

CITY OF AGAWAM, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2009

CITY OF AGAWAM, MASSACHUSETTS

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JUNE 30, 2009

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Independent Auditors' Report

To the Honorable Mayor and City Council
City of Agawam, 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 City of Agawam, Massachusetts, as of and for the fiscal year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Agawam, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Agawam, Massachusetts, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, retirement system schedule of funding progress, retirement system schedule of employer contributions, other post employment benefits schedule of funding progress, and other post employment benefits actuarial methods and assumptions, located after the notes to the basic financial statements, 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 our report dated November 10, 2009, on our consideration of the City of Agawam, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

November 10, 2009

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Agawam, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2009. The City complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements. We encourage readers to consider the information presented in this report.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Agawam's basic financial statements. These 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 required 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 finances, in a manner similar to 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, human services, culture and recreation, community preservation, claims and judgments, and interest. The business-type activities include the activities of golf, water and sewer services.

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 statements focus on *near-term inflows 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*.

The City of Agawam adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its golf, water and sewer activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to workers' compensation.

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 City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Governmental Activity assets exceeded liabilities by \$80.8 million at the close of FY2009.

	Balance at June 30, 2009	Balance at June 30, 2008
	<u> </u>	<u> </u>
Assets:		
Current assets.....	\$ 35,079,675	\$ 37,428,062
Noncurrent assets (excluding capital).....	7,433,889	8,297,586
Capital assets.....	81,255,681	78,429,914
Total assets.....	<u>123,769,245</u>	<u>124,155,562</u>
Liabilities:		
Current liabilities (excluding debt).....	7,188,893	7,309,967
Noncurrent liabilities (excluding debt).....	10,727,732	4,411,000
Current debt.....	2,284,709	7,259,481
Noncurrent debt.....	<u>22,722,774</u>	<u>17,677,483</u>
Total liabilities.....	<u>42,924,108</u>	<u>36,657,931</u>
Net Assets:		
Capital assets net of related debt.....	65,069,223	64,109,030
Restricted.....	1,981,978	1,519,778
Unrestricted.....	<u>13,793,936</u>	<u>21,868,823</u>
Total net assets.....	<u>\$ 80,845,137</u>	<u>\$ 87,497,631</u>

Net assets of \$65.1 million (81%) reflects the investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its 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 the governmental net assets \$2 million (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$13.8 million (17%) may be used to meet the government's ongoing obligations to citizens and creditors.

The governmental activities net assets decreased by \$6.7 million during the current fiscal year. The change is a result of implementing GASB Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (OPEB) in which a \$7.5 million liability was recorded for the first time in FY2009.

The Governmental Expenses totaled \$93 million of which \$35 million (38%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General Revenues totaled \$51.5 million, primarily coming from property taxes, motor vehicle excise, non-restricted state aid and other miscellaneous charges. Revenues increased by approximately \$600 thousand from fiscal year 2008 due to an increase in state grants. Expenses increased by approximately \$7 million which is due to the GASB 45 liability recorded in FY2009.

Governmental Activities

	Year Ending June 30, 2009	Year Ending June 30, 2008
	<u> </u>	<u> </u>
Program revenues:		
Charges for services.....	\$ 5,155,060	\$ 5,094,709
Operating grants and contributions.....	28,559,186	25,125,696
Capital grants and contributions.....	1,098,102	978,776
General Revenues:		
Real estate and personal property taxes.....	42,106,286	43,303,334
Tax title.....	304,196	272,139
Motor vehicle excise taxes.....	3,019,687	3,423,616
Penalties and interest on taxes.....	214,309	325,750
Payments in lieu of taxes.....	43,562	44,068
Community preservation surtax.....	398,484	385,193
Nonrestricted grants and contributions.....	4,553,911	5,094,876
Unrestricted investment income.....	668,375	1,464,358
Gain on sale of capital assets.....	-	16,405
Miscellaneous revenues.....	184,210	157,092
Total revenues.....	<u>86,305,368</u>	<u>85,686,012</u>
Expenses:		
General government.....	4,313,515	4,135,843
Public safety.....	13,941,805	11,986,145
Education.....	61,618,799	54,075,143
Public works.....	7,645,276	6,477,224
Human services.....	1,714,366	1,317,099
Culture and recreation.....	2,519,530	2,057,790
Community Preservation.....	151,262	53,427
Claims and judgments.....	-	4,918,000
Interest.....	1,053,309	914,401
Total expenses.....	<u>92,957,862</u>	<u>85,935,072</u>
Transfers.....	<u>-</u>	<u>(27,228)</u>
Change in net assets.....	<u>\$ (6,652,494)</u>	<u>\$ (276,288)</u>

Business-Type Financial Analysis

For the City's business-type activities, assets exceeded liabilities by \$26.9 million at the close of FY2009.

	Balance at June 30, 2009	Balance at June 30, 2008
	<u> </u>	<u> </u>
Assets:		
Current assets.....	\$ 9,188,061	\$ 9,793,267
Noncurrent assets (excluding capital).....	347,870	376,322
Capital assets.....	<u>23,174,804</u>	<u>23,131,758</u>
Total assets.....	<u>32,710,735</u>	<u>33,301,347</u>
Liabilities:		
Current liabilities (excluding debt).....	711,286	779,044
Noncurrent liabilities (excluding debt).....	358,255	-
Current debt.....	435,422	605,856
Noncurrent debt.....	<u>4,308,236</u>	<u>3,854,976</u>
Total liabilities.....	<u>5,813,199</u>	<u>5,239,876</u>
Net Assets:		
Capital assets net of related debt.....	19,490,150	19,073,704
Unrestricted.....	<u>7,407,386</u>	<u>8,987,767</u>
Total net assets.....	<u>\$ 26,897,536</u>	<u>\$ 28,061,471</u>
	Year Ending June 30, 2009	Year Ending June 30, 2008
	<u> </u>	<u> </u>
Program revenues:		
Charges for services.....	\$ 6,175,160	\$ 6,666,881
Operating grants and contributions.....	<u>150,128</u>	<u>185,515</u>
Total revenues.....	<u>6,325,288</u>	<u>6,852,396</u>
Expenses:		
Water.....	3,306,998	3,222,072
Sewer.....	3,350,915	3,175,795
Golf.....	<u>831,310</u>	<u>742,178</u>
Total expenses.....	<u>7,489,223</u>	<u>7,140,045</u>
Transfers.....	<u>-</u>	<u>27,228</u>
Change in net assets.....	<u>\$ (1,163,935)</u>	<u>\$ (260,421)</u>

Business-type golf, water and sewer activities had total nets assets of \$26.9 million. Net assets of \$19.5 million (72%) represent the investment in capital assets while \$7.4 million (28%) is unrestricted.

The Water Enterprise Fund ended FY09 with \$14.6 million in net assets of which \$9.2 million was invested in capital assets net of related debt. Net assets decreased by \$443 thousand which is due to their \$152 thousand share of OPEB and excess depreciation expense exceeding principal payments on debt of \$364.

The Sewer Enterprise Fund ended FY09 with \$11.1 million in net assets of which \$9.2 million was invested in capital assets net of related debt. Net assets decreased by \$665 thousand which is due to their \$125 thousand share of OPEB and excess depreciation expense exceeding principal payments on debt of \$346.

The Golf Course Enterprise Fund ended FY09 with \$1.2 million in net assets of which \$1 million was invested in capital assets net of related debt. Net assets decreased by \$56,000 which is due to their share \$82 thousand share of OPEB.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting 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 \$26 million, of which \$13 million is for the general fund and \$13 million is for Nonmajor governmental funds. There was an increase of \$4 million in fund balances from the prior year.

The general fund is the chief operating fund and it had a decrease of \$1 million which is primarily the result of an Appellate Tax Board (ATB) legal settlement payment of \$900 thousand funded by abatement reserves and therefore not raised by taxes. At the end of the current fiscal year, unreserved fund balance of the general fund was \$11.8 million, while total fund balance totaled \$14 million. 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 16% of total general fund budgeted expenditures, while total fund balance represents 19% of that same amount.

The American Recovery and Reinvestment Act (ARRA) major fund is a grant passed through the state fiscal stabilization fund is used to account for the City's use of the federal state fiscal stabilization program which was awarded to Governors to help stabilize State and local budgets in order to minimize and avoid reductions in education and other essential services. The Governor cut state Chapter 70 funding by 10% and replaced the amount with federal amounts. During fiscal year 2009, the City received and spent \$1.7 million of state fiscal stabilization funds. The net effect of this grant was to shift \$1.7 million in general fund budgeted state revenue and education expenditures to a special revenue fund. This created a \$1.7 budget shortfall in general fund revenue which was offset by and equal budget surplus in general fund expenditures.

General Fund Budgetary Highlights

The City budgeted to use approximately \$2 million in available reserves to balance the fiscal year 2009 budget. Actual revenues received created a budget deficit of approximately \$1.9 million of which \$1.7 million was due to the ARRA grant funds. Expenditures and encumbrances were approximately \$2.9 million under budget of which \$1.7 is due to the ARRA grant funds. The overall \$982 thousand reduction of fund balance was due to the ATB refund of taxes of \$900 thousand in FY2009 funded by reserves. This accounts for the \$539 thousand budget deficit in real and personal property tax revenue.

Capital Asset and Debt Administration

In conjunction with the annual operating budget, the City annually prepares a capital budget for the upcoming fiscal year and a Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2009, amounts to \$104 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements, equipment, vehicles and infrastructure.

Current year major fixed asset additions include approximately \$2.9 million for the new senior center and \$1.4 million in infrastructure improvements.

Outstanding long-term debt of the general government, as of June 30, 2009, totaled \$25 million, of which \$11.9 million is related to school projects that are supported by the Commonwealth of Massachusetts. The State is obligated to provide school construction assistance for approved school projects. The assistance is paid annually to support the debt service payments over time. At June 30, 2009 the City is scheduled to receive \$8 million of future principal and interest reimbursements.

The sewer, water and golf enterprise fund outstanding long-term debt at year-end is fully supported by rates and does not rely on a general fund subsidy.

Please refer to the notes for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the City of Agawam'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 the City Auditor, 36 Main Street, Agawam, Massachusetts 01001.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2009

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 27,108,066	\$ 6,360,806	\$ 33,468,872
Investments.....	3,877,453	-	3,877,453
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	820,827	-	820,827
Tax liens.....	742,152	-	742,152
Motor vehicle excise taxes.....	258,523	-	258,523
User fees.....	-	2,116,121	2,116,121
Departmental and other.....	140,869	-	140,869
Intergovernmental.....	2,124,711	711,134	2,835,845
Tax foreclosures.....	7,074	-	7,074
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	7,433,889	347,870	7,781,759
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	3,707,720	1,687,592	5,395,312
Depreciable.....	77,547,961	21,487,212	99,035,173
TOTAL ASSETS.....	123,769,245	32,710,735	156,479,980
LIABILITIES			
CURRENT:			
Warrants payable.....	826,429	710,902	1,537,331
Accrued payroll.....	2,773,850	-	2,773,850
Tax refunds payable.....	178,000	-	178,000
Accrued interest.....	244,447	-	244,447
Payroll withholdings.....	499,140	-	499,140
Abandoned property.....	240,370	-	240,370
Other liabilities.....	320,657	384	321,041
Compensated absences.....	1,125,000	-	1,125,000
Workers' compensation.....	108,000	-	108,000
Court judgments.....	873,000	-	873,000
Bonds and notes payable.....	2,284,709	435,422	2,720,131
NONCURRENT:			
Compensated absences.....	812,000	-	812,000
Court judgments.....	2,457,000	-	2,457,000
Other post employment benefits.....	7,458,732	358,255	7,816,987
Bonds and notes payable.....	22,722,774	4,308,236	27,031,010
TOTAL LIABILITIES.....	42,924,108	5,813,199	48,737,307
NET ASSETS			
Invested in capital assets, net of related debt.....	65,069,223	19,490,150	84,559,373
Restricted for:			
Permanent funds:			
Expendable.....	377,131	-	377,131
Nonexpendable.....	357,178	-	357,178
Other purposes.....	1,247,669	-	1,247,669
Unrestricted.....	13,793,936	7,407,386	21,201,322
TOTAL NET ASSETS.....	\$ 80,845,137	\$ 26,897,536	\$ 107,742,673

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 4,313,515	\$ 207,588	\$ 105,535	\$ -	\$ (4,000,392)
Public safety.....	13,941,805	1,989,747	274,141	-	(11,677,917)
Education.....	61,618,799	2,006,930	27,546,075	-	(32,065,794)
Public works.....	7,645,276	417,605	-	964,790	(6,262,881)
Human services.....	1,714,366	170,705	304,886	-	(1,238,775)
Culture and recreation.....	2,519,530	362,485	213,155	-	(1,943,890)
Community preservation.....	151,262	-	-	133,312	(17,950)
Interest.....	1,053,309	-	115,394	-	(937,915)
Total Governmental Activities.....	92,957,862	5,155,060	28,559,186	1,098,102	(58,145,514)
<i>Business-Type Activities:</i>					
Water.....	3,306,998	2,857,085	6,896	-	(443,017)
Sewer.....	3,350,915	2,552,829	133,116	-	(664,970)
Golf.....	831,310	765,246	10,116	-	(55,948)
Total Business-Type Activities.....	7,489,223	6,175,160	150,128	-	(1,163,935)
Total Primary Government.....	\$ 100,447,085	\$ 11,330,220	\$ 28,709,314	\$ 1,098,102	\$ (59,309,449)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (58,145,514)	\$ (1,163,935)	\$ (59,309,449)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	42,106,286	-	42,106,286
Tax title.....	304,196	-	304,196
Motor vehicle excise taxes.....	3,019,687	-	3,019,687
Penalties and interest on taxes.....	214,309	-	214,309
Payments in lieu of taxes.....	43,562	-	43,562
Community preservation surtax.....	398,484	-	398,484
Grants and contributions not restricted to specific programs.....	4,553,911	-	4,553,911
Unrestricted investment income.....	668,375	-	668,375
Miscellaneous.....	184,210	-	184,210
Total general revenues and transfers.....	51,493,020	-	51,493,020
 Change in net assets.....	 (6,652,494)	 (1,163,935)	 (7,816,429)
<i>Net Assets:</i>			
Beginning of year (restated).....	87,497,631	28,061,471	115,559,102
 End of year.....	 \$ <u>80,845,137</u>	 \$ <u>26,897,536</u>	 \$ <u>107,742,673</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2009

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 16,801,712	\$ 9,985,247	\$ 26,786,959
Investments.....	-	3,268,216	3,268,216
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	820,827	-	820,827
Tax liens.....	742,152	-	742,152
Motor vehicle excise taxes.....	258,523	-	258,523
Departmental and other.....	57,183	83,686	140,869
Intergovernmental.....	8,497,621	1,060,979	9,558,600
Tax foreclosures.....	7,074	-	7,074
TOTAL ASSETS.....	\$ 27,185,092	\$ 14,398,128	\$ 41,583,220
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 568,252	\$ 258,177	\$ 826,429
Accrued payroll.....	2,323,560	450,290	2,773,850
Tax refunds payable.....	178,000	-	178,000
Payroll withholdings.....	499,140	-	499,140
Abandoned property.....	240,370	-	240,370
Other liabilities.....	320,657	-	320,657
Deferred revenues.....	10,083,191	751,371	10,834,562
TOTAL LIABILITIES.....	14,213,170	1,459,838	15,673,008
 FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	1,141,914	-	1,141,914
Perpetual permanent funds.....	-	357,178	357,178
Unreserved:			
Undesignated, reported in:			
General fund.....	11,830,008	-	11,830,008
Special revenue funds.....	-	11,040,952	11,040,952
Capital projects funds.....	-	1,163,029	1,163,029
Permanent funds.....	-	377,131	377,131
TOTAL FUND BALANCES.....	12,971,922	12,938,290	25,910,212
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 27,185,092	\$ 14,398,128	\$ 41,583,220

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2009

Total governmental fund balances.....		\$ 25,910,212
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		81,255,681
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		10,834,562
Internal service funds are used by management to account for workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		822,344
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(244,447)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(25,007,483)	
Other post employment benefits.....	(7,458,732)	
Court judgments.....	(3,330,000)	
Compensated absences.....	(1,937,000)	
Net effect of reporting long-term liabilities.....		<u>(37,733,215)</u>
Net assets of governmental activities.....		\$ <u>80,845,137</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2009

	General	American Recovery & Reinvestment Act	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 41,093,701	\$ -	\$ -	\$ 41,093,701
Tax title.....	187,128	-	-	187,128
Motor vehicle excise taxes.....	3,172,811	-	-	3,172,811
Community preservation surtax.....	-	-	393,071	393,071
Penalties and interest on taxes.....	214,309	-	-	214,309
Payments in lieu of taxes.....	43,562	-	-	43,562
Licenses and permits.....	178,161	-	-	178,161
Fines and forfeitures.....	17,591	-	-	17,591
Intergovernmental.....	27,264,050	1,733,796	6,359,980	35,357,826
Departmental and other.....	1,096,190	-	4,340,526	5,436,716
Contributions.....	-	-	213,902	213,902
Investment income.....	518,964	-	123,379	642,343
Miscellaneous.....	123,607	-	-	123,607
TOTAL REVENUES.....	73,910,074	1,733,796	11,430,858	87,074,728
EXPENDITURES:				
Current:				
General government.....	2,592,844	-	168,059	2,760,903
Public safety.....	7,518,876	-	1,911,604	9,430,480
Education.....	35,985,865	1,733,796	5,671,328	43,390,989
Public works.....	4,791,011	-	1,762,760	6,553,771
Human services.....	851,629	-	3,054,861	3,906,490
Culture and recreation.....	1,115,239	-	641,596	1,756,835
Community preservation.....	-	-	427,927	427,927
Pension benefits.....	10,000,635	-	-	10,000,635
Property and liability insurance.....	455,287	-	-	455,287
Employee benefits.....	7,450,761	-	-	7,450,761
State and county charges.....	412,939	-	-	412,939
Capital outlay.....	843,571	-	-	843,571
Debt service:				
Principal.....	1,879,481	-	-	1,879,481
Interest.....	1,033,284	-	20,061	1,053,345
TOTAL EXPENDITURES.....	74,931,422	1,733,796	13,658,196	90,323,414
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,021,348)	-	(2,227,338)	(3,248,686)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	-	-	7,330,000	7,330,000
Premium from issuance of bonds.....	3,535	-	-	3,535
Transfers in.....	50,000	-	21,698	71,698
Transfers out.....	-	-	(71,698)	(71,698)
TOTAL OTHER FINANCING SOURCES (USES).....	53,535	-	7,280,000	7,333,535
NET CHANGE IN FUND BALANCES.....	(967,813)	-	5,052,662	4,084,849
FUND BALANCES AT BEGINNING OF YEAR.....	13,939,735	-	7,885,628	21,825,363
FUND BALANCES AT END OF YEAR.....	\$ 12,971,922	\$ -	\$ 12,938,290	\$ 25,910,212

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds.....		\$ 4,084,849
<p>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.</p>		
Capital outlay.....	6,435,080	
Depreciation expense.....	<u>(3,609,313)</u>	
Net effect of reporting capital assets.....		2,825,767
<p>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.....</p>		
		(1,698,927)
<p>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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds and notes.....	(7,330,000)	
Debt service principal payments.....	<u>1,879,481</u>	
Net effect of reporting long-term debt.....		(5,450,519)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	202,000	
Net change in court judgments.....	900,000	
Net change in post employment benefits liability.....	(7,458,732)	
Net change in accrued interest on long-term debt.....	<u>36</u>	
Net effect of recording long-term liabilities.....		(6,356,696)
<p>Internal service funds are used by management to account for workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>(56,968)</u>
Change in net assets of governmental activities.....		<u>\$ (6,652,494)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2009

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
ASSETS					
CURRENT:					
Cash and cash equivalents.....	\$ 4,667,389	\$ 1,420,688	\$ 272,729	\$ 6,360,806	\$ 321,107
Investments.....	-	-	-	-	609,237
Receivables, net of allowance for uncollectibles:					
User fees.....	1,136,217	979,904	-	2,116,121	-
Intergovernmental.....	-	711,134	-	711,134	-
Total current assets.....	<u>5,803,606</u>	<u>3,111,726</u>	<u>272,729</u>	<u>9,188,061</u>	<u>930,344</u>
NONCURRENT:					
Receivables, net of allowance for uncollectibles:					
Intergovernmental.....	-	347,870	-	347,870	-
Capital assets, net of accumulated depreciation:					
Nondepreciable.....	331,485	566,550	789,557	1,687,592	-
Depreciable.....	9,661,576	11,408,641	416,995	21,487,212	-
Total noncurrent assets.....	<u>9,993,061</u>	<u>12,323,061</u>	<u>1,206,552</u>	<u>23,522,674</u>	<u>-</u>
TOTAL ASSETS.....	<u>15,796,667</u>	<u>15,434,787</u>	<u>1,479,281</u>	<u>32,710,735</u>	<u>930,344</u>
LIABILITIES					
CURRENT:					
Warrants payable.....	305,293	387,771	17,838	710,902	-
Other liabilities.....	-	-	384	384	-
Workers' compensation.....	-	-	-	-	108,000
Bonds and notes payable.....	44,100	288,322	103,000	435,422	-
Total current liabilities.....	<u>349,393</u>	<u>676,093</u>	<u>121,222</u>	<u>1,146,708</u>	<u>108,000</u>
NONCURRENT:					
Other post employment benefits.....	151,944	124,794	81,517	358,255	-
Bonds and notes payable.....	705,600	3,499,636	103,000	4,308,236	-
Total noncurrent liabilities.....	<u>857,544</u>	<u>3,624,430</u>	<u>184,517</u>	<u>4,666,491</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>1,206,937</u>	<u>4,300,523</u>	<u>305,739</u>	<u>5,813,199</u>	<u>108,000</u>
NET ASSETS					
Invested in capital assets, net of related debt.....	9,243,361	9,246,237	1,000,552	19,490,150	-
Unrestricted.....	5,346,369	1,888,027	172,990	7,407,386	822,344
TOTAL NET ASSETS.....	<u>\$ 14,589,730</u>	<u>\$ 11,134,264</u>	<u>\$ 1,173,542</u>	<u>\$ 26,897,536</u>	<u>\$ 822,344</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FISCAL YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
OPERATING REVENUES:					
Charges for services	\$ 2,857,085	\$ 2,552,829	\$ 765,246	\$ 6,175,160	\$ -
OPERATING EXPENSES:					
Cost of services and administration	2,866,076	2,555,475	741,501	6,163,052	-
Depreciation.....	408,729	572,268	76,165	1,057,162	-
Employee benefits	-	-	-	-	83,000
TOTAL OPERATING EXPENSES	3,274,805	3,127,743	817,666	7,220,214	83,000
OPERATING INCOME (LOSS).....	(417,720)	(574,914)	(52,420)	(1,045,054)	(83,000)
NONOPERATING REVENUES (EXPENSES):					
Investment income.....	6,896	-	10,116	17,012	26,032
Interest expense.....	(32,193)	(223,172)	(13,644)	(269,009)	-
Intergovernmental.....	-	133,116	-	133,116	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(25,297)	(90,056)	(3,528)	(118,881)	26,032
CHANGE IN NET ASSETS.....	(443,017)	(664,970)	(55,948)	(1,163,935)	(56,968)
NET ASSETS AT BEGINNING OF YEAR (restated).....	15,032,747	11,799,234	1,229,490	28,061,471	879,312
NET ASSETS AT END OF YEAR.....	\$ 14,589,730	\$ 11,134,264	\$ 1,173,542	\$ 26,897,536	\$ 822,344

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>					
Receipts from customers and users.....	\$ 3,291,268	\$ 2,824,909	\$ 765,246	\$ 6,881,423	\$ -
Payments to vendors.....	(1,989,146)	(1,737,116)	(151,916)	(3,878,178)	-
Payments to employees.....	(841,241)	(652,259)	(500,877)	(1,994,377)	-
Payments for interfund services used.....	-	-	-	-	(469)
NET CASH FROM OPERATING ACTIVITIES.....	<u>460,881</u>	<u>435,534</u>	<u>112,453</u>	<u>1,008,868</u>	<u>(469)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>					
Acquisition and construction of capital assets.....	(111,891)	(988,317)	-	(1,100,208)	-
Principal payments on bonds and notes.....	(44,100)	(226,300)	(103,000)	(373,400)	-
Interest expense.....	(32,193)	(90,056)	(13,644)	(135,893)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(188,184)</u>	<u>(1,304,673)</u>	<u>(116,644)</u>	<u>(1,609,501)</u>	<u>-</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>					
Proceeds from sales and maturities of investments.....	-	-	-	-	99,259
Investment income.....	6,896	-	10,116	17,012	26,032
NET CASH FROM INVESTING ACTIVITIES.....	<u>6,896</u>	<u>-</u>	<u>10,116</u>	<u>17,012</u>	<u>125,291</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	279,593	(869,139)	5,925	(583,621)	124,822
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	4,387,796	2,289,827	266,804	6,944,427	196,285
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 4,667,389</u>	<u>\$ 1,420,688</u>	<u>\$ 272,729</u>	<u>\$ 6,360,806</u>	<u>\$ 321,107</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>					
Operating income (loss).....	\$ (417,720)	\$ (574,914)	\$ (52,420)	\$ (1,045,054)	\$ (83,000)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation.....	408,729	572,268	76,165	1,057,162	-
Changes in assets and liabilities:					
User fees.....	434,183	272,080	-	706,263	-
Warrants payable.....	(101,614)	48,015	10,081	(43,518)	(469)
Accrued payroll.....	(14,641)	(6,709)	-	(21,350)	-
Other liabilities.....	-	-	(2,890)	(2,890)	-
Workers' compensation.....	-	-	-	-	83,000
Other post employment benefits.....	151,944	124,794	81,517	358,255	-
Total adjustments.....	<u>878,601</u>	<u>1,010,448</u>	<u>164,873</u>	<u>2,053,922</u>	<u>82,531</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 460,881</u>	<u>\$ 435,534</u>	<u>\$ 112,453</u>	<u>\$ 1,008,868</u>	<u>\$ (469)</u>
<u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u>					
Intergovernmental subsidy of debt service.....		<u>\$ 95,461</u>			

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Private Purpose Trust Funds	Agency Funds
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$ 107,030	\$ 657,657
Investments.....	203,070	-
Receivables, net of allowance for uncollectibles:		
Departmental and other.....	-	1,392
TOTAL ASSETS	<u>310,100</u>	<u>659,049</u>
LIABILITIES		
Warrants payable.....	-	1,126
Accrued liabilities.....	-	75,494
Liabilities due depositors.....	-	582,429
TOTAL LIABILITIES	<u>-</u>	<u>659,049</u>
NET ASSETS		
Held in trust.....	<u>\$ 310,100</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2009

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Net investment income (loss):	
Interest.....	\$ <u>8,964</u>
<u>DEDUCTIONS:</u>	
Educational scholarships.....	<u>10,500</u>
CHANGE IN NET ASSETS.....	(1,536)
NET ASSETS AT BEGINNING OF YEAR.....	<u>311,636</u>
NET ASSETS AT END OF YEAR.....	\$ <u><u>310,100</u></u>

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City of Agawam, Massachusetts (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant City accounting policies are described herein.

A. Reporting Entity

The City is a municipal corporation that is governed by an elected Mayor and City Council (the Council).

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. It has been determined that there are no component units that meet the requirements for inclusion in the City's basic financial statements.

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

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds 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. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, capital lease obligations, and claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *American Recovery and Reinvestment Act* (ARRA) major fund is a grant passed through the state fiscal stabilization fund is used to account for the City's use of the federal state fiscal stabilization program which was awarded to Governors to help stabilize State and local budgets in order to minimize and avoid reductions in education and other essential services.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Permanent Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

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 the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary fund is reported:

The *water enterprise fund* is used to account for the water activities.

The *sewer enterprise fund* is used to account for the sewer activities.

The *golf course enterprise fund* is used to account for the golf course activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to workers' compensation.

The beginning balance of the water and sewer enterprise funds were adjusted to reflect an additional liability of \$338,000 and \$281,000 respectively.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings. The City's private-purpose trust fund is primarily comprised of scholarships.

The *agency fund* is used to account for assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

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.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on November 1st and May 1st 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 of the levy.

Real estate tax liens are processed after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate and personal property taxes receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered in the City and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

User Fees

Water and Sewer user fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and Sewer liens are processed every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is

not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20-30
Buildings.....	20-40
Equipment.....	5-10
Vehicles.....	5-15
Infrastructure.....	40-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been "restricted for" the following:

"Permanent funds - expendable" represents the amount of realized and unrealized investment earnings of donor restricted trusts. The restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings.

"Permanent funds - nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

"Other purposes" represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been "reserved for" the following:

"Encumbrances and continuing appropriations" represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

"Perpetual permanent funds" represents amounts held in trust for which only investment earnings may be expended.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

M. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

N. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

O. Fund Deficits

There are several individual fund deficits within the Special Revenue Funds and the Capital Project Funds. These deficits will be funded by available funds and federal and state grants.

P. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Q. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City of Agawam's deposits may not be returned to it. The City's has adopted a formal policy to limit custodial credit risk of deposits. The policy limits the City's uninsured, uncollateralized deposits to 5% of any one financial institution's assets. Insured and collateralized CD's are limited to maturities of one year or less and uninsured CD's are limited to maturities of three months or less. At fiscal year-end, the carrying amount of deposits totaled \$27,500,216 and the bank balance totaled \$28,424,963 deposited in eighteen financial institutions. Of these bank balances, \$2,928,097 was covered by Federal Depository Insurance, \$5,483,488 was covered by the Depositors Insurance Fund, \$996,848 was covered by Securities Investor Protector Corp, \$15,313,152 was collateralized and \$3,703,378 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2009, the City of Agawam had the following investments:

Investment Type	Fair Value	Maturity		
		Under 1 Year	1-5 Years	Over 10 Years
<u>Debt Securities:</u>				
Government Sponsered Enterprises.....	\$ 2,706,122	-	2,706,122	-
Corporate Bonds.....	954,353	-	954,353	-
Total Debt Securities.....	\$ 3,660,475	\$ -	\$ 3,660,475	\$ -
<u>Other Investments:</u>				
Equity Securities.....	\$ 146,371			
Equity Mutual Funds.....	273,677			
Money Market Mutual Funds.....	1,215,785			
MMDT.....	5,517,558			
Total Investments.....	\$ 10,813,866			

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in debt securities of \$3,660,475 and \$146,371 in equity securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the counterparty. The City does not have a formal investment policy for custodial credit risk.

Interest Rate Risk

Interest Rate Risk is the City's exposure to fair value losses arising from increasing interest rates. As a means of managing this risk, the City's investment policy limits original maturities of insured CD's to one year or less and uninsured CD's to three months or less. The City's investment policy does not limit maturities of other forms of investments.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer or backer. The City's has adopted a formal policy to limit credit risk of investments. For investments related to the City's General Funds, Special Revenue Funds, Capital Project Funds, and Enterprise Funds, the policy allows for unlimited investments in MMDT, and U.S. Treasuries and Agencies that will be held to maturity with original maturities of one year or less. The City's Trust Funds and Stabilization Funds are also allowed to be invested in securities legal for savings banks which are detailed on the "Legal List" which is published by the Banking Commissioner each July. The City utilizes the services of bank credit worthiness reporting systems when considering instruments for investment. The City's investment policy does not specifically limit the credit ratings of individual investments, but does require each investment broker/dealer to provide proof of credit worthiness including a minimum of five years in operation and a minimum of \$10 million in capital.

The City's investments at June 30, 2009 are rated as follows:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	BAA
<u>Debt Securities:</u>					
Government Sponsored Enterprises.....	2,706,124	2,706,124	-	-	-
Corporate Bonds.....	954,354	-	400,436	265,553	288,365
Total Debt Securities.....	\$ 3,660,478	2,706,124	400,436	265,553	288,365

Concentration of Credit Risk

With the exception of US Treasury obligations or investments fully collateralized by US Treasuries or Agencies, and MMDT, the City's investment policy limits the amount that may be invested in any one financial institution to no more than 10% of the City's total investments. The policy does not limit the amount that may be invested in an individual security.

More than 5 percent of the City's investments of \$9,598,081 are in the following securities:

<u>Issuer</u>	<u>Percent of Total Investments</u>
Federal Home Loan Mortgage Corporation.....	12%
Federal Home Loan Bank.....	7%
Federal National Mortgage Association (FNMA)..	3%
Federal Farm Credit Bank.....	3%

NOTE 3 – RECEIVABLES

At June 30, 2009, receivables for the individual major governmental funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables:	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes.....	\$ 820,827	\$ -	\$ 820,827
Tax liens.....	742,152	-	742,152
Motor vehicle excise taxes.....	593,606	(335,083)	258,523
Departmental and other.....	142,261	-	142,261
Intergovernmental.....	9,558,600	-	9,558,600
Total.....	\$ 11,857,446	\$ (335,083)	\$ 11,522,363

At June 30, 2009, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 2,116,121	\$ -	\$ 2,116,121
Intergovernmental.....	1,059,004	-	1,059,004
Total.....	<u>\$ 3,175,125</u>	<u>\$ -</u>	<u>\$ 3,175,125</u>

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. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 712,984	\$ -	\$ 712,984
Tax liens.....	742,152	-	742,152
Motor vehicle excise taxes.....	258,523	-	258,523
Departmental and other.....	57,183	85,078	142,261
Intergovernmental.....	8,329,268	642,300	8,971,568
Tax foreclosures.....	7,074	-	7,074
Total.....	<u>\$ 10,107,184</u>	<u>\$ 727,378</u>	<u>\$ 10,834,562</u>

NOTE 4 – CAPITAL ASSETS

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

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,707,720	\$ -	\$ -	\$ 3,707,720
Construction in progress.....	5,639,833	2,912,608	(8,552,441)	-
Total capital assets not being depreciated.....	9,347,553	2,912,608	(8,552,441)	3,707,720
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,718,087	2,023,408	-	4,741,495
Buildings.....	39,364,042	6,729,912	-	46,093,954
Building improvements.....	2,723,230	316,617	-	3,039,847
Equipment.....	3,782,297	946,515	(73,565)	4,655,247
Vehicles.....	5,626,420	347,389	(132,744)	5,841,065
Infrastructure.....	59,386,323	1,711,072	-	61,097,395
Total capital assets being depreciated.....	113,600,399	12,074,913	(206,309)	125,469,003
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(879,226)	(188,275)	-	(1,067,501)
Buildings.....	(19,086,250)	(1,085,201)	-	(20,171,451)
Building improvements.....	(156,883)	(151,477)	-	(308,360)
Equipment.....	(1,994,869)	(318,960)	73,565	(2,240,264)
Vehicles.....	(3,709,949)	(473,154)	132,744	(4,050,359)
Infrastructure.....	(18,690,861)	(1,392,246)	-	(20,083,107)
Total accumulated depreciation.....	(44,518,038)	(3,609,313)	206,309	(47,921,042)
Total capital assets being depreciated, net.....	69,082,361	8,465,600	-	77,547,961
Total governmental activities capital assets, net.....	\$ 78,429,914	\$ 11,378,208	\$ (8,552,441)	\$ 81,255,681

Business-Type Activities

Fixed assets for the water enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 331,485	\$ -	\$ -	\$ 331,485
<u>Capital assets being depreciated:</u>				
Buildings.....	1,813,057	-	-	1,813,057
Equipment.....	283,897	111,891	-	395,788
Vehicles.....	306,431	-	-	306,431
Infrastructure.....	15,914,860	-	-	15,914,860
Total capital assets being depreciated.....	18,318,245	111,891	-	18,430,136
<u>Less accumulated depreciation for:</u>				
Buildings.....	(130,293)	(45,326)	-	(175,619)
Equipment.....	(82,237)	(34,141)	-	(116,378)
Vehicles.....	(231,990)	(22,868)	-	(254,858)
Infrastructure.....	(7,915,311)	(306,394)	-	(8,221,705)
Total accumulated depreciation.....	(8,359,831)	(408,729)	-	(8,768,560)
Total capital assets being depreciated, net.....	9,958,414	(296,838)	-	9,661,576
Total water activities capital assets, net.....	\$ 10,289,899	\$ (296,838)	\$ -	\$ 9,993,061

Fixed assets for the sewer enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 566,550	\$ -	\$ -	\$ 566,550
<u>Capital assets being depreciated:</u>				
Buildings.....	984,484	-	-	984,484
Building improvements.....	17,478	-	-	17,478
Equipment.....	70,498	-	-	70,498
Vehicles.....	351,601	97,307	-	448,908
Infrastructure.....	25,208,265	891,010	-	26,099,275
Total capital assets being depreciated.....	26,632,326	988,317	-	27,620,643
<u>Less accumulated depreciation for:</u>				
Buildings.....	(37,080)	(24,612)	-	(61,692)
Building improvements.....	(1,311)	(874)	-	(2,185)
Equipment.....	(35,785)	(5,569)	-	(41,354)
Vehicles.....	(279,393)	(37,488)	-	(316,881)
Infrastructure.....	(15,286,165)	(503,725)	-	(15,789,890)
Total accumulated depreciation.....	(15,639,734)	(572,268)	-	(16,212,002)
Total capital assets being depreciated, net.....	10,992,592	416,049	-	11,408,641
Total sewer activities capital assets, net.....	\$ 11,559,142	\$ 416,049	\$ -	\$ 11,975,191

Fixed assets for the golf enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Golf Course Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 789,557	\$ -	\$ -	\$ 789,557
<u>Capital assets being depreciated:</u>				
Land improvements.....	767,088	-	-	767,088
Buildings.....	114,755	-	-	114,755
Equipment.....	433,942	-	-	433,942
Vehicles.....	79,149	-	-	79,149
Total capital assets being depreciated.....	1,394,934	-	-	1,394,934
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(433,105)	(32,645)	-	(465,750)
Buildings.....	(48,469)	(3,343)	-	(51,812)
Equipment.....	(335,886)	(36,733)	-	(372,619)
Vehicles.....	(84,314)	(3,444)	-	(87,758)
Total accumulated depreciation.....	(901,774)	(76,165)	-	(977,939)
Total capital assets being depreciated, net.....	493,160	(76,165)	-	416,995
Total golf course activities capital assets, net.....	\$ 1,282,717	\$ (76,165)	\$ -	\$ 1,206,552

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government.....	\$ 60,419
Public safety.....	423,353
Education.....	944,329
Public works.....	1,682,283
Human services.....	166,547
Culture and recreation.....	332,382
Total depreciation expense - governmental activities.....	\$ 3,609,313
Business-Type Activities:	
Water.....	\$ 408,729
Sewer.....	572,268
Golf course.....	76,165
Total depreciation expense - business-type activities.....	\$ 1,057,162

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2009, are summarized as follows:

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
Nonmajor Governmental Funds.....	\$ 50,000	\$ 21,698	\$ 71,698

There is a budgeted transfer to the general fund of \$50,000 from the ambulance special revenue fund and two transfers between special revenue funds.

NOTE 6 – ATB LEGAL SETTLEMENT

The future minimum appellate tax board (ATB) obligations and the net present value of these minimum ATB payments at June 30, 2009, are as follows:

Fiscal Years Ending June 30	Governmental Activities
2010.....	\$ 900,000
2011.....	900,000
2012.....	900,000
2013.....	900,000
Total minimum ATB payments.....	3,600,000
Less: amounts representing interest.....	(270,000)
Present value of minimum ATB payments.....	\$ 3,330,000

NOTE 7 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund, special revenue and enterprise funds, respectively.

The City had the following short-term debt activity during fiscal year 2009:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2008	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2009
Governmental Funds:							
BAN	Fire Truck Bonds.....	2.50%	12/12/2008	\$ 630,000	\$ -	\$ 630,000	\$ -
BAN	Senior Center Bonds.....	2.50%	12/12/2008	4,500,000	-	4,500,000	-
BAN	Swimming Pool Reconstruction...	2.50%	12/12/2008	250,000	-	250,000	-
Total.....				\$ 5,380,000	\$ -	\$ 5,380,000	\$ -

NOTE 8 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2009, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2008	Issued	Redeemed	Outstanding at June 30, 2009
School Project.....	4.50 - 7.50	\$ 5,295,000	\$ -	\$ 535,000	\$ 4,760,000
School Project.....	4.49	5,250,000	-	525,000	4,725,000
Junior High Heat and Oil.....	4.98	231,000	-	77,000	154,000
Tuckahoe Land Acquisition.....	4.93	360,000	-	60,000	300,000
Fire Headquarters.....	4.93	700,000	-	105,000	595,000
High School Library.....	4.15	510,000	-	40,000	470,000
Town Library.....	4.15	2,900,000	-	225,000	2,675,000
Land Acquisition.....	2.00 - 4.40	640,000	-	60,000	580,000
Fire Equipment.....	2.00 - 4.40	450,000	-	75,000	375,000
Phase II Stormwater*.....	2.00	188,671	-	7,963	180,708
DPW Facility.....	4.00	1,058,400	-	58,800	999,600
School Project.....	4.00	1,944,000	-	108,000	1,836,000
Outdoor Swimming Pool.....	3.0 - 5.0	-	250,000	-	250,000
Senior Center - Construction.....	3.0 - 5.0	-	6,450,000	-	6,450,000
Fire Equipment.....	3.0 - 5.0	-	630,000	-	630,000
Title V sewer*.....	0.00	29,893	-	2,718	27,175
Total governmental bonds and notes payable.....		\$ 19,556,964	\$ 7,330,000	\$ 1,879,481	\$ 25,007,483

*Massachusetts Water Pollution Abatement Trust (MWPAT) Notes.

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

Year	Principal	Interest	Total
2010.....	\$ 2,284,709	\$ 1,043,677	\$ 3,328,386
2011.....	2,285,031	949,083	3,234,114
2012.....	2,208,271	855,144	3,063,415
2013.....	2,208,521	761,893	2,970,414
2014.....	2,208,885	667,055	2,875,940
2015.....	2,069,275	571,111	2,640,386
2016.....	1,970,413	480,249	2,450,662
2017.....	1,960,413	388,927	2,349,340
2018.....	1,910,413	297,019	2,207,432
2019.....	895,413	233,152	1,128,565
2020.....	832,696	196,959	1,029,655
2021.....	836,328	161,834	998,162
2022.....	581,328	132,474	713,802
2023.....	536,329	109,512	645,841
2024.....	521,329	87,511	608,840
2025.....	521,329	65,599	586,928
2026.....	506,800	43,967	550,767
2027.....	335,000	22,361	357,361
2028.....	335,000	7,455	342,455
Totals.....	\$ 25,007,483	\$ 7,074,982	\$ 32,082,465

Bonds and Notes Payable Schedule – Sewer, Water and Golf Enterprise Funds

Project	Interest Rate (%)	Outstanding at June 30, 2008	Issued	Redeemed	Outstanding at June 30, 2009
Sewer Enterprise Fund					
Campbell/Florida drive sewer.....	4.15	\$ 325,000	\$ -	\$ 25,000	\$ 300,000
Main Street Sewer.....	4.15	525,000	-	40,000	485,000
Westfield River Pump Station*.....	0.00	439,750	-	52,965	386,785
CSO Project*.....	0.00	1,274,482	-	90,691	1,183,791
DPW Facility.....	4.00	793,800	-	44,100	749,700
Westfield River Force Main*.....	2.00	-	682,682	-	682,682
Total sewer.....		<u>3,358,032</u>	<u>682,682</u>	<u>252,756</u>	<u>3,787,958</u>
Water Enterprise Fund					
DPW Facility.....	4.00	<u>793,800</u>	<u>-</u>	<u>44,100</u>	<u>749,700</u>
Golf Enterprise Fund					
Agawam Country Club.....	4.98	249,000	-	83,000	166,000
Golf Course Irrigation.....	4.93	<u>60,000</u>	<u>-</u>	<u>20,000</u>	<u>40,000</u>
Total golf.....		<u>309,000</u>	<u>-</u>	<u>103,000</u>	<u>206,000</u>
Total enterprise funds.....		<u>\$ 4,460,832</u>	<u>\$ 682,682</u>	<u>\$ 399,856</u>	<u>\$ 4,743,658</u>

* Massachusetts Water Pollution Abatement Trust (MWPAT) Note.

Debt service requirements for principal and interest for enterprise fund bonds and notes payable in future fiscal years are as follows:

GOLF ENTERPRISE FUND

Year	Principal	Interest	Total
2010.....	\$ 103,000	\$ 8,239	\$ 111,239
2011.....	<u>103,000</u>	<u>2,762</u>	<u>105,762</u>
Totals.....	<u>\$ 206,000</u>	<u>\$ 11,001</u>	<u>\$ 217,001</u>

SEWER ENTERPRISE FUND

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010..... \$	288,322 \$	155,866 \$	444,188
2011.....	290,765	137,799	428,564
2012.....	298,983	127,942	426,925
2013.....	307,406	115,964	423,370
2014.....	311,767	103,353	415,120
2015.....	320,629	86,323	406,952
2016.....	246,823	72,652	319,475
2017.....	256,738	61,554	318,292
2018.....	257,387	49,768	307,155
2019.....	262,326	38,976	301,302
2020.....	272,280	27,747	300,027
2021.....	148,920	18,653	167,573
2022.....	79,623	14,567	94,190
2023.....	80,341	12,085	92,426
2024.....	81,073	9,589	90,662
2025.....	81,820	7,078	88,898
2026.....	82,582	4,553	87,135
2027.....	39,259	2,011	41,270
2028.....	40,052	1,217	41,269
2029.....	40,862	409	41,271
Totals..... \$	<u>3,787,958</u> \$	<u>1,048,106</u> \$	<u>4,836,064</u>

WATER ENTERPRISE FUND

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010..... \$	44,100 \$	30,430 \$	74,530
2011.....	44,100	28,664	72,764
2012.....	44,100	26,900	71,000
2013.....	44,100	25,138	69,238
2014.....	44,100	23,374	67,474
2015.....	44,100	21,168	65,268
2016.....	44,100	19,404	63,504
2017.....	44,100	17,640	61,740
2018.....	44,100	15,876	59,976
2019.....	44,100	14,112	58,212
2020.....	44,100	12,348	56,448
2021.....	44,100	10,584	54,684
2022.....	44,100	8,820	52,920
2023.....	44,100	7,056	51,156
2024.....	44,100	5,292	49,392
2025.....	44,100	3,528	47,628
2026.....	44,100	1,764	45,864
Totals..... \$	<u>749,700</u> \$	<u>272,098</u> \$	<u>1,021,798</u>

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$376,323 and interest costs for \$375,226. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$1,532,619. The future principal subsidies are recorded as an intergovernmental receivable at year end. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2009 principal and interest subsidies totaled \$26,456 and \$69,005, respectively.

The Commonwealth of Massachusetts has approved construction assistance to the City. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. The City has been approved for a 71% reimbursement rate in relation to the addition and renovation of the Clark, Phelps, Robinson, and Granger elementary schools and the High School. The City is currently receiving annual payments for these five projects. During fiscal year 2009, the City received \$979,091 of such assistance. The City expects to receive approximately \$8,639,365 in future fiscal years. Of this amount, approximately \$8,329,000 represents the reimbursement of construction and accrued interest costs. Accordingly, an intergovernmental receivable and corresponding deferred revenue have been reported in these basic financial statements for approximately \$8,329,000. The net change in the receivable has been recognized as revenue in the conversion to the government-wide financial statements.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2009, the City had the following authorized and unissued debt:

Purpose	Amount
CSO Project.....	\$ 132,241
DPW Facility Renovation.....	238,815
Fire Truck Bonds.....	15,000
Stormwater Management.....	23,047
Westfield River Force Main Repair....	17,318
Feeding Hills Southwest Sewer.....	<u>3,730,000</u>
Total.....	<u>\$ 4,156,421</u>

Changes in Long-term Liabilities

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

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Governmental Activities:					
Long-Term Bonds and Notes.....	\$ 19,556,964	\$ 7,330,000	\$ (1,879,481)	\$ 25,007,483	\$ 2,284,709
Other Post Employment Benefits.....	-	7,458,732	-	7,458,732	-
ATB Legal Settlement.....	4,230,000		(900,000)	3,330,000	873,000
Compensated Absences.....	2,139,000	923,000	(1,125,000)	1,937,000	1,125,000
Workers' Compensation.....	25,000	538,287	(455,287)	108,000	108,000
Total governmental activity long-term liabilities.....	<u>\$ 25,950,964</u>	<u>\$ 16,250,019</u>	<u>\$ (4,359,768)</u>	<u>\$ 37,841,215</u>	<u>\$ 4,390,709</u>
Business-Type Activities:					
Long-Term Bonds and Notes.....	\$ 4,460,832	\$ 682,682	\$ (399,856)	\$ 4,743,658	\$ 435,422
Other Post Employment Benefits.....	-	358,255	-	358,255	-
Total business-type activity long-term liabilities.....	<u>\$ 4,460,832</u>	<u>\$ 1,040,937</u>	<u>\$ (399,856)</u>	<u>\$ 5,101,913</u>	<u>\$ 435,422</u>

NOTE 9 – RISK FINANCING

The City 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 City carries commercial insurance. The City participates in a premium-based health care plan for its active employees.

The City is self-insured for its workers' compensation and unemployment compensation activities. Workers' compensation activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

Unemployment compensation activities are accounted for in the general fund and are funded on a pay-as-you-go basis from annual appropriations. Unemployment compensation expenditures totaled approximately \$10,000 for the fiscal year.

Workers' Compensation

Workers' compensation claims funded on a pay-as-you-go basis from annual appropriations. The City's contributions to the fund are based upon a percentage of the City's current payroll expenditures and claims paid out of the fund. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2009, the City does not have a liability for workers' compensation claims. Changes in the reported liability since July 1, 2008, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2008..... \$	25,000 \$	420,091 \$	(420,091) \$	25,000
Fiscal Year 2009.....	25,000	538,287	(455,287)	108,000

The City's liability for unemployment compensation is not material at June 30, 2009, and therefore is not reported.

NOTE 10 – PENSION PLAN

Plan Description - The City contributes to the Hampden County Contributory Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan administered by the Hampden County Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$6,915,000 for the fiscal year ended June 30, 2009, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Hampden County Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 50 Court Street, Springfield, Massachusetts, 01103.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. Chapter 32 of the MGL governs the contributions of plan members and the City. The City contributions to the System for the fiscal years ended June 30, 2009, 2008, and 2007, were \$3,138,000, \$3,236,000, and \$3,092,000, respectively, which equaled its required contribution for each fiscal year.

Noncontributory Retirement Allowance – The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2009 totaled approximately \$13,000.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Fiscal year 2009 is the initial year that the City has implemented GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45). As allowed by GASB 45, the City has established the net Other Post Employment Benefits (OPEB) obligation at zero at the beginning of the transition year and has applied the measurement and recognition requirements of GASB 45 on a prospective basis.

Plan Description – The City of Agawam administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The City contributes between 50 and 70 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining percent of their premium costs. For fiscal year 2009, the City contributed \$2,819,815 to the plan, and member contributions totaled \$1,579,000.

Annual OPEB Cost and Net OPEB Obligation – The City’s annual other postemployment benefit (OPEB) cost (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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation are summarized in the following table:

Normal cost.....	\$	5,400,345
Amortization of unfunded actuarial accrued liability.....		5,236,457
Annual OPEB cost (expense).....		<u>10,636,802</u>
Contributions made.....		<u>(2,819,815)</u>
Increase in net OPEB obligation.....		7,816,987
Net OPEB obligation--beginning of year.....		<u>-</u>
Net OPEB obligation--end of year.....	\$	<u>7,816,987</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$ 10,636,802	27%	\$ 7,816,987

Funded Status and Funding Progress – As of January 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$157,093,698 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$43,338,394, and the ratio of the UAAL to the covered payroll was 362 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include 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 about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2008, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.5% investment return assumption, which is based on the expected yield on the assets of the City, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 9% decreasing by 1% for 4 years to an ultimate level of 5% per year. The UAAL is being amortized over a 30 year period, with amortization payments increasing at 1.045% per year. The remaining amortization period at June 30, 2009 is 30 years.

NOTE 12 – CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2009, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2009, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2009.

NOTE 12 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2009, the following GASB pronouncements were implemented:

The GASB issued Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which is was implemented in Fiscal 2009 and required additional disclosure and impacted the basic financial statements.

Other Future GASB Pronouncements:

The GASB issued Statement #51, Accounting and Financial Reporting for Intangible Assets, which is required to be implemented in fiscal year 2010. Management believes this pronouncement will not impact the financial statements

The GASB issued Statement #54, Fund Balance Reporting and Governmental Fund Type Definitions, which is required to be implemented in fiscal year 2011. The implementation of this GASB will impact the City's financial statements, as it changes fund balance components into Nonspendable, Restricted; Committed; Assigned; and Unassigned.

Required Supplementary Information

General Fund Budgetary Comparison Schedule

The General Fund is the general operating fund of the City. It is used to account for all the financial resources, except those required to be accounted for in another fund.

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 41,619,235	\$ 41,619,235	\$ 41,079,857	\$ -	\$ (539,378)
Tax title.....	-	-	187,128	-	187,128
Motor vehicle excise taxes.....	2,925,000	2,925,000	3,172,811	-	247,811
Penalties and interest on taxes.....	164,000	164,000	214,309	-	50,309
Payments in lieu of taxes.....	40,000	40,000	43,562	-	3,562
Licenses and permits.....	183,500	183,500	178,161	-	(5,339)
Fines and forfeitures.....	13,500	13,500	17,591	-	4,091
Intergovernmental.....	22,460,750	22,460,750	20,349,548	-	(2,111,202)
Departmental and other.....	757,000	757,000	1,096,190	-	339,190
Investment income.....	645,000	645,000	518,964	-	(126,036)
Miscellaneous.....	65,000	65,000	123,607	-	58,607
TOTAL REVENUES.....	68,872,985	68,872,985	66,981,728	-	(1,891,257)
EXPENDITURES:					
Current:					
General government.....	2,948,911	3,004,340	2,592,844	145,600	265,896
Public safety.....	7,710,907	7,710,907	7,518,876	2,217	189,814
Education.....	37,802,563	37,802,563	35,985,865	56,409	1,760,289
Public works.....	5,014,569	5,080,569	4,791,011	157,725	131,833
Human services.....	881,575	881,575	851,629	-	29,946
Culture and recreation.....	1,142,323	1,142,323	1,115,239	294	26,790
Pension benefits.....	3,112,677	3,112,677	3,086,133	-	26,544
Property and liability insurance.....	557,269	557,269	455,287	710	101,272
Employee benefits.....	7,331,730	7,461,730	7,450,761	-	10,969
Reserve fund.....	500,000	172,946	-	-	172,946
State and county charges.....	436,787	436,787	412,939	-	23,848
Capital outlay.....	1,785,056	1,785,056	843,571	778,959	162,526
Debt service:					
Principal.....	1,879,481	1,879,481	1,879,481	-	-
Interest.....	957,683	1,033,308	1,033,284	-	24
TOTAL EXPENDITURES.....	72,061,531	72,061,531	68,016,920	1,141,914	2,902,697
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(3,188,546)	(3,188,546)	(1,035,192)	(1,141,914)	1,011,440
OTHER FINANCING SOURCES (USES):					
Premium from issuance of bonds.....	-	-	3,535	-	3,535
Transfers in.....	50,000	50,000	50,000	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	50,000	50,000	53,535	-	3,535
NET CHANGE IN FUND BALANCE.....	(3,138,546)	(3,138,546)	(981,657)	(1,141,914)	1,014,975
BUDGETARY FUND BALANCE, Beginning of year.....	12,566,506	13,999,741	13,999,741	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 9,427,960	\$ 10,861,195	\$ 13,018,084	\$ (1,141,914)	\$ 1,014,975

See notes to required supplementary information.

Retirement System Schedules of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of planned assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions.

**Hampden County Contributory Retirement System
Schedule of Funding Progress**

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)
01/01/08	\$ 241,788,905	\$ 363,670,449	\$ 121,881,544	66.5%	\$ 87,000,711	140.1%
01/01/07	218,738,644	354,535,380	135,796,736	61.7%	81,740,364	166.1%
01/01/06	200,497,347	332,139,489	131,642,142	60.4%	77,836,219	169.1%
01/01/05	191,979,825	317,047,443	125,067,618	60.6%	74,555,992	167.7%
01/01/04	187,556,932	294,799,663	107,242,731	63.6%	69,403,424	154.5%
01/01/03	175,587,680	281,630,496	106,042,816	62.3%	68,912,960	153.9%
01/01/02	168,722,805	268,661,316	99,938,511	62.8%	69,512,256	143.8%
01/01/01	175,985,360	241,080,485	65,095,125	73.0%	65,470,839	99.4%
01/01/00	173,574,907	226,808,635	53,233,728	76.5%	58,480,124	91.0%
01/01/99	153,484,932	207,750,431	54,265,499	73.9%	54,386,183	99.8%

The City's share of the UAAL, as of January 1, 2008, is approximately 22%.

See notes to required supplementary information.

**Hampden County Contributory Retirement System
Schedule of Employer Contributions**

Fiscal Year Ended June 30	System Wide			City of Agawam	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) City's Percentage of System Wide Actual Contributions
2007	\$ 15,223,818	\$ 15,223,818	100%	\$ 3,091,862	20.31%
2008	15,851,384	15,851,384	100%	3,467,308	21.87%
2009	16,427,913	16,427,913	100%	3,593,424	21.87%

The City's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

Other Post-Employment Benefits Plan Schedules

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

JUNE 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2008	\$ -	\$ 157,093,698	\$ 157,093,698	0%	\$ 43,338,394	362%

The City implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009.
Information for prior years is not available.

See notes to required supplementary information.

OTHER POST-EMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

FISCAL YEAR ENDED JUNE 30, 2009

Actuarial Methods:

Valuation date	1/1/2008
Actuarial cost method	Projected Union Credit
Amortization method	30 year amortization payments
Remaining amortization period	30 year at January 1, 2008

Actuarial Assumptions:

Investment rate of return	4.5%
Medical/drug cost trend rate	10.00%, decreasing by 1% for 5 years to an ultimate level of 5.00% per year.

Plan Membership:

Current retirees, beneficiaries, and dependents	493
Current active members	<u>891</u>
Total	<u><u>1,384</u></u>

See notes to required supplementary information.

NOTE A – BUDGETARY BASIS OF ACCOUNTING

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by the Council. The Mayor presents an annual budget to the Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Expenditures are budgeted by categories that are broken down by personal services, expenses, debt service and capital outlay and are mandated by Municipal Law. The Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Council approval via a supplemental Council order.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year’s original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Council.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2009 approved budget, including amounts carried forward from the prior fiscal years authorized approximately \$72 million in appropriations and other amounts to be raised.

The City Auditor has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary – GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2009, is presented below:

Net change in fund balance, budgetary basis.....	\$	(981,657)
<u>Basis of accounting differences:</u>		
Net change in revenues in recording revenue accruals.....		(9,156)
Tax refunds payable.....		23,000
Recognition of revenue for on-behalf payments.....		6,914,502
Recognition of expenditures for on-behalf payments.....		<u>(6,914,502)</u>
Net change in fund balance, GAAP basis.....	\$	<u>(967,813)</u>

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2009, actual expenditures and encumbrances did not exceed the voted appropriations.

NOTE B – PENSION PLAN

The City contributes to the Hampden County Contributory Retirement System ("Retirement System"), a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Hampden County Retirement Board. The Retirement System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the Retirement System its share of the system-wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the City.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

Valuation Date.....	January 1, 2008
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Increasing at 4.5% per year
Remaining Amortization Period.....	16
Asset Valuation Method.....	Five year smoothing of unrealized gains and losses
Actuarial Assumptions:	
Investment rate of return.....	8.50%
Projected salary increases.....	4.50%
Cost of living adjustments.....	3.00% on first \$12,000
Plan Membership:	
Retired participants and beneficiaries receiving benefits.....	1,343
Inactive participants.....	523
Disabled participants.....	118
Active participants.....	<u>2,681</u>
Total.....	<u><u>4,665</u></u>

NOTE C - OTHER POST-EMPLOYMENT BENEFITS

The City administers a single-employer defined benefit healthcare plan (“The Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City’s group health insurance plan, which covers both active and retired members

The City currently finances its other post-employment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets. Since this is the City’s initial year of implementation of GASB Statement 45, information for prior years is not available.

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

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.