

TOWN OF MONTAGUE, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2010

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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, 2010 (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2009), 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, 2010 (except for the Montague Contributory Retirement System which is as of December 31, 2009), 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 27, 2010 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 27, 2010

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, 2010.

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 \$ 16,989,210 (i.e., net assets), an increase of \$ 1,959,624 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 3,566,172, an increase of \$ 4,217,197 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,146,505, an increase of \$ 124,161 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 11,356,679, an increase of \$ 4,663,461 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	
	2010	2009 (Restated)	2010	2009 (Restated)	2010	2009 (Restated)
Current and other assets	\$ 5,055,936	\$ 5,980,044	\$ 797,872	\$ 497,565	\$ 5,853,808	\$ 6,477,609
Capital assets	12,024,972	11,488,825	14,889,785	11,990,679	26,914,757	23,479,504
Total assets	17,080,908	17,468,869	15,687,657	12,488,244	32,768,565	29,957,113
Long-term liabilities outstanding	9,898,339	3,983,647	3,684,552	3,577,423	13,582,891	7,561,070
Other liabilities	677,192	6,086,358	1,519,272	1,280,099	2,196,464	7,366,457
Total liabilities	10,575,531	10,070,005	5,203,824	4,857,522	15,779,355	14,927,527
Net assets:						
Invested in capital assets, net	4,414,392	4,592,589	10,109,305	7,495,665	14,523,697	12,088,254
Restricted	914,518	1,117,013	-	-	914,518	1,117,013
Unrestricted	1,176,467	1,689,262	374,528	135,057	1,550,995	1,824,319
Total net assets	\$ 6,505,377	\$ 7,398,864	\$ 10,483,833	\$ 7,630,722	\$ 16,989,210	\$ 15,029,586

(continued)

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CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2010	2009 (Restated)	2010	2009 (Restated)	2010	2009 (Restated)
Revenues:						
Program revenues:						
Charges for services	\$ 718,695	\$ 734,916	\$ 1,487,078	\$ 1,445,570	\$ 2,205,773	\$ 2,180,486
Operating grants and contributions	715,563	1,076,730	-	-	715,563	1,076,730
Capital grants and contributions	477,793	378,363	2,913,872	141,493	3,391,665	519,856
General revenues:						
Property taxes	11,771,177	11,183,993	-	-	11,771,177	11,183,993
Excises	601,316	612,513	-	-	601,316	612,513
Penalties and interest on taxes	112,664	107,009	-	-	112,664	107,009
Investment income	16,068	30,991	2,109	761	18,177	31,752
Grants and contribu- tions not restricted	1,430,832	1,613,864	-	-	1,430,832	1,613,864
Other	146,210	220,888	-	-	146,210	220,888
Total revenues	<u>15,990,318</u>	<u>15,959,267</u>	<u>4,403,059</u>	<u>1,587,824</u>	<u>20,393,377</u>	<u>17,547,091</u>
Expenses:						
General government	1,599,211	2,259,607	-	-	1,599,211	2,259,607
Public safety	1,894,201	1,892,354	-	-	1,894,201	1,892,354
Education	7,932,284	8,126,930	-	-	7,932,284	8,126,930
Public works	2,175,504	2,088,340	-	-	2,175,504	2,088,340
Health and human services	278,846	221,859	-	-	278,846	221,859
Culture and recreation	655,587	647,769	-	-	655,587	647,769
Employee benefits	1,720,415	1,683,317	-	-	1,720,415	1,683,317
Interest on long-term debt	277,456	175,072	-	-	277,456	175,072
Intergovernmental	165,341	163,021	-	-	165,341	163,021
Airport operations	-	-	110,183	120,294	110,183	120,294
Sewer operations	-	-	1,624,725	1,854,848	1,624,725	1,854,848
Total expenses	<u>16,698,845</u>	<u>17,258,269</u>	<u>1,734,908</u>	<u>1,975,142</u>	<u>18,433,753</u>	<u>19,233,411</u>
Change in net assets before transfers	(708,527)	(1,299,002)	2,668,151	(387,318)	1,959,624	(1,686,320)
Transfers in (out)	<u>(184,960)</u>	<u>(256,820)</u>	<u>184,960</u>	<u>256,820</u>	<u>-</u>	<u>-</u>
Change in net assets	(893,487)	(1,555,822)	2,853,111	(130,498)	1,959,624	(1,686,320)
Net assets - beginning of year, as restated	<u>7,398,864</u>	<u>8,954,686</u>	<u>7,630,722</u>	<u>7,761,220</u>	<u>15,029,586</u>	<u>16,715,906</u>
Net assets - end of year	<u>\$ 6,505,377</u>	<u>\$ 7,398,864</u>	<u>\$ 10,483,833</u>	<u>\$ 7,630,722</u>	<u>\$ 16,989,210</u>	<u>\$ 15,029,586</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 \$ 16,989,210, an increase of \$ 1,959,624 from the prior year.

The largest portion of net assets, \$ 14,523,697, 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, \$ 914,518, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 1,550,995, 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 \$ (893,487). Key elements of this change are as follows:

General fund increase (discussed below)	\$ 48,664
Public Safety Facility fund revenues and other financing sources in excess of expenditures	4,298,568
Non-major fund expenditures and transfers out in excess of revenues and other financing sources	(130,035)
Depreciation expense in excess of principal debt service and capital lease repayments	(219,955)
Bond proceeds in excess of capital asset additions	(4,312,284)
Other timing differences	<u>(578,445)</u>
Total	<u>\$ (893,487)</u>

Business-Type Activities. Business-type activities for the year resulted in an increase in net assets of \$ 2,853,111. Key elements of this change are as follows:

Sewer fund expenditures in excess of revenues	\$ (116,778)
Airport fund revenues in excess of expenditures	2,784,929
Transfers from general fund to sewer and airport funds	<u>184,960</u>
Total	<u>\$ 2,853,111</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 \$ 3,566,172, an increase of \$ 4,217,197 in comparison with the prior year. Key elements of this change are as follows:

General fund increase (discussed below)	\$ 48,664
Public Safety Facility revenues and other financing sources over in excess of expenditures	4,298,568
Non-major fund expenditures and transfers out in excess of revenues and other financing sources	<u>(130,035)</u>
Total	<u>\$ 4,217,197</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 \$ 1,146,505, while total fund balance was \$ 1,705,255. 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 7.8 percent of total general fund expenditures, while total fund balance represents 11.6 percent of that same amount.

The fund balance of the general fund increased by \$ 48,664 during the current fiscal year. Key factors in this change are as follows:

Excess of State and local revenues over budget	\$ 294,025
Expenditures less than budget	239,770
Shortfall of tax collections compared to budget	(25,555)
Use of free cash and overlay surplus as funding sources	(508,778)
Expenditures of prior year encumbrances and reserve of current year encumbrances	(7,811)
Other timing differences	<u>57,013</u>
Total	<u>\$ 48,664</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 \$ 374,528, an increase of \$ 239,471 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 \$ 208,425. Reasons for these amendments include:

- \$ 25,000 for legal services.
- \$ 15,000 increase in reserve fund.
- \$ 1,500 for outdoor bulletin board.
- \$ 166,925 transfer to stabilization fund.

Of this increase, \$ 66,925 was funded from the re-appropriation of prior year special articles and \$ 141,500 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 \$ 26,914,757 (net of accumulated depreciation), an increase of \$ 3,435,253 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:

- \$ (801,548) depreciation expense.
- \$ 34,005 library books.
- \$ 244,446 Department of Public Works dump trucks.
- \$ 21,200 Department of Public Works pickup truck and plow.
- \$ 718,219 construction in progress – public safety facility.
- \$ 368,601 construction in progress – related to combined sewer overflow (CSO) ongoing project.
- \$ 2,841,038 construction in progress – airport runway replacement.
- \$ 9,292 construction in progress – sidewalks.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 11,356,679, 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, 2010

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 4,005,391	\$ 577,395	\$ 4,582,786
Receivables, net of allowance for uncollectible:			
Property taxes	651,166	-	651,166
Excises	134,498	-	134,498
User fees	-	220,477	220,477
Intergovernmental	145,960	-	145,960
Departmental and other	38,830	-	38,830
Other assets	51,902	-	51,902
Noncurrent:			
Property taxes	28,189	-	28,189
Land and construction progress	6,264,242	8,935,509	15,199,751
Capital assets, net of accumulated depreciation	<u>5,760,730</u>	<u>5,954,276</u>	<u>11,715,006</u>
TOTAL ASSETS	17,080,908	15,687,657	32,768,565
LIABILITIES			
Current:			
Warrants payable	203,519	174,946	378,465
Accrued payroll and withholdings	139,612	9,507	149,119
Accrued interest payable	-	84,819	84,819
Notes payable	260,000	1,250,000	1,510,000
Intergovernmental payable	51,827	-	51,827
Other liabilities	22,234	-	22,234
Current portion of long-term liabilities:			
Bonds payable	369,977	204,853	574,830
Capital lease	43,983	-	43,983
Landfill	19,800	-	19,800
Noncurrent:			
Bonds payable, net of current portion	7,456,222	3,325,627	10,781,849
Capital lease, net of current portion	146,408	-	146,408
Landfill, net of current portion	376,200	-	376,200
Compensated absences	201,004	16,094	217,098
Other post-employment benefits	<u>1,284,745</u>	<u>137,978</u>	<u>1,422,723</u>
TOTAL LIABILITIES	10,575,531	5,203,824	15,779,355
NET ASSETS			
Invested in capital assets, net of related debt	4,414,392	10,109,305	14,523,697
Restricted for:			
Grants and other statutory restrictions	648,255	-	648,255
Permanent funds:			
Nonexpendable	64,994	-	64,994
Expendable	201,269	-	201,269
Unrestricted	<u>1,176,467</u>	<u>374,528</u>	<u>1,550,995</u>
TOTAL NET ASSETS	\$ <u>6,505,377</u>	\$ <u>10,483,833</u>	\$ <u>16,989,210</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,599,211	\$ 71,087	\$ 318,677	\$ -	\$ (1,209,447)	\$ -	\$ (1,209,447)
Public safety	1,894,201	230,575	37,878	8,769	(1,616,979)	-	(1,616,979)
Education	7,932,284	-	103,962	-	(7,828,322)	-	(7,828,322)
Public works	2,175,504	233,450	24,350	469,024	(1,448,680)	-	(1,448,680)
Health and human services	278,846	24,075	141,106	-	(113,665)	-	(113,665)
Culture and recreation	655,587	159,508	89,590	-	(406,489)	-	(406,489)
Employee benefits	1,720,415	-	-	-	(1,720,415)	-	(1,720,415)
Interest	277,456	-	-	-	(277,456)	-	(277,456)
Intergovernmental	165,341	-	-	-	(165,341)	-	(165,341)
Total Governmental Activities	16,698,845	718,695	715,563	477,793	(14,786,794)	-	(14,786,794)
Business-Type Activities:							
Airport operations	110,183	29,637	-	2,864,871	-	2,784,325	2,784,325
Sewer operations	1,624,725	1,457,441	-	49,001	-	(118,283)	(118,283)
Total Business-Type Activities	1,734,908	1,487,078	-	2,913,872	-	2,666,042	2,666,042
Total	\$ 18,433,753	\$ 2,205,773	\$ 715,563	\$ 3,391,665	(14,786,794)	2,666,042	(12,120,752)
General Revenues and Transfers:							
					11,771,177	-	11,771,177
					601,316	-	601,316
					112,664	-	112,664
					16,068	2,109	18,177
					1,430,832	-	1,430,832
					146,210	-	146,210
					(184,960)	184,960	-
Total general revenues and transfers					13,893,307	187,069	14,080,376
Change in Net Assets					(893,487)	2,853,111	1,959,624
Net Assets:							
					7,398,864	7,630,722	15,029,586
					\$ 6,505,377	\$ 10,483,833	\$ 16,989,210

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

	<u>General</u>	<u>Public Safety Facility Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 1,885,840	\$ 86,551	\$ 2,033,000	\$ 4,005,391
Receivables:				
Property taxes	978,903	-	-	978,903
Excises	144,537	-	-	144,537
Intergovernmental	37,398	-	108,562	145,960
Departmental and other	1,574	-	38,781	40,355
Other assets	51,902	-	-	51,902
TOTAL ASSETS	<u>\$ 3,100,154</u>	<u>\$ 86,551</u>	<u>\$ 2,180,343</u>	<u>\$ 5,367,048</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 80,212	\$ -	\$ 123,307	\$ 203,519
Accrued payroll and withholdings	126,526	-	13,086	139,612
Notes payable	-	150,000	110,000	260,000
Deferred revenues	1,123,684	-	-	1,123,684
Intergovernmental payable	51,827	-	-	51,827
Other liabilities	12,650	-	9,584	22,234
TOTAL LIABILITIES	1,394,899	150,000	255,977	1,800,876
Fund Balances:				
Reserved for:				
Encumbrances	308,750	-	-	308,750
Expenditures	250,000	-	-	250,000
Perpetual (nonexpendable permanent) funds	-	-	64,994	64,994
Unreserved:				
Undesignated, reported in:				
General fund	1,146,505	-	-	1,146,505
Special revenue funds	-	-	1,553,644	1,553,644
Capital projects	-	(63,449)	104,459	41,010
Permanent funds	-	-	201,269	201,269
TOTAL FUND BALANCES	<u>1,705,255</u>	<u>(63,449)</u>	<u>1,924,366</u>	<u>3,566,172</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,100,154</u>	<u>\$ 86,551</u>	<u>\$ 2,180,343</u>	<u>\$ 5,367,048</u>

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, 2010

Total governmental fund balances	\$ 3,566,172
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	12,024,972
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	812,572
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, capital leases, landfill closure liability and other post-employment benefits are not due and payable in the current period and, therefore are not reported in the governmental funds.	<u>(9,898,339)</u>
Net assets of governmental activities	<u><u>\$ 6,505,377</u></u>

TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	Public Safety Facility <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:				
Property taxes	\$ 11,716,423	\$ -	\$ -	\$ 11,716,423
Excises	583,783	-	-	583,783
Penalties, interest and other taxes	112,664	-	-	112,664
Charges for services	301,914	-	266,635	568,549
Intergovernmental	1,691,650	8,769	923,769	2,624,188
Licenses and permits	108,728	-	-	108,728
Fines and forfeitures	43,644	-	-	43,644
Investment income	6,208	-	9,860	16,068
Miscellaneous	<u>132,032</u>	<u>8,492</u>	<u>5,684</u>	<u>146,208</u>
Total Revenues	14,697,046	17,261	1,205,948	15,920,255
Expenditures:				
Current:				
General government	893,604	-	356,895	1,250,499
Public safety	1,418,905	718,218	156,237	2,293,360
Education	7,865,826	-	-	7,865,826
Public works	1,531,889	-	462,405	1,994,294
Health and human services	214,782	-	23,614	238,396
Culture and recreation	387,522	-	202,984	590,506
Employee benefits	1,720,415	-	-	1,720,415
Debt service	449,129	-	45,332	494,461
Intergovernmental	<u>165,341</u>	<u>-</u>	<u>-</u>	<u>165,341</u>
Total Expenditures	<u>14,647,413</u>	<u>718,218</u>	<u>1,247,467</u>	<u>16,613,098</u>
Excess (deficiency) of revenues over expenditures	49,633	(700,957)	(41,519)	(692,843)
Other Financing Sources (Uses):				
Bond proceeds	-	4,999,525	95,475	5,095,000
Transfers in	376,491	-	192,500	568,991
Transfers (out)	<u>(377,460)</u>	<u>-</u>	<u>(376,491)</u>	<u>(753,951)</u>
Total Other Financing Sources (Uses)	<u>(969)</u>	<u>4,999,525</u>	<u>(88,516)</u>	<u>4,910,040</u>
Change in fund balance	48,664	4,298,568	(130,035)	4,217,197
Fund Equity, at Beginning of Year, as reclassified	<u>1,656,591</u>	<u>(4,362,017)</u>	<u>2,054,401</u>	<u>(651,025)</u>
Fund Equity, at End of Year	<u>\$ 1,705,255</u>	<u>\$ (63,449)</u>	<u>\$ 1,924,366</u>	<u>\$ 3,566,172</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds	\$ 4,217,197						
<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>Capital outlay purchases</td> <td style="text-align: right;">782,716</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(491,015)</td> </tr> </table> 		Capital outlay purchases	782,716	Depreciation	(491,015)		
Capital outlay purchases	782,716						
Depreciation	(491,015)						
<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;"> <tr> <td></td> <td style="text-align: right;">70,062</td> </tr> </table> 			70,062				
	70,062						
<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>Repayments of debt</td> <td style="text-align: right;">217,005</td> </tr> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(5,095,000)</td> </tr> <tr> <td>Capital lease payments</td> <td style="text-align: right;">54,055</td> </tr> </table> 		Repayments of debt	217,005	Issuance of debt	(5,095,000)	Capital lease payments	54,055
Repayments of debt	217,005						
Issuance of debt	(5,095,000)						
Capital lease payments	54,055						
<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;"> <tr> <td></td> <td style="text-align: right;"><u>(648,507)</u></td> </tr> </table> 			<u>(648,507)</u>				
	<u>(648,507)</u>						
Change in net assets of governmental activities	\$ <u><u>(893,487)</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, 2010

	<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	\$ 11,741,978	\$ 11,741,978	\$ 11,741,978	\$ -
Excise	600,028	600,028	583,783	(16,245)
Penalties, interest and other taxes	91,680	91,680	112,664	20,984
Charges for services	262,340	262,340	301,914	39,574
Intergovernmental	1,494,332	1,494,332	1,655,309	160,977
Licenses and permits	100,900	100,900	108,728	7,828
Fines and forfeits	29,800	29,800	43,644	13,844
Investment income	7,000	7,000	6,208	(792)
Miscellaneous	71,004	71,004	132,032	61,028
Transfers in	369,664	369,664	376,491	6,827
Other sources	<u>300,353</u>	<u>508,778</u>	<u>508,778</u>	<u>-</u>
Total Revenues and Other Sources	15,069,079	15,277,504	15,571,529	294,025
Expenditures and Other Uses:				
General government	962,311	1,003,811	877,323	126,488
Public safety	1,472,860	1,472,860	1,418,905	53,955
Education	7,841,699	7,817,240	7,817,240	-
Public works	1,588,723	1,588,723	1,552,895	35,828
Health and human services	226,559	226,559	214,782	11,777
Culture and recreation	388,202	388,202	387,231	971
Employee benefits	1,779,833	1,779,833	1,720,415	59,418
Debt service	454,492	454,492	506,142	(51,650)
Intergovernmental	168,324	168,324	165,341	2,983
Transfers out	<u>186,076</u>	<u>377,460</u>	<u>377,460</u>	<u>-</u>
Total Expenditures and Other Uses	<u>15,069,079</u>	<u>15,277,504</u>	<u>15,037,734</u>	<u>239,770</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>533,795</u>	\$ <u>533,795</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 441,469	\$ 135,926	\$ 577,395
User fees, net of allowance for uncollectible	<u>220,477</u>	<u>-</u>	<u>220,477</u>
Total current assets	661,946	135,926	797,872
Noncurrent:			
Land and construction progress	5,533,412	3,402,097	8,935,509
Capital assets, net of accumulated depreciation	<u>4,736,235</u>	<u>1,218,041</u>	<u>5,954,276</u>
Total noncurrent assets	<u>10,269,647</u>	<u>4,620,138</u>	<u>14,889,785</u>
TOTAL ASSETS	10,931,593	4,756,064	15,687,657
<u>LIABILITIES</u>			
Current:			
Warrants payable	73,131	101,815	174,946
Accrued payroll	8,935	572	9,507
Accrued interest payable	84,819	-	84,819
Notes payable	1,250,000	-	1,250,000
Current portion of long-term liabilities:			
Bonds payable	<u>204,853</u>	<u>-</u>	<u>204,853</u>
Total current liabilities	1,621,738	102,387	1,724,125
Noncurrent:			
Bonds payable, net of current portion	3,325,627	-	3,325,627
Compensated absences	16,094	-	16,094
Other post-employment benefits	<u>128,235</u>	<u>9,743</u>	<u>137,978</u>
Total noncurrent liabilities	<u>3,469,956</u>	<u>9,743</u>	<u>3,479,699</u>
TOTAL LIABILITIES	5,091,694	112,130	5,203,824
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	5,489,167	4,620,138	10,109,305
Unrestricted	<u>350,732</u>	<u>23,796</u>	<u>374,528</u>
TOTAL NET ASSETS	<u>\$ 5,839,899</u>	<u>\$ 4,643,934</u>	<u>\$ 10,483,833</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, 2010

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
Operating Revenues:			
Charges for services	\$ <u>1,457,441</u>	\$ <u>29,637</u>	\$ <u>1,487,078</u>
Total Operating Revenues	1,457,441	29,637	1,487,078
Operating Expenses:			
Operating expenses	1,253,928	35,452	1,289,380
Depreciation	<u>235,802</u>	<u>74,731</u>	<u>310,533</u>
Total Operating Expenses	<u>1,489,730</u>	<u>110,183</u>	<u>1,599,913</u>
Operating (Loss)	(32,289)	(80,546)	(112,835)
Nonoperating Revenues (Expenses):			
Investment income	1,505	604	2,109
Grant income	49,001	2,864,871	2,913,872
Interest expense	<u>(134,995)</u>	<u>-</u>	<u>(134,995)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(84,489)</u>	<u>2,865,475</u>	<u>2,780,986</u>
Income (Loss) Before Transfers	(116,778)	2,784,929	2,668,151
Transfers:			
Transfers in	<u>167,770</u>	<u>17,190</u>	<u>184,960</u>
Change in Net Assets	50,992	2,802,119	2,853,111
Net Assets, at Beginning of Year, as restated	<u>5,788,907</u>	<u>1,841,815</u>	<u>7,630,722</u>
Net Assets, at End of Year	\$ <u><u>5,839,899</u></u>	\$ <u><u>4,643,934</u></u>	\$ <u><u>10,483,833</u></u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 1,416,359	\$ 29,637	\$ 1,445,996
Payments to vendors and employees	<u>(1,275,414)</u>	<u>49,653</u>	<u>(1,225,761)</u>
Net Cash Provided By Operating Activities	140,945	79,290	220,235
<u>Cash Flows From Noncapital Financing Activities:</u>			
Operating transfers in	<u>167,770</u>	<u>17,190</u>	<u>184,960</u>
Net Cash Provided By Noncapital Financing Activities	167,770	17,190	184,960
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(368,600)	(2,841,039)	(3,209,639)
Principal payments on bonds and notes	(214,535)	-	(214,535)
Proceeds of bond anticipation notes	500,000	-	500,000
Grant income	49,001	2,864,871	2,913,872
Interest expense	<u>(137,778)</u>	<u>-</u>	<u>(137,778)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(171,912)	23,832	(148,080)
<u>Cash Flows From Investing Activities:</u>			
Investment income	<u>1,505</u>	<u>604</u>	<u>2,109</u>
Net Cash Provided By Investing Activities	<u>1,505</u>	<u>604</u>	<u>2,109</u>
Net Change in Cash and Short-Term Investments	138,308	120,916	259,224
Cash and Short Term Investments, Beginning of Year	<u>303,161</u>	<u>15,010</u>	<u>318,171</u>
Cash and Short Term Investments, End of Year	<u>\$ 441,469</u>	<u>\$ 135,926</u>	<u>\$ 577,395</u>
<u>Reconciliation of Operating (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>			
Operating (loss)	\$ (32,289)	\$ (80,546)	\$ (112,835)
Adjustments to reconcile operating (loss) to net cash provided by (used for) operating activities:			
Depreciation	235,802	74,731	310,533
Changes in assets and liabilities:			
User fees	(41,082)	-	(41,082)
Warrants and accounts payable	(91,175)	84,964	(6,211)
Other liabilities	<u>69,689</u>	<u>141</u>	<u>69,830</u>
Net Cash Provided By Operating Activities	<u>\$ 140,945</u>	<u>\$ 79,290</u>	<u>\$ 220,235</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	Private Purpose Trust Funds	Pension Trust Fund (As of December 31, 2009)
<u>ASSETS</u>		
Cash and short-term investments	\$ 129,449	\$ 211,256
Investments	<u>-</u>	<u>21,563,541</u>
Total Assets	129,449	21,774,797
<u>LIABILITIES AND NET ASSETS</u>		
Deferred revenue	<u>-</u>	<u>684,084</u>
Total Liabilities	<u>-</u>	<u>684,084</u>
<u>NET ASSETS</u>		
Total net assets held in trust for pension benefits and other purposes	\$ <u><u>129,449</u></u>	\$ <u><u>21,090,713</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, 2010

	Private Purpose Trust Funds	Pension Trust Fund (For The Year Ended December 31, 2009)
Additions:		
Contributions:		
Employers	\$ -	\$ 1,345,791
Other systems and Commonwealth of Massachusetts	-	87,973
Plan members	-	680,858
	<hr/>	<hr/>
Total contributions	-	2,114,622
Investment Income:		
Interest and dividends	2,385	571,643
Increase in fair value of investments	-	2,641,220
Less: management fees	-	(111,537)
Net investment income	<hr/>	<hr/>
	2,385	3,101,326
Total additions	2,385	5,215,948
Deductions:		
Benefit payments to plan members and beneficiaries	-	1,600,116
Refunds to plan members	-	176,368
Administrative expenses	-	46,617
Scholarships awarded	2,750	-
	<hr/>	<hr/>
Total deductions	2,750	1,823,101
Net increase (decrease)	(365)	3,392,847
Net assets:		
Beginning of year	<hr/>	<hr/>
	129,814	17,697,866
End of year	<hr/>	<hr/>
	\$ 129,449	\$ 21,090,713

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 2010, 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.

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.

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

The government reports the following major proprietary funds:

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

The *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 2010 tax levy reflected an excess capacity of \$ 5,301.

G. Capital Assets

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

cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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.

K. Use of Estimates

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

financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

with budgetary accounting principles to provide a meaningful comparison with budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 14,697,046	\$ 14,647,413
Other financing sources/uses (GAAP basis)	<u>376,491</u>	<u>377,460</u>
Subtotal	15,073,537	15,024,873
Adjust tax revenue to accrual basis	25,555	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(316,561)
Add end of year appropriation carryforwards to expenditures	-	308,750
To reverse the effect of non-budgeted State contributions for teachers retirement	(36,341)	(36,341)
Reverse effect of prior year accrued interest	-	57,013
Recognize use of fund balance as funding source	404,568	-
Other non-GAAP sources/uses	<u>104,210</u>	<u>-</u>
Budgetary basis	<u>\$ 15,571,529</u>	<u>\$ 15,037,734</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Debt Service Interest – Police Station	\$ 91,450
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This deficit was appropriated for in fiscal year 2011.

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2010:

Public Safety Facility	\$ 63,449
CSO Project	1,149,848

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, 2010, \$ 1,352,716 of the Town's bank balance of \$ 5,570,289 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, 2009, none of the Contributory Retirement System's bank balance of \$ 231,629 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

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

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

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

B. Custodial Credit Risk

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

C. Concentration of Credit Risk

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

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

D. Interest Rate Risk

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

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

E. Foreign Currency Risk

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

5. Taxes Receivable

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

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

Taxes receivable at June 30, 2010 consist of the following (in thousands):

Real Estate			
2010	\$	485	
2009		142	
2008		45	
2007 and Prior		<u>3</u>	
			675
Personal Property			
2010		4	
2009		2	
2008 and Prior		<u>1</u>	
			7
Tax Liens			81
Tax Foreclosures			<u>216</u>
Total	\$		<u><u>979</u></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	\$ 31,006	-
Property taxes - noncurrent	268,542	-
Excises	10,039	-
Other	1,525	26,354

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010.

8. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 7,692,935	\$ -	\$ -	\$ 7,692,935
Machinery, equipment, vehicles and furnishings	2,315,412	299,651	-	2,615,063
Infrastructure	<u>273,792</u>	<u>-</u>	<u>-</u>	<u>273,792</u>
Total capital assets, being depreciated	10,282,139	299,651	-	10,581,790
Less accumulated depreciation for:				
Buildings and improvements	(2,521,440)	(304,796)	-	(2,826,236)
Machinery, equipment and furnishings	(1,624,316)	(177,129)	-	(1,801,445)
Infrastructure	<u>(184,289)</u>	<u>(9,090)</u>	<u>-</u>	<u>(193,379)</u>
Total accumulated depreciation	<u>(4,330,045)</u>	<u>(491,015)</u>	<u>-</u>	<u>(4,821,060)</u>
Total capital assets, being depreciated, net	5,952,094	(191,364)	-	5,760,730
Capital assets, not being depreciated:				
Land	734,271	-	-	734,271
Construction in progress	<u>4,802,460</u>	<u>727,511</u>	<u>-</u>	<u>5,529,971</u>
Total capital assets, not being depreciated	<u>5,536,731</u>	<u>727,511</u>	<u>-</u>	<u>6,264,242</u>
Governmental activities capital assets, net	<u>\$ 11,488,825</u>	<u>\$ 536,147</u>	<u>\$ -</u>	<u>\$ 12,024,972</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	11,680,726	-	-	11,680,726
Less accumulated depreciation for:				
Buildings and improvements	(3,769,534)	(226,527)	-	(3,996,061)
Machinery, equipment, vehicles and furnishings	(10,138)	(13,673)	-	(23,811)
Infrastructure	<u>(1,636,245)</u>	<u>(70,333)</u>	<u>-</u>	<u>(1,706,578)</u>
Total accumulated depreciation	<u>(5,415,917)</u>	<u>(310,533)</u>	<u>-</u>	<u>(5,726,450)</u>
Total capital assets, being depreciated, net	6,264,809	(310,533)	-	5,954,276
Capital assets, not being depreciated:				
Land	266,750	-	-	266,750
Construction in progress	<u>5,459,120</u>	<u>3,209,639</u>	<u>-</u>	<u>8,668,759</u>
Total capital assets, not being depreciated	<u>5,725,870</u>	<u>3,209,639</u>	<u>-</u>	<u>8,935,509</u>
Business-type activities capital assets, net	<u>\$ 11,990,679</u>	<u>\$ 2,899,106</u>	<u>\$ -</u>	<u>\$ 14,889,785</u>

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

Governmental Activities:	
General government	\$ 235,725
Public safety	30,617
Education	66,458
Public works	123,562
Culture and recreation	<u>34,653</u>
Total depreciation expense - governmental activities	<u>\$ 491,015</u>
Business-Type Activities:	
Sewer	\$ 235,802
Airport	<u>74,731</u>
Total depreciation expense - business-type activities	<u>\$ 310,533</u>

9. Warrants Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010 as permitted by law.

10. 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, 2010 receivable balances.

11. Notes Payable

The Town had the following short-term notes outstanding at June 30, 2010:

<u>Governmental Activities</u>	<u>Interest Rate %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2010</u>
State anticipation	1.14%	05/27/10	08/26/10	\$ 110,000
Bond anticipation	1.14%	05/27/10	05/26/11	<u>150,000</u>
Total Governmental				<u>\$ 260,000</u>
<u>Business-Type Activities</u>				
Bond anticipation	1.25%	05/10/10	11/10/10	\$ 750,000
Bond anticipation	1.14%	05/27/10	11/23/10	<u>500,000</u>
Total Business-Type				<u>\$ 1,250,000</u>

The following summarizes activity in short-term notes payable during fiscal year 2010:

	Balance Beginning of Year	New Issues	Maturities	Balance at End of Year
<u>Governmental Activities</u>				
State anticipation	\$ -	\$ 110,000	\$ -	\$ 110,000
Bond anticipation	4,595,475	5,245,475	(9,690,950)	150,000
Revenue anticipation	<u>125,000</u>	<u>5,500,000</u>	<u>(5,625,000)</u>	<u>-</u>
Total	<u>\$ 4,720,475</u>	<u>\$ 10,855,475</u>	<u>\$ (15,315,950)</u>	<u>\$ 260,000</u>
<u>Business-Type Activities</u>				
Bond anticipation	<u>\$ 750,000</u>	<u>\$ 2,750,000</u>	<u>\$ (2,250,000)</u>	<u>\$ 1,250,000</u>
Total	<u>\$ 750,000</u>	<u>\$ 2,750,000</u>	<u>\$ (2,250,000)</u>	<u>\$ 1,250,000</u>

12. Capital Lease Obligations

The Town is the lessee of two highway department dump trucks under capital leases expiring on September 1, 2013. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2010:

2011	\$ 54,055
2012	54,055
2013	54,055
2014	<u>54,054</u>
Total minimum lease payments	216,219
Less: amounts representing interest	<u>(25,828)</u>
Present Value of Minimum Lease Payments	<u>\$ 190,391</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:

<u>Bonds Payable - Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2010</u>
Industrial park	08/15/10	5.01	\$ 10,000
Landfill	08/15/19	5.25	365,000
Colle Opera House	08/15/22	4.25	145,000
Municipal purpose	11/01/26	4.11	745,000
Combined sewer overflow (MWPAT)	07/15/27	2.00	335,399
Municipal purpose	11/15/27	4.50	5,095,000
Combined sewer overflow (MWPAT)	01/15/39	2.41	730,157
USDA	11/01/45	4.38	<u>400,643</u>
Total Governmental Activities:			<u>\$ 7,826,199</u>

<u>Bonds Payable - Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2010</u>
Millers Falls sewer (MWPAT)	08/01/15	N/A	\$ 71,488
Millers Falls sewer (MWPAT)	02/01/17	N/A	448,066
Combined sewer overflow (MWPAT)	02/01/18	N/A	106,508
Sewer - multiple purpose	06/15/23	4.42	375,000
Sewer - property acquisition	06/15/23	4.34	60,000
Sewer - multiple purpose	11/01/26	4.11	270,000
Combined sewer overflow (MWPAT)	07/15/27	N/A	503,098
Combined sewer overflow (MWPAT)	01/15/39	N/A	1,095,236
USDA	11/01/45	4.38	<u>601,084</u>
Total Business-Type Activities:			<u>\$ 3,530,480</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.

	<u>Loan Authorized</u>	<u>Subsidy</u>	<u>Repayment Obligation</u>	<u>Balance at June 30, 2010</u>
Millers Falls sewer	\$ 159,435	\$ 25,497	\$ 133,938	\$ 71,488
Millers Falls sewer	907,181	232,451	674,730	448,066
Combined sewer overflow	205,196	47,169	158,027	106,508
Combined sewer overflow	957,448	-	957,448	838,497
Combined sewer overflow	<u>1,911,052</u>	<u>-</u>	<u>1,911,052</u>	<u>1,825,393</u>
Total	<u>\$ 4,140,312</u>	<u>\$ 305,117</u>	<u>\$ 3,835,195</u>	<u>\$ 3,289,952</u>

C. Future Debt Service

The annual payments to retire all general obligation long-term bonds outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 369,977	\$ 282,497	\$ 652,474
2012	365,976	271,954	637,930
2013	377,001	261,093	638,094
2014	378,054	249,760	627,814
2015	389,136	237,181	626,317
2016-2020	2,002,968	966,528	2,969,496
2021-2025	2,009,837	580,584	2,590,421
2026 and after	<u>1,933,250</u>	<u>314,135</u>	<u>2,247,385</u>
Total	<u>\$ 7,826,199</u>	<u>\$ 3,163,732</u>	<u>\$ 10,989,931</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 204,853	\$ 125,974	\$ 330,827
2012	209,157	117,693	326,850
2013	213,666	108,996	322,662
2014	213,452	99,965	313,417
2015	212,877	90,840	303,717
2016-2020	789,627	337,012	1,126,639
2021-2025	544,756	223,464	768,220
2026 and after	<u>1,142,092</u>	<u>350,222</u>	<u>1,492,314</u>
Total	<u>\$ 3,530,480</u>	<u>\$ 1,454,166</u>	<u>\$ 4,984,646</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2010, 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, 2009</u>	<u>Addition</u>	<u>Reduction</u>	<u>June 30, 2010</u>	<u>Less</u>	<u>Current</u>	<u>Portion</u>
					<u>Portion</u>		<u>June 30, 2010</u>
Bonds payable	\$ 2,948,204	\$ 5,095,000	\$ (217,005)	\$ 7,826,199	\$ (369,977)	\$	7,456,222
Capital lease	-	244,446	(54,055)	190,391	(43,983)		146,408
Landfill closure	415,800	-	(19,800)	396,000	(19,800)		376,200
Compensated absences	184,145	16,859	-	201,004	-		201,004
Other post employment benefits	633,298	651,449	-	1,284,747	-		1,284,747
Totals	<u>\$ 4,181,447</u>	<u>\$ 6,007,754</u>	<u>\$ (290,860)</u>	<u>\$ 9,898,341</u>	<u>\$ (433,760)</u>	<u>\$</u>	<u>\$ 9,464,581</u>
<u>Business-Type Activities</u>							
Bonds payable	\$ 3,745,014	\$ -	\$ (214,534)	\$ 3,530,480	\$ (204,853)	\$	3,325,627
Compensated absences	16,227	-	(133)	16,094	-		16,094
Other post employment benefits	69,841	68,137	-	137,978	-		137,978
Totals	<u>\$ 3,831,082</u>	<u>\$ 68,137</u>	<u>\$ (214,667)</u>	<u>\$ 3,684,552</u>	<u>\$ (204,853)</u>	<u>\$</u>	<u>\$ 3,479,699</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 \$ 396,000 reported as landfill liability at June 30, 2010 represents the estimated cost of monitoring the landfill for the next 20 years. This amount is based on what it would cost to perform all closure and post-closure care in 2010. 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, 2010:

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. Contributory Retirement System

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

A. Plan Description and Contribution Information

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

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

Retirees and beneficiaries receiving benefits	109
Terminated plan members entitled to but not yet receiving benefits	6
Active plan members	<u>200</u>
Total	<u>315</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:

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>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%
2010	1,368,167	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):

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]
01/01/10	\$ 25,000	\$ 31,100	\$ 6,100	80.4%	\$ 6,047	100.8%

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

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 6.1 million was calculated. The actuarial assumptions included (a) 8.0% investment rate of return and (b) a projected salary increase of 4.75%, 5.00% and 5.25% per year for Groups 1, 2 and 4 respectively. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.0%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of January 1, 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 2010, the Commonwealth of Massachusetts contributed \$ 36,341 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.

19. Post-Employment Health Care and Life Insurance Benefits

The Town's fiscal 2010 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, 2010, 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)	\$ 1,253,257
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>1,253,257</u>
Contributions made	<u>(533,673)</u>
Increase in net OPEB obligation	719,584
Net OPEB obligation - beginning of year	<u>703,139</u>
Net OPEB obligation - end of year	<u>\$ 1,422,723</u>

The Town's net OPEB obligation as of June 30, 2010 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)	\$ 17,231,071
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 17,231,071</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%.

20. 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.

21. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2010, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/09 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/09 (as reclassified)
Nonmajor funds	\$ 1,125,998	\$ 928,403	\$ 2,054,401
Stabilization funds	<u>928,403</u>	<u>(928,403)</u>	<u>-</u>
Total	<u>\$ 2,054,401</u>	<u>\$ -</u>	<u>\$ 2,054,401</u>

22. Beginning Net Asset Restatement

The Town's beginning (July 1, 2009) net assets for governmental activities and business-type activities have been restated as follows:

	Governmental Activities	Business-Type Activities	
		Sewer Fund	Total Business-Type
As previously reported	\$ 8,904,068	\$ 4,283,703	\$ 6,125,518
Reclassify a portion of Bonds Payable from Sewer Enterprise Fund to General Fund since the Town agreed to fund 40% of the debt from the General Fund	<u>(1,505,204)</u>	<u>1,505,204</u>	<u>1,505,204</u>
As restated	<u><u>\$ 7,398,864</u></u>	<u><u>\$ 5,788,907</u></u>	<u><u>\$ 7,630,722</u></u>

TOWN OF MONTAGUE, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)
(Amounts Expressed in thousands)

Employees' Retirement System
December 31, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
12/31/92	\$ 4,391	\$ 10,120	\$ 5,729	43.3%	N/A	N/A
12/31/94	\$ 5,230	\$ 10,664	\$ 5,434	49.0%	\$ 3,315	163.9%
12/31/98	\$ 9,382	\$ 15,525	\$ 6,143	60.4%	\$ 4,151	148.0%
12/31/00	\$ 13,933	\$ 18,247	\$ 4,314	76.4%	\$ 1,876	88.0%
01/01/02	\$ 13,286	\$ 20,462	\$ 7,176	64.9%	\$ 5,007	143.3%
01/01/04	\$ 15,396	\$ 22,436	\$ 7,040	69.0%	\$ 4,612	153.0%
01/01/06	\$ 19,737	\$ 25,382	\$ 5,645	78.0%	\$ 5,429	104.0%
01/01/08	\$ 24,264	\$ 28,794	\$ 4,530	84.0%	\$ 6,021	75.2%
01/01/10	\$ 25,000	\$ 31,100	\$ 6,100	80.5%	\$ 6,047	100.8%

Other Post-Employment Benefits
June 30, 2010

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

See Independent Auditors' Report.