

TURNERS FALLS FIRE DISTRICT

Annual Financial Statements

For the Year Ended June 30, 2014

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Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

INDEPENDENT AUDITORS' REPORT

To the Prudential Committee
Turners Falls Fire District
Turners Falls, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Turners Falls Fire District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The District's 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, each major fund, and the aggregate remaining fund information of the Turners Falls Fire District, as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

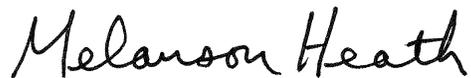
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and Schedule of Funding Progress 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 evidence sufficient 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 November 12, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Melanson Heath". The signature is written in a cursive, flowing style.

November 12, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Turners Falls Fire District, we offer readers this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net 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 fiscal 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 fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The governmental activities include general government, public safety, and water.

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 are governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to 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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$5,588,718 (i.e., Net Position), a decrease of \$(73,231) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$1,138,803, an increase of \$100,046 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$508,182, an increase of \$117,685 in comparison with the prior year.
- Total long-term debt (i.e., notes and bonds payable) at the close of the current fiscal year was \$976,930, a decrease of \$(95,806) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

| | Governmental <u>Activities</u> | |
|-----------------------------------|-----------------------------------|---------------------|
| | <u>2014</u> | <u>2013</u> |
| Current and other assets | \$ 1,304,188 | \$ 1,164,591 |
| Capital assets | <u>6,279,237</u> | <u>6,433,616</u> |
| Total Assets | 7,583,425 | 7,598,207 |
| Long-term liabilities outstanding | 1,894,131 | 1,869,572 |
| Other liabilities | <u>100,576</u> | <u>66,686</u> |
| Total Liabilities | 1,994,707 | 1,936,258 |
| Net position: | | |
| Invested in capital assets, net | 5,302,307 | 5,360,880 |
| Restricted | 556,610 | 576,385 |
| Unrestricted | <u>(270,199)</u> | <u>(275,316)</u> |
| Total Net Position | \$ <u>5,588,718</u> | \$ <u>5,661,949</u> |

CHANGES IN NET POSITION

| | Governmental <u>Activities</u> | |
|------------------------------------|-----------------------------------|---------------------|
| | <u>2014</u> | <u>2013</u> |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 607,292 | \$ 608,538 |
| Operating grants and contributions | 12,858 | 28,395 |
| General revenues: | | |
| Property taxes | 1,896,056 | 1,739,788 |
| Penalties and interest on taxes | 13,584 | 11,164 |
| Investment income | 1,622 | 1,863 |
| Other | <u>21,084</u> | <u>2,899</u> |
| Total Revenues | 2,552,496 | 2,392,647 |
| Expenses: | | |
| General government | 682,757 | 648,143 |
| Public safety | 1,160,832 | 1,096,425 |
| Public works | 563,467 | 543,133 |
| Interest | 38,000 | 43,456 |
| Unallocated depreciation | <u>180,671</u> | <u>185,420</u> |
| Total Expenses | <u>2,625,727</u> | <u>2,516,577</u> |
| Change in net position | (73,231) | (123,930) |
| Net position - beginning of year | <u>5,661,949</u> | <u>5,785,879</u> |
| Net position - end of year | \$ <u>5,588,718</u> | \$ <u>5,661,949</u> |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$5,588,718, a decrease of \$(73,231) from the prior year.

The largest portion of net position \$5,302,307 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$556,610 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position was a deficit of \$(270,199).

Governmental activities. Governmental activities for the year resulted in a decrease in net position of \$(73,231). Key elements of this change are as follows:

- General fund operations, as discussed further in section D \$119,821.
- Water fund expenditures over revenues \$(39,122).
- Special revenue fund revenues over expenditures \$19,347.
- Depreciation expense in excess of principal debt service expense \$(162,619).
- Capital asset additions funded by general revenue, special revenue and water surplus of \$104,046.
- Current year other post-employment benefits \$(120,889).
- Other GAAP accruals \$6,185.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$1,138,803, an increase of \$100,046 in comparison with the prior year. Key elements of this change are as follows:

| | |
|---|-------------------|
| General fund revenues in excess of expenditures and transfers out | \$ 119,821 |
| Water fund expenditures in excess of revenues and transfers in | (39,122) |
| Special revenue fund revenues in excess of expenditures | <u>19,347</u> |
| Total | <u>\$ 100,046</u> |

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$508,182, while total fund balance was \$582,193. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

| <u>General Fund</u> | <u>2014</u> | <u>2013</u> | <u>Change</u> | <u>% of Total 2014 General Fund Expenditures</u> |
|---------------------------|---------------|---------------|---------------|--|
| General fund - unassigned | \$ 418,417 | \$ 350,816 | \$ 67,601 | 23% |
| Stabilization fund | <u>89,765</u> | <u>39,681</u> | <u>50,084</u> | <u>5%</u> |
| Total unassigned | 508,182 | 390,497 | 117,685 | 28% |
| Total fund balance | 582,193 | 462,372 | 119,821 | 32% |

The total fund balance of the general fund changed by \$119,821 during the current fiscal year. Key factors in this change are as follows:

| | |
|--|-------------------|
| Non property tax revenues over budget | \$ 23,974 |
| Excess (shortfall) of property tax collections | 138,470 |
| Expenditures less than budget | 58,354 |
| Use of fund balance as a funding source | (147,000) |
| Expenditures in the current year, funded by a previous year budget | (71,875) |
| Current year expenditure carryforwards to be expended in a subsequent year | 74,011 |
| Stabilization interest income | 84 |
| Adjust for budgeted transfer between Stabilization and General fund eliminated through consolidation | 50,000 |
| Other GAAP accruals | <u>(6,197)</u> |
| Total | <u>\$ 119,821</u> |

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no changes to the original budget during the year.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$6,279,237 (net of accumulated depreciation), a decrease of \$(154,379) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- New well construction in progress \$94,523.
- Fire department brush truck conversion \$9,523.
- Depreciation expense of \$(258,425).

Additional information on capital assets can be found in the footnotes to the financial statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$976,930 , all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Ms. Eileen Tela, District Accountant
Turners Falls Fire District
226 Millers Falls Road
Turners Falls, MA 01376

TURNERS FALLS FIRE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Current: | |
| Cash and short-term investments | \$ 1,128,031 |
| Receivables, net of allowance for uncollectibles: | |
| Property taxes | 85,769 |
| User fees | 38,623 |
| Departmental | 20,058 |
| Intergovernmental | 4,665 |
| Noncurrent: | |
| Receivables, net of allowance for uncollectibles: | |
| Property taxes | 27,042 |
| Land and construction in progress | 1,257,189 |
| Capital assets, net of accumulated depreciation | <u>5,022,048</u> |
| TOTAL ASSETS | 7,583,425 |
| LIABILITIES | |
| Current: | |
| Warrants payable | 28,308 |
| Accrued payroll and withholdings | 33,651 |
| Accrued interest payable | 19,135 |
| Other current liabilities | 19,482 |
| Current portion of long-term liabilities: | |
| Loans payable | 41,586 |
| Note payable | 55,000 |
| Noncurrent: | |
| Loans payable, net of current portion | 770,344 |
| Notes payable, net of current portion | 110,000 |
| Compensated absences | 136,680 |
| Net OPEB obligation | <u>780,521</u> |
| TOTAL LIABILITIES | 1,994,707 |
| NET POSITION | |
| Invested in capital assets, net of related debt | 5,302,307 |
| Restricted for: | |
| Grants and other statutory restrictions | 556,610 |
| Unrestricted | <u>(270,199)</u> |
| TOTAL NET POSITION | <u>\$ 5,588,718</u> |

The accompanying notes are an integral part of these financial statements.

TURNERS FALLS FIRE DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

| | <u>General</u> | <u>Water</u> | <u>Special Revenue Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------|-------------------|--------------------------------------|---|
| ASSETS | | | | |
| Cash and short-term investments | \$ 589,593 | \$ 519,060 | \$ 19,378 | \$ 1,128,031 |
| Receivables: | | | | |
| Property taxes | 89,893 | - | - | 89,893 |
| Tax liens and foreclosures | 63,703 | - | - | 63,703 |
| User fees | - | 38,623 | - | 38,623 |
| Departmental | 16,084 | - | 3,974 | 20,058 |
| Intergovernmental | - | - | 4,665 | 4,665 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| TOTAL ASSETS | <u>\$ 759,273</u> | <u>\$ 557,683</u> | <u>\$ 28,017</u> | <u>\$ 1,344,973</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Warrants payable | \$ 20,075 | \$ 7,338 | \$ 895 | \$ 28,308 |
| Accrued payroll and withholdings | 28,528 | 4,747 | 376 | 33,651 |
| Other liabilities | 3,748 | 11,485 | 4,249 | 19,482 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| TOTAL LIABILITIES | 52,351 | 23,570 | 5,520 | 81,441 |
| DEFERRED INFLOWS OF RESOURCES | 124,729 | - | - | 124,729 |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Restricted | - | 132,096 | 7,205 | 139,301 |
| Committed | 74,011 | 402,017 | 15,292 | 491,320 |
| Unassigned | 508,182 | - | - | 508,182 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| TOTAL FUND BALANCES | <u>582,193</u> | <u>534,113</u> | <u>22,497</u> | <u>1,138,803</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$ 759,273</u> | <u>\$ 557,683</u> | <u>\$ 28,017</u> | <u>\$ 1,344,973</u> |

The accompanying notes are an integral part of these financial statements.

TURNERS FALLS FIRE DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2014

| | |
|---|---------------------|
| Total Governmental Fund Balances | \$ 1,138,803 |
| <ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 6,279,237 |
| <ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection and are net of an allowance for uncollectible. | 83,944 |
| <ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | (19,135) |
| <ul style="list-style-type: none">• Long-term liabilities, including notes and loans payable, compensated absences and other post employment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(1,894,131)</u> |
| Net Position of Governmental Activities | <u>\$ 5,588,718</u> |

The accompanying notes are an integral part of these financial statements.

TURNERS FALLS FIRE DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

| | <u>General</u> | <u>Water</u> | <u>Special Revenue Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------|-------------------|--------------------------------------|---|
| Revenues: | | | | |
| Property taxes | \$ 1,891,984 | \$ - | \$ - | \$ 1,891,984 |
| Penalties, interest and other taxes | 13,584 | - | - | 13,584 |
| Charges for services | 14,768 | 561,880 | 30,644 | 607,292 |
| Intergovernmental | - | - | 12,858 | 12,858 |
| Investment income | 1,622 | - | - | 1,622 |
| Miscellaneous | <u>16,084</u> | <u>-</u> | <u>5,000</u> | <u>21,084</u> |
| Total Revenues | 1,938,042 | 561,880 | 48,502 | 2,548,424 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 674,749 | - | - | 674,749 |
| Public safety | 994,077 | - | 29,155 | 1,023,232 |
| Public works | - | 615,002 | - | 615,002 |
| Debt service | <u>135,395</u> | <u>-</u> | <u>-</u> | <u>135,395</u> |
| Total Expenditures | <u>1,804,221</u> | <u>615,002</u> | <u>29,155</u> | <u>2,448,378</u> |
| Excess (deficiency) of revenues over expenditures | 133,821 | (53,122) | 19,347 | 100,046 |
| Other Financing Sources (Uses): | | | | |
| Transfers in | - | 14,000 | - | 14,000 |
| Transfers out | <u>(14,000)</u> | <u>-</u> | <u>-</u> | <u>(14,000)</u> |
| Total Other Financing Sources (Uses) | <u>(14,000)</u> | <u>14,000</u> | <u>-</u> | <u>-</u> |
| Change in fund balance | 119,821 | (39,122) | 19,347 | 100,046 |
| Fund Equity, at Beginning of Year | <u>462,372</u> | <u>573,235</u> | <u>3,150</u> | <u>1,038,757</u> |
| Fund Equity, at End of Year | <u>\$ 582,193</u> | <u>\$ 534,113</u> | <u>\$ 22,497</u> | <u>\$ 1,138,803</u> |

The accompanying notes are an integral part of these financial statements.

TURNERS FALLS FIRE DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2014

| | | | | | |
|---|---------------------------|--------------------------|------------------|--------------|-----------|
| Net Changes in Fund Balances - Total Governmental Funds | \$ 100,046 | | | | |
| <ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">104,046</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(258,425)</td> </tr> </table> | | Capital outlay purchases | 104,046 | Depreciation | (258,425) |
| Capital outlay purchases | 104,046 | | | | |
| Depreciation | (258,425) | | | | |
| <ul style="list-style-type: none"> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for property tax receivables differ between the two statements. This amount represents the net change in deferred revenue, net of allowance for uncollectibles. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">4,072</td> </tr> </table> | | | 4,072 | | |
| | 4,072 | | | | |
| <ul style="list-style-type: none"> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">95,806</td> </tr> </table> | | Repayments of debt | 95,806 | | |
| Repayments of debt | 95,806 | | | | |
| <ul style="list-style-type: none"> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">1,589</td> </tr> </table> | | | 1,589 | | |
| | 1,589 | | | | |
| <ul style="list-style-type: none"> • Some expenses reported in the Statement of Activities, such as compensated absences and other post employment benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(120,365)</u></td> </tr> </table> | | | <u>(120,365)</u> | | |
| | <u>(120,365)</u> | | | | |
| Change in Net Position of Governmental Activities | <u>\$ (73,231)</u> | | | | |

The accompanying notes are an integral part of these financial statements.

TURNERS FALLS FIRE DISTRICT

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|-----------------------|---|
| | <u>Original Budget</u> | <u>Final Budget</u> | | |
| Revenues and Other Sources: | | | | |
| Taxes | \$ 1,753,514 | \$ 1,753,514 | \$ 1,753,514 | \$ - |
| Penalties, interest and other taxes | 9,000 | 9,000 | 13,584 | 4,584 |
| Charges for services | 12,000 | 12,000 | 14,768 | 2,768 |
| Investment income | 1,000 | 1,000 | 1,538 | 538 |
| Miscellaneous | - | - | 16,084 | 16,084 |
| Other sources | <u>217,000</u> | <u>217,000</u> | <u>217,000</u> | <u>-</u> |
| Total Revenues and Other Sources | 1,992,514 | 1,992,514 | 2,016,488 | 23,974 |
| Expenditures and Other Uses: | | | | |
| General government | 720,190 | 720,190 | 674,718 | 45,472 |
| Public safety | 1,067,324 | 1,067,324 | 1,060,047 | 7,277 |
| Debt service | 141,000 | 141,000 | 135,395 | 5,605 |
| Transfers out and other uses | <u>64,000</u> | <u>64,000</u> | <u>64,000</u> | <u>-</u> |
| Total Expenditures and Other Uses | <u>1,992,514</u> | <u>1,992,514</u> | <u>1,934,160</u> | <u>58,354</u> |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | \$ <u>-</u> | \$ <u>-</u> | \$ <u>82,328</u> | \$ <u>82,328</u> |

The accompanying notes are an integral part of these financial statements.

Turners Falls Fire District
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2014, it was determined that no entities met the required GASB-39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes, fees and intergovernmental revenues.

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

Fund Financial Statements

Major individual governmental funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *water fund* is used to account for all water revenues and related expenses, except for debt service, which is accounted for in the general fund.

- The *special revenue fund* is used to account for federal and state grant activity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

D. Cash and Short-Term Investments

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

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

E. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with initial individual costs as detailed below and an estimated useful life in excess of two years.

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

| <u>Assets</u> | <u>Years</u> | <u>Initial Cost</u> <u>Over</u> |
|----------------------------|--------------|------------------------------------|
| Land improvements | 20 | \$ 25,000 |
| Buildings | 40 | 100,000 |
| Building improvements | 20 | 50,000 |
| Water/sewer infrastructure | 50 | 150,000 |
| Vehicles and equipment | 5 | 5,000 |

F. Compensated Absences

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

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

H. Fund Equity

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

Fund Balance - Generally, fund balance represents the difference between the current assets/deferred outflows and current liabilities/deferred inflows. The District reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).

- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., District Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

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

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All remaining net position is reported as unrestricted.

1. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual District meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

| <u>General Fund</u> | <u>Revenues and Other Financing Sources</u> | <u>Expenditures and Other Financing Uses</u> |
|--|---|--|
| Revenues/Expenditures (GAAP basis) | \$ 1,938,042 | \$ 1,804,221 |
| Other financing sources/uses (GAAP basis) | - | 14,000 |
| Remove the effect of consolidating the Stabilization and General Fund | (84) | 50,000 |
| Adjust tax revenue to accrual basis | (138,470) | - |
| Reverse beginning of year appropriation carry- forwards from expenditures | - | (71,875) |
| Add end of year appropriation carryforwards to expenditures | - | 74,011 |
| Reverse GAAP adjustments | - | (6,197) |
| Adjust for bond proceeds and funded appropriations budgeted in the current year, to be spent in future year | 70,000 | 70,000 |
| Recognize use of fund balance as funding source | <u>147,000</u> | <u>-</u> |
| Budgetary basis | <u>\$ 2,016,488</u> | <u>\$ 1,934,160</u> |

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Massachusetts General Laws Chapter 44, Section 55 limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The District does not have a deposit policy for custodial credit risk.

As of June 30, 2014, \$202,396 of the District's bank balance of \$1,307,147 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the District's name.

4. Taxes Receivable

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

Taxes receivable at June 30, 2014 consist of the following:

| | | | |
|--------------------------------|------------|--|------------------|
| Real Estate | | | |
| 2014 | \$ 62,103 | | |
| 2013 | 19,871 | | |
| 2012 | 5,740 | | |
| Prior | <u>383</u> | | 88,097 |
| Personal Property | | | |
| 2014 | 1,550 | | |
| Prior | <u>246</u> | | <u>1,796</u> |
| Total Current Property Tax | | | \$ <u>89,893</u> |
| Tax Title | | | \$ 15,863 |
| Foreclosures | | | <u>47,840</u> |
| Total Non-Current Property Tax | | | \$ <u>63,703</u> |

5. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect an estimated allowance for doubtful accounts for current property tax of \$4,124 and tax liens and foreclosures of \$36,661.

6. Capital Assets

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

| | Beginning Balance | Increases | Decreases | Convert CIP | Ending Balance |
|--|----------------------|---------------------|-------------|-----------------|---------------------|
| Governmental Activities: | | | | | |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | \$ 823,160 | \$ - | \$ - | \$ - | \$ 823,160 |
| Machinery, equipment, and furnishings | 1,475,060 | 9,523 | - | 16,272 | 1,500,855 |
| Infrastructure | <u>8,000,973</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>8,000,973</u> |
| Total capital assets, being depreciated | 10,299,193 | 9,523 | - | 16,272 | 10,324,988 |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (593,038) | (17,568) | - | - | (610,606) |
| Machinery, equipment, and furnishings | (875,972) | (77,754) | - | - | (953,726) |
| Infrastructure | <u>(3,575,505)</u> | <u>(163,103)</u> | <u>-</u> | <u>-</u> | <u>(3,738,608)</u> |
| Total accumulated depreciation | <u>(5,044,515)</u> | <u>(258,425)</u> | <u>-</u> | <u>-</u> | <u>(5,302,940)</u> |
| Total capital assets, being depreciated, net | 5,254,678 | (248,902) | - | 16,272 | 5,022,048 |
| Capital assets, not being depreciated: | | | | | |
| Land | 613,161 | - | - | - | 613,161 |
| Construction in progress (CIP) | <u>565,777</u> | <u>94,523</u> | <u>-</u> | <u>(16,272)</u> | <u>644,028</u> |
| Total capital assets, not being depreciated | <u>1,178,938</u> | <u>94,523</u> | <u>-</u> | <u>(16,272)</u> | <u>1,257,189</u> |
| Governmental activities capital assets, net | \$ <u>6,433,616</u> | \$ <u>(154,379)</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>6,279,237</u> |

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

| | |
|--|-------------------|
| Governmental Activities: | |
| Public safety | \$ 57,364 |
| Public works | 20,390 |
| Unallocated | <u>180,671</u> |
| Total depreciation expense - governmental activities | <u>\$ 258,425</u> |

7. Warrants Payable

Warrants payable represent 2014 expenditures paid by July 15, 2014 as permitted by law.

8. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the District that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The balance as of June 30, 2014 represents deferred revenue.

9. Long-Term Debt

A. General Obligation Debt

The District issues USDA Rural Development Administration (RDA) loans and long-term notes to provide funds for the acquisition and construction of major capital facilities and equipment. RDA loans have been issued for general and water fund activities. Payment is not limited to a particular revenue source. General obligation debt and long term notes payable currently outstanding is as follows:

| | Serial Maturities Through | Interest Rate(s) % | Amount Outstanding as of June 30, 2014 |
|---------------------------------|---------------------------------|-----------------------|---|
| <u>RDA Loans Payable:</u> | | | |
| Fire truck | 09/27/14 | 4.75% | \$ 8,372 |
| Millers Falls main | 10/15/29 | 3.25% | 336,923 |
| Water filtration | 12/01/30 | 4.75% | 144,971 |
| Grove/Goddard Hillside | 12/01/30 | 5.00% | 109,781 |
| Water treatment | 03/01/34 | 4.50% | <u>211,883</u> |
| Total Loans Payable | | | \$ 811,930 |
| <u>Long term notes payable:</u> | | | |
| Note payable | 1/17/2017 | 2.30% | \$ <u>165,000</u> |
| Total Long Term Note Payable | | | <u>165,000</u> |
| Total Long Term Debt | | | <u>\$ 976,930</u> |

B. Future Debt Service

The annual payments to retire all general obligation long-term debt and long term notes payable outstanding as of June 30, 2014 are as follows:

| | <u>Governmental</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|------------------|-------------------|---------------------|
| 2015 | \$ | 96,586 | \$ 37,142 | \$ 133,728 |
| 2016 | | 89,540 | 34,136 | 123,676 |
| 2017 | | 90,919 | 31,492 | 122,411 |
| 2018 | | 37,356 | 28,790 | 66,146 |
| 2019 | | 38,853 | 27,293 | 66,146 |
| 2020 - 2024 | | 218,967 | 111,762 | 330,729 |
| 2025 - 2029 | | 266,890 | 63,840 | 330,730 |
| Thereafter | | <u>137,819</u> | <u>13,837</u> | <u>151,656</u> |
| Total | \$ | <u>976,930</u> | <u>\$ 348,292</u> | <u>\$ 1,325,222</u> |

C. Changes in General Long-Term Liabilities

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

| | <u>Total Balance July 1, 2013</u> | <u>Additions</u> | <u>Reductions</u> | <u>Total Balance June 30, 2014</u> | <u>Less Current Portion</u> | <u>Equals Long-Term Portion June 30, 2014</u> |
|--------------------------------|---|-------------------|--------------------|--|-------------------------------------|---|
| <u>Governmental Activities</u> | | | | | | |
| Loans payable | \$ 852,736 | \$ - | \$ (40,806) | \$ 811,930 | \$ (41,586) | \$ 770,344 |
| Notes payable | 220,000 | - | (55,000) | 165,000 | (55,000) | 110,000 |
| Other: | | | | | | |
| Accrued employee benefits | 137,204 | - | (524) | 136,680 | - | 136,680 |
| Other post employment benefits | <u>659,632</u> | <u>120,889</u> | <u>-</u> | <u>780,521</u> | <u>-</u> | <u>780,521</u> |
| Totals | <u>\$ 1,869,572</u> | <u>\$ 120,889</u> | <u>\$ (96,330)</u> | <u>\$ 1,894,131</u> | <u>\$ (96,586)</u> | <u>\$ 1,797,545</u> |

10. Interfund Fund Transfers

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund transfers must be utilized.

The government reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2014:

| <u>Governmental Funds:</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------------------|---------------------|----------------------|
| General fund ⁽¹⁾ | \$ - | \$ 64,000 |
| Stabilization funds ⁽¹⁾ | 50,000 | - |
| Water fund | <u>14,000</u> | <u>-</u> |
| Grand Total | <u>\$ 64,000</u> | <u>\$ 64,000</u> |

⁽¹⁾ Transfers in and out were consolidated on the Statement of Revenues, Expenditures and Changes in Fund Balance to eliminate activity reported within the general fund.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations.

11. **Governmental Funds – Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The District implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2014:

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes the District's water fund and certain special revenue funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority (District Meeting). This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at District Meeting and the District's ambulance fund.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the District's fund balances at June 30, 2014:

| | General Fund | Water Fund | Special Revenue Funds | Total Governmental Funds |
|-----------------------|-------------------|-------------------|-----------------------------|--------------------------------|
| Restricted | | | | |
| Water fund | \$ - | \$ 132,096 | \$ - | \$ 132,096 |
| Special revenue funds | <u>-</u> | <u>-</u> | <u>7,205</u> | <u>7,205</u> |
| Total Restricted | - | 132,096 | 7,205 | 139,301 |
| Committed | | | | |
| Ambulance fund | - | - | 15,292 | 15,292 |
| Special articles | <u>74,011</u> | <u>402,017</u> | <u>-</u> | <u>476,028</u> |
| Total Committed | 74,011 | 402,017 | 15,292 | 491,320 |
| Unassigned | | | | |
| General fund | 418,417 | - | - | 418,417 |
| Stabilization fund | <u>89,765</u> | <u>-</u> | <u>-</u> | <u>89,765</u> |
| Total Unassigned | <u>508,182</u> | <u>-</u> | <u>-</u> | <u>508,182</u> |
| Total Fund Balance | <u>\$ 582,193</u> | <u>\$ 534,113</u> | <u>\$ 22,497</u> | <u>\$ 1,138,803</u> |

12. Subsequent Events

Debt

In May 2014, the District was awarded a loan through the Massachusetts Water Pollution Abatement Trust (MWPAT) for \$828,674 for the Hannegan Brook well pump station project. Of the total loan award, \$34,571 will be subsidized (principal forgiven) by Federal grant funds passed through MWPAT. Interim loan drawdowns will be requested as project expenses are incurred and will be converted to long term debt at or near the completion of the project. The interim loan carries an interest rate of .10%. Project expenses funded by this loan began in fiscal year 2015. The permanent loan is expected to carry an interest rate of 2%, payable over 20 years.

In addition, in September 2014 the District issued State House Serial Notes of \$70,000 to finance an upgrade to the District's fire alarm system. The notes are payable over three years, maturing in September 2017 and carry an interest rate of 1.2%

13. Commitments and Contingencies

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a

liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

14. Pension Plan

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

A. Plan Description

The District contributes to the Montague Contributory Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The System issues a publicly available financial report which can be obtained through the Montague Retirement Board, Town Hall, One Avenue A, Turners Falls, MA 01376.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The District is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the District are governed by Chapter 32 of the Massachusetts General Laws. The District's contributions to the System for the years ended June 30, 2014, 2013, and 2012, were \$191,853, \$182,746, and \$167,214, respectively, which were equal to its annual required contributions for each of these years.

15. Post-Employment Health Care and Life Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net position when a future retiree earns their post-employment benefits, rather than when they use their

post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described in the previous footnote, the District provides post-employment health care and life insurance benefits for retired employees through the District's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2014, the actuarial valuation date, approximately 11 retirees, 21 spouses and 14 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The District provides medical, prescription drug, mental health/ substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the District and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 20% of the cost of the health plan, as determined by the District. The District contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The District's fiscal 2014 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the District's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the District's net OPEB obligation based on an actuarial valuation as of June 30, 2014.

| | |
|---|-------------------|
| Annual Required Contribution (ARC) | \$ 205,431 |
| Interest of beginning net OPEB obligation | 23,087 |
| ARC adjustment | <u>(26,105)</u> |
| Annual OPEB cost | 202,413 |
| Contributions made | <u>(81,524)</u> |
| Increase in net OPEB obligation | 120,889 |
| Net OPEB obligation - beginning of year | <u>659,632</u> |
| Net OPEB obligation - end of year | <u>\$ 780,521</u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

| Fiscal Year Ended | Annual OPEB Costs | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|----------------------|----------------------|---|---------------------------|
| 2014 | \$ 202,413 | 40% | \$ 780,521 |
| 2013 | \$ 204,278 | 36% | \$ 659,632 |
| 2012 | \$ 263,909 | 32% | \$ 529,600 |
| 2011 | \$ 253,715 | 29% | \$ 350,800 |

The District's net OPEB obligation as of June 30, 2014 is recorded as a long-term liability in the Statement of Net Position.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014, the date of the most recent actuarial valuation was as follows:

| | |
|---|---------------------|
| Actuarial accrued liability (AAL) | \$ 2,498,903 |
| Actuarial value of plan assets | <u>-</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 2,498,903</u> |
| Funded ratio (actuarial value of plan assets/AAL) | <u>0%</u> |
| Covered payroll (active plan members) | <u>988,375</u> |
| UAAL as a percentage of covered payroll | <u>253%</u> |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made

about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

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

In the June 30, 2014 actuarial valuation the entry age normal cost method was used. The actuarial value of assets was not determined as the District has not advanced funded its obligation. The actuarial assumptions included average salary increases of 2.5%, a 3.5% investment rate of return and an annual healthcare cost trend rate of 0% in 2014, 3% - 4% for years 2-6, which increases to a 5% long-term rate for all healthcare benefits beginning in year 7. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis.

16. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

17. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the District's basic financial statements by recognizing as a liability and expense, the District's applicable portion of the Montague Retirement System's actuarially accrued liability.

**TURNERS FALLS FIRE DISTRICT
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2014**

**(Unaudited)
(Amounts Expressed in thousands)**

Other Post Employment Benefits

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percent- age of Covered Payroll [(b-a)/c] |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| 06/30/10 | \$ - | \$ 2,904 | \$ 2,904 | 0.0% | \$ 854 | 340% |
| 06/30/14 | \$ - | \$ 2,499 | \$ 2,499 | 0.0% | \$ 988 | 253% |

**MONTAGUE CONTRIBUTORY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

(Amounts Expressed in thousands)

Employees' Retirement System

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percent- age of Covered Payroll [(b-a)/c] |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| 01/01/12 | \$ 26,807 | \$ 35,478 | \$ 8,671 | 75.6% | \$ 5,928 | 146.3% |
| 01/01/10 | \$ 25,000 | \$ 31,100 | \$ 6,100 | 80.4% | \$ 6,047 | 100.8% |
| 01/01/08 | \$ 24,264 | \$ 28,794 | \$ 4,530 | 84.0% | \$ 6,021 | 75.2% |

**Employees' Retirement System
Schedule of Employer Contributions**

| Plan Year End | System Wide | | | Turners Falls Fire District District Contributions as a % of | |
|------------------|-------------------------------------|-------------------------|------------------------|---|-------------------------|
| | Annual Required Contributions | Actual Contributions | Percent Contributed | Actual Contributions | Actual Contributions |
| 12/31/13 | \$ 1,610 | \$ 1,610 | 100% | \$ 192 | 1.2% |
| 12/31/12 | \$ 1,553 | \$ 1,553 | 100% | \$ 183 | 1.2% |
| 12/31/11 | \$ 1,466 | \$ 1,466 | 100% | \$ 167 | 1.1% |

See Independent Auditors' Report.

Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

**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**

To the Prudential Committee
Turners Falls Fire District
Turners Falls, 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, each major fund, and the aggregate remaining fund information of the Turners Falls Fire District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's 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 con-

trol, 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.

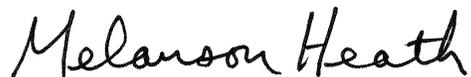
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 District's 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.



November 12, 2014