

***CITY OF AGAWAM, MASSACHUSETTS***

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

***FISCAL YEAR ENDED JUNE 30, 2012***

CITY OF AGAWAM, MASSACHUSETTS

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JUNE 30, 2012

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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, 2012, 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013, 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 15, 2013

# ***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, 2012. 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 \$54.5 million at the close of FY2012.

	Balance at June 30, 2012	Balance at June 30, 2011
	<u>                    </u>	<u>                    </u>
<b>Assets:</b>		
Current assets.....	\$ 35,530,002	\$ 36,766,185
Noncurrent assets (excluding capital).....	4,350,453	5,251,569
Capital assets.....	77,032,196	77,958,338
<b>Total assets.....</b>	<b><u>116,912,651</u></b>	<b><u>119,976,092</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	8,567,654	7,102,535
Noncurrent liabilities (excluding debt).....	35,171,668	23,646,000
Current debt.....	2,344,613	2,387,735
Noncurrent debt.....	16,283,703	18,079,472
<b>Total liabilities.....</b>	<b><u>62,367,638</u></b>	<b><u>51,215,742</u></b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	63,461,351	63,607,459
Restricted.....	1,673,749	2,622,009
Unrestricted.....	(10,590,087)	2,530,882
<b>Total net assets.....</b>	<b><u>\$ 54,545,013</u></b>	<b><u>\$ 68,760,350</u></b>

### Governmental Activities

	Year Ending June 30, 2012	Year Ending June 30, 2011
<b>Program revenues:</b>		
Charges for services.....	\$ 5,899,840	\$ 5,765,302
Operating grants and contributions.....	35,198,599	31,924,274
Capital grants and contributions.....	623,253	1,783,773
<b>General Revenues:</b>		
Real estate and personal property taxes.....	46,428,034	45,119,592
Tax title.....	217,130	512,852
Motor vehicle excise taxes.....	3,175,484	3,043,732
Penalties and interest on taxes.....	369,134	259,094
Payments in lieu of taxes.....	43,716	43,516
Community preservation surtax.....	436,881	419,532
Nonrestricted grants and contributions.....	3,257,025	3,652,831
Unrestricted investment income.....	206,898	317,329
Miscellaneous revenues.....	188,611	55,076
<b>Total revenues.....</b>	<b>96,044,605</b>	<b>92,896,903</b>
<b>Expenses:</b>		
General government.....	4,478,395	4,324,497
Public safety.....	15,992,242	14,891,875
Education.....	70,210,227	66,204,275
Public works.....	7,764,096	7,209,599
Human services.....	2,096,879	1,740,942
Culture and recreation.....	3,031,009	2,618,169
Community preservation.....	29,380	11,381
Storm damage.....	5,967,255	-
Interest.....	690,459	769,428
<b>Total expenses.....</b>	<b>110,259,942</b>	<b>97,770,166</b>
<b>Change in net assets.....</b>	<b>\$ (14,215,337)</b>	<b>\$ (4,873,263)</b>

Net assets of \$63.5 million 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 \$1.7 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* resulted in a (\$10.6) million deficit mainly relating to the cumulative effect of recording \$35 million of other postemployment benefit liabilities through June 30, 2012.

The governmental activities net assets decreased by \$14.2 million during the current fiscal year. The change is a result of GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, (OPEB) in which an increase of a \$11.5 million liability was recorded for FY2012. The City had a natural disaster occur during fiscal 2012 in which \$6 million of expenses relating to the October snow storm have not been fully recovered by federal and state assistance leaving the City with a deficit of (\$2.7) million as of June 30, 2012.

The Governmental Expenses totaled \$110.3 million of which \$41.7 million (38%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General Revenues totaled \$54.3 million, primarily coming from property taxes, motor vehicle excise, non-restricted state aid and other miscellaneous charges. Recurring revenues remained consistent with fiscal year 2011 the major increase was \$3.3 million in grants received to reimburse the City for the October snow storm. Expenses increased by approximately \$12.5 million which is mainly due to the \$6 million of expenses relating to the October snow storm and an increase in OPEB expenses.

## Business-Type Activities Financial Analysis

For the City's business-type activities, assets exceeded liabilities by \$25.4 million at the close of FY2012.

	Balance at June 30, 2012	Balance at June 30, 2011
<b>Assets:</b>		
Current assets.....	\$ 10,543,780	\$ 9,498,706
Noncurrent assets (excluding capital).....	244,130	278,516
Capital assets.....	<u>23,105,665</u>	<u>23,622,428</u>
<b>Total assets.....</b>	<b><u>33,893,575</u></b>	<b><u>33,399,650</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	389,127	663,391
Noncurrent liabilities (excluding debt).....	1,763,000	1,074,000
Current debt.....	507,042	2,147,620
Noncurrent debt.....	<u>5,818,953</u>	<u>3,592,840</u>
<b>Total liabilities.....</b>	<b><u>8,478,122</u></b>	<b><u>7,477,851</u></b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	17,347,885	18,468,432
Unrestricted.....	<u>8,067,568</u>	<u>7,453,367</u>
<b>Total net assets.....</b>	<b><u>\$ 25,415,453</u></b>	<b><u>\$ 25,921,799</u></b>
	Year Ending June 30, 2012	Year Ending June 30, 2011
<b>Program revenues:</b>		
Charges for services.....	\$ 7,192,586	\$ 7,870,396
Operating grants and contributions.....	<u>90,649</u>	<u>117,578</u>
<b>Total revenues.....</b>	<b><u>7,283,235</u></b>	<b><u>7,987,974</u></b>
<b>Expenses:</b>		
Water.....	3,968,149	3,470,353
Sewer.....	2,945,181	3,561,603
Golf.....	<u>876,251</u>	<u>754,419</u>
<b>Total expenses.....</b>	<b><u>7,789,581</u></b>	<b><u>7,786,375</u></b>
<b>Change in net assets.....</b>	<b><u>\$ (506,346)</u></b>	<b><u>\$ 201,599</u></b>

Business-type golf, water and sewer activities had total net assets of \$25.4 million. Net assets of \$17.3 million (68%) represent the investment in capital assets while \$8.1 million (32%) is unrestricted.

The Water Enterprise Fund ended FY12 with \$14.4 million in net assets of which \$8.5 million was invested in capital assets net of related debt. Net assets decreased by \$418,000 which is due to revenue increases offset by

their \$344,000 share of OPEB expense and excess depreciation expense exceeding principal payments on debt of \$360,000 thousand.

The Sewer Enterprise Fund ended FY12 with \$10.2 million in net assets of which \$7.8 million was invested in capital assets net of related debt. Net assets increased by \$195,000 which is due to revenue increases which is offset by additional operating expenses, their \$196 thousand share of OPEB expense.

The Golf Course Enterprise Fund ended FY12 with \$776,000 in net assets of which \$1.1 million was invested in capital assets net of related debt. Net assets decreased by \$283 thousand due to depreciation expense of \$43,000 and a \$241,000 operational deficit.

## ***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 the City of Agawam's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Agawam's financing requirements. In particular, *unassigned 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 \$24.4 million, of which \$17.6 million is for the general fund, (\$2.7) million deficit in the storm damage fund and \$9.6 million is for nonmajor governmental funds. There was a decrease of \$2.3 million in fund balances from the prior year. The decrease is primarily due to the \$2.7 million decrease in the October 2011 snow storm fund cleanup activities

The general fund is the chief operating fund and it had an increase of \$1.4 million. The increase is the result of an Appellate Tax Board (ATB) legal settlement payment of \$900,000 funded by abatement reserves and therefore not raised by taxes which was offset by other budgetary surpluses. At the end of the current fiscal year, unassigned fund balance of the general fund was \$16.7 million, while total fund balance totaled \$17.6 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 20% of total general fund budgeted expenditures, while total fund balance represents 21% of that same amount.

### *October 29, 2011 Storm Damage Fund*

The City was hit with an unusually early major snow storm on October 29, 2011 that closed roads and downed power lines throughout the City. Clean-up costs as of June 30, 2012 amounted to \$6.0 million of which the City has recorded federal and state assistance for in the amount of approximately \$3.3 million. The fund has an accumulated deficit of \$2.7 million at June 30, 2012. In fiscal year 2013 the City voted to use unassigned fund balance to cover the total deficit. The City has applied for an additional federal grant of \$1.7 million which has not been received as of the date of this report. This grant will be recorded as revenue once received and will reduce the City's \$2.7 share of the deficit.

## ***General Fund Budgetary Highlights***

The City budgeted to use approximately \$2.1 million in available reserves to balance the fiscal year 2012 budget. Actual revenues exceed budgeted revenues by \$694,000, while actual expenditures, including carryovers, were less than budgeted amounts by \$1.7 million.

## ***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, 2012, amounts to \$100.1 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 \$1.4 million in infrastructure improvements.

Outstanding long-term debt of the general government, as of June 30, 2012, totaled \$18.6 million, of which \$8.0 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, 2012 the City is scheduled to receive \$5.3 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, 2012

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 23,865,455	\$ 7,363,997	\$ 31,229,452
Investments.....	4,102,768	-	4,102,768
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	731,395	-	731,395
Tax liens.....	851,127	-	851,127
Motor vehicle excise taxes.....	289,313	-	289,313
User fees.....	-	3,145,397	3,145,397
Departmental and other.....	276,994	-	276,994
Intergovernmental.....	5,405,876	34,386	5,440,262
Tax foreclosures.....	7,074	-	7,074
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	4,350,453	244,130	4,594,583
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	3,976,806	2,072,475	6,049,281
Depreciable.....	73,055,390	21,033,190	94,088,580
<b>TOTAL ASSETS.....</b>	<b>116,912,651</b>	<b>33,893,575</b>	<b>150,806,226</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	2,137,623	388,261	2,525,884
Accrued payroll.....	2,934,700	-	2,934,700
Accrued interest.....	124,112	-	124,112
Payroll withholdings.....	699,235	-	699,235
Abandoned property.....	14,074	-	14,074
Other liabilities.....	470,503	866	471,369
Capital lease obligations.....	151,407	-	151,407
Compensated absences.....	1,146,000	-	1,146,000
Workers' compensation.....	17,000	-	17,000
Court judgments.....	873,000	-	873,000
Bonds payable.....	2,344,613	507,042	2,851,655
<b>NONCURRENT:</b>			
Capital lease obligations.....	52,668	-	52,668
Compensated absences.....	1,919,000	-	1,919,000
Other postemployment benefits.....	33,200,000	1,763,000	34,963,000
Bonds payable.....	16,283,703	5,818,953	22,102,656
<b>TOTAL LIABILITIES.....</b>	<b>62,367,638</b>	<b>8,478,122</b>	<b>70,845,760</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	63,461,351	17,347,885	80,809,236
Restricted for:			
Permanent funds:			
Expendable.....	477,636	-	477,636
Nonexpendable.....	357,178	-	357,178
Other purposes.....	838,935	-	838,935
Unrestricted.....	(10,590,087)	8,067,568	(2,522,519)
<b>TOTAL NET ASSETS.....</b>	<b>\$ 54,545,013</b>	<b>\$ 25,415,453</b>	<b>\$ 79,960,466</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 4,478,395	\$ 227,680	\$ 114,454	\$ -	\$ (4,136,261)
Public safety.....	15,992,242	2,544,293	223,441	-	(13,224,508)
Education.....	70,210,227	1,943,931	31,183,465	472,975	(36,609,856)
Public works.....	7,764,096	650,331	-	-	(7,113,765)
Human services.....	2,096,879	179,051	189,028	37,518	(1,691,282)
Culture and recreation.....	3,031,009	354,554	201,761	-	(2,474,694)
Community preservation.....	29,380	-	-	112,760	83,380
Storm damage.....	5,967,255	-	3,286,450	-	(2,680,805)
Interest.....	690,459	-	-	-	(690,459)
<b>Total Governmental Activities.....</b>	<b>110,259,942</b>	<b>5,899,840</b>	<b>35,198,599</b>	<b>623,253</b>	<b>(68,538,250)</b>
<i>Business-Type Activities:</i>					
Water.....	3,968,149	3,548,958	954	-	(418,237)
Sewer.....	2,945,181	3,051,601	88,416	-	194,836
Golf.....	876,251	592,027	1,279	-	(282,945)
<b>Total Business-Type Activities.....</b>	<b>7,789,581</b>	<b>7,192,586</b>	<b>90,649</b>	<b>-</b>	<b>(506,346)</b>
<b>Total Primary Government.....</b>	<b>\$ 118,049,523</b>	<b>\$ 13,092,426</b>	<b>\$ 35,289,248</b>	<b>\$ 623,253</b>	<b>\$ (69,044,596)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(68,538,250)</b>	\$ <b>(506,346)</b>	\$ <b>(69,044,596)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	46,428,034	-	46,428,034
Tax title.....	217,130	-	217,130
Motor vehicle excise taxes.....	3,175,484	-	3,175,484
Penalties and interest on taxes.....	369,134	-	369,134
Payments in lieu of taxes.....	43,716	-	43,716
Community preservation surtax.....	436,881	-	436,881
Grants and contributions not restricted to specific programs.....	3,257,025	-	3,257,025
Unrestricted investment income.....	206,898	-	206,898
Miscellaneous.....	188,611	-	188,611
Total general revenues and transfers.....	<u>54,322,913</u>	<u>-</u>	<u>54,322,913</u>
Change in net assets.....	(14,215,337)	(506,346)	(14,721,683)
<i>Net Assets:</i>			
Beginning of year.....	<u>68,760,350</u>	<u>25,921,799</u>	<u>94,682,149</u>
End of year.....	\$ <u><u>54,545,013</u></u>	\$ <u><u>25,415,453</u></u>	\$ <u><u>79,960,466</u></u>

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2012

<b>ASSETS</b>	General	Storm Damage Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 14,651,815	\$ -	\$ 8,882,499	\$ 23,534,314
Investments.....	2,437,684	-	1,027,475	3,465,159
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	731,395	-	-	731,395
Tax liens.....	851,127	-	-	851,127
Motor vehicle excise taxes.....	289,313	-	-	289,313
Departmental and other.....	96,292	-	180,702	276,994
Intergovernmental.....	5,251,569	3,210,430	1,294,330	9,756,329
Tax foreclosures.....	7,074	-	-	7,074
Due from other funds.....	5,891,235	-	-	5,891,235
<b>TOTAL ASSETS.....</b>	<b>\$ 30,207,504</b>	<b>\$ 3,210,430</b>	<b>\$ 11,385,006</b>	<b>\$ 44,802,940</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ 1,894,280	\$ -	\$ 243,343	\$ 2,137,623
Accrued payroll.....	2,465,242	-	469,458	2,934,700
Payroll withholdings.....	699,235	-	-	699,235
Abandoned property.....	14,074	-	-	14,074
Other liabilities.....	470,503	-	-	470,503
Deferred revenues.....	7,113,281	-	1,117,563	8,230,844
Due to other funds.....	-	5,891,235	-	5,891,235
<b>TOTAL LIABILITIES.....</b>	<b>12,656,615</b>	<b>5,891,235</b>	<b>1,830,364</b>	<b>20,378,214</b>
<b>FUND BALANCES:</b>				
Nonspendable.....	-	-	357,178	357,178
Restricted.....	-	-	9,450,195	9,450,195
Assigned.....	885,945	-	-	885,945
Unassigned.....	16,664,944	(2,680,805)	(252,731)	13,731,408
<b>TOTAL FUND BALANCES.....</b>	<b>17,550,889</b>	<b>(2,680,805)</b>	<b>9,554,642</b>	<b>24,424,726</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 30,207,504</b>	<b>\$ 3,210,430</b>	<b>\$ 11,385,006</b>	<b>\$ 44,802,940</b>

See notes to basic financial statements.

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

JUNE 30, 2012

Total governmental fund balances.....		\$ 24,424,726
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		77,032,196
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		8,230,844
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.....		951,750
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(124,112)
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.....	(18,628,316)	
Other postemployment benefits.....	(33,200,000)	
Court judgments.....	(873,000)	
Capital leases.....	(204,075)	
Compensated absences.....	(3,065,000)	
Net effect of reporting long-term liabilities.....		(55,970,391)
Net assets of governmental activities.....		\$ 54,545,013

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	General	Storm Damage Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 45,774,447	\$ -	\$ -	\$ 45,774,447
Tax title.....	349,887	-	-	349,887
Motor vehicle excise taxes.....	3,213,943	-	-	3,213,943
Community preservation surtax.....	-	-	433,845	433,845
Penalties and interest on taxes.....	369,134	-	-	369,134
Payments in lieu of taxes.....	43,716	-	-	43,716
Licenses and permits.....	208,075	-	-	208,075
Fines and forfeitures.....	44,411	-	-	44,411
Intergovernmental.....	30,935,825	3,286,450	5,614,721	39,836,996
Departmental and other.....	858,001	-	4,822,619	5,680,620
Contributions.....	-	-	191,142	191,142
Investment income.....	162,107	-	25,257	187,364
Miscellaneous.....	135,605	-	-	135,605
<b>TOTAL REVENUES.....</b>	<b>82,095,151</b>	<b>3,286,450</b>	<b>11,087,584</b>	<b>96,469,185</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	2,651,710	-	675,994	3,327,704
Public safety.....	8,012,924	-	2,423,073	10,435,997
Education.....	38,024,157	-	7,515,077	45,539,234
Public works.....	4,584,634	-	849,593	5,434,227
Human services.....	905,755	-	243,998	1,149,753
Culture and recreation.....	1,136,687	-	536,091	1,672,778
Community preservation.....	-	-	29,380	29,380
Pension benefits.....	11,979,565	-	-	11,979,565
Property and liability insurance.....	521,616	-	-	521,616
Employee benefits.....	9,272,589	-	-	9,272,589
Storm damage.....	-	5,967,255	-	5,967,255
State and county charges.....	595,690	-	-	595,690
Capital outlay.....	531,031	-	-	531,031
Debt service:				
Principal.....	4,613,262	-	-	4,613,262
Interest.....	689,402	-	20,098	709,500
<b>TOTAL EXPENDITURES.....</b>	<b>83,519,022</b>	<b>5,967,255</b>	<b>12,293,304</b>	<b>101,779,581</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(1,423,871)</b>	<b>(2,680,805)</b>	<b>(1,205,720)</b>	<b>(5,310,396)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of bonds and notes.....	-	-	431,000	431,000
Issuance of refunding bonds.....	2,393,000	-	-	2,393,000
Premium from issuance of bonds.....	47,872	-	-	47,872
Capital lease financing.....	158,033	-	-	158,033
Transfers in.....	192,337	-	65,830	258,167
Transfers out.....	-	-	(258,167)	(258,167)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>2,791,242</b>	<b>-</b>	<b>238,663</b>	<b>3,029,905</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>1,367,371</b>	<b>(2,680,805)</b>	<b>(967,057)</b>	<b>(2,280,491)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>16,183,518</b>	<b>-</b>	<b>10,521,699</b>	<b>26,705,217</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 17,550,889</b>	<b>\$ (2,680,805)</b>	<b>\$ 9,554,642</b>	<b>\$ 24,424,726</b>

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, 2012

Net change in fund balances - total governmental funds.....		\$ (2,280,491)
<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.....	2,761,307	
Depreciation expense.....	<u>(3,687,449)</u>	
Net effect of reporting capital assets.....		(926,142)
<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>		
		(1,192,468)
<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 refunding bonds.....	(2,472,836)	
Issuance of bonds and notes.....	(431,000)	
Debt service principal payments.....	4,613,262	
Capital lease financing.....	(158,033)	
Capital lease maturities.....	<u>151,796</u>	
Net effect of reporting long-term debt.....		1,703,189
<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.....	(1,542,000)	
Net change in court judgments.....	738,000	
Net change in postemployment benefits liability.....	(10,772,000)	
Net change in accrued interest on long-term debt.....	<u>19,041</u>	
Net effect of recording long-term liabilities.....		(11,556,959)
<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>37,534</u>
Change in net assets of governmental activities.....		\$ <u><u>(14,215,337)</u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
<b>ASSETS</b>					
<b>CURRENT:</b>					
Cash and cash equivalents.....	\$ 5,326,840	\$ 1,964,188	\$ 72,969	\$ 7,363,997	\$ 331,141
Investments.....	-	-	-	-	637,609
Receivables, net of allowance for uncollectibles:					
User fees.....	1,692,096	1,453,301	-	3,145,397	-
Intergovernmental.....	-	34,386	-	34,386	-
Total current assets.....	<u>7,018,936</u>	<u>3,451,875</u>	<u>72,969</u>	<u>10,543,780</u>	<u>968,750</u>
<b>NONCURRENT:</b>					
Receivables, net of allowance for uncollectibles:					
Intergovernmental.....	-	244,130	-	244,130	-
Capital assets, net of accumulated depreciation:					
Nondepreciable.....	331,485	951,433	789,557	2,072,475	-
Depreciable.....	8,766,535	11,965,103	301,552	21,033,190	-
Total noncurrent assets.....	<u>9,098,020</u>	<u>13,160,666</u>	<u>1,091,109</u>	<u>23,349,795</u>	<u>-</u>
<b>TOTAL ASSETS.....</b>	<u>16,116,956</u>	<u>16,612,541</u>	<u>1,164,078</u>	<u>33,893,575</u>	<u>968,750</u>
<b>LIABILITIES</b>					
<b>CURRENT:</b>					
Warrants payable.....	268,650	102,354	17,257	388,261	-
Other liabilities.....	-	-	866	866	-
Workers' compensation.....	-	-	-	-	17,000
Bonds payable.....	44,100	462,942	-	507,042	-
Total current liabilities.....	<u>312,750</u>	<u>565,296</u>	<u>18,123</u>	<u>896,169</u>	<u>17,000</u>
<b>NONCURRENT:</b>					
Other postemployment benefits.....	836,000	557,000	370,000	1,763,000	-
Bonds payable.....	573,300	5,245,653	-	5,818,953	-
Total noncurrent liabilities.....	<u>1,409,300</u>	<u>5,802,653</u>	<u>370,000</u>	<u>7,581,953</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<u>1,722,050</u>	<u>6,367,949</u>	<u>388,123</u>	<u>8,478,122</u>	<u>17,000</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt.....	8,480,620	7,776,156	1,091,109	17,347,885	-
Unrestricted.....	5,914,286	2,468,436	(315,154)	8,067,568	951,750
<b>TOTAL NET ASSETS.....</b>	<u>\$ 14,394,906</u>	<u>\$ 10,244,592</u>	<u>\$ 775,955</u>	<u>\$ 25,415,453</u>	<u>\$ 951,750</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**FISCAL YEAR ENDED JUNE 30, 2012**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
<b>OPERATING REVENUES:</b>					
Charges for services .....	\$ 3,548,958	\$ 3,051,601	\$ 592,027	\$ 7,192,586	\$ -
TOTAL OPERATING REVENUES .....	<u>3,548,958</u>	<u>3,051,601</u>	<u>592,027</u>	<u>7,192,586</u>	<u>-</u>
<b>OPERATING EXPENSES:</b>					
Cost of services and administration .....	3,537,536	2,174,409	832,837	6,544,782	-
Depreciation.....	<u>403,712</u>	<u>581,696</u>	<u>43,414</u>	<u>1,028,822</u>	<u>-</u>
TOTAL OPERATING EXPENSES .....	<u>3,941,248</u>	<u>2,756,105</u>	<u>876,251</u>	<u>7,573,604</u>	<u>-</u>
OPERATING INCOME (LOSS).....	<u>(392,290)</u>	<u>295,496</u>	<u>(284,224)</u>	<u>(381,018)</u>	<u>-</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Investment income.....	954	-	1,279	2,233	19,534
Interest expense.....	(26,901)	(189,076)	-	(215,977)	-
Intergovernmental.....	-	88,416	-	88,416	-
Other.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,000</u>
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>(25,947)</u>	<u>(100,660)</u>	<u>1,279</u>	<u>(125,328)</u>	<u>37,534</u>
CHANGE IN NET ASSETS.....	(418,237)	194,836	(282,945)	(506,346)	37,534
NET ASSETS AT BEGINNING OF YEAR.....	<u>14,813,143</u>	<u>10,049,756</u>	<u>1,058,900</u>	<u>25,921,799</u>	<u>914,216</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 14,394,906</u>	<u>\$ 10,244,592</u>	<u>\$ 775,955</u>	<u>\$ 25,415,453</u>	<u>\$ 951,750</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>					
Receipts from customers and users.....	\$ 3,815,588	\$ 2,936,094	\$ 592,027	\$ 7,343,709	\$ -
Payments to vendors.....	(2,188,991)	(1,479,713)	(137,345)	(3,806,049)	-
Payments to employees.....	(1,131,792)	(639,181)	(553,024)	(2,323,997)	-
NET CASH FROM OPERATING ACTIVITIES.....	<u>494,805</u>	<u>817,200</u>	<u>(98,342)</u>	<u>1,213,663</u>	<u>-</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>					
Proceeds from the issuance of bonds and notes.....	-	3,355,682	-	3,355,682	-
Intergovernmental revenues.....	-	77,568	-	77,568	-
Acquisition and construction of capital assets.....	(127,176)	(384,883)	-	(512,059)	-
Principal payments on bonds and notes.....	(44,100)	(2,688,529)	-	(2,732,629)	-
Interest expense.....	(26,901)	(142,716)	-	(169,617)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(198,177)</u>	<u>217,122</u>	<u>-</u>	<u>18,945</u>	<u>-</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>					
Sale/(Purchase) of investments, net.....	-	-	-	-	23,910
Investment income.....	954	-	1,279	2,233	19,534
NET CASH FROM INVESTING ACTIVITIES.....	<u>954</u>	<u>-</u>	<u>1,279</u>	<u>2,233</u>	<u>43,444</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	297,582	1,034,322	(97,063)	1,234,841	43,444
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	5,029,258	929,866	170,032	6,129,156	287,697
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 5,326,840</u>	<u>\$ 1,964,188</u>	<u>\$ 72,969</u>	<u>\$ 7,363,997</u>	<u>\$ 331,141</u>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b>					
Operating income (loss).....	\$ (392,290)	\$ 295,496	\$ (284,224)	\$ (381,018)	\$ -
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation.....	403,712	581,696	43,414	1,028,822	-
Changes in assets and liabilities:					
User fees.....	266,630	(115,507)	-	151,123	-
Warrants payable.....	(126,247)	(140,485)	(7,921)	(274,653)	-
Other liabilities.....	-	-	389	389	-
Other postemployment benefits.....	343,000	196,000	150,000	689,000	-
Total adjustments.....	<u>887,095</u>	<u>521,704</u>	<u>185,882</u>	<u>1,594,681</u>	<u>-</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 494,805</u>	<u>\$ 817,200</u>	<u>\$ (98,342)</u>	<u>\$ 1,213,663</u>	<u>\$ -</u>
<b><u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u></b>					
Intergovernmental subsidy of debt service.....		<u>\$ 82,011</u>			

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>		
CURRENT:		
Cash and cash equivalents.....	\$ 87,130	\$ 322,375
Investments.....	215,134	-
Receivables, net of allowance for uncollectibles:		
Departmental and other.....	-	1,598
<b>TOTAL ASSETS</b> .....	<u>302,264</u>	<u>323,973</u>
<b>LIABILITIES</b>		
Warrants payable.....	-	1,887
Accrued liabilities.....	-	100,489
Liabilities due depositors.....	-	221,597
<b>TOTAL LIABILITIES</b> .....	<u>-</u>	<u>323,973</u>
<b>NET ASSETS</b>		
Held in trust.....	<u>\$ 302,264</u>	<u>\$ -</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Net investment income (loss):	
Interest.....	\$ <u>6,301</u>
<u>DEDUCTIONS:</u>	
Educational scholarships.....	<u>21,691</u>
TOTAL DEDUCTIONS.....	<u>21,691</u>
CHANGE IN NET ASSETS.....	(15,390)
NET ASSETS AT BEGINNING OF YEAR.....	<u>317,654</u>
NET ASSETS AT END OF YEAR.....	\$ <u><u>302,264</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 *October 29, 2011 Snow Storm Fund* is used to account for the clean-up activities associated with the natural disaster that affected the City during fiscal year 2012.

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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report 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 funds are 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.

**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 1<sup>st</sup> 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 1<sup>st</sup> and May 1<sup>st</sup> 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 \$10,000 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)*

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

"Nonspendable" fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

"Restricted" fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

“Assigned” fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

#### 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 no permanent fund deficits within the Special Revenue Funds and the Capital Project Funds.

## 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 \$27,538,781 and the bank balance totaled \$28,046,049 deposited in fifteen financial institutions. Of these bank balances, \$2,049,521 was covered by Federal Depository Insurance, \$4,834,753 was covered by the Depositors Insurance Fund, \$500,000 was covered by Securities Investor Protector Corp, \$12,000,000 was collateralized and \$8,661,775 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2012, the City of Agawam had the following investments:

<b>Investment Type</b>	<b>Maturity</b>		
	<b>Fair Value</b>	<b>1-5 Years</b>	<b>6-10 Years</b>
<u>Debt Securities:</u>			
Government Sponsored Enterprises.....	\$ 2,827,106	\$ 2,520,006	\$ 307,100
Corporate Bonds.....	<u>728,461</u>	<u>728,461</u>	<u>                    </u>
Total Debt Securities.....	3,555,567	<u>\$ 3,248,467</u>	<u>\$ 307,100</u>
<u>Other Investments:</u>			
Equity Securities.....	395,565		
Equity Mutual Funds.....	366,770		
Money Market Mutual Funds.....	908,208		
MMDT.....	<u>3,191,968</u>		
Total Investments.....	<u>\$ 8,418,078</u>		

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 \$3,555,567 and \$395,565 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, 2012 are rated as follows:

Investment Type	Fair Value	Quality Ratings		
		AAA	AA	BBB
<u>Debt Securities:</u>				
Government Sponsored Enterprises.....	\$ 2,827,106	\$ -	\$ 2,827,106	\$ -
Corporate Bonds.....	728,461	55,464	540,836	132,161
Total Debt Securities.....	<u>\$ 3,555,567</u>	<u>\$ 55,464</u>	<u>\$ 3,367,942</u>	<u>\$ 132,161</u>

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 \$4,317,902 are in the following securities:

<u>Issuer</u>	<u>Percent of Total Investments</u>
Federal National Mortgage Association (FNMA).....	48%
General Electric Capital Corporation.....	10%
Federal Home Loan Mortgage Corporation.....	9%
Federal Home Loan Bank.....	8%

**NOTE 3 – RECEIVABLES**

At June 30, 2012, 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:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 731,395	\$ -	\$ 731,395
Tax liens.....	851,127	-	851,127
Motor vehicle excise taxes.....	660,337	(371,024)	289,313
Departmental and other.....	278,592	-	278,592
Intergovernmental.....	9,756,329	-	9,756,329
Total.....	<u>\$ 12,277,780</u>	<u>\$ (371,024)</u>	<u>\$ 11,906,756</u>

At June 30, 2012, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 3,145,397	\$ -	\$ 3,145,397
Intergovernmental.....	278,516	-	278,516
Total.....	<u>\$ 3,423,913</u>	<u>\$ -</u>	<u>\$ 3,423,913</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.....	\$ 617,906	\$ -	\$ 617,906
Tax liens.....	851,127	-	851,127
Motor vehicle excise taxes.....	289,313	-	289,313
Departmental and other.....	96,292	180,702	276,994
Intergovernmental.....	5,251,569	936,861	6,188,430
Tax foreclosures.....	7,074	-	7,074
Total.....	<u>\$ 7,113,281</u>	<u>\$ 1,117,563</u>	<u>\$ 8,230,844</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

**Governmental Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,707,720	\$ -	\$ -	\$ 3,707,720
Construction in progress.....	-	269,086	-	269,086
<b>Total capital assets not being depreciated.....</b>	<b>3,707,720</b>	<b>269,086</b>	<b>-</b>	<b>3,976,806</b>
<u>Capital assets being depreciated:</u>				
Land improvements.....	5,252,936	-	-	5,252,936
Buildings.....	46,139,746	131,572	-	46,271,318
Building improvements.....	3,309,675	172,591	-	3,482,266
Equipment.....	5,012,947	718,622	-	5,731,569
Vehicles.....	6,535,560	414,733	-	6,950,293
Infrastructure.....	62,964,143	1,054,703	-	64,018,846
<b>Total capital assets being depreciated.....</b>	<b>129,215,007</b>	<b>2,492,221</b>	<b>-</b>	<b>131,707,228</b>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,536,932)	(236,632)	-	(1,773,564)
Buildings.....	(22,199,930)	(1,068,476)	-	(23,268,406)
Building improvements.....	(575,418)	(172,044)	-	(747,462)
Equipment.....	(3,095,655)	(378,463)	-	(3,474,118)
Vehicles.....	(4,655,674)	(393,082)	-	(5,048,756)
Infrastructure.....	(22,900,780)	(1,438,752)	-	(24,339,532)
<b>Total accumulated depreciation.....</b>	<b>(54,964,389)</b>	<b>(3,687,449)</b>	<b>-</b>	<b>(58,651,838)</b>
<b>Total capital assets being depreciated, net.....</b>	<b>74,250,618</b>	<b>(1,195,228)</b>	<b>-</b>	<b>73,055,390</b>
<b>Total governmental activities capital assets, net.....</b>	<b>\$ 77,958,338</b>	<b>\$ (926,142)</b>	<b>\$ -</b>	<b>\$ 77,032,196</b>

**Business-Type Activities**

Fixed assets for the water enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Activities:</b>				
<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.....	395,788	-	-	395,788
Vehicles.....	306,431	127,176	-	433,607
Infrastructure.....	16,094,238	-	-	16,094,238
Total capital assets being depreciated.....	18,609,514	127,176	-	18,736,690
<u>Less accumulated depreciation for:</u>				
Buildings.....	(266,273)	(45,327)	-	(311,600)
Equipment.....	(174,106)	(33,493)	-	(207,599)
Vehicles.....	(299,056)	(17,634)	-	(316,690)
Infrastructure.....	(8,827,008)	(307,258)	-	(9,134,266)
Total accumulated depreciation.....	(9,566,443)	(403,712)	-	(9,970,155)
Total capital assets being depreciated, net.....	9,043,071	(276,536)	-	8,766,535
Total water activities capital assets, net.....	\$ 9,374,556	\$ (276,536)	\$ -	\$ 9,098,020

Fixed assets for the sewer enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Sewer Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 566,550	\$ -	\$ -	\$ 566,550
Construction in progress.....	-	384,883	-	384,883
<b>Total capital assets not being depreciated.....</b>	<b>566,550</b>	<b>384,883</b>	<b>-</b>	<b>951,433</b>
<u>Capital assets being depreciated:</u>				
Buildings.....	984,484	-	-	984,484
Building improvements.....	17,478	-	-	17,478
Equipment.....	86,450	-	-	86,450
Vehicles.....	448,908	-	-	448,908
Infrastructure.....	28,308,791	-	-	28,308,791
<b>Total capital assets being depreciated.....</b>	<b>29,846,111</b>	<b>-</b>	<b>-</b>	<b>29,846,111</b>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(110,916)	(24,612)	-	(135,528)
Building improvements.....	(3,933)	(874)	-	(4,807)
Equipment.....	(54,173)	(7,385)	-	(61,558)
Vehicles.....	(366,206)	(19,452)	-	(385,658)
Infrastructure.....	(16,764,084)	(529,373)	-	(17,293,457)
<b>Total accumulated depreciation.....</b>	<b>(17,299,312)</b>	<b>(581,696)</b>	<b>-</b>	<b>(17,881,008)</b>
<b>Total capital assets being depreciated, net.....</b>	<b>12,546,799</b>	<b>(581,696)</b>	<b>-</b>	<b>11,965,103</b>
<b>Total sewer activities capital assets, net.....</b>	<b>\$ 13,113,349</b>	<b>\$ (196,813)</b>	<b>\$ -</b>	<b>\$ 12,916,536</b>

Fixed assets for the golf enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Golf Course Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 789,557	\$ -	\$ -	\$ 789,557
<u>Capital assets being depreciated:</u>				
Land improvements.....	781,134	-	-	781,134
Buildings.....	114,755	-	-	114,755
Equipment.....	454,223	-	-	454,223
Vehicles.....	79,149	-	-	79,149
Total capital assets being depreciated.....	<u>1,429,261</u>	<u>-</u>	<u>-</u>	<u>1,429,261</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(534,172)	(33,347)	-	(567,519)
Buildings.....	(58,498)	(3,341)	-	(61,839)
Equipment.....	(412,476)	(6,726)	-	(419,202)
Vehicles.....	(79,149)	-	-	(79,149)
Total accumulated depreciation.....	<u>(1,084,295)</u>	<u>(43,414)</u>	<u>-</u>	<u>(1,127,709)</u>
Total capital assets being depreciated, net.....	<u>344,966</u>	<u>(43,414)</u>	<u>-</u>	<u>301,552</u>
Total golf course activities capital assets, net.....	<u>\$ 1,134,523</u>	<u>\$ (43,414)</u>	<u>\$ -</u>	<u>\$ 1,091,109</u>

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

<b>Governmental Activities:</b>	
General government.....	\$ 115,757
Public safety.....	319,003
Education.....	968,164
Public works.....	1,758,185
Human services.....	187,918
Culture and recreation.....	<u>338,422</u>
Total depreciation expense - governmental activities.....	<u>\$ 3,687,449</u>
<b>Business-Type Activities:</b>	
Water.....	\$ 403,712
Sewer.....	581,696
Golf course.....	<u>43,414</u>
Total depreciation expense - business-type activities.....	<u>\$ 1,028,822</u>

**NOTE 5 – CAPITAL LEASES**

The City has entered into a lease agreement as lessee for financing the acquisition of a heavy duty truck. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 457,923
Less: accumulated depreciation.....	<u>(52,885)</u>
Total.....	<u>\$ 405,038</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2013.....	\$ 155,958
2014.....	<u>53,906</u>
Total minimum lease payments.....	209,864
Less: amounts representing interest.....	<u>(5,789)</u>
Present value of minimum lease payments.....	<u>\$ 204,075</u>

**NOTE 6 – INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

<u>Transfers Out:</u>	<u>Transfers In:</u>		
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonmajor Governmental Funds.....	\$ <u>50,000</u>	\$ <u>-</u>	\$ <u>50,000</u>

This is a budgeted transfer to the general fund of \$50,000 from the ambulance special revenue fund.

**NOTE 7 – ATB LEGAL SETTLEMENT**

The future minimum appellate tax board (ATB) obligations and the net present value of these minimum ATB payments at June 30, 2012, are as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2013.....	\$ 900,000
Less: amounts representing interest.....	<u>(27,000)</u>
Present value of minimum ATB payments.....	<u>\$ 873,000</u>

**NOTE 8 – 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 BAN activity during fiscal year 2012:

<u>Purpose</u>	<u>Rate (%)</u>	<u>Due Date</u>	<u>Balance at June 30, 2011</u>	<u>Renewed/ Issued</u>	<u>Retired/ Redeemed</u>	<u>Balance at June 30, 2012</u>
<b>Governmental Funds:</b>						
Building Maintenance Building Extension...	1.00%	6/29/2012	\$ 129,465	\$ -	\$ 129,465	\$ -
<b>Enterprise Funds:</b>						
Sewer.....	1.00%	6/29/2012	1,800,000	-	1,800,000	-
Total.....			<u>\$ 1,929,465</u>	<u>\$ -</u>	<u>\$ 1,929,465</u>	<u>\$ -</u>

**NOTE 9 – 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, 2012, and the debt service requirements are as follows:

**Bonds and Notes Payable Schedule – Governmental Funds**

Project	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Tuckahoe Land Acquisition.....	4.93	\$ 180,000	\$ -	\$ 60,000	\$ 120,000
Fire Headquarters.....	4.93	395,000	-	100,000	295,000
High School Library.....	4.15	390,000	-	390,000	-
Town Library.....	4.15	2,225,000	-	2,225,000	-
Land Acquisition.....	2.00 - 4.40	460,000	-	60,000	400,000
Fire Equipment.....	2.00 - 4.40	225,000	-	75,000	150,000
Phase II Stormwater*.....	2.00	164,004	-	8,753	155,251
DPW Facility.....	4.00	882,000	-	58,800	823,200
School Project.....	4.00	1,620,000	-	108,000	1,512,000
Outdoor Swimming Pool.....	3.00 - 5.00	210,000	-	20,000	190,000
Senior Center - Construction.....	3.00 - 5.00	5,770,000	-	340,000	5,430,000
Fire Equipment.....	3.00 - 5.00	530,000	-	50,000	480,000
Title V sewer*.....	0.00	21,738	-	2,718	19,020
Refunding 1999.....	2.00 - 3.50	7,265,000	-	1,110,000	6,155,000
High School Library Refunding .....	2.00	-	355,000	-	355,000
Town Library Refunding.....	2.00	-	2,038,000	-	2,038,000
Storage Facility Building Maintenance.....	2.00 - 3.00	-	123,000	-	123,000
Townwide Phone System.....	2.00	-	308,000	-	308,000
Preliminary Structural Analysis*.....	2.00	79,836	-	4,991	74,845
Total governmental bonds and notes payable.....		<u>\$ 20,417,578</u>	<u>\$ 2,824,000</u>	<u>\$ 4,613,262</u>	<u>\$ 18,628,316</u>

\*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
2013..... \$	2,344,613	\$ 606,512	\$ 2,951,125
2014.....	2,319,080	535,608	2,854,688
2015.....	2,146,575	465,164	2,611,739
2016.....	2,023,820	395,925	2,419,745
2017.....	1,984,929	329,018	2,313,947
2018.....	1,841,041	264,992	2,106,033
2019.....	898,153	218,348	1,116,501
2020.....	831,553	188,707	1,020,260
2021.....	826,304	160,358	986,662
2022.....	592,424	134,336	726,760
2023.....	547,548	111,153	658,701
2024.....	532,674	88,929	621,603
2025.....	532,802	66,767	599,569
2026.....	511,800	44,882	556,682
2027.....	340,000	23,086	363,086
2028.....	340,000	8,055	348,055
2029.....	5,000	450	5,450
2030.....	5,000	300	5,300
2031.....	5,000	150	5,150
Totals..... \$	<u>18,628,316</u>	<u>\$ 3,642,740</u>	<u>\$ 22,271,056</u>

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

Project	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
<b>Sewer Enterprise Fund</b>					
Campbell/Florida Drive.....	4.15	\$ 250,000	\$ -	\$ 250,000	\$ -
Main Street Sewer.....	4.15	405,000	-	405,000	-
Westfield River Pump Station*.....	0.00	271,830	-	62,415	209,415
CSO Project*.....	0.00	996,676	-	98,384	898,292
DPW Facility.....	4.00	661,500	-	44,100	617,400
Westfield River Force Main*.....	2.00	614,118	-	28,630	585,488
Campbell/Florida Drive Sewer Refunding.....	0.00	-	228,000	-	228,000
Main Street Sewer Refunding.....	2.00	-	370,000	-	370,000
Feeding Hills Sewer.....	2.00	-	2,800,000	-	2,800,000
Total sewer.....		<u>3,199,124</u>	<u>3,398,000</u>	<u>888,529</u>	<u>5,708,595</u>
<b>Water Enterprise Fund</b>					
DPW Facility.....	4.00	<u>661,500</u>	<u>-</u>	<u>44,100</u>	<u>617,400</u>
Total enterprise funds.....		<u>\$ 3,860,624</u>	<u>\$ 3,398,000</u>	<u>\$ 932,629</u>	<u>\$ 6,325,995</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:

**SEWER ENTERPRISE FUND**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013.....	\$ 462,942	\$ 167,450	\$ 630,392
2014.....	466,294	153,040	619,334
2015.....	473,147	134,280	607,427
2016.....	398,331	118,933	517,264
2017.....	407,235	106,261	513,496
2018.....	406,875	93,060	499,935
2019.....	409,803	80,924	490,727
2020.....	418,747	68,477	487,224
2021.....	294,376	58,293	352,669
2022.....	224,068	52,177	276,245
2023.....	224,774	46,807	271,581
2024.....	225,495	41,422	266,917
2025.....	226,231	35,298	261,529
2026.....	226,981	29,159	256,140
2027.....	183,646	23,005	206,651
2028.....	184,426	18,599	203,025
2029.....	185,224	13,452	198,676
2030.....	145,000	8,700	153,700
2031.....	145,000	4,350	149,350
Totals.....	\$ <u>5,708,595</u>	\$ <u>1,253,687</u>	\$ <u>6,962,282</u>

**WATER ENTERPRISE FUND**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>617,400</u>	\$ <u>186,104</u>	\$ <u>803,504</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 \$278,516 and interest costs for \$210,287. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$1,060,117. 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 2012 principal and interest subsidies totaled \$35,512 and \$46,360, 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 2012, the City received \$901,116 of such assistance. The City expects to receive \$5,251,569 in future fiscal years. Accordingly, an intergovernmental receivable and corresponding deferred revenue have been reported in these basic financial statements. 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, 2012, 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.....	930,000
Building Maintenance.....	6,465
Town Wide Telephone System.....	42,000
Junior High Green Repair Project.....	<u>2,954,386</u>
Total.....	<u>\$ 4,359,272</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2012, the following changes occurred in long-term liabilities:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
<b>Governmental Activities:</b>					
Long-Term Bonds and Notes.....	\$ 20,417,578	\$ 2,824,000	\$ (4,613,262)	\$ 18,628,316	\$ 2,344,613
Capital Lease Obligations.....	197,838	158,033	(151,796)	204,075	151,407
Other Postemployment Benefits.....	22,428,000	13,737,000	(2,965,000)	33,200,000	-
ATB Legal Settlement.....	1,611,000	-	(738,000)	873,000	873,000
Compensated Absences.....	1,523,000	2,639,000	(1,097,000)	3,065,000	1,146,000
Workers' Compensation.....	35,000	503,000	(521,000)	17,000	17,000
	<u>46,212,416</u>	<u>19,861,033</u>	<u>(10,086,058)</u>	<u>55,987,391</u>	<u>4,532,020</u>
Total governmental activity long-term liabilities.....	\$ <u>46,212,416</u>	\$ <u>19,861,033</u>	\$ <u>(10,086,058)</u>	\$ <u>55,987,391</u>	\$ <u>4,532,020</u>
<b>Business-Type Activities:</b>					
Long-Term Bonds and Notes.....	\$ 3,860,624	\$ 3,398,000	\$ (932,629)	\$ 6,325,995	\$ 507,042
Other Postemployment Benefits.....	1,074,000	723,000	(34,000)	1,763,000	-
	<u>4,934,624</u>	<u>4,121,000</u>	<u>(966,629)</u>	<u>8,088,995</u>	<u>507,042</u>
Total business-type activity long-term liabilities.....	\$ <u>4,934,624</u>	\$ <u>4,121,000</u>	\$ <u>(966,629)</u>	\$ <u>8,088,995</u>	\$ <u>507,042</u>

**NOTE 10 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The City has adopted GASB 54 as part of its fiscal year 2011 reporting. Implementation of GASB 54 is required for fiscal years beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The City has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- **Restricted:** fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- **Committed:** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- **Assigned:** fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- **Unassigned:** fund balance of the general fund that is not constrained for any particular purpose

The City has classified its fund balances with the following hierarchy.

	GOVERNMENTAL FUNDS			
	General	Storm Damage Fund	Nonmajor Governmental Funds	
<b>FUND BALANCES</b>				
Nonspendable:				
Permanent fund principal.....	\$ -	-	357,178	\$ 357,178
Restricted for:				
City revolving funds.....	-	-	6,204,272	6,204,272
City gift and grant funds.....	-	-	586,296	586,296
School revolving funds.....	-	-	1,273,601	1,273,601
School gift and grant funds.....	-	-	55,052	55,052
City capital projects.....	-	-	501,814	501,814
School capital projects.....	-	-	351,524	351,524
Cemeteries and libraries.....	-	-	426,312	426,312
Education.....	-	-	51,324	51,324
Assigned to:				
General government.....	230,699	-	-	230,699
Public safety.....	11,826	-	-	11,826
Education.....	241,544	-	-	241,544
Public works.....	14,263	-	-	14,263
Culture and recreation.....	909	-	-	909
Property and liability insurance.....	29,194	-	-	29,194
Employee benefits.....	10,000	-	-	10,000
Capital outlay.....	344,635	-	-	344,635
Debt service interest.....	2,875	-	-	2,875
Unassigned.....	16,664,944	(2,680,805)	(252,731)	13,731,408
<b>TOTAL FUND BALANCES (DEFICIT).....</b>	<b>\$ 17,550,889</b>	<b>\$ (2,680,805)</b>	<b>9,554,642</b>	<b>\$ 24,424,726</b>

**NOTE 11 – 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 \$76,000 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, 2012, the City does not have a liability for workers’ compensation claims. Changes in the reported liability since July 1, 2011, 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 2011.....	\$ 97,000	\$	476,000	\$	(538,000)	\$	35,000
Fiscal Year 2012.....	35,000		503,000		(521,000)		17,000

The City’s liability for unemployment compensation is not material at June 30, 2012, and therefore is not reported.

**NOTE 12 – 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 \$8,592,000 for the fiscal year ended June 30, 2012, 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, 2012, 2011, and 2010, were \$3,483,000, \$3,253,000, and \$3,104,000, respectively, which equaled its required contribution for each fiscal year.

**NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*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 2012, the City contributed \$2,999,000 to the plan.

*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:

Annual Required Contribution.....	\$ 14,602,000
Interest on net OPEB obligation.....	940,000
ARC Adjustment.....	<u>(1,082,000)</u>
Annual OPEB cost (expense).....	14,460,000
Contributions made.....	<u>(2,999,000)</u>
Increase in net OPEB obligation.....	11,461,000
Net OPEB obligation--beginning of year.....	<u>23,502,000</u>
Net OPEB obligation--end of year.....	<u>\$ 34,963,000</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 2012 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>
6/30/2012	14,460,000	21%	34,963,000
6/30/2011	11,661,000	33%	23,502,000
6/30/2010	11,130,000	30%	15,640,000
6/30/2009	10,637,000	27%	7,817,000

*Funded Status and Funding Progress* – As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$153,784,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$42,197,000, and the ratio of the UAAL to the covered payroll was 364.4 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 July 1, 2011, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.0% 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 8% decreasing by 1% for 3 years to an ultimate level of 5% per year. The UAAL is being amortized over a 30 year period. The remaining amortization period at June 30, 2012 is 26 years.

## **NOTE 14 – NATURAL DISASTERS**

### *October 29, 2011 Snow Storm Fund*

The City was hit with an unusually early major snow storm on October 29, 2011 that closed roads and downed power lines throughout the City. Clean-up costs as of June 30, 2012 amounted to \$6.0 million of which the City has received federal and state assistance for in the amount of approximately \$3.3 million during both fiscal year 2012 and 2013. The fund has an accumulated deficit of \$2.7 million at June 30, 2012. In fiscal year 2013 the City voted to use unassigned fund balance to cover the total deficit. The City has applied for an additional federal

grant of \$1.7 million which has not been received as of the date of this report. This grant will be recorded as revenue once received and will reduce the City's \$2.7 share of the deficit.

#### **NOTE 15 – 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, 2012, 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, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012.

#### **NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2012, the following GASB pronouncements were implemented:

- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this pronouncement did not impact the basic financial statements.
- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years. Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.

- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27, which is required to be implemented in fiscal year 2015.

# ***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, 2012

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 46,267,883	\$ 46,267,883	\$ 45,805,071	\$ -	\$ (462,812)
Tax title.....	-	-	349,887	-	349,887
Motor vehicle excise taxes.....	2,750,000	2,750,000	3,213,943	-	463,943
Penalties and interest on taxes.....	122,407	122,407	369,134	-	246,727
Payments in lieu of taxes.....	39,000	39,000	43,716	-	4,716
Licenses and permits.....	148,000	148,000	208,075	-	60,075
Fines and forfeitures.....	10,500	10,500	44,411	-	33,911
Intergovernmental.....	22,734,671	22,734,671	22,343,825	-	(390,846)
Departmental and other.....	533,556	533,556	858,001	-	324,445
Investment income.....	95,000	95,000	88,316	-	(6,684)
Miscellaneous.....	65,000	65,000	135,605	-	70,605
<b>TOTAL REVENUES.....</b>	<b>72,766,017</b>	<b>72,766,017</b>	<b>73,459,984</b>	<b>-</b>	<b>693,967</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	3,072,987	3,072,987	2,598,946	230,699	243,342
Public safety.....	8,136,728	8,136,728	8,012,924	11,826	111,978
Education.....	38,322,322	38,322,322	38,024,157	241,544	56,621
Public works.....	4,906,755	4,906,755	4,426,601	14,263	465,891
Human services.....	939,003	939,003	905,755	-	33,248
Culture and recreation.....	1,160,665	1,160,665	1,136,687	909	23,069
Pension benefits.....	3,405,274	3,405,274	3,387,565	-	17,709
Property and liability insurance.....	562,414	562,414	521,616	29,194	11,604
Employee benefits.....	9,765,925	9,765,925	9,272,589	10,000	483,336
Reserve fund.....	245,000	245,000	-	-	245,000
State and county charges.....	542,455	542,455	595,690	-	(53,235)
Capital outlay.....	876,551	876,551	531,031	344,635	885
Debt service:					
Principal.....	2,281,263	2,281,263	2,263,262	-	18,001
Interest.....	745,280	745,280	672,453	2,875	69,952
<b>TOTAL EXPENDITURES.....</b>	<b>74,962,622</b>	<b>74,962,622</b>	<b>72,349,276</b>	<b>885,945</b>	<b>1,727,401</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(2,196,605)</b>	<b>(2,196,605)</b>	<b>1,110,708</b>	<b>(885,945)</b>	<b>2,421,368</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Premium from issuance of bonds.....	-	-	21,509	-	21,509
Transfers in.....	110,000	110,000	252,337	-	142,337
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>110,000</b>	<b>110,000</b>	<b>273,846</b>	<b>-</b>	<b>163,846</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(2,086,605)</b>	<b>(2,086,605)</b>	<b>1,384,554</b>	<b>(885,945)</b>	<b>2,585,214</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>16,039,408</b>	<b>12,315,247</b>	<b>12,315,247</b>	<b>-</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 13,952,803</b>	<b>\$ 10,228,642</b>	<b>\$ 13,699,801</b>	<b>\$ (885,945)</b>	<b>\$ 2,585,214</b>

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)
1/1/2010	\$ 220,585,830	\$ 422,756,972	\$ 202,171,142	52.2%	\$ 91,149,295	221.8%
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%

The City's share of the UAAL, as of January 1, 2010, is approximately 20%.

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
2012	\$ 16,967,158	\$ 16,967,158	100%	\$ 3,483,000	20.53%
2011	16,378,930	16,378,930	100%	3,253,000	19.86%
2010	15,810,364	15,810,364	100%	3,104,000	19.63%
2009	16,427,913	16,427,913	100%	3,593,424	21.87%
2008	15,851,384	15,851,384	100%	3,467,308	21.87%
2007	15,223,818	15,223,818	100%	3,091,862	20.31%

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

See notes to required supplementary information.

## ***Other Postemployment 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 Employer Contributions presents multi-year trend information for required and actual contributions relating to the plan.

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

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

JUNE 30, 2012

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)
7/1/2011	\$ -	\$ 153,784,000	\$ 153,784,000	0%	\$ 42,197,000	364%
1/1/2009	-	157,094,000	157,094,000	0%	43,338,000	362%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2012	\$ 14,602,000	\$ 2,998,448	21%
6/30/2011	11,901,000	3,799,000	32%
6/30/2010	11,250,000	3,307,000	29%

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 POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

FISCAL YEAR ENDED JUNE 30, 2012

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Actuarial Methods:

Valuation date	7/1/2011
Actuarial cost method	Projected Union Credit
Amortization method	30 year amortization payments, closed
Remaining amortization period	26 years at June 30, 2012

Actuarial Assumptions:

Investment rate of return	4.0%
Medical/drug cost trend rate	8%, decreasing by 1.0% for 3 years to an ultimate level of 5.0% per year.

Plan Membership:

Current retirees, beneficiaries, and dependents	428
Current active members	<u>1,204</u>
Total	<u><u>1,632</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 2012 approved budget, including amounts carried forward from the prior fiscal years authorized approximately \$75 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, 2012, is presented below:

Net change in fund balance, budgetary basis.....	\$ 1,384,554
<u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	13,791
<u>Basis of accounting differences:</u>	
Net change in revenues in recording 60 day receipts.....	(30,974)
Recognition of revenue for on-behalf payments.....	8,592,000
Recognition of expenditures for on-behalf payments.....	<u>(8,592,000)</u>
Net change in fund balance, GAAP basis.....	<u>\$ 1,367,371</u>

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2012, 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, 2010
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Increasing at 4.0% per year
Remaining Amortization Period.....	26
Asset Valuation Method.....	Five year smoothing of unrealized gains and losses
Actuarial Assumptions:	
Investment rate of return.....	8.3%
Projected salary increases.....	4.5%
Cost of living adjustments.....	3.0% on first \$12,000
Plan Membership:	
Retired participants and beneficiaries receiving benefits.....	1,494
Inactive participants.....	440
Disabled participants.....	74
Active participants.....	<u>2,589</u>
Total.....	<u><u>4,597</u></u>

**NOTE C - OTHER POSTEMPLOYMENT 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 postemployment 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.