

CITY OF AGAWAM, MASSACHUSETTS

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

YEAR ENDED JUNE 30, 2014

CITY OF AGAWAM, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Agawam, Massachusetts

Report on the Financial Statements

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 year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2014, on our consideration of the City of Agawam, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Agawam, Massachusetts' internal control over financial reporting and compliance.



October 21, 2014

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 year ended June 30, 2014. 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 position* presents information on all assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent year. All changes in net position 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 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 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 position may serve over time as a useful indicator of a government's financial position. Governmental Activity assets exceeded liabilities by \$41.9 million at the close of FY2014.

	Balance at June 30, 2014	Balance at June 30, 2013
Assets:		
Current assets.....	\$ 46,410,818	\$ 40,863,427
Noncurrent assets (excluding capital).....	2,548,221	3,449,337
Capital assets.....	75,958,792	76,982,140
Total assets.....	124,917,831	121,294,904
Liabilities:		
Current liabilities (excluding debt).....	9,010,766	8,682,488
Noncurrent liabilities (excluding debt).....	59,222,000	46,367,009
Current debt.....	2,231,985	3,131,222
Noncurrent debt.....	12,543,048	13,964,623
Total liabilities.....	83,007,799	72,145,342
Net Position:		
Net investment in capital assets.....	64,593,504	64,875,466
Restricted.....	3,255,157	2,494,672
Unrestricted.....	(25,938,629)	(18,220,576)
Total net position.....	\$ 41,910,032	\$ 49,149,562

Governmental Activities

	Year Ending June 30, 2014	Year Ending June 30, 2013
Program revenues:		
Charges for services.....	\$ 6,025,327	\$ 5,921,702
Operating grants and contributions.....	34,438,922	33,375,196
Capital grants and contributions.....	2,636,502	2,254,817
General Revenues:		
Real estate and personal property taxes.....	51,351,415	49,372,104
Tax title.....	316,929	239,531
Motor vehicle excise taxes.....	3,443,624	3,499,365
Penalties and interest on taxes.....	248,312	557,375
Payments in lieu of taxes.....	42,986	42,790
Community preservation surtax.....	443,818	440,014
Nonrestricted grants and contributions.....	3,329,189	3,639,383
Unrestricted investment income.....	386,625	169,873
Miscellaneous revenues.....	90,856	637,399
Total revenues.....	102,754,505	100,149,549
Expenses:		
General government.....	12,298,102	11,866,796
Public safety.....	16,830,581	16,633,129
Education.....	68,780,945	66,004,192
Public works.....	5,680,883	5,179,381
Human services.....	2,383,187	2,181,820
Culture and recreation.....	3,387,654	3,057,519
Community preservation.....	16,312	26,033
Interest.....	302,602	596,130
Total expenses.....	109,680,266	105,545,000
Transfers.....	(313,769)	-
Change in net position.....	(7,239,530)	(5,395,451)
Net Position, beginning of year.....	49,149,562	54,545,013
Net Position, end of year.....	\$ 41,910,032	\$ 49,149,562

Net position of \$64.6 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.

The restricted portion of the governmental net position of \$3.3 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* resulted in a

(\$25.9) million deficit mainly relating to the cumulative effect of recording \$57.4 million of other postemployment benefit liabilities through June 30, 2014.

The governmental activities net position decreased by \$7.2 million during the current 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 \$12.9 million liability was recorded for FY2014. Increases in net position include capital grants of \$2.6 million used to purchase capital assets; a budgetary revenue and other financing sources surplus of \$3.8 million; and an appropriation surplus of \$1.3 million.

The governmental expenses totaled \$109.7 million of which \$43.1 million (39%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$59.7 million, primarily coming from property taxes, motor vehicle excise, non-restricted state aid and other miscellaneous charges. Revenues increased \$2.6 million when compared to the prior year. The majority of this increase was due to the statutory allowable increase in real estate and personal property taxes. Expenses increased by approximately \$4.1 million which is mainly due to an increase in OPEB expenses.

Business-Type Activities Financial Analysis

For the City's business-type activities, assets exceeded liabilities by \$23.7 million at the close of FY2014.

	Balance at June 30, 2014	Balance at June 30, 2013
Assets:		
Current assets.....	\$ 13,637,045	\$ 11,102,487
Noncurrent assets (excluding capital).....	170,541	207,606
Capital assets.....	25,722,197	22,370,251
Total assets.....	39,529,783	33,680,344
Liabilities:		
Current liabilities (excluding debt).....	919,259	847,276
Noncurrent liabilities (excluding debt).....	3,554,000	2,518,000
Current debt.....	817,907	510,394
Noncurrent debt.....	10,491,312	5,308,559
Total liabilities.....	15,782,478	9,184,229
Net Position:		
Net investment in capital assets.....	16,916,567	16,973,488
Unrestricted.....	6,830,738	7,573,627
Total net position.....	\$ 23,747,305	\$ 24,547,115

	Year Ending June 30, 2014	Year Ending June 30, 2013
Program revenues:		
Charges for services.....	\$ 7,533,797	\$ 7,814,684
Operating grants and contributions.....	73,586	85,380
Total revenues.....	7,607,383	7,900,064
Expenses:		
Water.....	4,232,302	4,471,768
Sewer.....	3,702,732	3,536,079
Golf.....	785,928	760,555
Total expenses.....	8,720,962	8,768,402
Transfers.....	313,769	-
Change in net position.....	(799,810)	(868,338)
Net Position, beginning of year.....	24,547,115	25,415,453
Net Position, end of year.....	\$ 23,747,305	\$ 24,547,115

Business-type golf, water and sewer activities had total net position of \$23.7 million. Net position of \$16.9 million (71%) represents the net investment in capital assets while \$6.8 million (29%) is unrestricted.

The Water Enterprise Fund ended FY2014 with \$13.3 million in net position of which \$7.9 million was invested in net investment in capital assets. Net position decreased by \$386,000 which is due to their \$526,000 share of OPEB expense.

The Sewer Enterprise Fund ended FY2014 with \$9.9 million in net position of which \$7.7 million was invested in net investment in capital assets. Net position decreased by \$403,000 which is due to their \$384,000 share of OPEB expense.

The Golf Course Enterprise Fund ended FY2014 with \$610,000 in net position of which \$1.3 million was invested in net investment in capital assets. Net position decreased by \$11,000 which is due to increased expenses, as well as their \$172,000 share of OPEB expense, offset by a transfer from the general fund of \$314,000.

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 year.

As of the end of the current year, governmental funds reported combined ending fund balances of \$33 million, of which \$21.7 million is for the general fund and \$11.3 million is for nonmajor governmental funds. There was an increase of \$5.9 million in fund balances from the prior year.

The general fund is the chief operating fund and it had an increase in fund balance of \$4.2 million when compared to the prior year. The increase is the result of favorable budgetary results, as well as \$1.4 million in reimbursements related to the October 2011 snow storm. At the end of the current year, unassigned fund balance of the general fund was \$19.9 million, while total fund balance was \$21.7 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 26% of total general fund budgeted expenditures, while total fund balance represents 28% of that same amount.

General Fund Budgetary Highlights

The City budgeted to use approximately \$2.7 million in available reserves to balance the 2014 budget. Actual revenues exceed budgeted revenues by \$3.8 million, while actual expenditures, including carryovers, were less than budgeted amounts by \$1.3 million.

Capital Asset and Debt Administration

In conjunction with the annual operating budget, the City annually prepares a capital budget for the upcoming 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, 2014, amounts to \$101.7 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, building improvements, land improvements, equipment, vehicles and infrastructure.

Current year major fixed asset additions include approximately \$3.9 million for water infrastructure improvements and \$2.1 million in building improvements.

Outstanding long-term debt of the general government, as of June 30, 2014, totaled \$14.8 million, of which \$5.6 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, 2014 the City is scheduled to receive \$3.5 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 POSITION

JUNE 30, 2014

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 36,878,513	\$ 9,958,659	\$ 46,837,172
Investments.....	4,313,283	-	4,313,283
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	938,655	-	938,655
Tax liens.....	850,338	-	850,338
Motor vehicle excise taxes.....	330,443	-	330,443
User fees.....	-	3,641,321	3,641,321
Departmental and other.....	211,827	-	211,827
Intergovernmental.....	2,880,685	37,065	2,917,750
Tax foreclosures.....	7,074	-	7,074
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	2,548,221	170,541	2,718,762
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	5,416,228	6,077,052	11,493,280
Depreciable.....	70,542,564	19,645,145	90,187,709
TOTAL ASSETS.....	124,917,831	39,529,783	164,447,614
LIABILITIES			
CURRENT:			
Warrants payable.....	1,278,368	809,772	2,088,140
Accrued payroll.....	5,190,561	50,151	5,240,712
Tax refunds payable.....	16,730	-	16,730
Accrued interest.....	90,372	-	90,372
Payroll withholdings.....	615,083	-	615,083
Abandoned property.....	14,074	-	14,074
Other liabilities.....	559,569	3,336	562,905
Capital lease obligations.....	45,009	-	45,009
Compensated absences.....	1,076,000	56,000	1,132,000
Workers' compensation.....	125,000	-	125,000
Bonds payable.....	2,231,985	817,907	3,049,892
NONCURRENT:			
Compensated absences.....	1,815,000	47,000	1,862,000
Other postemployment benefits.....	57,407,000	3,507,000	60,914,000
Bonds payable.....	12,543,048	10,491,312	23,034,360
TOTAL LIABILITIES.....	83,007,799	15,782,478	98,790,277
NET POSITION			
Net investment in capital assets.....	64,593,504	16,916,567	81,510,071
Restricted for:			
Permanent funds:			
Expendable.....	573,719	-	573,719
Nonexpendable.....	357,178	-	357,178
Other purposes.....	2,324,260	-	2,324,260
Unrestricted.....	(25,938,629)	6,830,738	(19,107,891)
TOTAL NET POSITION.....	\$ 41,910,032	\$ 23,747,305	\$ 65,657,337

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 12,298,102	\$ 220,574	\$ 229,151	\$ -	\$ (11,848,377)
Public safety.....	16,830,581	2,495,224	185,216	-	(14,150,141)
Education.....	68,780,945	1,874,729	33,106,183	2,720	(33,797,313)
Public works.....	5,680,883	894,882	-	2,407,269	(2,378,732)
Human services.....	2,383,187	169,377	273,684	-	(1,940,126)
Culture and recreation.....	3,387,654	370,541	644,688	-	(2,372,425)
Community preservation.....	16,312	-	-	226,513	210,201
Interest.....	302,602	-	-	-	(302,602)
Total Governmental Activities.....	109,680,266	6,025,327	34,438,922	2,636,502	(66,579,515)
<i>Business-Type Activities:</i>					
Water.....	4,232,302	3,845,959	663	-	(385,680)
Sewer.....	3,702,732	3,227,198	72,183	-	(403,351)
Golf.....	785,928	460,640	740	-	(324,548)
Total Business-Type Activities.....	8,720,962	7,533,797	73,586	-	(1,113,579)
Total Primary Government.....	\$ 118,401,228	\$ 13,559,124	\$ 34,512,508	\$ 2,636,502	\$ (67,693,094)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (66,579,515)	\$ (1,113,579)	\$ (67,693,094)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	51,351,415	-	51,351,415
Tax title.....	316,929	-	316,929
Motor vehicle excise taxes.....	3,443,624	-	3,443,624
Penalties and interest on taxes.....	248,312	-	248,312
Payments in lieu of taxes.....	42,986	-	42,986
Community preservation surtax.....	443,818	-	443,818
Grants and contributions not restricted to specific programs.....	3,329,189	-	3,329,189
Unrestricted investment income.....	386,625	-	386,625
Miscellaneous.....	90,856	-	90,856
<i>Transfers, net</i>	<u>(313,769)</u>	<u>313,769</u>	<u>-</u>
Total general revenues and transfers.....	<u>59,339,985</u>	<u>313,769</u>	<u>59,653,754</u>
Change in net position.....	(7,239,530)	(799,810)	(8,039,340)
<i>Net Position:</i>			
Beginning of year.....	<u>49,149,562</u>	<u>24,547,115</u>	<u>73,696,677</u>
End of year.....	\$ <u><u>41,910,032</u></u>	\$ <u><u>23,747,305</u></u>	\$ <u><u>65,657,337</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2014

ASSETS	General	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 25,142,540	\$ 11,405,667	\$ 36,548,207
Investments.....	2,642,153	971,677	3,613,830
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	938,655	-	938,655
Tax liens.....	850,338	-	850,338
Motor vehicle excise taxes.....	330,443	-	330,443
Departmental and other.....	64,856	146,971	211,827
Intergovernmental.....	3,449,337	1,979,569	5,428,906
Tax foreclosures.....	7,074	-	7,074
TOTAL ASSETS.....	\$ 33,425,396	\$ 14,503,884	\$ 47,929,280
LIABILITIES			
Warrants payable.....	\$ 596,442	\$ 681,926	\$ 1,278,368
Accrued payroll.....	4,586,879	603,682	5,190,561
Tax refunds payable.....	16,730	-	16,730
Payroll withholdings.....	615,083	-	615,083
Abandoned property.....	14,074	-	14,074
Other liabilities.....	559,569	-	559,569
TOTAL LIABILITIES.....	6,388,777	1,285,608	7,674,385
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues.....	5,355,966	1,931,024	7,286,990
FUND BALANCES			
Nonspendable.....	-	357,178	357,178
Restricted.....	-	10,930,074	10,930,074
Assigned.....	1,809,595	-	1,809,595
Unassigned.....	19,871,058	-	19,871,058
TOTAL FUND BALANCES.....	21,680,653	11,287,252	32,967,905
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 33,425,396	\$ 14,503,884	\$ 47,929,280

See notes to basic financial statements.

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

JUNE 30, 2014

Total governmental fund balances.....		\$ 32,967,905
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		75,958,792
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		7,286,990
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 position.....		904,759
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(90,372)
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.....	(14,775,033)	
Other postemployment benefits.....	(57,407,000)	
Capital leases.....	(45,009)	
Compensated absences.....	(2,891,000)	
Net effect of reporting long-term liabilities.....		(75,118,042)
Net position of governmental activities.....		\$ 41,910,032

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 51,332,836	\$ -	\$ 51,332,836
Tax title.....	255,088	-	255,088
Motor vehicle excise taxes.....	3,656,446	-	3,656,446
Community preservation surtax.....	-	442,392	442,392
Penalties and interest on taxes.....	248,312	-	248,312
Payments in lieu of taxes.....	42,986	-	42,986
Licenses and permits.....	210,346	-	210,346
Fines and forfeitures.....	56,299	-	56,299
Intergovernmental.....	35,383,069	6,240,642	41,623,711
Departmental and other.....	213,775	4,683,493	4,897,268
Contributions.....	-	296,200	296,200
Investment income.....	263,232	76,334	339,566
Miscellaneous.....	122,787	-	122,787
TOTAL REVENUES.....	91,785,176	11,739,061	103,524,237
EXPENDITURES:			
Current:			
General government.....	8,433,155	233,432	8,666,587
Public safety.....	8,579,801	2,193,143	10,772,944
Education.....	38,440,702	5,523,456	43,964,158
Public works.....	2,686,574	721,699	3,408,273
Human services.....	941,974	207,794	1,149,768
Culture and recreation.....	1,206,165	701,421	1,907,586
Community preservation.....	-	1,200,983	1,200,983
Pension benefits.....	13,309,685	-	13,309,685
Property and liability insurance.....	639,008	-	639,008
Employee benefits.....	9,175,479	-	9,175,479
State and county charges.....	707,255	-	707,255
Capital outlay.....	612,982	-	612,982
Debt service:			
Principal.....	2,319,080	-	2,319,080
Interest.....	300,282	16,910	317,192
TOTAL EXPENDITURES.....	87,352,142	10,798,838	98,150,980
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	4,433,034	940,223	5,373,257
OTHER FINANCING SOURCES (USES):			
Issuance of bonds and notes.....	-	810,410	810,410
Transfers in.....	50,000	-	50,000
Transfers out.....	(313,769)	(50,000)	(363,769)
TOTAL OTHER FINANCING SOURCES (USES).....	(263,769)	760,410	496,641
NET CHANGE IN FUND BALANCES.....	4,169,265	1,700,633	5,869,898
FUND BALANCES AT BEGINNING OF YEAR.....	17,511,388	9,586,619	27,098,007
FUND BALANCES AT END OF YEAR.....	\$ 21,680,653	\$ 11,287,252	\$ 32,967,905

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**

YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds.....		\$ 5,869,898
<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.....	2,812,881	
Depreciation expense.....	<u>(3,836,229)</u>	
Net effect of reporting capital assets.....		(1,023,348)
<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>		
		(816,791)
<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 position. 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>		
Issuance of bonds and notes.....	(810,410)	
Debt service principal payments.....	2,319,080	
Capital lease maturities.....	<u>138,392</u>	
Net effect of reporting long-term debt.....		1,647,062
<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.....	(19,000)	
Net change in postemployment benefits liability.....	(12,879,000)	
Net change in accrued interest on long-term debt.....	<u>14,590</u>	
Net effect of recording long-term liabilities.....		(12,883,410)
<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>(32,941)</u>
Change in net position of governmental activities.....		<u>\$ (7,239,530)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
ASSETS					
CURRENT:					
Cash and cash equivalents.....	\$ 8,179,374	\$ 1,767,952	\$ 11,333	\$ 9,958,659	\$ 330,306
Investments.....	-	-	-	-	699,453
Receivables, net of allowance for uncollectibles:					
User fees.....	1,955,520	1,685,801	-	3,641,321	-
Intergovernmental.....	-	37,065	-	37,065	-
Total current assets.....	<u>10,134,894</u>	<u>3,490,818</u>	<u>11,333</u>	<u>13,637,045</u>	<u>1,029,759</u>
NONCURRENT:					
Receivables, net of allowance for uncollectibles:					
Intergovernmental.....	-	170,541	-	170,541	-
Capital assets, net of accumulated depreciation:					
Nondepreciable.....	4,206,052	1,081,443	789,557	6,077,052	-
Depreciable.....	8,052,482	11,079,354	513,309	19,645,145	-
Total noncurrent assets.....	<u>12,258,534</u>	<u>12,331,338</u>	<u>1,302,866</u>	<u>25,892,738</u>	<u>-</u>
TOTAL ASSETS.....	<u>22,393,428</u>	<u>15,822,156</u>	<u>1,314,199</u>	<u>39,529,783</u>	<u>1,029,759</u>
LIABILITIES					
CURRENT:					
Warrants payable.....	799,054	2,474	8,244	809,772	-
Accrued payroll.....	23,180	13,548	13,423	50,151	-
Other liabilities.....	-	-	3,336	3,336	-
Compensated absences.....	31,000	17,000	8,000	56,000	-
Workers' compensation.....	-	-	-	-	125,000
Bonds payable.....	344,760	473,147	-	817,907	-
Total current liabilities.....	<u>1,197,994</u>	<u>506,169</u>	<u>33,003</u>	<u>1,737,166</u>	<u>125,000</u>
NONCURRENT:					
Compensated absences.....	31,000	12,000	4,000	47,000	-
Other postemployment benefits.....	1,696,000	1,144,000	667,000	3,507,000	-
Bonds payable.....	6,185,100	4,306,212	-	10,491,312	-
Total noncurrent liabilities.....	<u>7,912,100</u>	<u>5,462,212</u>	<u>671,000</u>	<u>14,045,312</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>9,110,094</u>	<u>5,968,381</u>	<u>704,003</u>	<u>15,782,478</u>	<u>125,000</u>
NET POSITION					
Net investment in capital assets.....	7,864,968	7,748,733	1,302,866	16,916,567	-
Unrestricted.....	5,418,366	2,105,042	(692,670)	6,830,738	904,759
TOTAL NET POSITION.....	<u>\$ 13,283,334</u>	<u>\$ 9,853,775</u>	<u>\$ 610,196</u>	<u>\$ 23,747,305</u>	<u>\$ 904,759</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
OPERATING REVENUES:					
Charges for services	\$ 3,845,959	\$ 3,227,198	\$ 460,640	\$ 7,533,797	\$ -
TOTAL OPERATING REVENUES	<u>3,845,959</u>	<u>3,227,198</u>	<u>460,640</u>	<u>7,533,797</u>	<u>-</u>
OPERATING EXPENSES:					
Cost of services and administration	3,785,220	2,922,645	717,194	7,425,059	-
Depreciation.....	414,452	587,096	68,734	1,070,282	-
Employee benefits	-	-	-	-	80,000
TOTAL OPERATING EXPENSES	<u>4,199,672</u>	<u>3,509,741</u>	<u>785,928</u>	<u>8,495,341</u>	<u>80,000</u>
OPERATING INCOME (LOSS).....	<u>(353,713)</u>	<u>(282,543)</u>	<u>(325,288)</u>	<u>(961,544)</u>	<u>(80,000)</u>
NONOPERATING REVENUES (EXPENSES):					
Investment income.....	663	-	740	1,403	47,059
Interest expense.....	(32,630)	(192,991)	-	(225,621)	-
Intergovernmental.....	-	72,183	-	72,183	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>(31,967)</u>	<u>(120,808)</u>	<u>740</u>	<u>(152,035)</u>	<u>47,059</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	<u>(385,680)</u>	<u>(403,351)</u>	<u>(324,548)</u>	<u>(1,113,579)</u>	<u>(32,941)</u>
TRANSFERS:					
Transfers in.....	-	-	313,769	313,769	-
CHANGE IN NET POSITION.....	<u>(385,680)</u>	<u>(403,351)</u>	<u>(10,779)</u>	<u>(799,810)</u>	<u>(32,941)</u>
NET POSITION AT BEGINNING OF YEAR.....	<u>13,669,014</u>	<u>10,257,126</u>	<u>620,975</u>	<u>24,547,115</u>	<u>937,700</u>
NET POSITION AT END OF YEAR.....	<u>\$ 13,283,334</u>	<u>\$ 9,853,775</u>	<u>\$ 610,196</u>	<u>\$ 23,747,305</u>	<u>\$ 904,759</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>					
Receipts from customers and users.....	\$ 3,669,098	\$ 3,202,983	\$ 460,640	\$ 7,332,721	\$ -
Payments to vendors.....	(2,993,777)	(2,092,153)	(248,879)	(5,334,809)	-
Payments to employees.....	(759,679)	(543,236)	(285,242)	(1,588,157)	-
NET CASH FROM OPERATING ACTIVITIES.....	(84,358)	567,594	(73,481)	409,755	-
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>					
Transfers in.....	-	-	313,769	313,769	-
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>					
Proceeds from the issuance of bonds and notes.....	6,000,660	-	-	6,000,660	-
Intergovernmental revenues.....	-	70,557	-	70,557	-
Acquisition and construction of capital assets.....	(3,140,264)	(311,305)	(313,769)	(3,765,338)	-
Principal payments on bonds and notes.....	(44,100)	(466,294)	-	(510,394)	-
Interest expense.....	(32,630)	(154,841)	-	(187,471)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	2,783,666	(861,883)	(313,769)	1,608,014	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>					
Sale/(Purchase) of investments, net.....	-	-	-	-	(181,463)
Investment income.....	663	-	740	1,403	47,059
NET CASH FROM INVESTING ACTIVITIES.....	663	-	740	1,403	(134,404)
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	2,699,971	(294,289)	(72,741)	2,332,941	(134,404)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	5,479,403	2,062,241	84,074	7,625,718	464,710
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 8,179,374	\$ 1,767,952	\$ 11,333	\$ 9,958,659	\$ 330,306
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>					
Operating income (loss).....	\$ (353,713)	\$ (282,543)	\$ (325,288)	\$ (961,544)	\$ (80,000)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation.....	414,452	587,096	68,734	1,070,282	-
Changes in assets and liabilities:					
User fees.....	(176,861)	(24,215)	-	(201,076)	-
Warrants payable.....	(500,074)	(104,177)	2,708	(601,543)	-
Accrued payroll.....	1,838	3,433	5,325	10,596	-
Other liabilities.....	-	-	1,040	1,040	-
Accrued compensated absences.....	4,000	4,000	2,000	10,000	-
Workers' compensation.....	-	-	-	-	80,000
Other postemployment benefits.....	526,000	384,000	172,000	1,082,000	-
Total adjustments.....	269,355	850,137	251,807	1,371,299	80,000
NET CASH FROM OPERATING ACTIVITIES.....	\$ (84,358)	\$ 567,594	\$ (73,481)	\$ 409,755	\$ -
<u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u>					
Intergovernmental subsidy of debt service.....	-	74,674	-	-	-

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Other Post- Employment Benefit Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 789	\$ 81,568	\$ 377,891
Investments.....	218,204	198,577	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	-	-	488
TOTAL ASSETS.....	218,993	280,145	378,379
LIABILITIES			
Liabilities due depositors.....	-	-	378,379
TOTAL LIABILITIES.....	-	-	378,379
NET POSITION			
Held in trust.....	\$ <u>218,993</u>	\$ <u>280,145</u>	\$ <u>-</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2014

	Other Post- Employment Benefit Trust Fund	Private Purpose Trust Funds
<u>ADDITIONS:</u>		
Contributions:		
Employer.....	\$ 100,000	-
Net investment income (loss):		
Interest.....	18,771	13,543
TOTAL ADDITIONS.....	118,771	13,543
<u>DEDUCTIONS:</u>		
Educational scholarships.....	-	22,819
TOTAL DEDUCTIONS.....	-	22,819
CHANGE IN NET POSITION.....	118,771	(9,276)
NET POSITION AT BEGINNING OF YEAR.....	100,222	289,421
NET POSITION AT END OF YEAR.....	\$ 218,993	\$ 280,145

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 position and the statement of changes in net position) 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 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 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 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 non-operating 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 non-operating 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 *other postemployment benefit trust fund* accumulates resources to provide funding for future OPEB (other postemployment benefit) liabilities.

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

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

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on November 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the 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 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 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 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 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
Building improvements.....	7-40
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 year of the purchase.

H. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City did not have any items that qualify for reporting in this category.

Governmental Fund Financial Statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The Town has recorded unavailable revenue as deferred inflows of resources in the governmental funds balance sheet.

I. 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 position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position 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.

J. 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 position. 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.

K. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

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

Net position has 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.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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 is 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.

The City's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

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 position. 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. 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 year. Actual results could vary from estimates that were used.

P. 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 year-end, the carrying amount of the City's deposits totaled \$44,843,488 and the bank balance totaled \$45,503,985 deposited in sixteen financial institutions. Of these bank balances, \$2,273,895 was covered by Federal Depository Insurance, \$15,782,898 was covered by the Depositors Insurance Fund, \$500,000 was covered by Securities Investor Protector Corporation, \$18,950,951 was collateralized and \$5,994,465 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At year-end, the carrying amount OPEB Trust's deposits totaled \$1,113 and the bank balance totaled \$1,113. The bank balance was fully covered by Federal Depository Insurance.

Investments

As of June 30, 2014, the City of Agawam had the following investments:

Investment Type	Fair Value	Maturity	
		1-5 Years	
<u>Debt Securities:</u>			
Government Sponsored Enterprises.....	\$ 1,835,243	\$	1,835,243
Corporate Bonds.....	539,946		539,946
Total Debt Securities.....	2,375,189	\$	<u>2,375,189</u>
<u>Other Investments:</u>			
Equity Securities.....	1,507,589		
Equity Mutual Funds.....	629,082		
Money Market Mutual Funds.....	380,850		
MMDT.....	2,071,969		
Total Investments.....	\$ 6,964,679		

As of June 30, 2014, the OPEB Trust had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Equity Mutual Funds.....	\$ 218,204
Money Market Mutual Funds.....	<u>1,113</u>
Total Investments.....	<u>\$ 219,317</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 City investments in debt securities of \$2,375,189 and in equity securities of \$1,507,589 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.

The OPEB Trust does not have any debt or equity securities that are exposed to 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, 2014 are rated as follows:

Investment Type	Fair Value	Quality Ratings		
		AAA	AA	BBB
<u>Debt Securities:</u>				
Government Sponsored Enterprises.....	\$ 1,835,243	\$ 1,835,243	\$ -	-
Corporate Bonds.....	539,946	20,801	209,630	309,515
Total Debt Securities.....	<u>\$ 2,375,189</u>	<u>\$ 1,856,044</u>	<u>\$ 209,630</u>	<u>309,515</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 \$4,730,064 are in the following securities:

<u>Issuer</u>	Percent of Total Investments
Federal Home Loan Mortgage Corporation.....	13%
United States Treasury Notes.....	11%
Federal Home Loan Bank Notes.....	10%
Federated GNMA Trust.....	6%

NOTE 3 – RECEIVABLES

At June 30, 2014, 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.....	\$ 938,655	\$ -	\$ 938,655
Tax liens.....	850,338	-	850,338
Motor vehicle excise taxes.....	714,285	(383,842)	330,443
Departmental and other.....	212,315	-	212,315
Intergovernmental.....	5,428,906	-	5,428,906
Total.....	<u>\$ 8,144,499</u>	<u>\$ (383,842)</u>	<u>\$ 7,760,657</u>

At June 30, 2014, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 3,641,321	\$ -	\$ 3,641,321
Intergovernmental.....	207,606	-	207,606
Total.....	<u>\$ 3,848,927</u>	<u>\$ -</u>	<u>\$ 3,848,927</u>

Governmental funds report *unavailable 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 year, the various components of *unavailable 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.....	\$ 657,974	\$ -	\$ 657,974
Tax liens.....	850,338	-	850,338
Motor vehicle excise taxes.....	330,443	-	330,443
Departmental and other.....	60,800	147,620	208,420
Intergovernmental.....	3,449,337	1,783,404	5,232,741
Tax foreclosures.....	7,074	-	7,074
Total.....	<u>\$ 5,355,966</u>	<u>\$ 1,931,024</u>	<u>\$ 7,286,990</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,707,720	\$ -	\$ -	\$ 3,707,720
Construction in progress.....	<u>2,414,592</u>	<u>1,370,612</u>	<u>(2,076,696)</u>	<u>1,708,508</u>
Total capital assets not being depreciated.....	<u>6,122,312</u>	<u>1,370,612</u>	<u>(2,076,696)</u>	<u>5,416,228</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	5,252,936	-	-	5,252,936
Buildings.....	46,271,318	-	-	46,271,318
Building improvements.....	3,509,537	2,077,896	-	5,587,433
Equipment.....	5,947,997	226,965	-	6,174,962
Vehicles.....	7,361,952	293,971	(53,216)	7,602,707
Infrastructure.....	<u>64,897,975</u>	<u>920,133</u>	<u>-</u>	<u>65,818,108</u>
Total capital assets being depreciated.....	<u>133,241,715</u>	<u>3,518,965</u>	<u>(53,216)</u>	<u>136,707,464</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(2,010,196)	(236,632)	-	(2,246,828)
Buildings.....	(24,311,380)	(978,187)	-	(25,289,567)
Building improvements.....	(933,252)	(228,420)	-	(1,161,672)
Equipment.....	(3,860,267)	(404,697)	-	(4,264,964)
Vehicles.....	(5,466,093)	(506,526)	53,216	(5,919,403)
Infrastructure.....	<u>(25,800,699)</u>	<u>(1,481,767)</u>	<u>-</u>	<u>(27,282,466)</u>
Total accumulated depreciation.....	<u>(62,381,887)</u>	<u>(3,836,229)</u>	<u>53,216</u>	<u>(66,164,900)</u>
Total capital assets being depreciated, net.....	<u>70,859,828</u>	<u>(317,264)</u>	<u>-</u>	<u>70,542,564</u>
Total governmental activities capital assets, net.....	<u>\$ 76,982,140</u>	<u>\$ 1,053,348</u>	<u>\$ (2,076,696)</u>	<u>\$ 75,958,792</u>

Business-Type Activities

Fixed assets for the water enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 331,485	\$ -	\$ -	\$ 331,485
Construction in progress.....	-	3,874,567	-	3,874,567
Total capital assets not being depreciated.....	331,485	3,874,567	-	4,206,052
<u>Capital assets being depreciated:</u>				
Buildings.....	1,813,057	-	-	1,813,057
Equipment.....	395,788	-	-	395,788
Vehicles.....	433,607	32,740	-	466,347
Infrastructure.....	16,159,932	15,833	-	16,175,765
Total capital assets being depreciated.....	18,802,384	48,573	-	18,850,957
<u>Less accumulated depreciation for:</u>				
Buildings.....	(356,926)	(45,326)	-	(402,252)
Equipment.....	(241,092)	(33,493)	-	(274,585)
Vehicles.....	(344,584)	(28,709)	-	(373,293)
Infrastructure.....	(9,441,421)	(306,924)	-	(9,748,345)
Total accumulated depreciation.....	(10,384,023)	(414,452)	-	(10,798,475)
Total capital assets being depreciated, net.....	8,418,361	(365,879)	-	8,052,482
Total water activities capital assets, net.....	\$ 8,749,846	\$ 3,508,688	\$ -	\$ 12,258,534

Fixed assets for the sewer enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 566,550	\$ -	\$ -	\$ 566,550
Construction in progress.....	510,575	4,318	-	514,893
Total capital assets not being depreciated.....	1,077,125	4,318	-	1,081,443
<u>Capital assets being depreciated:</u>				
Buildings.....	984,484	-	-	984,484
Building improvements.....	17,478	-	-	17,478
Equipment.....	86,450	53,227	-	139,677
Vehicles.....	534,671	-	-	534,671
Infrastructure.....	28,322,091	127,774	-	28,449,865
Total capital assets being depreciated.....	29,945,174	181,001	-	30,126,175
<u>Less accumulated depreciation for:</u>				
Buildings.....	(160,140)	(24,612)	-	(184,752)
Building improvements.....	(5,681)	(874)	-	(6,555)
Equipment.....	(68,943)	(7,593)	-	(76,536)
Vehicles.....	(403,965)	(26,883)	-	(430,848)
Infrastructure.....	(17,820,996)	(527,134)	-	(18,348,130)
Total accumulated depreciation.....	(18,459,725)	(587,096)	-	(19,046,821)
Total capital assets being depreciated, net.....	11,485,449	(406,095)	-	11,079,354
Total sewer activities capital assets, net.....	\$ 12,562,574	\$ (401,777)	\$ -	\$ 12,160,797

Fixed assets for the golf enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Golf Course Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 789,557	\$ -	\$ -	\$ 789,557
<u>Capital assets being depreciated:</u>				
Land improvements.....	781,134	57,528	-	838,662
Buildings.....	114,755	-	-	114,755
Equipment.....	454,223	-	-	454,223
Vehicles.....	79,149	256,241	-	335,390
Total capital assets being depreciated.....	1,429,261	313,769	-	1,743,030
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(598,786)	(33,515)	-	(632,301)
Buildings.....	(65,182)	(2,869)	-	(68,051)
Equipment.....	(417,870)	(6,726)	-	(424,596)
Vehicles.....	(79,149)	(25,624)	-	(104,773)
Total accumulated depreciation.....	(1,160,987)	(68,734)	-	(1,229,721)
Total capital assets being depreciated, net.....	268,274	245,035	-	513,309
Total golf course activities capital assets, net.....	\$ 1,057,831	\$ 245,035	\$ -	\$ 1,302,866

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

Governmental Activities:	
General government.....	\$ 182,060
Public safety.....	397,705
Education.....	889,796
Public works.....	1,844,008
Human services.....	186,064
Culture and recreation.....	336,596
Total depreciation expense - governmental activities.....	\$ 3,836,229
Business-Type Activities:	
Water.....	\$ 414,452
Sewer.....	587,096
Golf course.....	68,734
Total depreciation expense - business-type activities.....	\$ 1,070,282

NOTE 5 – CAPITAL LEASES

The City has entered into a lease agreement as lessee for financing the acquisition of a heavy duty loader. 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.....	\$ 676,723
Less: accumulated depreciation.....	<u>(150,300)</u>
Total.....	<u>\$ 526,423</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

<u>Years Ending June 30</u>	<u>Governmental Activities</u>
2015.....	\$ <u>45,820</u>
Total minimum lease payments.....	45,820
Less: amounts representing interest.....	<u>(811)</u>
Present value of minimum lease payments.....	<u>\$ 45,009</u>

NOTE 6 – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014, are summarized as follows:

<u>Transfers Out:</u>	<u>Transfers In:</u>		
	<u>General Fund</u>	<u>Golf Course Enterprise Fund</u>	<u>Total</u>
General Fund.....	\$ -	\$ 256,241	\$ 256,241 (1)
General Fund.....	-	57,528	57,528 (2)
Nonmajor Governmental Funds.....	<u>50,000</u>	<u>-</u>	<u>50,000 (3)</u>
Total.....	<u>\$ 50,000</u>	<u>\$ 313,769</u>	<u>\$ 363,769</u>

- 1) Budgeted transfer from the general fund to the golf course enterprise fund for the purchase of golf carts.
- 2) Budgeted transfer from the general fund to the golf course enterprise fund for paving at the golf course.
- 3) Budgeted transfer to the general fund from the fire ambulance fee special revenue fund.

NOTE 7 – SHORT-TERM FINANCING

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

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

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

The City had the following short-term debt activity during 2014:

	Purpose	Rate (%)	Due Date	Balance at June 30, 2013	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2014
BAN	Junior High Green Repair Project....	0.55%	5/23/2014	\$ 812,142	\$ -	\$ 812,142	\$ -

NOTE 8 – LONG-TERM DEBT

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

Details related to the outstanding indebtedness at June 30, 2014, and the debt service requirements are as follows:

Bonds Payable Schedule – Governmental Funds

Project	Maturity Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Municipal Purpose Bonds 1997.....	2015	\$ 2,730,000	2.00 - 4.93	\$ 255,000	\$ -	\$ 160,000	\$ 95,000
Title V Bonds 1997.....	2019	48,919	0.00	16,302	-	2,718	13,584
Municipal Purpose Bonds 2004.....	2019	1,630,000	2.00 - 4.40	415,000	-	135,000	280,000
Municipal Purpose Bonds 2005.....	2025	290,953	2.00	146,248	-	9,367	136,881
Municipal Purpose Bonds 2007.....	2026	3,346,800	2.00 - 4.00	2,168,400	-	166,800	2,001,600
Municipal Purpose Bonds 2009.....	2028	7,080,000	3.00 - 5.00	5,690,000	-	410,000	5,280,000
Municipal Purpose Bonds 2010.....	2018	8,400,000	2.00 - 3.50	5,065,000	-	1,065,000	4,000,000
MCWT Bonds 2011.....	2025	79,836	2.00	69,753	-	5,195	64,558
Municipal Purpose Bonds 2012.....	2031	2,824,000	2.00 - 3.00	2,458,000	-	365,000	2,093,000
Municipal Purpose Bonds 2014.....	2034	810,410	2.00 - 4.00	-	810,410	-	810,410
Total Governmental Bonds Payable.....				\$ 16,283,703	\$ 810,410	\$ 2,319,080	\$ 14,775,033

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

GOVERNMENTAL FUNDS

Year	Principal	Interest	Total
2015.....	\$ 2,231,985	\$ 488,652	\$ 2,720,637
2016.....	2,108,820	417,705	2,526,525
2017.....	2,064,929	349,098	2,414,027
2018.....	1,921,041	283,472	2,204,513
2019.....	978,153	234,428	1,212,581
2020.....	911,553	201,587	1,113,140
2021.....	906,304	170,038	1,076,342
2022.....	672,424	140,816	813,240
2023.....	627,548	114,433	741,981
2024.....	612,674	90,609	703,283
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.....	\$ 14,775,033	\$ 2,634,528	\$ 17,409,561

Bonds Payable Schedule – Sewer and Water Enterprise Funds

Project	Maturity Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Sewer Enterprise Fund							
MCWT Bond 1995.....	2015	\$ 936,830.00	0.00	\$ 143,442	\$ -	\$ 69,734	\$ 73,708
MCWT Bond 2000.....	2020	1,775,974	0.00	795,630	-	102,662	692,968
Municipal Purpose Bonds 2007.....	2026	882,600	4.00	573,300	-	44,100	529,200
MCWT Bond 2009.....	2029	682,682	2.00	556,281	-	29,798	526,483
Municipal Purpose Bonds 2012.....	2031	3,398,000	2.00 - 3.00	3,177,000	-	220,000	2,957,000
Total Sewer.....				5,245,653	-	466,294	4,779,359
Water Enterprise Fund							
Municipal Purpose Bonds 2007.....	2026	882,600	4.00	573,300	-	44,100	529,200
Municipal Purpose Bonds 2014.....	2034	6,000,660	2.00 - 4.00	-	6,000,660	-	6,000,660
Total Water.....				573,300	6,000,660	44,100	6,529,860
Total Enterprise Bonds Payable.....				\$ 5,818,953	\$ 6,000,660	\$ 510,394	\$ 11,309,219

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

SEWER ENTERPRISE FUND

Year	Principal	Interest	Total
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>4,779,359</u>	\$ <u>933,197</u>	\$ <u>5,712,556</u>

WATER ENTERPRISE FUND

Year	Principal	Interest	Total
2015.....	\$ 344,760	\$ 199,081	\$ 543,841
2016.....	344,100	191,304	535,404
2017.....	344,100	183,540	527,640
2018.....	344,100	175,776	519,876
2019.....	344,100	165,012	509,112
2020.....	344,100	151,248	495,348
2021.....	344,100	137,484	481,584
2022.....	344,100	123,720	467,820
2023.....	344,100	109,956	454,056
2024.....	344,100	102,192	446,292
2025.....	344,100	94,128	438,228
2026.....	344,100	85,464	429,564
2027.....	300,000	74,700	374,700
2028.....	300,000	65,700	365,700
2029.....	300,000	56,700	356,700
2030.....	300,000	47,700	347,700
2031.....	300,000	74,700	374,700
2032.....	300,000	65,700	365,700
2033.....	300,000	56,700	356,700
2034.....	300,000	47,700	347,700
Totals.....	\$ <u>6,529,860</u>	\$ <u>2,208,505</u>	\$ <u>8,738,365</u>

The City is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$207,606 and interest costs for \$123,904. Thus, net MCWT loan repayments, including interest, are scheduled to be \$1,409,653. 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 2014 principal and interest subsidies totaled \$36,524 and \$38,150, 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 2014, the City received \$901,116 of such assistance. The City expects to receive \$3,449,337 in future years. Accordingly, an intergovernmental receivable and corresponding unearned 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, 2014, 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.....	2,143,976
North Westfield Street Water Main....	<u>339,340</u>
Total.....	<u>\$ 3,888,202</u>

Changes in Long-term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Governmental Activities:					
Long-Term Bonds.....	\$ 16,283,703	\$ 810,410	\$ (2,319,080)	\$ 14,775,033	\$ 2,231,985
Capital Lease Obligations.....	183,401	-	(138,392)	45,009	45,009
Other Postemployment Benefits.....	44,528,000	15,380,000	(2,501,000)	57,407,000	-
Compensated Absences.....	2,872,000	1,097,000	(1,078,000)	2,891,000	1,076,000
Workers' Compensation.....	45,000	660,000	(580,000)	125,000	125,000
Total governmental activity long-term liabilities.....	<u>\$ 63,912,104</u>	<u>\$ 17,947,410</u>	<u>\$ (6,616,472)</u>	<u>\$ 75,243,042</u>	<u>\$ 3,477,994</u>
Business-Type Activities:					
Long-Term Bonds.....	\$ 5,818,953	\$ 6,000,660	\$ (510,394)	\$ 11,309,219	\$ 817,907
Other Postemployment Benefits.....	2,425,000	1,292,000	(210,000)	3,507,000	-
Compensated Absences.....	93,000	61,000	(51,000)	103,000	56,000
Total business-type activity long-term liabilities.....	<u>\$ 8,336,953</u>	<u>\$ 7,353,660</u>	<u>\$ (771,394)</u>	<u>\$ 14,919,219</u>	<u>\$ 873,907</u>

NOTE 10 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The City has adopted GASB 54 that provides 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. At June 30, 2014 the balance of the Stabilization Fund is \$3,968,000 and is reported as unassigned fund balance within the General fund.

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.

	<u>GOVERNMENTAL FUNDS</u>		
	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES			
Nonspendable:			
Permanent fund principal..... \$	-	\$ 357,178	\$ 357,178
Restricted for:			
City revolving funds.....	-	6,516,762	6,516,762
City gift and grant funds.....	-	694,326	694,326
School revolving funds.....	-	2,218,543	2,218,543
School gift and grant funds.....	-	482,766	482,766
City capital projects.....	-	398,572	398,572
School capital projects.....	-	45,386	45,386
Cemeteries and libraries.....	-	510,632	510,632
Education.....	-	63,087	63,087
Assigned to:			
General government.....	624,836	-	624,836
Public safety.....	38,575	-	38,575
Education.....	129,922	-	129,922
Public works.....	87,660	-	87,660
Human services.....	2,647	-	2,647
Culture and recreation.....	1,274	-	1,274
Employee benefits.....	171,325	-	171,325
Capital outlay.....	753,356	-	753,356
Unassigned.....	<u>19,871,058</u>	-	<u>19,871,058</u>
TOTAL FUND BALANCES (DEFICIT)..... \$	<u>21,680,653</u>	<u>\$ 11,287,252</u>	<u>\$ 32,967,905</u>

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 \$64,000 for the 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, 2014, the amount of the liability for workers’ compensation claims totaled \$125,000. Changes in the reported liability since July 1, 2013, are as follows:

	Balance at Beginning of Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Year-End
Year 2013.....	\$ 17,000	\$	613,000	\$	(585,000)	\$	45,000
Year 2014.....	45,000		660,000		(580,000)		125,000

The City’s liability for unemployment compensation is not material at June 30, 2014, 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 \$9,406,000 for the year ended June 30, 2014, 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 years ended June 30, 2014, 2013, and 2012, were \$4,040,000, \$3,793,000 and \$3,483,000, respectively, which equaled its required contribution for each 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 2014, the City contributed \$2,711,000 to the plan.

The Commonwealth of Massachusetts passed special legislation that has allowed the City to establish the Postemployment Benefit Trust Fund and to enable the City to accumulate funds to pay for its OPEB liabilities. During 2014, the City contributed \$100,000 to the OPEB trust fund.

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.....	\$ 17,060,000
Interest on net OPEB obligation.....	1,878,000
ARC Adjustment.....	<u>(2,266,000)</u>
Annual OPEB cost (expense).....	16,672,000
Contributions made.....	<u>(2,711,000)</u>
Increase in net OPEB obligation.....	13,961,000
Net OPEB obligation-beginning of year.....	<u>46,953,000</u>
Net OPEB obligation-end of year.....	<u>\$ 60,914,000</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 16,672,000	16%	\$ 60,914,000
6/30/2013	15,319,000	22%	46,953,000
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

Funded Status and Funding Progress – As of July 1, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$171,898,000, of which \$100,000 was funded. The covered payroll (annual payroll of active employees covered by the plan) was \$43,925,000, and the ratio of the UAAL to the covered payroll was 391 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, 2013, 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, 2014 is 25 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 amounted to \$5.9 million of which the City received federal and state assistance of \$3.3 through June 30, 2013. In 2014, the City received its final distribution of \$1.4 million.

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, 2014, 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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2014.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, *Items Previously Reported as Assets and Liabilities*. Financial statement changes include deferred outflows and inflows being presented in the Statement of Net Position. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future years:

- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in 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 2015.

- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in 2015.
- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented simultaneously with GASB Statement #68 in 2015.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements.

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

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 50,811,169	\$ 50,811,169	\$ 51,117,859	\$ -	\$ 306,690
Tax title.....	-	-	255,088	-	255,088
Motor vehicle excise taxes.....	2,750,000	2,750,000	3,656,446	-	906,446
Penalties and interest on taxes.....	135,000	135,000	248,312	-	113,312
Payments in lieu of taxes.....	43,000	43,000	42,986	-	(14)
Licenses and permits.....	176,000	176,000	210,346	-	34,346
Fines and forfeitures.....	10,000	10,000	56,299	-	46,299
Intergovernmental.....	24,078,092	24,078,092	25,977,069	-	1,898,977
Departmental and other.....	99,150	99,150	213,775	-	114,625
Investment income.....	45,000	45,000	85,468	-	40,468
Miscellaneous.....	-	-	122,787	-	122,787
TOTAL REVENUES.....	78,147,411	78,147,411	81,986,435	-	3,839,024
EXPENDITURES:					
Current:					
General government.....	9,507,600	9,435,835	8,433,155	624,836	377,844
Public safety.....	8,629,271	8,786,366	8,579,801	38,575	167,990
Education.....	38,412,079	38,593,903	38,440,702	129,922	23,279
Public works.....	2,839,741	3,054,847	2,686,574	87,660	280,613
Human services.....	945,350	954,774	941,974	2,647	10,153
Culture and recreation.....	1,192,138	1,211,963	1,206,165	1,274	4,524
Pension benefits.....	3,906,672	3,906,672	3,903,685	-	2,987
Property and liability insurance.....	725,000	785,000	639,008	-	145,992
Employee benefits.....	9,376,895	9,311,895	9,075,479	171,325	65,091
Reserve fund.....	510,000	3,491	-	-	3,491
State and county charges.....	568,141	568,141	707,255	-	(139,114)
Capital outlay.....	1,424,275	1,366,747	612,982	753,356	409
Debt service:					
Principal.....	2,381,580	2,381,580	2,319,080	-	62,500
Interest.....	630,785	630,785	300,282	-	330,503
TOTAL EXPENDITURES.....	81,049,527	80,991,999	77,846,142	1,809,595	1,336,262
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(2,902,116)	(2,844,588)	4,140,293	(1,809,595)	5,175,286
OTHER FINANCING SOURCES (USES):					
Transfers in.....	50,000	50,000	50,000	-	-
Transfers out.....	(100,000)	(413,769)	(413,769)	-	-
Use of prior year fund balance.....	1,452,116	1,452,116	-	-	(1,452,116)
Use of free cash.....	1,500,000	1,756,241	-	-	(1,756,241)
TOTAL OTHER FINANCING SOURCES (USES)....	2,902,116	2,844,588	(363,769)	-	(3,208,357)
NET CHANGE IN FUND BALANCE.....	-	-	3,776,524	(1,809,595)	1,966,929
BUDGETARY FUND BALANCE, Beginning of year.....	17,462,420	13,671,774	13,671,774	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 17,462,420	\$ 13,671,774	\$ 17,448,298	\$ (1,809,595)	\$ 1,966,929

See notes to required supplementary information.

Retirement System Schedules of Funding Progress and Employer Contributions

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

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

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/12	\$ 244,053,652	\$ 499,009,329	\$ 254,955,677	48.9%	\$ 94,037,543	271.1%
01/01/10	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, 2012, is approximately 21%.

See notes to required supplementary information.

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

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
2014	\$ 19,790,493	\$ 19,790,493	100%	\$ 4,040,000	20.41%
2013	17,575,667	17,575,667	100%	3,793,000	21.58%
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, 2014

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)
7/1/2013	\$ 100,000	\$ 171,898,000	\$ 171,798,000	0%	\$ 43,925,000	391%
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

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2014	\$ 17,060,000	\$ 2,711,000	16%
6/30/2013	15,568,000	3,329,000	21%
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 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

YEAR ENDED JUNE 30, 2014

Actuarial Methods:

Valuation date	7/1/2013
Actuarial cost method	Projected Union Credit
Amortization method	30 year amortization payments, closed
Remaining amortization period	25 years at June 30, 2014

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 year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent 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 2014 approved budget, including amounts carried forward from the prior years authorized approximately \$81.1 million in appropriations and other amounts to be raised. An additional \$256,000 appropriation was made during the year to transfer unreserved budgetary fund balance to the golf enterprise fund for the purchase of golf carts.

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 year ended June 30, 2014, is presented below:

Net change in fund balance, budgetary basis.....	\$ 3,776,524
<u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	177,764
<u>Basis of accounting differences:</u>	
Net change in revenues in recording 60 day receipts.....	187,243
Tax refunds payable.....	27,734
Recognition of revenue for on-behalf payments.....	9,406,000
Recognition of expenditures for on-behalf payments.....	<u>(9,406,000)</u>
Net change in fund balance, GAAP basis.....	<u>\$ 4,169,265</u>

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.

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.

CITY OF AGAWAM, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

YEAR ENDED JUNE 30, 2014

CITY OF AGAWAM, MASSACHUSETTS
REPORTS ON FEDERAL AWARD PROGRAMS
YEAR ENDED JUNE 30, 2014

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

To the Honorable Mayor and City Council
City of Agawam, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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 year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Agawam, Massachusetts' basic financial statements, and have issued our report thereon dated October 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Agawam, Massachusetts' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Agawam, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Agawam, Massachusetts' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Agawam, Massachusetts' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Bowers & Sullivan LLC". The signature is written in a cursive, flowing style.

October 21, 2014



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
OMB CIRCULAR A-133**

Independent Auditor's Report

To the Honorable Mayor and City Council
City of Agawam, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited the City of Agawam, Massachusetts' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Agawam, Massachusetts' major federal programs for the year ended June 30, 2014. The City of Agawam, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Agawam, Massachusetts' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Agawam, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Agawam, Massachusetts' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Agawam, Massachusetts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the City of Agawam, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Agawam, Massachusetts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Agawam, Massachusetts' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the 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 year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Agawam, Massachusetts' basic financial statements. We issued our report thereon dated October 21, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



October 21, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through State Department of Education:</u>		
<u>Non-Cash Assistance (Commodities):</u>		
National School Lunch Program	10.555	\$ 138,568
<u>Cash Assistance:</u>		
School Breakfast Program	10.553	11,705
National School Lunch Program	10.555	513,669
		<u>663,942</u>
TOTAL AGRICULTURE		
U.S. DEPARTMENT OF DEFENSE:		
<u>Passed through Massachusetts Executive Office of Military Division:</u>		
National Guard Military Operations and Maintenance (O&M) Projects	12.401	299
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Passed through the State Office of Housing and Community Development</u>		
Community Development Block Grants - Small Cities Program	14.219	53,500
U.S. DEPARTMENT OF TRANSPORTATION:		
<u>Passed through the Federal Highway Administration</u>		
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	1,385,834
U.S. OFFICE OF LIBRARY SERVICES:		
<u>Passed through Massachusetts Board of Library Commissioners:</u>		
Library Services and Technology Act	45.310	3,500
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through State Department of Elementary and Secondary Education:</u>		
Title I Grants to Local Education Agencies	84.010	416,081
Special Education Grants to States	84.027	1,163,054
English Language Acquisition	84.365	8,340
Improving Teacher Quality State Grants	84.367	86,285
Race-to-the-Top Incentive Grants, Recovery Act	84.395	126,464
<u>Passed through State Department of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	44,713
		<u>1,844,937</u>
TOTAL EDUCATION		
U.S. DEPARTMENT OF HOMELAND SECURITY:		
<u>Passed through Massachusetts Executive Office of Public Safety and Security:</u>		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	124,857
Emergency Management Performance Grants	97.042	12,486
		<u>137,343</u>
TOTAL HOMELAND SECURITY		
SOCIAL SECURITY ADMINISTRATION:		
<u>Passed through Massachusetts Rehabilitation Commission:</u>		
Social Security Disability Insurance	96.001	485
		<u>485</u>
TOTAL		<u>\$ 4,089,840</u>

Note 1 – Definition of Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Agawam, Massachusetts. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

Note 2 – Significant Accounting Policies

The accounting and reporting policies of the City of Agawam, Massachusetts are set forth below:

- (a) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.
- (b) Cash Assistance – School Breakfast and Lunch Program - Program expenditures represent federal reimbursement for meals provided during the fiscal year.
- (c) Non-Cash Assistance (Commodities) – School Lunch Program – Program expenditures represent the value of donated foods received during the fiscal year.

Note 3 – Program Clusters

In accordance with Subpart A §_105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non Profit Organizations*, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Education Cluster	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173

A. Summary of Auditor’s Results

1. The auditor’s report expresses an unmodified opinion on the basic financial statements of the City of Agawam, Massachusetts.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Agawam, Massachusetts, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.
5. The auditor’s report on compliance for the major federal award programs for the City of Agawam, Massachusetts, expresses an unmodified opinion.
6. There were no findings relative to the major federal award programs for the City of Agawam, Massachusetts.

7. The programs tested as a major grants are:

<u>Program Title</u>	<u>CFDA Number</u>
Title 1 Grants to Local Educational Agencies	84.010
School Breakfast Program	10.553
National School Lunch Program	10.555
Highway Planning and Construction (Federal-Aid Highway Program)	20.205

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Agawam, Massachusetts was determined to be a low-risk auditee.

B. Findings-Financial Statements Audit

None

C. Findings and Questioned Costs-Major Federal Award Programs

None

D. Prior Year Audit Findings and Questioned Costs**U.S. DEPARTMENT OF EDUCATION****Passed through the State Department of
Elementary and Secondary Education****Questioned
Costs**

84.027	Special Education Grants to States	None
84.173	Special Education Preschool Grants	None

2013-001: *Condition and Criteria:* The City did not maintain monthly personnel activity reports for qualifying employee salaries charged to the Special Education Grants to States federal program. OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments" requires grantees to maintain documentation of employee time and effort that has been charged to federal awards. If 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain semi-annual certifications stating that 100% of the employee's time was spent working on grant activities. If less than 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain monthly personnel activity reports documenting 100% of the employee's time and effort.

Cause: Semi-annual certifications were not maintained for all employees charged to the Special Education Grants to States program. Furthermore, we noted that there were employees' whose salaries were not paid 100% from the federal program, which requires them to complete monthly personal activity reports. Based on our testing of salaries charged to the program, we found that three employees qualified for monthly personal activity reports.

Effect: The City is not in compliance with OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments".

Auditors' Recommendation: We recommend that the City implement procedures to comply with OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments".

Status – Resolved. The City has implemented procedures to comply with this requirement.