

TOWN OF MONTAGUE, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2011

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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, 2011 (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2010), 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, 2011 (except for the Montague Contributory Retirement System which is as of December 31, 2010), 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 October 5, 2011 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
October 5, 2011

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, 2011.

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 \$ 18,928,069 (i.e., net assets), an increase of \$ 1,938,859 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 3,716,607, an increase of \$ 150,435 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 1,229,585, an increase of \$ 83,080 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 10,781,849, a decrease of \$ (574,830) 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	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 5,097,094	\$ 5,055,936	\$ 734,591	\$ 797,872	\$ 5,831,685	\$ 5,853,808
Capital assets	<u>11,641,129</u>	<u>12,024,972</u>	<u>16,754,021</u>	<u>14,889,785</u>	<u>28,395,150</u>	<u>26,914,757</u>
Total assets	16,738,223	17,080,908	17,488,612	15,687,657	34,226,835	32,768,565
Long-term liabilities outstanding	9,989,660	9,898,339	3,595,763	3,684,552	13,585,423	13,582,891
Other liabilities	<u>558,602</u>	<u>677,192</u>	<u>1,154,741</u>	<u>1,519,272</u>	<u>1,713,343</u>	<u>2,196,464</u>
Total liabilities	10,548,262	10,575,531	4,750,504	5,203,824	15,298,766	15,779,355
Net assets:						
Invested in capital assets, net	4,453,402	4,414,392	12,443,394	10,109,305	16,896,796	14,523,697
Restricted	725,471	914,518	-	-	725,471	914,518
Unrestricted	<u>1,011,088</u>	<u>1,176,467</u>	<u>294,714</u>	<u>374,528</u>	<u>1,305,802</u>	<u>1,550,995</u>
Total net assets	<u>\$ 6,189,961</u>	<u>\$ 6,505,377</u>	<u>\$ 12,738,108</u>	<u>\$ 10,483,833</u>	<u>\$ 18,928,069</u>	<u>\$ 16,989,210</u>

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 748,215	\$ 718,695	\$ 1,465,294	\$ 1,487,078	\$ 2,213,509	\$ 2,205,773
Operating grants and contributions	572,165	715,563	-	-	572,165	715,563
Capital grants and contributions	557,533	477,793	2,447,408	2,913,872	3,004,941	3,391,665
General revenues:						
Property taxes	12,697,769	11,771,177	-	-	12,697,769	11,771,177
Excises	619,350	601,316	-	-	619,350	601,316
Penalties, interest and other taxes	125,985	112,664	-	-	125,985	112,664
Investment income	9,314	16,068	468	2,109	9,782	18,177
Grants and contributions not restricted	1,391,203	1,430,832	-	-	1,391,203	1,430,832
Miscellaneous	140,100	146,210	-	-	140,100	146,210
Total revenues	<u>16,861,634</u>	<u>15,990,318</u>	<u>3,913,170</u>	<u>4,403,059</u>	<u>20,774,804</u>	<u>20,393,377</u>
Expenses:						
General government	1,522,630	1,474,454	-	-	1,522,630	1,474,454
Public safety	1,714,191	1,617,729	-	-	1,714,191	1,617,729
Education	8,140,815	7,932,284	-	-	8,140,815	7,932,284
Public works	2,001,383	2,028,459	-	-	2,001,383	2,028,459
Health and human services	260,732	238,457	-	-	260,732	238,457
Culture and recreation	580,076	592,802	-	-	580,076	592,802
Employee benefits	2,276,782	2,371,863	-	-	2,276,782	2,371,863
Interest on long-term debt	296,537	277,456	-	-	296,537	277,456
Intergovernmental	161,907	165,341	-	-	161,907	165,341
Airport operations	-	-	110,055	110,183	110,055	110,183
Sewer operations	-	-	1,770,837	1,624,725	1,770,837	1,624,725
Total expenses	<u>16,955,053</u>	<u>16,698,845</u>	<u>1,880,892</u>	<u>1,734,908</u>	<u>18,835,945</u>	<u>18,433,753</u>
Change in net assets before transfers	(93,419)	(708,527)	2,032,278	2,668,151	1,938,859	1,959,624
Transfers in (out)	<u>(221,997)</u>	<u>(184,960)</u>	<u>221,997</u>	<u>184,960</u>	<u>-</u>	<u>-</u>
Change in net assets	(315,416)	(893,487)	2,254,275	2,853,111	1,938,859	1,959,624
Net assets - beginning 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>
Net assets - end of year	<u>\$ 6,189,961</u>	<u>\$ 6,505,377</u>	<u>\$ 12,738,108</u>	<u>\$ 10,483,833</u>	<u>\$ 18,928,069</u>	<u>\$ 16,989,210</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 \$ 18,928,069, an increase of \$ 1,938,859 from the prior year.

The largest portion of net assets, \$ 16,896,796, 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, \$ 725,471, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 1,305,802, 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 \$ (315,416). Key elements of this change are as follows:

General fund increase (discussed below)	\$ 161,291
Non-major funds expenditures and transfers out in excess of revenues	(10,856)
Depreciation in excess of principal debt service and capital lease repayments	(214,717)
Other GAAP accruals	<u>(251,134)</u>
Total	<u>\$ (315,416)</u>

Business-Type Activities. Business-type activities for the year resulted in an increase in net assets of \$ 2,254,275. Key elements of this change are as follows:

Sewer fund revenues in excess of expenditures	669,651
Airport fund revenues in excess of expenditures	\$ 1,362,627
Transfers from general fund to sewer and airport funds	<u>221,997</u>
Total	<u>\$ 2,254,275</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 \$ 3,716,607, an increase of \$ 150,435 in comparison with the prior year. Key elements of this change are as follows:

General fund increase (discussed below)	\$ 161,291
Non-major funds expenditures in excess of revenues	<u>(10,856)</u>
Total	<u>\$ 150,435</u>

In fiscal year 2011, the Town implemented *Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now reported as unassigned fund balance. Full definitions of all fund balance classifications can be found in the notes to the financial statements. Additionally, amounts previously reported in the stabilization funds, are now required to be presented as a committed fund balance in the general fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 1,229,585, while total fund balance was \$ 2,925,752. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2011</u>	<u>2010</u> <u>Restated</u>	<u>Change</u>	<u>% of</u> <u>Total 2011 General</u> <u>Fund Expenditures</u>
Unassigned fund balance	\$ 1,229,585	\$ 1,146,505	\$ 83,080	8.1%
Total fund balance ¹	2,925,752	2,764,461	161,291	19.2%

¹ Now includes stabilization funds. Prior period balances have been revised to conform to the current presentation.

The total fund balance of the general fund changed by \$ 161,291 during the current fiscal year. Key factors in this change are as follows:

Excess of state and local revenues over budget	\$ 327,333
Expenditures less than budget	428,630
Excess of tax collections compared to budget	64,977
Use of free cash and overlay surplus as funding sources	(737,860)
Expenditures of prior year encumbrances and reserve of current year encumbrances	(25,608)
Changes in stabilization funds	<u>103,819</u>
Total	<u>\$ 161,291</u>

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

	<u>2011</u>	<u>2010</u>	<u>Change</u>
General stabilization	\$ 1,138,506	\$ 905,388	\$ 233,118
Franklin County Technical School stabilization	24,475	24,460	15
Gill-Montague Regional School District stabilization	44	129,358	(129,314)

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 \$ 12,738,108, an increase of \$ 2,254,275 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 \$ 485,000. Reasons for these amendments include:

- \$ 40,000 for legal services.
- \$ 445,000 transfer to stabilization fund.

Of this increase, \$ 285,000 was funded from overlay surplus and \$ 200,000 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 \$ 28,395,150 (net of accumulated depreciation), an increase of \$ 1,480,393 from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, construction in progress, and infrastructure.

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

- \$ (939,210) depreciation expense.
- \$ 34,392 library books.
- \$ 34,980 Police Department vehicle.
- \$ 65,730 Sheffield School roof repairs.

- \$ 71,882 Department of Public Works vehicles and plow.
- \$ 37,850 construction in progress – public safety facility.
- \$ 759,018 construction in progress – related to combined sewer overflow (CSO) ongoing project.
- \$ 1,415,751 construction in progress – airport runway replacement.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 10,781,849, 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, 2011

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 4,035,335	\$ 463,360	\$ 4,498,695
Receivables, net of allowance for uncollectible:			
Property taxes	640,499	-	640,499
Excises	109,077	-	109,077
User fees	-	271,231	271,231
Intergovernmental	169,667	-	169,667
Departmental and other	21,649	-	21,649
Other assets	52,902	-	52,902
Noncurrent:			
Property taxes	67,965	-	67,965
Land and construction in progress	984,005	11,110,278	12,094,283
Capital assets, net of accumulated depreciation	<u>10,657,124</u>	<u>5,643,743</u>	<u>16,300,867</u>
TOTAL ASSETS	16,738,223	17,488,612	34,226,835
LIABILITIES			
Current:			
Warrants payable	81,360	84,300	165,660
Accrued payroll and withholdings	80,325	4,988	85,313
Accrued interest payable	-	80,453	80,453
Notes payable	321,394	985,000	1,306,394
Intergovernmental payable	51,731	-	51,731
Other liabilities	23,792	-	23,792
Current portion of long-term liabilities:			
Bonds payable	365,976	209,157	575,133
Capital lease	46,310	-	46,310
Landfill	19,800	-	19,800
Noncurrent:			
Bonds payable, net of current portion	7,090,246	3,116,470	10,206,716
Capital lease, net of current portion	100,098	-	100,098
Landfill, net of current portion	356,400	-	356,400
Compensated absences	161,228	12,774	174,002
Net OPEB obligation	<u>1,849,602</u>	<u>257,362</u>	<u>2,106,964</u>
TOTAL LIABILITIES	10,548,262	4,750,504	15,298,766
NET ASSETS			
Invested in capital assets, net of related debt	4,453,402	12,443,394	16,896,796
Restricted for:			
Grants and other statutory restrictions	593,481	-	593,481
Permanent funds:			
Nonexpendable	65,071	-	65,071
Expendable	66,919	-	66,919
Unrestricted	<u>1,011,088</u>	<u>294,714</u>	<u>1,305,802</u>
TOTAL NET ASSETS	\$ <u>6,189,961</u>	\$ <u>12,738,108</u>	\$ <u>18,928,069</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	<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	\$ 1,522,630	\$ 71,304	\$ 267,741	\$ 152,472	\$ (1,031,113)	\$ -	\$ (1,031,113)
Public safety	1,714,191	253,326	36,995	-	(1,423,870)	-	(1,423,870)
Education	8,140,815	-	37,199	-	(8,103,616)	-	(8,103,616)
Public works	2,001,383	240,712	20,750	405,061	(1,334,860)	-	(1,334,860)
Health and human services	260,732	18,098	129,670	-	(112,964)	-	(112,964)
Culture and recreation	580,076	164,775	79,810	-	(335,491)	-	(335,491)
Employee benefits	2,276,782	-	-	-	(2,276,782)	-	(2,276,782)
Interest	296,537	-	-	-	(296,537)	-	(296,537)
Intergovernmental	161,907	-	-	-	(161,907)	-	(161,907)
Total Governmental Activities	16,955,053	748,215	572,165	557,533	(15,077,140)	-	(15,077,140)
Business-Type Activities:							
Sewer operations	1,770,837	1,435,570	-	1,004,635	-	669,368	669,368
Airport operations	110,055	29,724	-	1,442,773	-	1,362,442	1,362,442
Total Business-Type Activities	1,880,892	1,465,294	-	2,447,408	-	2,031,810	2,031,810
Total	\$ 18,835,945	\$ 2,213,509	\$ 572,165	\$ 3,004,941	(15,077,140)	2,031,810	(13,045,330)
General Revenues and Transfers:							
Property taxes					12,697,769	-	12,697,769
Excises					619,350	-	619,350
Penalties, interest and other taxes					125,985	-	125,985
Investment income					9,314	468	9,782
Grants and contributions not restricted					1,391,203	-	1,391,203
Miscellaneous					140,100	-	140,100
Transfers, net					(221,997)	221,997	-
Total general revenues and transfers					14,761,724	222,465	14,984,189
Change in Net Assets					(315,416)	2,254,275	1,938,859
Net Assets:							
Beginning of year					6,505,377	10,483,833	16,989,210
End of year					\$ 6,189,961	\$ 12,738,108	\$ 18,928,069

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 3,054,539	\$ 980,796	\$ 4,035,335
Receivables:			
Property taxes	962,491	-	962,491
Excises	116,437	-	116,437
Intergovernmental	23,794	145,873	169,667
Departmental and other	7,215	15,917	23,132
Other assets	<u>52,902</u>	<u>-</u>	<u>52,902</u>
TOTAL ASSETS	<u>\$ 4,217,378</u>	<u>\$ 1,142,586</u>	<u>\$ 5,359,964</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 64,802	\$ 16,558	\$ 81,360
Accrued payroll and withholdings	76,130	4,195	80,325
Notes payable	-	321,394	321,394
Deferred revenues	1,084,755	-	1,084,755
Intergovernmental payable	51,731	-	51,731
Other liabilities	<u>14,208</u>	<u>9,584</u>	<u>23,792</u>
TOTAL LIABILITIES	1,291,626	351,731	1,643,357
Fund Balances:			
Nonspendable	-	65,071	65,071
Restricted	-	788,353	788,353
Committed	1,446,167	104,460	1,550,627
Assigned	250,000	-	250,000
Unassigned	<u>1,229,585</u>	<u>(167,029)</u>	<u>1,062,556</u>
TOTAL FUND BALANCES	<u>2,925,752</u>	<u>790,855</u>	<u>3,716,607</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,217,378</u>	<u>\$ 1,142,586</u>	<u>\$ 5,359,964</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, 2011

Total Governmental Fund Balances	\$ 3,716,607
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,641,129
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection.	821,885
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, capital leases, landfill closure liability and net OPEB obligation are not due and payable in the current period and, therefore are not reported in the governmental funds.	<u>(9,989,660)</u>
Net Assets of Governmental Activities	<u>\$ 6,189,961</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, 2011

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 12,668,660	\$ -	\$ 12,668,660
Excises	644,866	-	644,866
Penalties, interest and other taxes	125,985	-	125,985
Charges for services	308,536	276,658	585,194
Intergovernmental	1,589,966	930,935	2,520,901
Licenses and permits	117,372	-	117,372
Fines and forfeitures	39,929	-	39,929
Investment income	7,560	1,754	9,314
Miscellaneous	<u>97,141</u>	<u>42,959</u>	<u>140,100</u>
Total Revenues	15,600,015	1,252,306	16,852,321
Expenditures:			
Current:			
General government	928,617	359,331	1,287,948
Public safety	1,476,425	177,159	1,653,584
Education	8,071,070	65,730	8,136,800
Public works	1,600,572	410,159	2,010,731
Health and human services	248,105	12,114	260,219
Culture and recreation	395,817	194,444	590,261
Employee benefits	1,711,925	-	1,711,925
Debt service	622,289	44,225	666,514
Intergovernmental	<u>161,907</u>	<u>-</u>	<u>161,907</u>
Total Expenditures	<u>15,216,727</u>	<u>1,263,162</u>	<u>16,479,889</u>
Excess (deficiency) of revenues over expenditures	383,288	(10,856)	372,432
Other Financing Sources (Uses):			
Transfers (out)	<u>(221,997)</u>	<u>-</u>	<u>(221,997)</u>
Total Other Financing Sources (Uses)	<u>(221,997)</u>	<u>-</u>	<u>(221,997)</u>
Change in fund balance	161,291	(10,856)	150,435
Fund Equity, at Beginning of Year, as restated and reclassified	<u>2,764,461</u>	<u>801,711</u>	<u>3,566,172</u>
Fund Equity, at End of Year	<u>\$ 2,925,752</u>	<u>\$ 790,855</u>	<u>\$ 3,716,607</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, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 150,435				
<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> <tr> <td style="padding-left: 40px;">Capital outlay purchases</td> <td style="text-align: right;">244,834</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(628,677)</td> </tr> </table> 		Capital outlay purchases	244,834	Depreciation	(628,677)
Capital outlay purchases	244,834				
Depreciation	(628,677)				
<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 change in deferred revenue, net of allowance for uncollectibles. <table> <tr> <td style="text-align: right;">9,313</td> </tr> </table> 		9,313			
9,313					
<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> <tr> <td style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">369,977</td> </tr> <tr> <td style="padding-left: 40px;">Capital lease payments</td> <td style="text-align: right;">43,983</td> </tr> </table> 		Repayments of debt	369,977	Capital lease payments	43,983
Repayments of debt	369,977				
Capital lease payments	43,983				
<ul style="list-style-type: none"> Some expenses reported in the Statement of Activities, such as compensated absences, landfill monitoring liability, and net OPEB obligation, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td style="text-align: right;"><u>(505,281)</u></td> </tr> </table> 		<u>(505,281)</u>			
<u>(505,281)</u>					
Change in Net Assets of Governmental Activities	\$ <u><u>(315,416)</u></u>				

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 12,603,683	\$ 12,603,683	\$ 12,603,683	\$ -
Excise	536,400	536,400	644,866	108,466
Penalties, interest and other taxes	91,380	91,380	125,985	34,605
Charges for services	230,000	230,000	308,536	78,536
Intergovernmental	1,514,228	1,514,228	1,552,767	38,539
Licenses and permits	80,000	80,000	117,372	37,372
Fines and forfeits	30,190	30,190	39,929	9,739
Investment income	4,500	4,500	5,205	705
Miscellaneous	77,770	77,770	97,141	19,371
Transfers in	343,536	343,536	343,536	-
Other sources	311,198	796,198	796,198	-
Total Revenues and Other Sources	15,822,885	16,307,885	16,635,218	327,333
Expenditures and Other Uses:				
General government	963,978	1,003,978	928,059	75,919
Public safety	1,529,299	1,529,299	1,476,425	52,874
Education	8,033,871	8,033,871	8,033,871	-
Public works	1,639,692	1,639,692	1,575,615	64,077
Health and human services	258,748	258,748	248,105	10,643
Culture and recreation	395,734	395,734	395,724	10
Employee benefits	1,792,443	1,792,443	1,711,925	80,518
Debt service	766,578	766,578	622,289	144,289
Intergovernmental	162,207	162,207	161,907	300
Transfers out	221,997	666,997	666,997	-
Total Expenditures and Other Uses	15,764,547	16,249,547	15,820,917	428,630
Excess of revenues and other sources over expenditures and other uses	\$ <u>58,338</u>	\$ <u>58,338</u>	\$ <u>814,301</u>	\$ <u>755,963</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 401,361	\$ 61,999	\$ 463,360
User fees, net of allowance for uncollectible	<u>271,231</u>	<u>-</u>	<u>271,231</u>
Total current assets	672,592	61,999	734,591
Noncurrent:			
Land and construction in progress	6,292,430	4,817,848	11,110,278
Capital assets, net of accumulated depreciation	<u>4,500,433</u>	<u>1,143,310</u>	<u>5,643,743</u>
Total noncurrent assets	<u>10,792,863</u>	<u>5,961,158</u>	<u>16,754,021</u>
TOTAL ASSETS	11,465,455	6,023,157	17,488,612
<u>LIABILITIES</u>			
Current:			
Warrants payable	82,167	2,133	84,300
Accrued payroll	4,731	257	4,988
Accrued interest payable	80,453	-	80,453
Notes payable	985,000	-	985,000
Current portion of long-term liabilities:			
Bonds payable	<u>209,157</u>	<u>-</u>	<u>209,157</u>
Total current liabilities	1,361,508	2,390	1,363,898
Noncurrent:			
Bonds payable, net of current portion	3,116,470	-	3,116,470
Compensated absences	12,774	-	12,774
Net OPEB obligation	<u>249,433</u>	<u>7,929</u>	<u>257,362</u>
Total noncurrent liabilities	<u>3,378,677</u>	<u>7,929</u>	<u>3,386,606</u>
TOTAL LIABILITIES	4,740,185	10,319	4,750,504
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	6,482,236	5,961,158	12,443,394
Unrestricted	<u>243,034</u>	<u>51,680</u>	<u>294,714</u>
TOTAL NET ASSETS	<u>\$ 6,725,270</u>	<u>\$ 6,012,838</u>	<u>\$ 12,738,108</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, 2011

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
Operating Revenues:			
Charges for services	\$ 1,435,570	\$ 29,724	\$ 1,465,294
Total Operating Revenues	1,435,570	29,724	1,465,294
Operating Expenses:			
Operating expenses	1,405,461	35,324	1,440,785
Depreciation	235,802	74,731	310,533
Total Operating Expenses	1,641,263	110,055	1,751,318
Operating (Loss)	(205,693)	(80,331)	(286,024)
Nonoperating Revenues (Expenses):			
Investment income	283	185	468
Grant income	1,004,635	1,442,773	2,447,408
Interest expense	(129,574)	-	(129,574)
Total Nonoperating Revenues (Expenses), Net	875,344	1,442,958	2,318,302
Income Before Transfers	669,651	1,362,627	2,032,278
Transfers:			
Transfers in	215,720	6,277	221,997
Change in Net Assets	885,371	1,368,904	2,254,275
Net Assets, at Beginning of Year	5,839,899	4,643,934	10,483,833
Net Assets, at End of Year	\$ 6,725,270	\$ 6,012,838	\$ 12,738,108

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2011

	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	\$ 1,384,816	\$ 29,724	\$ 1,414,540
Payments to vendors and employees	<u>(1,282,751)</u>	<u>(137,135)</u>	<u>(1,419,886)</u>
Net Cash Provided By (Used For) Operating Activities	102,065	(107,411)	(5,346)
<u>Cash Flows From Noncapital Financing Activities:</u>			
Operating transfers in	<u>215,720</u>	<u>6,277</u>	<u>221,997</u>
Net Cash Provided By Noncapital Financing Activities	215,720	6,277	221,997
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(759,018)	(1,415,751)	(2,174,769)
Principal payments on bonds and notes	(204,853)	-	(204,853)
Payments of bond anticipation notes	(265,000)	-	(265,000)
Grant income	1,004,635	1,442,773	2,447,408
Interest expense	<u>(133,940)</u>	<u>-</u>	<u>(133,940)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(358,176)	27,022	(331,154)
<u>Cash Flows From Investing Activities:</u>			
Investment income	<u>283</u>	<u>185</u>	<u>468</u>
Net Cash Provided By Investing Activities	<u>283</u>	<u>185</u>	<u>468</u>
Net Change in Cash and Short-Term Investments	(40,108)	(73,927)	(114,035)
Cash and Short Term Investments, Beginning of Year	<u>441,469</u>	<u>135,926</u>	<u>577,395</u>
Cash and Short Term Investments, End of Year	<u>\$ 401,361</u>	<u>\$ 61,999</u>	<u>\$ 463,360</u>
<u>Reconciliation of Operating (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>			
Operating (loss)	\$ (205,693)	\$ (80,331)	\$ (286,024)
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	(50,754)	-	(50,754)
Warrants and accounts payable	9,036	(99,682)	(90,646)
Other liabilities	<u>113,674</u>	<u>(2,129)</u>	<u>111,545</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 102,065</u>	<u>\$ (107,411)</u>	<u>\$ (5,346)</u>

See notes to financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Private Purpose Trust <u>Funds</u>	Pension Trust Fund (As of <u>December 31, 2010</u>)
<u>ASSETS</u>		
Cash and short-term investments	\$ 129,896	\$ 72,159
Investments	-	24,688,118
Accounts receivable	-	<u>1,452</u>
Total Assets	<u>129,896</u>	<u>24,761,729</u>
<u>LIABILITIES AND NET ASSETS</u>		
Deferred revenue	<u>-</u>	<u>701,797</u>
Total Liabilities	<u>-</u>	<u>701,797</u>
<u>NET ASSETS</u>		
Total net assets held in trust for pension benefits and other purposes	<u>\$ 129,896</u>	<u>\$ 24,059,932</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, 2011

	Private Purpose Trust Funds	Pension Trust Fund (For The Year Ended December 31, 2010)
Additions:		
Contributions:		
Employers	\$ -	\$ 1,385,880
Other systems and Commonwealth of Massachusetts Plan members	-	77,167
	<u>-</u>	<u>590,613</u>
Total contributions	-	2,053,660
Investment Income:		
Interest and dividends	3,197	645,773
Increase in fair value of investments	-	2,335,444
Less: management fees	-	(105,348)
Net investment income	<u>3,197</u>	<u>2,875,869</u>
Total additions	3,197	4,929,529
Deductions:		
Benefit payments to plan members and beneficiaries	-	1,670,998
Refunds to plan members	-	226,349
Administrative expenses	-	62,963
Scholarships awarded	<u>2,750</u>	<u>-</u>
Total deductions	<u>2,750</u>	<u>1,960,310</u>
Net increase	447	2,969,219
Net assets:		
Beginning of year	<u>129,449</u>	<u>21,090,713</u>
End of year	<u>\$ 129,896</u>	<u>\$ 24,059,932</u>

See notes to financial statements.

Town of Montague, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2011, it was determined that no entities met the required GASB-39 criteria of component units, other than as described below.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

The government reports the following major governmental fund:

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The government reports the following major proprietary funds:

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

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2 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 2011 tax levy reflected an excess capacity of \$ 854.

G. Capital Assets

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

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

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

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

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

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

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

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

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

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

K. Use of Estimates

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

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

2. **Stewardship, Compliance and Accountability**

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 15,600,015	\$ 15,216,727
Other financing sources/uses (GAAP basis)	<u>-</u>	<u>221,997</u>
Subtotal (GAAP Basis)	15,600,015	15,438,724
Remove the effect of adding Town's stabilization funds per GASB 54:		
Reverse the adjustment eliminating interfund transfers	788,536	788,536
Remove stabilization fund transfers and other income	(447,355)	(343,536)
Adjust tax revenue to accrual basis	(64,977)	-
Reverse beginning of year appropriation carry-forwards from expenditures	-	(308,750)
Add end of year appropriation carryforwards to expenditures	-	283,142
To reverse the effect of non-budgeted State contributions for teachers retirement	(37,199)	(37,199)
Recognize the use of fund balance and overlay surplus as funding sources	<u>796,198</u>	<u>-</u>
Budgetary basis	<u>\$ 16,635,218</u>	<u>\$ 15,820,917</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2011:

Public Safety Facility CPF	\$ (101,299)
School Projects CPF	(65,730)

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

E. Unbalanced Budget

The general fund budget appearing on page 17 reflects an excess of revenues and other sources of \$ 58,338 because a voted change in funding sources, intended to reduce taxation revenue, was not reflected in the tax recap.

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, 2011, \$ 1,460,510 of the Town's bank balance of \$ 5,235,733 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, 2010, none of the Contributory Retirement System's bank balance of \$ 123,391 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, 2011 consist of the following (in thousands):

Real Estate		
2011	\$ 468	
2010	140	
2009	54	
2008 and Prior	<u>3</u>	665
Personal Property		
2011	4	
2010	3	
2009 and Prior	<u>3</u>	10
Tax Liens		71
Tax Foreclosures		<u>216</u>
Total		<u>\$ 962</u>

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>	<u>Sewer Enterprise</u>
Property taxes - current	\$ 35	\$ -
Property taxes - noncurrent	219	-
Excises	7	-
Other	1	30

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2011.

8. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
Governmental Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 7,692,935	\$ 65,730	\$ -	\$ 5,318,087	\$ 13,076,752
Machinery, equipment, vehicles and furnishings	2,615,063	141,254	-	-	2,756,317
Infrastructure	<u>273,792</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>273,792</u>
Total capital assets, being depreciated	10,581,790	206,984	-	5,318,087	16,106,861
Less accumulated depreciation for:					
Buildings and improvements	(2,826,236)	(441,035)	-	-	(3,267,271)
Machinery, equipment, vehicles and furnishings	(1,801,445)	(178,552)	-	-	(1,979,997)
Infrastructure	<u>(193,379)</u>	<u>(9,090)</u>	<u>-</u>	<u>-</u>	<u>(202,469)</u>
Total accumulated depreciation	<u>(4,821,060)</u>	<u>(628,677)</u>	<u>-</u>	<u>-</u>	<u>(5,449,737)</u>
Total capital assets, being depreciated, net	5,760,730	(421,693)	-	5,318,087	10,657,124
Capital assets, not being depreciated:					
Land	734,271	-	-	-	734,271
Construction in progress	<u>5,529,971</u>	<u>37,850</u>	<u>-</u>	<u>(5,318,087)</u>	<u>249,734</u>
Total capital assets, not being depreciated	<u>6,264,242</u>	<u>37,850</u>	<u>-</u>	<u>(5,318,087)</u>	<u>984,005</u>
Governmental activities capital assets, net	<u>\$ 12,024,972</u>	<u>\$ (383,843)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,641,129</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>-</u>	<u>3,516,632</u>
Total capital assets, being depreciated	11,680,726	-	-	-	11,680,726
Less accumulated depreciation for:					
Buildings and improvements	(3,996,061)	(226,528)	-	-	(4,222,589)
Machinery, equipment, vehicles and furnishings	(23,811)	(13,672)	-	-	(37,483)
Infrastructure	<u>(1,706,578)</u>	<u>(70,333)</u>	<u>-</u>	<u>-</u>	<u>(1,776,911)</u>
Total accumulated depreciation	<u>(5,726,450)</u>	<u>(310,533)</u>	<u>-</u>	<u>-</u>	<u>(6,036,983)</u>
Total capital assets, being depreciated, net	5,954,276	(310,533)	-	-	5,643,743
Capital assets, not being depreciated:					
Land	266,750	-	-	-	266,750
Construction in progress	<u>8,668,759</u>	<u>2,174,769</u>	<u>-</u>	<u>-</u>	<u>10,843,528</u>
Total capital assets, not being depreciated	<u>8,935,509</u>	<u>2,174,769</u>	<u>-</u>	<u>-</u>	<u>11,110,278</u>
Business-type activities capital assets, net	<u>\$ 14,889,785</u>	<u>\$ 1,864,236</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,754,021</u>

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

Governmental Activities:	
General government	\$ 235,725
Public safety	155,423
Education	69,745
Public works	133,968
Culture and recreation	<u>33,816</u>
Total depreciation expense - governmental activities	<u>\$ 628,677</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 2011 expenditures paid by July 15, 2011 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, 2011 receivable balances.

11. Notes Payable

The Town had the following short-term notes outstanding at June 30, 2011:

	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2011</u>
<u>Governmental Activities</u>				
State anticipation	0.95%	06/22/11	09/22/11	\$ 145,872
Bond anticipation	1.01%	05/26/11	05/24/12	109,792
Bond anticipation	1.01%	05/26/11	05/24/12	<u>65,730</u>
Total Governmental				<u>\$ 321,394</u>
<u>Business-Type Activities</u>				
Bond anticipation	0.95%	06/22/11	09/22/11	<u>\$ 985,000</u>
Total Business-Type				<u>\$ 985,000</u>

The following summarizes activity in short-term notes payable during fiscal year 2011:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
<u>Governmental Activities</u>				
State anticipation	\$ 110,000	\$ 145,872	\$ (110,000)	\$ 145,872
Bond anticipation	150,000	175,522	(150,000)	175,522
Revenue anticipation	-	5,000,000	(5,000,000)	-
Total Governmental	<u>\$ 260,000</u>	<u>\$ 5,321,394</u>	<u>\$ (5,260,000)</u>	<u>\$ 321,394</u>
<u>Business-Type Activities</u>				
Bond anticipation	\$ 1,250,000	\$ 2,235,000	\$ (2,500,000)	\$ 985,000
Total Business-Type	<u>\$ 1,250,000</u>	<u>\$ 2,235,000</u>	<u>\$ (2,500,000)</u>	<u>\$ 985,000</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 consisted of the following as of June 30, 2011:

2012	\$ 54,055
2013	54,055
2014	<u>54,055</u>
Total minimum lease payments	162,165
Less amounts representing interest	<u>(15,757)</u>
Present Value of Minimum Lease Payments	<u>\$ 146,408</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, 2011
Landfill	08/15/19	5.25%	\$ 325,000
Colle Opera House	08/15/22	4.25%	130,000
Municipal purpose	11/01/26	4.11%	675,000
Combined sewer overflow (MWPAT)	07/15/27	2.00%	318,667
Municipal purpose	11/15/27	4.50%	4,900,000
Combined sewer overflow (MWPAT)	01/15/39	2.41%	711,686
USDA	11/01/45	4.38%	395,869
Total Governmental Activities			\$ <u>7,456,222</u>

Bonds Payable - <u>Business-Type Activities:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2011
Millers Falls sewer (MWPAT)	08/01/15	N/A	\$ 58,751
Millers Falls sewer (MWPAT)	02/01/17	N/A	389,507
Combined sewer overflow (MWPAT)	02/01/18	N/A	92,917
Sewer - multiple purpose	06/15/23	4.42%	345,000
Sewer - property acquisition	06/15/23	4.34%	55,000
Sewer - multiple purpose	11/01/26	4.11%	245,000
Combined sewer overflow (MWPAT)	07/15/27	2.00%	478,001
Combined sewer overflow (MWPAT)	01/15/39	2.41%	1,067,529
USDA	11/01/45	4.38%	593,922
Total Business-Type Activities			\$ <u>3,325,627</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 Authorized	Subsidy	Repayment Obligation	Balance at June 30, 2011
Millers Falls sewer	\$ 159,435	\$ 25,497	\$ 133,938	\$ 58,751
Millers Falls sewer	907,181	232,451	674,730	389,507
Combined sewer overflow	205,196	47,169	158,027	92,917
Combined sewer overflow	957,448	-	957,448	796,668
Combined sewer overflow	1,911,052	-	1,911,052	1,779,215
Total	\$ <u>4,140,312</u>	\$ <u>305,117</u>	\$ <u>3,835,195</u>	\$ <u>3,117,058</u>

C. Future Debt Service

The annual payments to retire all general obligation long-term bonds outstanding as of June 30, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	395,247	223,142	618,389
2017 - 2021	1,993,999	890,033	2,884,032
2022 - 2026	2,061,752	501,855	2,563,607
2027 and thereafter	<u>1,495,057</u>	<u>246,218</u>	<u>1,741,275</u>
Total	<u>\$ 7,456,222</u>	<u>\$ 2,881,236</u>	<u>\$ 10,337,458</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	200,667	81,811	282,478
2017 - 2021	710,877	307,409	1,018,286
2022 - 2026	520,129	206,739	726,868
2027 and thereafter	<u>1,044,802</u>	<u>314,739</u>	<u>1,359,541</u>
Total	<u>\$ 3,325,627</u>	<u>\$ 1,328,192</u>	<u>\$ 4,653,819</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in long-term liabilities:

	Total Balance July 1, 2010	Additions	Reductions	Total Balance June 30, 2011	Less Current Portion	Long-Term Portion June 30, 2011
<u>Governmental Activities</u>						
Bonds payable	\$ 7,826,199	\$ -	\$ (369,977)	\$ 7,456,222	(365,976)	7,090,246
Capital lease	190,391	-	(43,983)	146,408	(46,310)	100,098
Landfill closure	396,000	-	(19,800)	376,200	(19,800)	356,400
Bonds payable	201,004	-	(39,776)	161,228	-	161,228
Net OPEB obligation	<u>1,284,747</u>	<u>564,855</u>	<u>-</u>	<u>1,849,602</u>	<u>-</u>	<u>1,849,602</u>
Totals	<u>\$ 9,898,341</u>	<u>\$ 564,855</u>	<u>\$ (473,536)</u>	<u>\$ 9,989,660</u>	<u>\$ (432,086)</u>	<u>\$ 9,557,574</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 3,530,480	\$ -	\$ (204,853)	\$ 3,325,627	\$ (209,157)	\$ 3,116,470
Compensated absences	16,094	-	(3,320)	12,774	-	12,774
Net OPEB obligation	<u>137,978</u>	<u>119,384</u>	<u>-</u>	<u>257,362</u>	<u>-</u>	<u>257,362</u>
Totals	<u>\$ 3,684,552</u>	<u>\$ 119,384</u>	<u>\$ (208,173)</u>	<u>\$ 3,595,763</u>	<u>\$ (209,157)</u>	<u>\$ 3,386,606</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 \$ 376,200 reported as landfill liability at June 30, 2011 represents the estimated cost of monitoring the landfill for the next 19 years. This amount is based on what it would cost to perform all closure and post-closure care in 2011. 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. 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.

17. Contributory Retirement System

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

A. Plan Description and Contribution Information

Substantially all employees of the Town are members of the Montague Contributory Retirement System (MCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in

the MCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the MCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The MCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

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

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

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

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

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

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
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%
2011	1,403,594	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 Accrued 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, 2010 the unfunded actuarially

accrued liability is being amortized over 7 years using an open group method which assumes a 4.75%, 5.00% and 5.25% per year increase in payroll for Groups 1, 2 and 4 respectively.

E. Teachers

In fiscal year 2011, the Commonwealth of Massachusetts contributed \$ 37,199 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.

18. Post-Employment Health Care and Life Insurance Benefits

The Town's fiscal 2011 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, 2011, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2010.

Annual Required Contribution (ARC)	\$ 1,124,828
Interest on net OPEB obligation	58,184
Adjustment to ARC	<u>(83,937)</u>
Annual OPEB cost	1,099,075
Contributions made	<u>(446,700)</u>
Increase in net OPEB obligation	652,375
Net OPEB obligation - beginning of year	<u>1,454,589</u>
Net OPEB obligation - end of year	<u><u>\$ 2,106,964</u></u>

The Town's net OPEB obligation as of June 30, 2011 is recorded as separate line item in the accompanying government-wide financial statements.

A. Funded Status and Funding Progress

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

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

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

B. Actuarial Methods and Assumptions

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

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

19. 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.

20. Beginning Fund Balance Restatement and Reclassification

The Town's major governmental funds for fiscal year 2011, as defined by GASB Statement 34, have changed from the previous fiscal year. In addition, the fund balances have been restated to conform with GASB Statement 54. Accordingly, the following reconciliation is provided:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Public Safety Facility</u>	<u>Total</u>
Fund balance 6/30/10	\$ 1,705,255	\$ 1,924,366	\$ (63,449)	\$ 3,566,172
Restate for GASB 54	1,059,206	(1,059,206)	-	-
Reclassify major fund	-	(63,449)	63,449	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balance 6/30/10, as restated and reclassified	\$ <u>2,764,461</u>	\$ <u>801,711</u>	\$ <u>-</u>	\$ <u>3,566,172</u>

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

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

**Other Post-Employment Benefits
June 30, 2011**

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

See Independent Auditors' Report.