

TOWN OF MONTAGUE, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Montague, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Montague, Massachusetts, as of and for the year ended June 30, 2009 (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2008), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Montague's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Additional Offices:

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

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, 2009 (except for the Montague Contributory Retirement System which is as of December 31, 2008), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis appearing on the following pages, and the supplementary information appearing in the back of this report, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2009 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson Heath + Company P.C.

Greenfield, Massachusetts
September 21, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Montague, we offer readers this narrative overview and analysis of the financial activities of the Town of Montague for the fiscal year ended June 30, 2009.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Montague's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

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

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be

divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 15,029,586 (i.e., net assets), a decrease of \$ (1,686,320) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ (651,025), a decrease of \$ (5,081,116) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,022,344, a decrease of \$ (982,656) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 6,693,218, a decrease of \$ (423,392) 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.

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008 (Restated)	2009	2008 (Restated)
Current and other assets	\$ 5,980,044	\$ 6,609,927	\$ 497,565	\$ 1,431,076	\$ 6,477,609	\$ 8,041,003
Capital assets	11,488,825	7,596,366	11,990,679	10,833,244	23,479,504	18,429,610
Total assets	17,468,869	14,206,293	12,488,244	12,264,320	29,957,113	26,470,613
Long-term liabilities outstanding	2,478,443	2,042,124	5,082,627	5,264,800	7,561,070	7,306,924
Other liabilities	6,086,358	1,704,279	1,280,099	743,504	7,366,457	2,447,783
Total liabilities	8,564,801	3,746,403	6,362,726	6,008,304	14,927,527	9,754,707
Net assets:						
Invested in capital assets, net	6,097,793	5,954,580	5,990,461	5,087,634	12,088,254	11,042,214
Restricted	1,117,013	994,499	-	-	1,117,013	994,499
Unrestricted	1,689,262	3,510,811	135,057	1,168,382	1,824,319	4,679,193
Total net assets	\$ 8,904,068	\$ 10,459,890	\$ 6,125,518	\$ 6,256,016	\$ 15,029,586	\$ 16,715,906

(continued)

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CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008 (Restated)	2009	2008 (Restated)
Revenues:						
Program revenues:						
Charges for services	\$ 734,916	\$ 805,360	\$ 1,445,570	\$ 1,525,723	\$ 2,180,486	\$ 2,331,083
Operating grants and contributions	1,076,730	1,420,489	-	6,874	1,076,730	1,427,363
Capital grants and contributions	378,363	886,468	141,493	769,086	519,856	1,655,554
General revenues:						
Property taxes	11,183,993	10,512,828	-	-	11,183,993	10,512,828
Excises	612,513	665,962	-	-	612,513	665,962
Penalties and interest on taxes	107,009	101,325	-	-	107,009	101,325
Investment income	30,991	73,978	761	2,683	31,752	76,661
Grants and contribu- tions not restricted	1,613,864	1,684,090	-	-	1,613,864	1,684,090
Other	220,888	207,921	-	-	220,888	207,921
Total revenues	<u>15,959,267</u>	<u>16,358,421</u>	<u>1,587,824</u>	<u>2,304,366</u>	<u>17,547,091</u>	<u>18,662,787</u>
Expenses:						
General government	2,259,607	2,314,799	-	-	2,259,607	2,314,799
Public safety	1,892,354	1,668,511	-	-	1,892,354	1,668,511
Education	8,126,930	8,102,437	-	-	8,126,930	8,102,437
Public works	2,088,340	2,231,581	-	-	2,088,340	2,231,581
Health and human services	221,859	195,025	-	-	221,859	195,025
Culture and recreation	647,769	565,832	-	-	647,769	565,832
Employee benefits	1,683,317	1,628,815	-	-	1,683,317	1,628,815
Interest on long-term debt	175,072	140,032	-	-	175,072	140,032
Intergovernmental	163,021	153,089	-	-	163,021	153,089
Airport operations	-	-	120,294	99,126	120,294	99,126
Sewer operations	-	-	1,854,848	1,836,219	1,854,848	1,836,219
Total expenses	<u>17,258,269</u>	<u>17,000,121</u>	<u>1,975,142</u>	<u>1,935,345</u>	<u>19,233,411</u>	<u>18,935,466</u>
Change in net assets before transfers	(1,299,002)	(641,700)	(387,318)	369,021	(1,686,320)	(272,679)
Transfers in (out)	<u>(256,820)</u>	<u>(211,967)</u>	<u>256,820</u>	<u>211,967</u>	-	-
Change in net assets	(1,555,822)	(853,667)	(130,498)	580,988	(1,686,320)	(272,679)
Net assets - beginning of year, as restated	<u>10,459,890</u>	<u>11,313,557</u>	<u>6,256,016</u>	<u>5,675,028</u>	<u>16,715,906</u>	<u>16,988,585</u>
Net assets - end of year	<u>\$ 8,904,068</u>	<u>\$ 10,459,890</u>	<u>\$ 6,125,518</u>	<u>\$ 6,256,016</u>	<u>\$ 15,029,586</u>	<u>\$ 16,715,906</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 15,029,586, a decrease of \$ (1,686,320) from the prior year.

The largest portion of net assets, \$ 12,088,254, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it

should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets, \$ 1,117,013, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 1,824,319, may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a decrease in net assets of \$ (1,555,822). Key elements of this decrease are as follows:

General fund decrease (discussed below)	\$ (1,566,181)
Capital acquisitions funded by tax levy	371,224
Stabilization fund revenues and transfers in in excess of expenditures and transfers out	342,180
Public Safety Facility fund revenues and transfers in in excess of expenditures and transfers out	33,700
Non-major fund revenues and transfers in over expenditures and transfers out	201,253
Depreciation expense in excess of principle debt service and capital lease payments	(239,995)
Other timing differences	<u>(698,003)</u>
Total	<u>\$ (1,555,822)</u>

Business-Type Activities. Business-type activities for the year resulted in a decrease in net assets of \$ (130,498). Key elements of this change are as follows:

Sewer fund expenditures in excess of revenues	\$ (391,095)
Airport fund revenues in excess of expenditures	3,777
Transfers from general fund to sewer fund (net)	<u>256,820</u>
Total	<u>\$ (130,498)</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 \$ (651,025), a decrease of \$ (5,081,116) in comparison with the prior year. Key elements of this decrease are as follows:

General fund decrease (discussed below)	\$ (1,566,181)
Stabilization and Public Safety Facility Major Funds expenditures and transfers out over revenues and transfers in	(3,716,188)
Non-major fund revenues and transfers in over expenditures and transfers out	<u>201,253</u>
Total	<u>\$ (5,081,116)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 1,022,344, while total fund balance was \$ 1,656,591. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 6.8 percent of total general fund expenditures, while total fund balance represents 11 percent of that same amount.

The fund balance of the general fund decreased by \$ (1,566,181) during the current fiscal year. Key factors in this change are as follows:

Excess of State and local revenues over budget	\$ 333,389
Expenditures less than budget	243,381
Excess of tax collections compared to budget	77,678
Use of free cash and overlay surplus as funding sources	(1,864,635)
Expenditures of prior year encumbrances and reserve of current year encumbrances	(298,981)
Other timing differences	<u>(57,013)</u>
Total	<u>\$ (1,566,181)</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 assets of the enterprise funds at the end of the year amounted to \$ 135,057, a decrease of \$ (1,125,159) 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 \$ 1,234,850. Reasons for these amendments include:

- \$ 10,000 for legal services.
- \$ 13,000 for utilities.
- \$ 11,850 to pay prior year bills.
- \$ 1,200,000 transfer to stabilization fund.

Of this increase, \$ 1,200,000 was funded from overlay reserve and \$ 34,850 was from free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 23,479,504 (net of accumulated depreciation), an increase of \$ 5,049,894 from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, construction in progress, and infrastructure (for proprietary funds only).

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

- \$ (791,655) depreciation expense.
- \$ (25,696) sale of foreclosed property.
- \$ (60,480) disposal of recycling truck/(net).
- \$ 31,206 library books.
- \$ 99,575 Department of Public Works loader.
- \$ 33,700 police department vehicle.
- \$ 4,058,368 construction in progress – public safety facility.
- \$ 1,291,729 construction in progress – related to combined sewer overflow (CSO) ongoing project.
- \$ 69,000 construction in progress – airport runway replacement.
- \$ 240,443 construction in progress – sidewalks.
- \$ 33,019 waste treatment facility truck.
- \$ 70,685 waste treatment facility tractor/mower/plow.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 6,693,218, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Montague's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

TOWN OF MONTAGUE, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 5,086,729	\$ 318,171	\$ 5,404,900
Receivables, net of allowance for uncollectible:			
Property taxes	547,668	-	547,668
Excises	117,040	-	117,040
User fees	-	179,394	179,394
Intergovernmental	84,461	-	84,461
Departmental and other	12,291	-	12,291
Other assets	59,222	-	59,222
Noncurrent:			
Property taxes	72,633	-	72,633
Land and construction progress	5,536,731	5,725,870	11,262,601
Capital assets, net of accumulated depreciation	<u>5,952,094</u>	<u>6,264,809</u>	<u>12,216,903</u>
TOTAL ASSETS	17,468,869	12,488,244	29,957,113
LIABILITIES			
Current:			
Warrants payable	759,316	181,157	940,473
Accounts payable	165,240	-	165,240
Accrued payroll and withholdings	110,893	7,681	118,574
Accrued interest payable	57,013	-	57,013
Notes payable	4,720,475	750,000	5,470,475
Intergovernmental payable	59,576	-	59,576
Other liabilities	16,045	87,602	103,647
Current portion of long-term liabilities:			
Bonds payable	178,000	253,659	431,659
Landfill	19,800	-	19,800
Noncurrent:			
Bonds payable, net of current portion	1,265,000	4,996,559	6,261,559
Landfill, net of current portion	396,000	-	396,000
Compensated absences	184,145	16,227	200,372
Other post employment benefits	<u>633,298</u>	<u>69,841</u>	<u>703,139</u>
TOTAL LIABILITIES	8,564,801	6,362,726	14,927,527
NET ASSETS			
Invested in capital assets, net of related debt	6,097,793	5,990,461	12,088,254
Restricted for:			
Grants and other statutory restrictions	694,398	-	694,398
Permanent funds:			
Nonexpendable	64,960	-	64,960
Expendable	357,655	-	357,655
Unrestricted	<u>1,689,262</u>	<u>135,057</u>	<u>1,824,319</u>
TOTAL NET ASSETS	\$ <u>8,904,068</u>	\$ <u>6,125,518</u>	\$ <u>15,029,586</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</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>
Governmental Activities:							
General government	\$ 2,259,607	\$ 124,922	\$ 726,463	\$ -	\$ (1,408,222)	\$ -	\$ (1,408,222)
Public safety	1,892,354	202,410	124,166	-	(1,565,778)	-	(1,565,778)
Education	8,126,930	-	36,472	-	(8,090,458)	-	(8,090,458)
Public works	2,088,340	232,310	92	378,363	(1,477,575)	-	(1,477,575)
Health and human services	221,859	20,182	72,905	-	(128,772)	-	(128,772)
Culture and recreation	647,769	155,092	116,632	-	(376,045)	-	(376,045)
Employee benefits	1,683,317	-	-	-	(1,683,317)	-	(1,683,317)
Interest	175,072	-	-	-	(175,072)	-	(175,072)
Intergovernmental	163,021	-	-	-	(163,021)	-	(163,021)
Total Governmental Activities	<u>17,258,269</u>	<u>734,916</u>	<u>1,076,730</u>	<u>378,363</u>	<u>(15,068,260)</u>	<u>-</u>	<u>(15,068,260)</u>
Business-Type Activities:							
Airport operations	120,294	33,400	-	90,389	-	3,495	3,495
Sewer operations	1,854,848	1,412,170	-	51,104	-	(391,574)	(391,574)
Total Business-Type Activities	<u>1,975,142</u>	<u>1,445,570</u>	<u>-</u>	<u>141,493</u>	<u>-</u>	<u>(388,079)</u>	<u>(388,079)</u>
Total	<u>\$ 19,233,411</u>	<u>\$ 2,180,486</u>	<u>\$ 1,076,730</u>	<u>\$ 519,856</u>	<u>(15,068,260)</u>	<u>(388,079)</u>	<u>(15,456,339)</u>
General Revenues and Transfers:							
					11,183,993	-	11,183,993
					612,513	-	612,513
					107,009	-	107,009
					30,991	761	31,752
					1,613,864	-	1,613,864
					220,888	-	220,888
					(256,820)	256,820	-
Total general revenues and transfers					<u>13,512,438</u>	<u>257,581</u>	<u>13,770,019</u>
Change in Net Assets					(1,555,822)	(130,498)	(1,686,320)
Net Assets:							
Beginning of year, as restated					<u>10,459,890</u>	<u>6,256,016</u>	<u>16,715,906</u>
End of year					<u>\$ 8,904,068</u>	<u>\$ 6,125,518</u>	<u>\$ 15,029,586</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	<u>General</u>	<u>Public Safety Facility Fund</u>	<u>Stabilization Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 2,128,673	\$ 668,721	\$ 928,403	\$ 1,360,932	\$ 5,086,729
Receivables:					
Property taxes	897,956	-	-	-	897,956
Excises	130,995	-	-	-	130,995
Intergovernmental	-	-	-	84,461	84,461
Departmental and other	4,482	-	-	11,701	16,183
Due from other funds	15,000	-	-	152	15,152
Other assets	59,222	-	-	-	59,222
TOTAL ASSETS	\$ 3,236,328	\$ 668,721	\$ 928,403	\$ 1,457,246	\$ 6,290,698
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	\$ 147,541	\$ 530,738	\$ -	\$ 81,037	\$ 759,316
Accounts payable	165,240	-	-	-	165,240
Accrued payroll and withholdings	105,741	-	-	5,152	110,893
Accrued interest payable	57,013	-	-	-	57,013
Notes payable	-	4,500,000	-	220,475	4,720,475
Deferred revenues	1,038,013	-	-	-	1,038,013
Intergovernmental payable	59,576	-	-	-	59,576
Due to other funds	152	-	-	15,000	15,152
Other liabilities	6,461	-	-	9,584	16,045
TOTAL LIABILITIES	1,579,737	5,030,738	-	331,248	6,941,723
Fund Balances:					
Reserved for:					
Encumbrances	384,247	-	-	-	384,247
Expenditures	250,000	-	-	-	250,000
Perpetual (nonexpendable permanent) funds	-	-	-	64,960	64,960
Unreserved:					
Undesignated, reported in:					
General fund	1,022,344	-	-	-	1,022,344
Special revenue funds	-	-	928,403	694,398	1,622,801
Capital projects	-	(4,362,017)	-	8,985	(4,353,032)
Permanent funds	-	-	-	357,655	357,655
TOTAL FUND BALANCES	1,656,591	(4,362,017)	928,403	1,125,998	(651,025)
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,236,328	\$ 668,721	\$ 928,403	\$ 1,457,246	\$ 6,290,698

See notes to financial statements.

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

JUNE 30, 2009

Total governmental fund balances	\$ (651,025)
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,488,825
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	742,511
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, landfill closure liability and other post-employment are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(2,676,243)</u>
Net assets of governmental activities	<u><u>\$ 8,904,068</u></u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Public Safety Facility Fund</u>	<u>Stabilization Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 11,151,097	\$ -	\$ -	\$ -	\$ 11,151,097
Excises	642,917	-	-	-	642,917
Penalties, interest and other taxes	107,009	-	-	-	107,009
Charges for services	280,059	-	-	304,605	584,664
Intergovernmental	1,739,610	-	-	1,322,413	3,062,023
Licenses and permits	112,036	-	-	-	112,036
Fines and forfeitures	38,216	-	-	-	38,216
Investment income	30,991	-	6,934	-	37,925
Miscellaneous	299,180	-	-	7,884	307,064
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	14,401,115	-	6,934	1,634,902	16,042,951
Expenditures:					
Current:					
General government	939,093	-	-	922,226	1,861,319
Public safety	1,411,580	4,058,368	-	220,634	5,690,582
Education	8,060,472	-	-	-	8,060,472
Public works	1,842,110	-	-	373,721	2,215,831
Health and human services	188,311	-	-	14,183	202,494
Culture and recreation	377,547	-	-	193,568	571,115
Employee benefits	1,749,341	-	-	-	1,749,341
Debt service	306,615	-	-	46,457	353,072
Intergovernmental	163,021	-	-	-	163,021
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	15,038,090	4,058,368	-	1,770,789	20,867,247
Excess (deficiency) of revenues over expenditures	(636,975)	(4,058,368)	6,934	(135,887)	(4,824,296)
Other Financing Sources (Uses):					
Transfers in	559,506	-	900,152	418,760	1,878,418
Transfers (out)	(1,488,712)	-	(564,906)	(81,620)	(2,135,238)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(929,206)	-	335,246	337,140	(256,820)
Change in fund balance	(1,566,181)	(4,058,368)	342,180	201,253	(5,081,116)
Fund Equity, at Beginning of Year	3,222,772	(303,649)	586,223	924,745	4,430,091
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Fund Equity, at End of Year	\$ 1,656,591	\$ (4,362,017)	\$ 928,403	\$ 1,125,998	\$ (651,025)

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (5,081,116)				
<ul style="list-style-type: none"> • 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 border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Capital outlay purchases, net of deletions</td> <td style="text-align: right;">4,377,116</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">(484,657)</td> </tr> </table> 		Capital outlay purchases, net of deletions	4,377,116	Depreciation	(484,657)
Capital outlay purchases, net of deletions	4,377,116				
Depreciation	(484,657)				
<ul style="list-style-type: none"> • 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 net change in deferred revenue, net of allowance for uncollectibles. <table border="0" style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">2,492</td> </tr> </table> 			2,492		
	2,492				
<ul style="list-style-type: none"> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Repayments of debt</td> <td style="text-align: right;">178,000</td> </tr> <tr> <td style="padding-left: 20px;">Capital lease payments</td> <td style="text-align: right;">66,662</td> </tr> </table> 		Repayments of debt	178,000	Capital lease payments	66,662
Repayments of debt	178,000				
Capital lease payments	66,662				
<ul style="list-style-type: none"> • Some expenses reported in the Statement of Activities, such as compensated absences, landfill monitoring liability, and other post-employment benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;"><u>(614,319)</u></td> </tr> </table> 			<u>(614,319)</u>		
	<u>(614,319)</u>				
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(1,555,822)</u></u>				

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 11,073,419	\$ 11,073,419	\$ 11,073,419	\$ -
Excise	592,000	592,000	642,917	50,917
Penalties, interest and other taxes	79,560	79,560	107,009	27,449
Charges for services	240,095	240,095	280,059	39,964
Intergovernmental	1,823,558	1,823,558	1,703,516	(120,042)
Licenses and permits	91,000	91,000	112,036	21,036
Fines and forfeits	29,000	29,000	38,216	9,216
Investment income	45,000	45,000	30,991	(14,009)
Miscellaneous	74,350	74,350	299,180	224,830
Transfers in	465,478	465,478	559,506	94,028
Other sources	<u>629,785</u>	<u>1,864,635</u>	<u>1,864,635</u>	<u>-</u>
Total Revenues and Other Sources	15,143,245	16,378,095	16,711,484	333,389
Expenditures and Other Uses:				
General government	1,006,973	1,041,823	980,048	61,775
Public safety	1,427,892	1,427,892	1,411,580	16,312
Education	8,003,728	8,003,728	8,003,728	-
Public works	1,658,057	1,658,057	1,589,403	68,654
Health and human services	204,315	204,315	188,311	16,004
Culture and recreation	377,052	377,052	376,992	60
Debt service	251,055	251,055	249,602	1,453
Intergovernmental	165,236	165,236	163,021	2,215
Employee benefits	1,711,487	1,711,487	1,683,317	28,170
Transfers out	<u>337,450</u>	<u>1,537,450</u>	<u>1,488,712</u>	<u>48,738</u>
Total Expenditures and Other Uses	<u>15,143,245</u>	<u>16,378,095</u>	<u>16,134,714</u>	<u>243,381</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>576,770</u>	\$ <u>576,770</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 303,161	\$ 15,010	\$ 318,171
User fees, net of allowance for uncollectible	<u>179,394</u>	<u>-</u>	<u>179,394</u>
Total current assets	482,555	15,010	497,565
Noncurrent:			
Land and construction progress	5,164,811	561,059	5,725,870
Capital assets, net of accumulated depreciation	<u>4,972,037</u>	<u>1,292,772</u>	<u>6,264,809</u>
Total noncurrent assets	<u>10,136,848</u>	<u>1,853,831</u>	<u>11,990,679</u>
TOTAL ASSETS	10,619,403	1,868,841	12,488,244
<u>LIABILITIES</u>			
Current:			
Warrants payable	164,306	16,851	181,157
Accrued payroll	7,331	350	7,681
Notes payable	750,000	-	750,000
Accrued interest payable	87,602	-	87,602
Current portion of long-term liabilities:			
Bonds payable	<u>253,659</u>	<u>-</u>	<u>253,659</u>
Total current liabilities	1,262,898	17,201	1,280,099
Noncurrent:			
Bonds payable, net of current portion	4,996,559	-	4,996,559
Compensated absences	12,799	3,428	16,227
Other post employment benefits	<u>63,444</u>	<u>6,397</u>	<u>69,841</u>
Total noncurrent liabilities	<u>5,072,802</u>	<u>9,825</u>	<u>5,082,627</u>
TOTAL LIABILITIES	6,335,700	27,026	6,362,726
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	4,136,630	1,853,831	5,990,461
Unrestricted	<u>147,073</u>	<u>(12,016)</u>	<u>135,057</u>
TOTAL NET ASSETS	\$ <u>4,283,703</u>	\$ <u>1,841,815</u>	\$ <u>6,125,518</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
Operating Revenues:			
Charges for services	\$ 1,412,170	\$ 33,400	\$ 1,445,570
Total Operating Revenues	1,412,170	33,400	1,445,570
Operating Expenses:			
Operating expenses	1,418,583	49,097	1,467,680
Depreciation	235,802	71,197	306,999
Total Operating Expenses	1,654,385	120,294	1,774,679
Operating (Loss)	(242,215)	(86,894)	(329,109)
Nonoperating Revenues (Expenses):			
Investment income	479	282	761
Grant income	51,104	90,389	141,493
Interest expense	(200,463)	-	(200,463)
Total Nonoperating Revenues (Expenses), Net	(148,880)	90,671	(58,209)
Income (loss) Before Transfers	(391,095)	3,777	(387,318)
Transfers:			
Transfers in	274,260	-	274,260
Transfers (out)	(17,440)	-	(17,440)
Change in Net Assets	(134,275)	3,777	(130,498)
Net Assets at Beginning of Year, as restated	4,417,978	1,838,038	6,256,016
Net Assets at End of Year	\$ 4,283,703	\$ 1,841,815	\$ 6,125,518

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Airport Fund	Total Business-Type Activities
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 2,097,609	\$ 90,675	\$ 2,188,284
Payments to vendors and employees	(1,216,157)	(102,689)	(1,318,846)
Net Cash Provided by (Used For) Operating Activities	881,452	(12,014)	869,438
<u>Cash Flows From Noncapital Financing Activities:</u>			
Operating transfers in	274,260	-	274,260
Operating transfers (out)	(17,440)	-	(17,440)
Net Cash Provided By Noncapital Financing Activities	256,820	-	256,820
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(1,324,745)	(139,689)	(1,464,434)
Principal payments on bonds and notes	254,608	-	254,608
Grant income	51,104	90,389	141,493
Interest expense	(204,744)	-	(204,744)
Net Cash (Used For) Capital and Related Financing Activities	(1,223,777)	(49,300)	(1,273,077)
<u>Cash Flows From Investing Activities:</u>			
Investment income	479	282	761
Net Cash Provided By Investing Activities	479	282	761
Net Change in Cash and Short-Term Investments	(85,026)	(61,032)	(146,058)
Cash and Short Term Investments, Beginning of Year	388,187	76,042	464,229
Cash and Short Term Investments, End of Year	\$ 303,161	\$ 15,010	\$ 318,171
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating (loss)	\$ (242,215)	\$ (86,894)	\$ (329,109)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	235,802	71,197	306,999
Changes in assets and liabilities:			
User fees	31,542	57,275	88,817
Warrants and accounts payable	92,366	(59,658)	32,708
Other assets	698,635	-	698,635
Other liabilities	65,322	6,066	71,388
Net Cash Provided By Operating Activities	\$ 881,452	\$ (12,014)	\$ 869,438

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Private Purpose Trust Funds	Pension Trust Fund (As of <u>December 31, 2008</u>)
<u>ASSETS</u>		
Cash and short-term investments	\$ 9,718	\$ 141,061
Investments	<u>120,096</u>	<u>18,218,513</u>
Total Assets	129,814	18,359,574
<u>LIABILITIES AND NET ASSETS</u>		
Deferred revenue	<u>-</u>	<u>661,708</u>
Total Liabilities	<u>-</u>	<u>661,708</u>
<u>NET ASSETS</u>		
Total net assets held in trust for pension benefits and other purposes	\$ <u><u>129,814</u></u>	\$ <u><u>17,697,866</u></u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2009

	Private Purpose Trust Funds	Pension Trust Fund (For The Year Ended December 31, 2008)
Additions:		
Contributions:		
Employers	\$ -	\$ 1,303,348
Other systems and Commonwealth of Massachusetts	-	86,585
Plan members	-	597,642
Other	-	9,000
Total contributions	-	1,996,575
Investment Income (Loss):		
Interest and dividends	3,134	786,282
Increase (decrease) in fair value of investments	-	(8,493,287)
Less: management fees	-	(110,497)
Net investment income	3,134	(7,817,502)
Total additions	3,134	(5,820,927)
Deductions:		
Benefit payments to plan members and beneficiaries	-	1,583,321
Refunds to plan members	-	245,695
Administrative expenses	2,200	67,638
Total deductions	2,200	1,896,654
Net increase (decrease)	934	(7,717,581)
Net assets:		
Beginning of year	128,880	25,415,447
End of year	\$ 129,814	\$ 17,697,866

See notes to financial statements.

Town of Montague, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2009, it was determined that no entities met the required GASB-39 criteria of component units, other than as described below.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, all revenue items are considered to

be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- 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.
- The *public safety facility fund* is one of the government's capital project funds. It accounts for the resources obtained and used for the construction of the Town's new public safety facility.
- The *stabilization fund*, an account authorized by Massachusetts General Laws Chapter 40, Section 5B, from which the Town can appropriate from for any legal purposes.

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 non-operating revenues and expenses.

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

The government reports the following major proprietary fund:

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

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.

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as “Proposition 2 1/2” 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 2009 tax levy reflected an excess capacity of \$ 2,305.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from/to other funds” (i.e., the current portion of interfund loans).

H. Capital Assets

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

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

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

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

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

I. Compensated Absences

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

J. Long-Term Obligations

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

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. **Stewardship, Compliance and Accountability**

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance

Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 14,401,115	\$ 15,038,090
Other financing sources/uses (GAAP basis)	<u>559,506</u>	<u>1,488,712</u>
Subtotal	14,960,621	16,526,802
Adjust tax revenue to accrual basis	(77,678)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(683,228)
Add end of year appropriation carryforwards to expenditures	-	384,247
To reverse the effect of non-budgeted State contributions for teachers retirement	(36,094)	(36,094)
Other non-GAAP uses	-	(57,013)
Recognize use of fund balance as funding source	<u>1,864,635</u>	<u>-</u>
Budgetary basis	<u>\$ 16,711,484</u>	<u>\$ 16,134,714</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2009:

Chapter 90	\$ (7,080)
Public Safety Facility	(4,362,017)
School Projects	(95,475)
CSO Project	(781,248)
Airport Enterprise Fund	(2,191)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

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." The Town and the Contributory Retirement System do not have a deposit policy for custodial credit risk.

As of June 30, 2009, \$ 902,506 of the Town's bank balance of \$ 5,922,713 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

As of December 31, 2008, none of the Contributory Retirement System's bank balance of \$ 172,514 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

4. **Investments**

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

All of the Town's investments are comprised of certificates of deposit which are exempt from credit risk disclosure.

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

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

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

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town and System do not have policies for custodial credit risk.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

Greenfield Savings Bank MJ Carlson \$ 120,096

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.

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 Town and System do 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 Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Certificates of deposit	\$ 120,096	\$ 120,096	\$ -	\$ -	\$ -
Total	\$ 120,096	\$ 120,096	\$ -	\$ -	\$ -

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 Town and System do not have policies for foreign currency risk.

5. Taxes Receivable

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

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2009 consist of the following (in thousands):

Real Estate			
2009	\$ 413		
2008	103		
2007	43		
2006 and Prior	<u>4</u>		
		563	
Personal Property			
2009	7		
2008	1		
2007 and Prior	<u>4</u>		
		12	
Tax Liens		208	
Tax Foreclosures		<u>115</u>	
Total		\$ <u>898</u>	

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>	<u>Sewer Enterprise</u>
Property taxes - current	\$ 27,521	-
Property taxes - noncurrent	250,134	-
Excises	13,955	-
Other	3,893	21,724

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2009.

8. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2009 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 15,000	\$ 152
Non-Major Governmental Funds	<u>152</u>	<u>15,000</u>
Total	<u>\$ 15,152</u>	<u>\$ 15,152</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 7,692,935	\$ -	\$ -	\$ 7,692,935
Machinery, equipment, vehicles and furnishings	2,271,900	164,481	(120,969)	2,315,412
Infrastructure	<u>273,792</u>	<u>-</u>	<u>-</u>	<u>273,792</u>
Total capital assets, being depreciated	10,238,627	164,481	(120,969)	10,282,139
Less accumulated depreciation for:				
Buildings and improvements	(2,216,646)	(304,794)	-	(2,521,440)
Machinery, equipment and furnishings	(1,517,331)	(167,474)	60,489	(1,624,316)
Infrastructure	<u>(171,900)</u>	<u>(12,389)</u>	<u>-</u>	<u>(184,289)</u>
Total accumulated depreciation	<u>(3,905,877)</u>	<u>(484,657)</u>	<u>60,489</u>	<u>(4,330,045)</u>
Total capital assets, being depreciated, net	6,332,750	(320,176)	(60,480)	5,952,094
Capital assets, not being depreciated:				
Land	759,967	-	(25,696)	734,271
Construction in progress	<u>503,649</u>	<u>4,298,811</u>	<u>-</u>	<u>4,802,460</u>
Total capital assets, not being depreciated	<u>1,263,616</u>	<u>4,298,811</u>	<u>(25,696)</u>	<u>5,536,731</u>
Governmental activities capital assets, net	<u>\$ 7,596,366</u>	<u>\$ 3,978,635</u>	<u>\$ (86,176)</u>	<u>\$ 11,488,825</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,060,390	\$ -	\$ -	\$ 8,060,390
Machinery, equipment, vehicles and furnishings	-	103,704	-	103,704
Infrastructure	<u>3,516,632</u>	<u>-</u>	<u>-</u>	<u>3,516,632</u>
Total capital assets, being depreciated	11,577,022	103,704	-	11,680,726
Less accumulated depreciation for:				
Buildings and improvements	(3,543,007)	(226,527)	-	(3,769,534)
Machinery, equipment, vehicles and furnishings	-	(10,138)	-	(10,138)
Infrastructure	<u>(1,565,912)</u>	<u>(70,333)</u>	<u>-</u>	<u>(1,636,245)</u>
Total accumulated depreciation	<u>(5,108,919)</u>	<u>(306,998)</u>	<u>-</u>	<u>(5,415,917)</u>
Total capital assets, being depreciated, net	6,468,103	(203,294)	-	6,264,809
Capital assets, not being depreciated:				
Land	266,750	-	-	266,750
Construction in progress	<u>4,098,391</u>	<u>1,360,729</u>	<u>-</u>	<u>5,459,120</u>
Total capital assets, not being depreciated	<u>4,365,141</u>	<u>1,360,729</u>	<u>-</u>	<u>5,725,870</u>
Business-type activities capital assets, net	<u>\$ 10,833,244</u>	<u>\$ 1,157,435</u>	<u>\$ -</u>	<u>\$ 11,990,679</u>

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

Governmental Activities:	
General government	\$ 226,635
Public safety	30,459
Education	66,458
Public works	117,893
Culture and recreation	<u>43,212</u>
Total depreciation expense - governmental activities	<u>\$ 484,657</u>
Business-Type Activities:	
Sewer	\$ 235,802
Airport	<u>71,196</u>
Total depreciation expense - business-type activities	<u>\$ 306,998</u>

10. Warrants and Accounts Payable

Warrants payable represent 2009 expenditures paid by July 15, 2009 as permitted by law. Accounts payable represent additional 2009 expenditures paid after July 15, 2009.

11. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2009 receivable balances.

12. Notes Payable

The Town had the following short-term notes outstanding at June 30, 2009:

<u>Governmental Activities</u>	<u>Interest Rate %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2009</u>
Revenue anticipation	1.83%	06/16/09	07/30/09	\$ 125,000
Bond anticipation	2.73%	11/13/08	10/23/09	3,000,000
Bond anticipation	2.39%	03/27/09	10/23/09	500,000
Bond anticipation	1.55%	06/16/09	10/23/09	1,000,000
Bond anticipation	2.48%	03/28/09	03/28/10	<u>95,475</u>
Total Governmental				<u>\$ 4,720,475</u>
<u>Business-Type Activities</u>				
Bond anticipation	1.55%	06/16/09	08/13/09	<u>\$ 750,000</u>

The following summarizes activity in short-term notes payable during fiscal year 2009:

	Balance Beginning of Year	New Issues	Maturities	Balance at End of Year
<u>Governmental Activities</u>				
Bond anticipation	\$ 595,475	\$ 4,595,475	\$ (595,475)	\$ 4,595,475
State anticipation	200,000	-	(200,000)	-
Revenue anticipation	-	6,125,000	(6,000,000)	125,000
Total	<u>\$ 795,475</u>	<u>\$ 10,720,475</u>	<u>\$ (6,795,475)</u>	<u>\$ 4,720,475</u>
<u>Businee-type Activities</u>				
Bond anticipation	<u>\$ 250,000</u>	<u>\$ 750,000</u>	<u>\$ (250,000)</u>	<u>\$ 750,000</u>
Total Governmental	<u>\$ 250,000</u>	<u>\$ 750,000</u>	<u>\$ (250,000)</u>	<u>\$ 750,000</u>

13. Long-Term Debt

A. General Obligation Bonds

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

Bonds Payable - <u>Governmental Activities:</u>	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2009
Streets	08/15/09	5.19	\$ 8,000
Industrial park	08/15/10	5.01	55,000
Landfill	08/15/19	5.25	405,000
Colle Opera House	08/15/22	4.25	160,000
Municipal Purpose	11/01/26	4.11	815,000
Total Governmental Activities:			<u>\$ 1,443,000</u>

Bonds Payable - <u>Business-Type Activities:</u>	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2009
Secondary treatment plant	06/10/10	5.00	\$ 2,581
Turners Falls sewer separation	06/10/10	5.00	4,380
Secondary treatment plant	08/15/09	6.00	7,000
Millers Falls sewer (MWPAT)	08/01/15	N/A	83,547
Millers Falls sewer (MWPAT)	02/01/17	N/A	505,003
Combined sewer overflow (MWPAT)	02/01/18	N/A	119,697
Sewer - multiple purpose	06/15/23	4.42	405,000
Sewer - property acquisition	06/15/23	4.34	65,000
Sewer - multiple purpose	11/01/26	4.11	295,000
Combined sewer overflow (MWPAT)	07/15/27	N/A	879,498
Combined sewer overflow (MWPAT)	01/15/39	N/A	1,870,469
USDA	11/01/45	4.38	<u>1,013,043</u>
Total Business-Type Activities:			<u>\$ 5,250,218</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 five 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, 2009</u>
Millers Falls sewer	\$ 159,435	\$ 25,497	\$ 133,938	\$ 82,547
Millers Falls sewer	907,181	232,451	674,730	505,003
Combined sewer overflow	205,196	47,169	158,027	119,697
Combined sewer overflow	957,448	-	957,448	879,498
Combined sewer overflow	<u>1,911,052</u>	<u>-</u>	<u>1,911,052</u>	<u>1,870,469</u>
Total	<u>\$ 4,140,312</u>	<u>\$ 305,117</u>	<u>\$ 3,835,195</u>	<u>\$ 3,457,214</u>

C. Future Debt Service

The annual principal payments to retire all general obligation long-term bonds outstanding as of June 30, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 178,000	\$ 64,404	\$ 242,404
2011	135,000	56,850	191,850
2012	125,000	51,255	176,255
2013	125,000	45,520	170,520
2014	120,000	39,490	159,490
2015-2019	515,000	112,163	627,163
2020-2024	200,000	24,680	224,680
2025 and after	<u>45,000</u>	<u>2,700</u>	<u>47,700</u>
Total	<u>\$ 1,443,000</u>	<u>\$ 397,062</u>	<u>\$ 1,840,062</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 253,659	\$ 176,873	\$ 430,532
2011	244,831	167,446	412,277
2012	250,133	158,167	408,300
2013	255,667	148,444	404,111
2014	256,506	138,360	394,866
2015-2019	1,109,596	546,533	1,656,129
2020-2024	837,774	385,992	1,223,766
2025 and after	<u>2,042,052</u>	<u>645,962</u>	<u>2,688,014</u>
Total	<u>\$ 5,250,218</u>	<u>\$ 2,367,777</u>	<u>\$ 7,617,995</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, the following changes occurred in long-term liabilities:

	<u>Total</u>			<u>Total</u>			<u>Equals</u>
	<u>Balance</u>			<u>Balance</u>			<u>Long-Term</u>
<u>Governmental Activities</u>	<u>July 1, 2008</u>	<u>Addition</u>	<u>Reduction</u>	<u>June 30, 2009</u>	<u>Less</u>	<u>Current</u>	<u>Portion</u>
					<u>Portion</u>		<u>June 30, 2009</u>
Capital lease	\$ 66,662	\$ -	\$ (66,662)	\$ -	\$ -	\$ -	\$ -
Bonds payable	1,621,000	-	(178,000)	1,443,000	(178,000)		1,265,000
Landfill closure	435,600	-	(19,800)	415,800	(19,800)		396,000
Accrued employee benefits	183,324	821	-	184,145	-		184,145
Other post employment benefits	-	633,298	-	633,298	-		633,298
Totals	<u>\$ 2,306,586</u>	<u>\$ 634,119</u>	<u>\$ (264,462)</u>	<u>\$ 2,676,243</u>	<u>\$ (197,800)</u>		<u>\$ 2,478,443</u>
 <u>Business-Type Activities</u>							
Bonds payable	\$ 5,495,610	\$ -	\$ (245,392)	\$ 5,250,218	\$ (253,659)		\$ 4,996,559
Accrued employee benefits	14,582	1,645	-	16,227	-		16,227
Other post employment benefits	-	69,841	-	69,841	-		69,841
Totals	<u>\$ 5,510,192</u>	<u>\$ 71,486</u>	<u>\$ (245,392)</u>	<u>\$ 5,336,286</u>	<u>\$ (253,659)</u>		<u>\$ 5,082,627</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 \$ 415,800 reported as landfill liability at June 30, 2009 represents the estimated cost of monitoring the landfill for the next 21 years. This amount is based on what it would cost to perform all closure and post-closure care in 2009. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Restricted Net Assets

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

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

16. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2009:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

17. 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.

18. Subsequent Events

A. Investments

Since September, 2008, the stock market has suffered significant losses. As a result, there may be a substantial depreciation in the value of the organization's investments.

B. Debt

Subsequent to June 30, 2009, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Revenue anticipation note	\$ 2,000,000	1.55%	08/13/09	10/13/19
Bond anticipation note	\$ 750,000	1.55%	08/13/09	11/12/09

19. Contributory Retirement System

The Town follows the provisions of GASB Statement No. 27, Accounting for Pensions for State and Local Government Employees, (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, 2008, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	110
Terminated plan members entitled to but not yet receiving benefits	6
Active plan members	<u>215</u>
Total	<u>331</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>
1999	\$ 709,673	100%
2000	803,779	100%
2001	839,901	100%
2002	855,659	100%
2003	891,738	100%
2004	957,687	100%
2005	1,086,874	100%
2006	1,207,814	100%
2007	1,242,144	100%
2008	1,283,279	100%
2009	1,323,415	100%

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.

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 \$ 4.5 million was calculated. The actuarial assumptions included (a) 8.0% investment rate of return and (b) a projected salary increase of 4.75%, 5.00% and 5.25% per year for Groups 1, 2 and 4 respectively. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.0%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of January 1, 2008 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 2009, the Commonwealth of Massachusetts contributed \$ 36,094 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.

20. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2009 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, 2009, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of December 31, 2007.

Annual Required Contribution (ARC)	\$ 1,196,883
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>1,196,883</u>
Contributions made	<u>(493,744)</u>
Increase in net OPEB obligation	703,139
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - end of year	<u><u>\$ 703,139</u></u>

The Town's net OPEB obligation as of June 30, 2009 is recorded as separate line item in the accompanying government-wide financial statements.

A. Funded Status and Funding Progress

The funded status of the plan as of December 31, 2007, the date of the most recent actuarial valuation was as follows:

Actuarial Accrued Liability (AAL)	\$ 16,503,062
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 16,503,062</u></u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	n/a
UAAL as a percentage of covered payroll	n/a

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions

of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

B. Actuarial Methods and Assumptions

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

In the December 31, 2007 actuarial valuation the entry age normal method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.5% investment rate of return. This has been calculated assuming the amortization payment increases at a rate of 2.5%.

21. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

22. Beginning Net Asset Restatement

The Town's beginning (July 1, 2008) net assets for business-type activities have been restated as follows:

	Sewer Enterprise Fund	Total Business-Type Activities
As previously reported	\$ 4,509,812	\$ 6,347,850
To adjust the prior year balances to reflect accrued interest on bonds payable	<u>(91,834)</u>	<u>(91,834)</u>
As restated	<u>\$ 4,417,978</u>	<u>\$ 6,256,016</u>

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

Employees' Retirement System
December 31, 2008

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

Other Post-Employment Benefits
June 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/07	\$ -	\$ 16,503	\$ 16,503	0.0%	N/A	N/A

See Independent Auditors' Report.