<u>10,801</u>
Total Assets	127,123	32,197,677
<b><u>LIABILITIES</u></b>		
Deferred revenue	-	<u>804,814</u>
Total Liabilities	-	<u>804,814</u>
<b><u>NET POSITION</u></b>		
Total net position held in trust for pension benefits and other purposes	\$ <u>127,123</u>	\$ <u>31,392,863</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Private Purpose Trust Funds	Pension Trust Fund (For The Year Ended December 31, 2013)
<b>Additions:</b>		
Contributions:		
Employers	\$ -	\$ 1,592,541
Other systems and Commonwealth of Massachusetts	-	104,967
Plan members	-	683,879
Total contributions	-	2,381,387
Investment Income:		
Interest and dividends	1,124	870,863
Realized gain on sale of investments	-	1,401,950
Increase in fair value of investments	-	2,009,910
Less: management fees	-	(167,121)
Net investment income	1,124	4,115,602
Total additions	1,124	6,496,989
<b>Deductions:</b>		
Benefit payments to plan members and beneficiaries	-	2,051,556
Reimbursements to other systems	-	103,435
Refunds to plan members	-	124,819
Administrative expenses	-	74,864
Scholarships awarded	3,850	-
Total deductions	3,850	2,354,674
Net increase (decrease)	(2,726)	4,142,315
<b>Net position:</b>		
Beginning of year	129,849	27,250,548
End of year	\$ 127,123	\$ 31,392,863

The accompanying notes are an integral part of these 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 Town 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 Town is considered to be financially accountable. In fiscal year 2014, it was determined that no entities met the required GASB-14 (as amended) 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 position 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. All revenue items are considered to be measurable and available only when cash is received by the Town. Ex-

penditures 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 Town 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 non-operating 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.

The Town 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 are 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 2014 tax levy reflected an excess capacity of \$2,024.

#### *G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land and improvements	20
Building and improvements	20 – 40
Infrastructure	5 – 50
Vehicles	5 – 10
Equipment and furnishings	10

#### *H. Compensated Absences*

It is the Town'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 position.

#### *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 position".

*Fund Balance* - Generally, fund balance represents the difference between the current assets/deferred outflows and current liabilities/deferred inflows. 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 Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists 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 position is 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. The remaining net position is 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.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds.

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>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/expenditures (GAAP basis)	\$ 17,465,322	\$ 16,857,230
Other financing sources/uses (GAAP basis)	<u>72,377</u>	<u>262,971</u>
Subtotal (GAAP Basis)	17,537,699	17,120,201
Remove the effect of adding Town's stabilization funds per GASB 54:		
Reverse the adjustment eliminating interfund transfers	399,055	200,000
Remove stabilization fund income	(1,398)	-
Adjust tax revenue to accrual basis	(233,202)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(363,872)
Add end of year appropriation carryforwards to expenditures	-	412,065
To reverse the effect of non-budgeted State contributions for teachers retirement	(6,198)	(6,198)
Recognize the use of fund balance as a funding source	<u>497,000</u>	<u>-</u>
Budgetary basis	<u>\$ 18,192,956</u>	<u>\$ 17,362,196</u>

**D. Deficit Fund Equity**

The following fund had a deficit balance as of June 30, 2014:

Public Safety Facility CPF	\$ (109,793)
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The deficit in this fund will be eliminated through future departmental revenues and 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 deposit policies for custodial credit risk.

As of June 30, 2014, \$37,644 of the Town’s bank balance of \$5,390,554 was exposed to custodial credit risk as uninsured and/or uncollateralized.

As of December 31, 2013, none of the Contributory Retirement System’s bank balance of \$210,950 was exposed to custodial credit risk as uninsured and/or uncollateralized.

#### 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 reported at fair value\* and 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 government 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.

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

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 Assessor's 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, 2014 consist of the following (in thousands):

Real Estate		
2014	\$	355
2013		170
2012		40
2011 and Prior		<u>5</u>
		570
Personal Property		
2014		6
2013		2
2012		<u>1</u>
		9
Tax Liens		<u>112</u>
Total	\$	<u>691</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	22	-
Excises	8	-
Other	3	32

**7. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014.

**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, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
<b>Governmental Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 13,963,026	\$ -	\$ -	\$ -	\$ 13,963,026
Machinery, equipment, vehicles and furnishings	2,883,982	212,726	(106,999)	-	2,989,709
Infrastructure	<u>273,792</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>273,792</u>
Total capital assets, being depreciated	17,120,800	212,726	(106,999)	-	17,226,527
Less accumulated depreciation for:					
Buildings and improvements	(4,102,259)	(496,367)	-	-	(4,598,626)
Machinery, equipment, vehicles and furnishings	(1,752,221)	(243,621)	99,502	-	(1,896,340)
Infrastructure	<u>(220,649)</u>	<u>(6,190)</u>	<u>-</u>	<u>-</u>	<u>(226,839)</u>
Total accumulated depreciation	<u>(6,075,129)</u>	<u>(746,178)</u>	<u>99,502</u>	<u>-</u>	<u>(6,721,805)</u>
Total capital assets, being depreciated, net	11,045,671	(533,452)	(7,497)	-	10,504,722
Capital assets, not being depreciated:					
Land	680,509	180,526	(76,403)	-	784,632
Construction in progress	<u>929,101</u>	<u>48,892</u>	<u>-</u>	<u>-</u>	<u>977,993</u>
Total capital assets, not being depreciated	<u>1,609,610</u>	<u>229,418</u>	<u>(76,403)</u>	<u>-</u>	<u>1,762,625</u>
Governmental activities capital assets, net	<u>\$ 12,655,281</u>	<u>\$ (304,034)</u>	<u>\$ (83,900)</u>	<u>\$ -</u>	<u>\$ 12,267,347</u>
	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
<b>Business-Type Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 13,182,257	\$ 720,788	\$ -	\$ -	\$ 13,903,045
Machinery, equipment, vehicles and furnishings	103,704	-	-	-	103,704
Infrastructure	<u>10,201,133</u>	<u>-</u>	<u>-</u>	<u>737,352</u>	<u>10,938,485</u>
Total capital assets, being depreciated	23,487,094	720,788	-	737,352	24,945,234
Less accumulated depreciation for:					
Buildings and improvements	(5,052,287)	(514,784)	-	-	(5,567,071)
Machinery, equipment, vehicles and furnishings	(64,828)	(7,069)	-	-	(71,897)
Infrastructure	<u>(2,051,268)</u>	<u>(151,925)</u>	<u>-</u>	<u>-</u>	<u>(2,203,193)</u>
Total accumulated depreciation	<u>(7,168,383)</u>	<u>(673,778)</u>	<u>-</u>	<u>-</u>	<u>(7,842,161)</u>
Total capital assets, being depreciated, net	16,318,711	47,010	-	737,352	17,103,073
Capital assets, not being depreciated:					
Land	266,750	-	-	-	266,750
Construction in progress	<u>499,599</u>	<u>991,108</u>	<u>-</u>	<u>(737,352)</u>	<u>753,355</u>
Total capital assets, not being depreciated	<u>766,349</u>	<u>991,108</u>	<u>-</u>	<u>(737,352)</u>	<u>1,020,105</u>
Business-type activities capital assets, net	<u>\$ 17,085,060</u>	<u>\$ 1,038,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,123,178</u>

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

Governmental Activities:	
General government	\$ 273,332
Public safety	168,145
Education	69,745
Public works	200,612
Culture and recreation	<u>34,344</u>
Total depreciation expense - governmental activities	<u>\$ 746,178</u>
Business-Type Activities:	
Sewer	\$ 310,790
Airport	<u>362,988</u>
Total depreciation expense - business-type activities	<u>\$ 673,778</u>

#### 10. Warrants and Accounts Payable

Warrants payable represent 2014 expenditures paid by July 15, 2014 as permitted by law. Accounts payable represents additional 2014 expenditures paid after July 15, 2014.

#### 11. Anticipation Notes Payable

The Town had the following short-term notes outstanding at June 30, 2014:

	<u>Interest</u> <u>Rate(s) %</u>	<u>Date of</u> <u>Issue</u>	<u>Date of</u> <u>Maturity</u>	<u>Balance at</u> <u>June 30, 2014</u>
Bond anticipation	0.50%	05/22/14	07/22/14	\$ 1,803,000
State anticipation	0.50%	06/26/14	08/26/14	<u>88,712</u>
Total				<u>\$ 1,891,712</u>

The following summarizes activity in short-term notes payable during fiscal year 2014:

	<u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>New</u> <u>Issues</u>	<u>Maturities</u>	<u>Balance</u> <u>End of</u> <u>Year</u>
State anticipation	\$ 158,168	\$ 88,712	\$ (158,168)	\$ 88,712
Bond anticipation	252,166	3,503,000	(1,952,166)	1,803,000
Revenue anticipation	<u>-</u>	<u>4,000,000</u>	<u>(4,000,000)</u>	<u>-</u>
Total	<u>\$ 410,334</u>	<u>\$ 7,591,712</u>	<u>\$ (6,110,334)</u>	<u>\$ 1,891,712</u>

## 12. 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 and notes currently outstanding are as follows:

	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>June 30, 2014</u>
<u>Governmental Activities:</u>			
<u>Bonds Payable:</u>			
Landfill	08/15/19	5.25%	\$ 210,000
Colle Opera House	06/15/22	4.25%	85,000
Municipal purpose	11/01/26	4.11%	465,000
Combined sewer overflow (MWPAT)	07/15/27	2.00%	266,417
Municipal purpose	11/15/27	4.50%	4,275,000
FRCOG Brownsfields	06/30/33	2.50%	124,911
Combined sewer overflow (MWPAT)	01/15/39	2.41%	653,521
USDA	11/01/45	4.38%	<u>380,026</u>
Total Bonds Payable			6,459,875
<u>Notes Payable:</u>			
Sheffield Parking Lot & Roof	05/22/14	2.15%	<u>138,721</u>
Total Notes Payable			<u>138,721</u>
Total Governmental Activities			\$ <u>6,598,596</u>

	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>June 30, 2014</u>
<u>Business-Type Activities:</u>			
Millers Falls sewer (MWPAT)	08/01/15	N/A	\$ 16,015
Millers Falls sewer (MWPAT)	02/01/17	N/A	203,450
Combined sewer overflow (MWPAT)	02/01/18	N/A	50,358
Sewer - property acquisition	06/15/22	4.34%	40,000
Sewer - multiple purpose	06/15/23	4.42%	255,000
Sewer - multiple purpose	11/01/26	4.11%	164,729
Combined sewer overflow (MWPAT)	07/15/27	2.00%	399,624
Combined sewer overflow (MWPAT)	01/15/39	2.41%	980,280
USDA	11/01/45	4.38%	570,040
USDA	09/21/47	4.13%	<u>933,439</u>
Total Business-Type Activities			\$ <u>3,612,935</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.

	Loan <u>Authorized</u>	<u>Subsidy</u>	Repayment <u>Obligation</u>	Balance at <u>June 30, 2014</u>
Millers Falls sewer	\$ 159,435	\$ 25,497	\$ 133,938	\$ 16,015
Millers Falls sewer	907,181	232,451	674,730	203,450
Combined sewer overflow	205,196	47,169	158,027	50,358
Combined sewer overflow	957,448	-	957,448	399,624
Combined sewer overflow	<u>1,911,052</u>	<u>-</u>	<u>1,911,052</u>	<u>980,280</u>
Total	\$ <u>4,140,312</u>	\$ <u>305,117</u>	\$ <u>3,835,195</u>	\$ <u>1,649,727</u>

**C. Future Debt Service**

The annual payments to retire all general obligation long-term bonds and notes outstanding as of June 30, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 413,073	\$ 240,630	\$ 653,703
2016	420,594	226,488	647,082
2017	431,869	212,155	644,024
2018	418,178	197,045	615,223
2019	424,525	181,207	605,732
2020 - 2024	2,069,132	668,743	2,737,875
2025 - 2029	1,836,294	257,382	2,093,676
2030 and thereafter	<u>584,931</u>	<u>149,837</u>	<u>734,768</u>
Total	\$ <u>6,598,596</u>	\$ <u>2,133,487</u>	\$ <u>8,732,083</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 225,901	\$ 128,400	\$ 354,301
2016	214,113	118,908	333,021
2017	218,468	109,849	328,317
2018	141,842	101,391	243,233
2019	138,485	96,802	235,287
2020 - 2024	661,366	412,903	1,074,269
2025 - 2029	512,644	317,686	830,330
2030 and thereafter	<u>1,500,116</u>	<u>531,603</u>	<u>2,031,719</u>
Total	\$ <u>3,612,935</u>	\$ <u>1,817,542</u>	\$ <u>5,430,477</u>

**D. Changes in General Long-Term Liabilities**

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

	Total Balance July 1, 2013	Additions	Reductions	Total Balance June 30, 2014	Less Current Portion	Long-Term Portion June 30, 2014
<b><u>Governmental Activities</u></b>						
Notes payable	\$ -	\$ 142,374	\$ (3,653)	\$ 138,721	(18,721)	120,000
Bonds payable	6,843,017	-	(383,142)	6,459,875	(394,352)	6,065,523
Capital lease	206,136	-	(87,430)	118,706	(37,777)	80,929
Landfill closure	212,500	-	(12,500)	200,000	(12,500)	187,500
Accrued compensated absences	217,785	13,152	-	230,937	-	230,937
Net OPEB obligation	2,963,566	631,916	-	3,595,482	-	3,595,482
Totals	\$ 10,443,004	\$ 787,442	\$ (486,725)	\$ 10,743,721	\$ (463,350)	\$ 10,280,371
<b><u>Business-Type Activities</u></b>						
Bonds payable	\$ 3,838,779	\$ -	\$ (225,844)	\$ 3,612,935	\$ (225,901)	\$ 3,387,034
Accrued compensated absences	19,233	1,159	-	20,392	-	20,392
Net OPEB obligation	375,196	99,322	-	474,518	-	474,518
Totals	\$ 4,233,208	\$ 100,481	\$ (225,844)	\$ 4,107,845	\$ (225,901)	\$ 3,881,944

**E. Overlapping Debt**

The Town is a member community of other governmental agencies, which are authorized to issue debt. The Town is not directly responsible for the payment or guarantee of these debts; however, annual debt service costs are included in the operating budgets of these agencies and are funded through user charges and/or assessments to the Town. The following summarizes the debt of these other agencies and the Town's related participation percentages:

<u>Related Entity</u>	<u>Total Principal</u>	<u>Town's Percent</u>	<u>Town's Share</u>
<u>Gill-Montague Regional School District:</u>			
Gill-Montague Regional High School	\$ 1,260,000	89.36%	\$ 1,125,936
Total	\$ 1,260,000		\$ 1,125,936

**13. Capital Lease Obligations**

The Town is the lessee of a highway department dump truck under a capital lease expiring on July 5, 2016. Future minimum lease payments consisted of the following as of June 30, 2014:

2015	\$ 43,321
2016	43,320
2017	<u>43,321</u>
Total minimum lease payments	129,962
Less amounts representing interest	<u>(11,256)</u>
Present Value of Minimum Lease Payments	\$ <u><u>118,706</u></u>

**14. 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 \$200,000 reported as landfill liability at June 30, 2014 represents the estimated cost of monitoring the landfill for the next 16 years. This amount is based on what it would cost to perform all closure and post-closure care in 2014. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**15. Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The deferred inflow of resources balance as of June 30, 2014 consists of 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 inflows of resources account is equal to the total of all June 30, 2014 receivable balances.

**16. Interfund Fund Transfers**

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund transfers must be utilized.

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2014:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 471,432	\$ 462,971
Town stabilization fund	200,000	399,055
Nonmajor Governmental Funds:	-	-
Special revenue funds	6,000	63,885
Capital project funds	35,351	8,492
Conservation fund	10,000	-
Sewer enterprise fund	200,620	-
Airport enterprise fund	<u>11,000</u>	<u>-</u>
Total	\$ <u>934,403</u>	\$ <u>934,403</u>

Transfers are used to (1) move revenues from the fund that by statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations. The transfers to the airport and sewer funds from the general fund are made to supplement the annual budget.

#### 17. **Restricted Net Position**

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

Permanent fund restricted net position is 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.

#### 18. **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, 2014:

**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 funds set-aside by the Town.

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 includes stabilization funds set aside by Town Meeting vote (now reported as part of the general fund per GASB 54) and funds with deficit balances at June 30, 2014.

Following is a breakdown of the Town's fund balances at June 30, 2014:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 65,297	\$ 65,297
Total Nonexpendable	-	65,297	65,297
Restricted			
Special revenue funds	-	623,218	623,218
Expendable permanent funds	-	26,395	26,395
Total Restricted	-	649,613	649,613
Committed			
Special articles	412,065	-	412,065
Capital project funds	-	41,260	41,260
Town set-asides	-	49,667	49,667
Total Committed	412,065	90,927	502,992
Assigned			
Reserved for expenditures	250,000	-	250,000
Total Assigned	250,000	-	250,000
Unassigned			
Unassigned	1,651,206	-	1,651,206
Stabilization funds	811,824	-	811,824
Deficit capital project funds	-	(109,793)	(109,793)
Total Unassigned	2,463,030	(109,793)	2,353,237
Total Fund Balance	\$ 3,125,095	\$ 696,044	\$ 3,821,139

## 19. Subsequent Events

Debt – Subsequent to June 30, 2014, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation	\$ 123,352	0.44%	07/22/14	09/22/14
Revenue anticipation	2,000,000	0.48%	08/18/14	10/07/14

In July 2014 the Town issued a general obligation bond for \$1,653,000. This bond will be paid off over 10 years with interest rates ranging from 3 - 4%.

## 20. 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.

Self-Insurance – The Town participates in the Hampshire County Group Insurance Trust to provide health insurance coverage to its employees. The Trust is funded by member assessments, which are calculated in a manner similar to commercial insurance premiums. As of March 31, 2014 the Trust contracted with an insurance carrier for excess liability coverage which takes effect when an individual claim exceeds \$175,000.

If the Trust were to experience a cash deficit, each member would be required to contribute additional funds. At March 31, 2014, according to the Trust's unaudited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$3.3 million, the Trust was in a surplus position of approximately \$27.1 million.

Union Contract – The Town's contract with its United Electrical, Radio and Machine Workers of America union expired on June 30, 2010 and negotiations for a new contract are ongoing. The amount, if any, of retroactive salary adjustments cannot be determined at this time and the Town's management is of the opinion that any salary adjustment paid would not materially affect its financial statements.

## 21. 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, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	114
Active plan members	<u>193</u>
Total	<u>307</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>
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%
2013	1,533,088	100%
2014	1,609,627	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>
01/01/12	\$26,807	\$ 35,478	\$ 8,671	75.6%	\$ 5,928	146.3%

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 \$8.0 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 \$18,000 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, 2012 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 2014, the Commonwealth of Massachusetts contributed \$6,198 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.

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

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the statement of net position over time.

A. Plan Description

In addition to providing the pension benefits described in the following footnote, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits,

benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2013, the actuarial valuation date, approximately 61 retirees and 65 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

The Town provides medical, prescription drug and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

*C. Funding Policy*

Retirees contribute 20% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

*D. Annual OPEB Costs and Net OPEB Obligation*

The Town's fiscal 2014 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, 2014, 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, 2013.

	Governmental Funds	Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 1,002,133	\$ 147,867	\$ 1,150,000
Interest on net OPEB obligation	118,543	11,457	130,000
Adjustment to ARC	<u>(143,800)</u>	<u>(16,200)</u>	<u>(160,000)</u>
Annual OPEB cost	976,876	143,124	1,120,000
Contributions made	<u>(344,960)</u>	<u>(43,802)</u>	<u>(388,762)</u>
Increase (decrease) in net OPEB obligation	631,916	99,322	731,238
Net OPEB obligation - beginning of year	<u>2,963,566</u>	<u>375,196</u>	<u>3,338,762</u>
Net OPEB obligation - end of year	<u>\$ 3,595,482</u>	<u>\$ 474,518</u>	<u>\$ 4,070,000</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 1,120,000	35%	\$4,070,000
2013	\$ 1,133,819	47%	\$3,338,762
2012	\$ 1,118,605	44%	\$2,733,447
2011	\$ 1,099,075	41%	\$2,106,964
2010	\$ 1,253,257	43%	\$1,454,589
2009	\$ 1,196,883	41%	\$ 703,139

The Town's net OPEB obligation as of June 30, 2014 is recorded as separate line item in the accompanying government-wide financial statements.

*E. Funded Status and Funding Progress*

The funded status of the plan as of July 1, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 12,930,000
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 12,930,000</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 3,210,000</u>
UAAL as a percentage of covered payroll	<u>403%</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.

#### F. 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, 2013 actuarial valuation the projected unit credit cost 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% investment rate of return and an initial annual healthcare cost trend rate of 9.5% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 2.5%.

#### **23. Risk Management**

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. 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.

#### **24. Implementation of New GASB Standard**

The GASB has issued Statement No. 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 Montague Contributory Retirement System's actuarially accrued liability.

**TOWN OF MONTAGUE, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
(Amounts Expressed in thousands)**

**Employees' Retirement System  
December 31, 2013**

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]
01/01/12	\$ 26,807	\$ 35,478	\$ 8,671	75.6%	\$ 5,928	146.3%
01/01/10	\$ 25,000	\$ 31,100	\$ 6,100	80.4%	\$ 6,047	100.8%
01/01/08	\$ 24,264	\$ 28,794	\$ 4,530	84.0%	\$ 6,021	75.2%
01/01/06	\$ 19,737	\$ 25,382	\$ 5,645	78.0%	\$ 5,429	104.0%
01/01/04	\$ 15,396	\$ 22,436	\$ 7,040	69.0%	\$ 4,612	153.0%
01/01/02	\$ 13,286	\$ 20,462	\$ 7,176	64.9%	\$ 5,007	143.3%
12/31/00	\$ 13,933	\$ 18,247	\$ 4,314	76.4%	\$ 1,876	88.0%
12/31/98	\$ 9,382	\$ 15,525	\$ 6,143	60.4%	\$ 4,151	148.0%
12/31/94	\$ 5,230	\$ 10,664	\$ 5,434	49.0%	\$ 3,315	163.9%
12/31/92	\$ 4,391	\$ 10,120	\$ 5,729	43.3%	N/A	N/A

**Other Post-Employment Benefits  
June 30, 2014**

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]
07/01/13	\$ -	\$ 12,930	\$ 12,930	0.0%	\$ 3,210	403%
07/01/10	\$ -	\$ 14,583	\$ 14,583	0.0%	N/A	N/A
12/31/07	\$ -	\$ 17,231	\$ 17,231	0.0%	N/A	N/A

See Independent Auditors' Report.