

CITY OF NORTHAMPTON, MASSACHUSETTS

**Report on the Examination
Of Basic Financial Statements**

For the Year Ended June 30, 2014

CITY OF NORTHAMPTON, MASSACHUSETTS

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Independent Auditor's Report

To the Honorable Mayor
City of Northampton, 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 Northampton, Massachusetts, as of and for the year ended June 30, 2014, (except for the Northampton Contributory Retirement System, which is as of and for the year ended December 31, 2013), 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 Northampton, Massachusetts, as of June 30, 2014, (except for the Northampton Contributory Retirement System, which is as of December 31, 2013), and the respective changes in financial position, and, where applicable, cash flows thereof 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 the management's discussion and analysis on pages 6 through 14 and the *Schedule of Funding Progress and Employer Contributions* on pages 62 and 63 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Northampton, Massachusetts' basic financial statements. The Supplementary Schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The Supplementary Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2015, on our consideration of the City of Northampton 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 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 Northampton, Massachusetts' internal control over financial reporting and compliance.

Scanlon and Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

January 28, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Northampton, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

- The City's assets exceeded its liabilities by \$90,541,393 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$92,111,364, an increase of \$1,569,971 (2%).
- The City's governmental funds reported total ending fund balance of \$26,288,083, an increase of \$5,083,046 (24%) from the previous year.
- The General Fund's total fund balance increased by \$2,804,424 (31%) to \$11,930,805. The ending General fund balance is 13% of revenues, transfers in and a capital lease and 13% of expenditures and transfers out.
- The City's long term liabilities decreased by \$2,880,583 to \$110,837,208 during the fiscal year. This was primarily attributed to an increase in the Other Post Employment Benefits (OPEB) obligation payable of \$6,228,140 and decreases in bond anticipation notes payable of \$2,125,000 and the in bonds and leases payable of \$4,739,958.
- The City had General fund free cash certified by the Department of Revenue in the amount of \$3,308,364. The key factors that attributed to the free cash amount in the general fund for fiscal year 2014, approximately, are as follows:
 - Unexpended/unencumbered appropriations \$1,517,600.
 - Excess over budget – state and local receipts \$1,472,000.
- The City's enterprise funds certified free cash are as follows:
 - Sewer fund \$3,266,749.
 - Solid Waste \$2,022,723.
 - Water fund \$2,029,737.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Northampton'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 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 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).

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, public works, education, health and human services, culture and recreation, employee benefits and insurance, state assessments and interest. The business-type activities include the sewer, water and solid waste activities.

The government-wide financial statements include not only the City of Northampton itself (known as the *primary government*), but also a legally separate public employee retirement system for which the City of Northampton is financially accountable. Financial information for this blended *component unit* is reported separately within the fiduciary fund statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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 sewer, water and solid waste activities.

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.

Financial Highlights

Statement of Net Position Highlights

	Governmental Activities		
	2014	2013	Change
Assets:			
Current assets	\$ 39,922,099	\$ 38,150,359	\$ 1,771,740
Noncurrent assets (excluding capital)	6,051,883	7,689,717	(1,637,834)
Capital assets	89,486,482	88,410,338	1,076,144
Total assets	135,460,464	134,250,414	1,210,050
Liabilities:			
Current liabilities (excluding debt and lease)	7,767,179	8,264,081	(496,902)
Current debt and leases payable	4,728,754	6,861,397	(2,132,643)
Noncurrent liabilities (excluding debt and lease)	33,015,647	27,118,833	5,896,814
Noncurrent debt and leases payable	35,188,847	37,615,059	(2,426,212)
Total liabilities	80,700,427	79,859,370	841,057
Net Position:			
Net investment in capital assets	57,284,657	53,228,480	4,056,177
Restricted	16,413,033	16,737,318	(324,285)
Unrestricted	(18,937,653)	(15,574,754)	(3,362,899)
Total net position	\$ 54,760,037	\$ 54,391,044	\$ 368,993

	Business-Type Activities		
	2014	2013	Change
Assets:			
Current assets	\$ 22,023,431	\$ 38,150,359	\$ (16,126,928)
Capital assets	43,894,706	49,607,011	(5,712,305)
Total assets	65,918,137	87,757,370	(21,839,233)
Liabilities:			
Current liabilities (excluding debt)	544,025	704,991	(160,966)
Current debt and leases payable	2,523,974	2,581,103	(57,129)
Noncurrent liabilities (excluding debt)	3,356,392	4,610,963	(1,254,571)
Noncurrent debt and leases payable	23,712,390	25,961,364	(2,248,974)
Total liabilities	30,136,781	33,858,421	(3,721,640)
Net Position:			
Net investment in capital assets	18,345,197	21,316,328	(2,971,131)
Restricted	67,314	5,807,235	(5,739,921)
Unrestricted	17,368,845	10,596,757	6,772,088
Total net position	\$ 35,781,356	\$ 37,720,320	\$ (1,938,964)

Financial Highlights

Statement of Activities Highlights

	Governmental Activities		
	2014	2013	Change
Program Revenues:			
Charges for services	\$ 14,637,863	\$ 14,285,414	\$ 352,449
Operating grants and contributions	25,529,255	27,663,106	(2,133,851)
Capital grants and contributions	1,493,429	1,942,089	(448,660)
General Revenues:			
Property taxes	50,289,376	45,975,300	4,314,076
Motor vehicle and other taxes	2,738,194	2,388,633	349,561
Hotel room occupancy and meals taxes	1,185,937	1,190,273	(4,336)
Penalties and interest on taxes	179,652	194,446	(14,794)
Nonrestricted grants and contributions	4,302,986	4,063,454	239,532
Unrestricted investment income	66,301	99,219	(32,918)
Gain/(Loss) on Sale of Capital Assets	381,182	49,901	331,281
Miscellaneous	65,069	9,845	55,224
Total revenues	100,869,244	97,861,680	3,007,564
Expenses:			
General government	6,331,836	5,246,352	1,085,484
Public safety	13,494,389	12,417,702	1,076,687
Public works	4,117,975	4,621,630	(503,655)
Education	40,049,137	39,092,248	956,889
Health and human services	2,366,778	2,719,173	(352,395)
Culture and recreation	2,923,875	2,355,170	568,705
Employee benefits and insurance	30,931,535	31,916,991	(985,456)
State assessments	3,028,307	2,829,881	198,426
Interest	1,515,632	1,945,229	(429,597)
Total expenses	104,759,464	103,144,376	1,615,088
Contributions to Permanent Funds	8,800	10,500	(1,700)
Transfers, net	4,250,413	2,684,880	1,565,533
Change in net position	368,993	(2,587,316)	2,956,309
Net position - beginning of year	54,391,044	56,978,360	(2,587,316)
Net position - end of year	\$ 54,760,037	\$ 54,391,044	\$ 368,993

	Business-Type Activities		
	2014	2013	Change
Program Revenues:			
Sewer	\$ 6,147,043	\$ 6,346,101	\$ (199,058)
Water	6,810,032	6,768,650	41,382
Solid Waste	577,824	1,985,613	(1,407,789)
Total Revenues	13,534,899	15,100,364	(1,565,465)
Expenses:			
Sewer	2,842,926	2,844,845	(1,919)
Water	4,348,249	3,933,364	414,885
Solid Waste	720,094	2,025,061	(1,304,967)
Total expenses	7,911,269	8,803,270	(892,001)
Special Item	(3,312,181)	-	(3,312,181)
Transfers, net	(4,250,413)	(2,684,880)	(1,565,533)
Change in net position	(1,938,964)	3,612,214	(5,551,178)
Net position - beginning of year	37,720,320	34,108,106	3,612,214
Net position - end of year	\$ 35,781,356	\$ 37,720,320	\$ (1,938,964)

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$90,541,393 at the close of fiscal year 2014.

Net position of \$75,629,854 reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net position \$16,480,347 represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* is (\$1,568,808).

At the end of the current fiscal year, the City is able to report positive balances in two categories of net position and a negative balance in the unrestricted category in the governmental activities. The unrestricted governmental activities resulted in a negative balance of (\$18,937,653) as a result of the required accrual under GASB No. 45 of the OPEB liability obligation in the amount of \$30,995,133.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for the business-type activities.

The governmental activities net position increased by \$368,993 (1%) during the current fiscal year, which reflects the general fund's results of operations. The key elements of the decrease in net position for fiscal year 2014 was attributed to the sale of a capital asset of \$217 and the depreciation expense (cost spread out over the useful life of the asset) for the year of \$5,143,142 exceeding the acquisition of \$5,010,458 in new capital assets, the net change in debt of \$2,433,855 and an increase in the Town's OPEB obligation liability of \$6,003,356.

There was a decrease of \$1,938,964 in net position reported in connection with the sewer, water and solid waste business-type activities. Of this, there were increases of \$1,590,212 attributed to the sewer

department and of \$1,631,867 attributed to the water department and a decrease of \$5,161,043 attributed to the solid waste activities.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$26,288,083 an increase of \$5,083,046 (24%) in comparison with the prior year.

Breakdown of the governmental fund balances are as follows:

- Nonspendable fund balance - \$696,006 (3%).
- Restricted fund balance - \$12,716,855 (48%).
- Committed fund balance - \$986,391 (4%).
- Assigned fund balance - \$3,667,828 (14%).
- Unassigned fund balance – \$8,221,003 (31%).

At the end of the fiscal year, the General Fund reported a fund balance of \$11,930,805 increasing \$2,804,424 (31%) from the prior year. Of the \$11,930,805, the unassigned amount is \$8,221,003 (69%), the assigned amount of \$3,404,921 (28%) and restricted amount of \$304,881 (3%). General fund revenues increased \$5,311,965 (6%) over the prior fiscal year while the expenditures also increased \$5,788,526 (7%).

The main components of the increases from the prior year in general fund revenues were related to property taxes in the amount of \$3,994,258 (9%), excise and other taxes of \$474,634 (21%), and intergovernmental - "on-behalf" payments increasing \$434,111 (5%).

The major changes with the general fund expenditures from the prior fiscal year were as follows:

- Increase in Public safety expenditures of \$1,177,461 (11%).
- Increase in Public works expenditures of \$377,917 (13%).
- Increase in Education expenditures of \$1,781,887 (6%).
- Increase in Employee benefits and insurance expenditures of \$626,343 (3%).
- Increase in Capital improvements expenditures of \$2,001,361 (787%) mainly as a result of purchases of vehicles and equipment for various departments.
- Decrease in Principal and interest on debt service expenditures of \$678,350 (10%).

Proprietary Funds

The proprietary funds statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Funds

The *Sewer Fund* is the financing and operations of the City's sewer system. The sewer fund shows an increase of \$1,590,212 (17%) in total operations. This change was mainly attributed to operating revenues sufficient to cover current operating costs by \$3,372,424, interest income of \$46,366, interest expense of \$114,673 and net transfers out to the governmental funds of \$1,713,905. Operating revenues decreased by \$196,267 (3%) and operating expenses increased by \$14,271 (1%) from the prior year.

The *Water Fund* is the financing and operations of the City's water system. The water fund shows an increase of \$1,631,867 (8%) in total operations. This change resulted from operating revenues exceeding current operating costs by \$2,906,960, interest income of \$47,225, intergovernmental receipts of \$147,127, interest expense of \$639,529 and net transfers out to the governmental funds of \$829,916. Operating revenues decreased by \$54,061 (1%) while net operating expenses increased by \$452,814 (14%) from the prior year.

The *Solid Waste Fund* is the financing and operations of the City's landfills. The solid waste fund shows a decrease of \$5,161,043 (66%) in total operations. This change resulted from operating costs exceeding revenues by \$140,183, interest income of \$26,834, interest expense of \$28,921 and transfers out to the general fund of \$1,706,592. Additionally, there was a special item to fully depreciate the capitalized values associated with the assets of \$3,312,181. Operating revenues decreased by \$1,410,550 (72%) while operating expenses also decreased by \$1,296,018 (65%) from the prior year.

General Fund Budgetary Highlights

The final general fund budget for fiscal year 2014 was \$86,806,207. This was an increase of \$5,177,521 (6%) over the previous year's final budget.

There was an increase of \$3,086,300 between the original budget and the final amended budget. The change is attributed to the City amending specific budget line items of the final budget, mainly due to increases in the public safety line item of \$528,099 and the capital improvements line item of \$2,219,324.

General fund expenditures were less than budgeted by \$4,922,480. Of the \$4,922,480 in under budget expenditures, \$3,404,921 has been carried over to fiscal year 2015.

There was a negative variance in investment income of \$25,487 due to the economic conditions.

Overall, the variance with the final budget was a positive \$2,899,347 consisting of a revenue surplus of \$1,616,780 and an appropriation surplus of \$1,282,567.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to \$89,486,482 and \$43,894,706, respectively.

The investment in capital assets includes land, construction in progress, buildings and renovations, machinery, equipment and other and infrastructure.

Major capital events during the current fiscal year in the governmental type funds include:

- Purchases of conservation land for \$267,664.
- Parking maintenance vehicle for \$38,510.
- Parking garage improvements for \$316,423.
- Police vehicles and equipment for \$173,121.
- Fire department vehicles and equipment for \$841,642.
- DPW vehicles and equipment for \$576,350.
- DPW facility improvements for \$72,981.
- Road and bridge infrastructure improvements for \$1,058,232.
- Northampton Public School vehicle for \$43,900.
- School parking lot resurfacing for \$199,745.
- Northampton Public Schools' improvements for \$233,265.
- Smith Vocational improvements for \$22,130.
- Academy of Music improvements for \$126,128.
- Northampton community boat house improvements for \$593,840.
- Parks improvements for \$353,720.
- Board of Health vehicle for \$28,000.

Major capital asset events during the current fiscal year in the business-type fund included the following:

For the Sewer Department:

- A vehicle for \$93,410, Bradford Street pump station construction in progress for \$83,980 and the sewer infrastructure improvements for \$126,870.

For the Water Department:

- Watershed land purchases for \$185,000 and water mains infrastructure improvements for \$205,475.

Debt Administration. The City's outstanding governmental debt, as of June 30, 2014, totaled \$39,815,059 as follows:

- \$9,064,500 for school projects.
- \$5,180,500 for City building projects
- \$16,110,000 for police facility.
- \$767,000 for land acquisitions.
- \$664,000 for storm and surface drains.
- \$26,059 for the Septic V community septic program.
- \$115,000 for road, sidewalk and bridge projects.
- \$1,270,000 for park improvements.
- \$882,000 for departmental equipment.
- \$140,000 for technology.
- \$5,596,000 for energy projects.

The City also has a capital leases for an ambulance. The last lease payment is due in 2015. The City currently owes \$107,406 on the lease consisting of \$102,542 in principal and \$4,864 in interest.

The City's outstanding business-type debt totaled, as of June 30, 2014, totaled \$26,236,364 as follows:

- \$2,866,987 in sewer debt.
- \$22,844,377 in water debt.
- \$525,000 in solid waste debt.

Please refer to notes 3D, 3F, 3G and 3H for further discussion of the capital assets and debt activity.

Next Year's Annual City Council Votes - Fiscal Year 2015

The City of Northampton City Council votes a budget for the next fiscal year at a City Council meeting before the end of the fiscal year. The financial statements for June 30, 2014 do not reflect the fiscal year 2015 City Council actions. The City Council meeting on June 19, 2014 authorized a fiscal year 2015 operating and capital budget as follows:

Budget:

From the Tax Levy		\$	76,485,766
From Business-Type Funds:			
Sewer fund receipts	\$	7,283,653	
Sewer retained earnings		150,000	7,433,653
Water fund receipts		7,180,153	
Water retained earnings		2,200,000	9,380,153
Solid waste fund receipts		519,401	
Solid waste retained earnings		681,261	1,200,662
Storm water fund receipts			2,224,025
From Other Available Funds:			
General Fund:			
Unassigned fund balance:			
Reserve for Debt			32,459
Non-major Governmental Funds:			
Cemetery perpetual care funds		10,000	
Comcast 1 - net reserve		160,000	
Community Preservation Funds		12,376	
Conservation wetlands fees		5,000	
Municipal waterways fund		1,500	
Reserve for energy rebates fund		100,000	
Parking Meter Receipts		1,723,409	
Sale of cemetery lots		5,000	2,017,285
			<u>\$ 98,774,003</u>

Requests for Information

This financial report is designed to provide a general overview of the City of Northampton'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, City Hall, 210 Main Street, Northampton, Massachusetts.

BASIC FINANCIAL STATEMENTS

CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT:			
Cash and Cash Equivalents	\$ 30,673,636	\$ 20,526,583	\$ 51,200,219
Investments	1,263,872	-	1,263,872
Receivables, net of allowance for uncollectibles:			
Property Taxes	1,196,546	-	1,196,546
Deferred Property Taxes	170,394	-	170,394
Tax Liens	423,476	-	423,476
Excise Taxes	312,677	-	312,677
User Charges	-	1,334,993	1,334,993
Departmental	382,606	-	382,606
Loans	87,039	-	87,039
Due from Other Governments	5,411,853	161,855	5,573,708
Total current assets	<u>39,922,099</u>	<u>22,023,431</u>	<u>61,945,530</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Due from Other Governments	6,051,883	-	6,051,883
Capital Assets, net of accumulated Depreciation:			
Nondepreciable	19,166,056	4,736,580	23,902,636
Depreciable	70,320,426	39,158,126	109,478,552
Total noncurrent assets	<u>95,538,365</u>	<u>43,894,706</u>	<u>139,433,071</u>
Total Assets	<u>135,460,464</u>	<u>65,918,137</u>	<u>201,378,601</u>
LIABILITIES			
CURRENT:			
Warrants Payable	2,156,736	307,756	2,464,492
Accrued Payroll	3,567,341	64,745	3,632,086
Retainage Payable	69,296	-	69,296
Payroll Withholdings	482,878	-	482,878
Accrued Interest	262,414	99,181	361,595
Compensated Absences	1,228,514	72,343	1,300,857
Bonds and Leases Payable	4,728,754	2,523,974	7,252,728
Total current liabilities	<u>12,495,933</u>	<u>3,067,999</u>	<u>15,563,932</u>
NONCURRENT:			
Landfill Closure	-	2,090,792	2,090,792
Compensated Absences	2,020,514	114,291	2,134,805
OPEB Obligation Payable	30,995,133	1,151,309	32,146,442
Bonds and Leases Payable	35,188,847	23,712,390	58,901,237
Total noncurrent liabilities	<u>68,204,494</u>	<u>27,068,782</u>	<u>95,273,276</u>
Total Liabilities	<u>80,700,427</u>	<u>30,136,781</u>	<u>110,837,208</u>
NET POSITION			
Net Investment in Capital Assets	57,284,657	18,345,197	75,629,854
Restricted for:			
Capital Projects	929,595	67,314	996,909
Federal & State Grants	3,630,818	-	3,630,818
Community Preservation	3,181,328	-	3,181,328
Permanent Funds:			
Expendable	434,993	-	434,993
Nonexpendable	696,006	-	696,006
Other Purposes	7,540,293	-	7,540,293
Unrestricted	(18,937,653)	17,368,845	(1,568,808)
Total Net Position	<u>\$ 54,760,037</u>	<u>\$ 35,781,356</u>	<u>\$ 90,541,393</u>

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Program Revenues</u>				<u>Net (Expenses) Revenues and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General Government	\$ 6,331,836	\$ 3,514,763	\$ 1,651,426	\$ -	\$ (1,165,647)	\$ -	\$ (1,165,647)
Public Safety	13,494,389	3,225,098	231,899	-	(10,037,392)	-	(10,037,392)
Public Works	4,117,975	106,956	111,187	1,013,432	(2,886,400)	-	(2,886,400)
Education	40,049,137	7,072,934	13,583,784	99,997	(19,292,422)	-	(19,292,422)
Health and Human Services	2,366,778	256,795	273,544	-	(1,836,439)	-	(1,836,439)
Culture and Recreation	2,923,875	461,317	139,620	380,000	(1,942,938)	-	(1,942,938)
Employee Benefits and Insurance	30,931,535	-	9,181,403	-	(21,750,132)	-	(21,750,132)
State Assessments	3,028,307	-	-	-	(3,028,307)	-	(3,028,307)
Interest	1,515,632	-	356,392	-	(1,159,240)	-	(1,159,240)
Total Governmental Activities	104,759,464	14,637,863	25,529,255	1,493,429	(63,098,917)	-	(63,098,917)
Business-Type Activities:							
Sewer	2,842,926	6,100,677	46,366	-	-	3,304,117	3,304,117
Water	4,348,249	6,615,680	88,354	105,998	-	2,461,783	2,461,783
Solid Waste	720,094	550,990	26,834	-	-	(142,270)	(142,270)
Total Primary Government	\$ 112,670,733	\$ 27,905,210	\$ 25,690,809	\$ 1,599,427	(63,098,917)	5,623,630	(57,475,287)
General Revenues:							
Property taxes					50,289,376	-	50,289,376
Motor vehicle and other taxes					2,738,194	-	2,738,194
Hotel room occupancy and Meals taxes					1,185,937	-	1,185,937
Penalties & interest on taxes					179,652	-	179,652
Grants & contributions not restricted to specific programs					4,302,986	-	4,302,986
Unrestricted investment income					66,301	-	66,301
Gain/(Loss) on Sale of Capital Assets					381,182	-	381,182
Miscellaneous					65,069	-	65,069
Contributions to Permanent Funds					8,800	-	8,800
Special Item					-	(3,312,181)	(3,312,181)
Transfers, net					4,250,413	(4,250,413)	-
Total General Revenues, Contributions, Special Item and Transfers					63,467,910	(7,562,594)	55,905,316
Change in Net Position					368,993	(1,938,964)	(1,569,971)
Net Position:							
Beginning of year (as restated)					54,391,044	37,720,320	92,111,364
End of year					\$ 54,760,037	\$ 35,781,356	\$ 90,541,393

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Cash and Cash Equivalents	\$ 16,808,491	\$ 13,865,145	\$ 30,673,636
Investments	-	1,263,872	1,263,872
Receivables, net of allowance for uncollectibles:			
Property Taxes	1,176,687	19,859	1,196,546
Deferred Property Taxes	170,394	-	170,394
Tax Liens	419,648	3,828	423,476
Excise Taxes	312,677	-	312,677
Departmental	382,606	-	382,606
Loans	-	87,039	87,039
Due from Other Governments	8,334,955	3,128,781	11,463,736
Total Assets	\$ 27,605,458	\$ 18,368,524	\$ 45,973,982
Liabilities:			
Warrants and Accounts Payable	\$ 1,278,480	\$ 878,256	\$ 2,156,736
Accrued Payroll	3,529,878	37,463	3,567,341
Retainage Payable	-	69,296	69,296
Employee Withholdings	482,878	-	482,878
Total Liabilities	5,291,236	985,015	6,276,251
Deferred Inflows of Resources:			
Unavailable Revenue	10,383,417	3,026,231	13,409,648
Fund Balance:			
Nonspendable	-	696,006	696,006
Restricted	304,881	12,411,974	12,716,855
Committed	-	986,391	986,391
Assigned	3,404,921	262,907	3,667,828
Unassigned	8,221,003	-	8,221,003
Total Fund Balance	11,930,805	14,357,278	26,288,083
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 27,605,458	\$ 18,368,524	\$ 45,973,982

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property Taxes	\$ 49,098,793	\$ 1,014,461	\$ 50,113,254
Intergovernmental	15,249,336	8,418,147	23,667,483
Excise and Other Taxes	2,770,136	2,088	2,772,224
Hotel Room Occupancy and Meals Taxes	1,185,937	-	1,185,937
Charges for Services	3,300,492	3,184,884	6,485,376
Licenses, Permits, Fees	8,510,399	-	8,510,399
Interest on Taxes	177,428	2,224	179,652
Investment Income	66,301	149,798	216,099
Gifts and Donations	-	87,919	87,919
Other	-	507,261	507,261
Intergovernmental - "On-behalf" Payments	9,109,385	-	9,109,385
Total Revenues	89,468,207	13,366,782	102,834,989
Expenditures:			
Current:			
General Government	4,877,283	647,224	5,524,507
Public Safety	11,742,868	1,107,604	12,850,472
Public Works	3,179,918	1,582,795	4,762,713
Education	31,858,780	5,992,237	37,851,017
Health and Human Services	1,414,057	806,253	2,220,310
Culture and Recreation	1,862,225	1,870,292	3,732,517
Employee Benefits and Insurance	25,173,335	-	25,173,335
Capital Improvements	2,255,674	-	2,255,674
State Assessments	3,028,307	-	3,028,307
Debt Service:			
Principal	4,510,000	301,214	4,811,214
Interest	1,325,657	198,979	1,524,636
Total Expenditures	91,228,104	12,506,598	103,734,702
Excess of Revenues Over (Under) Expenditures	(1,759,897)	860,184	(899,713)
Other Financing Sources (Uses):			
Operating Transfers In	4,465,849	136,157	4,602,006
Operating Transfers Out	(136,520)	(1,824,118)	(1,960,638)
Capital Lease	234,992	-	234,992
Sale of Capital Assets	-	381,399	381,399
Proceeds from Issuance of Bonds	-	2,725,000	2,725,000
Total Other Financing Sources (Uses)	4,564,321	1,418,438	5,982,759
Net Change in Fund Balances	2,804,424	2,278,622	5,083,046
Fund Balances, Beginning of Year	9,126,381	12,078,656	21,205,037
Fund Balances, End of Year	\$ 11,930,805	\$ 14,357,278	\$ 26,288,083

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position
For the Year Ended June 30, 2014

Total Governmental Fund Balances		\$	26,288,083
Capital Assets (net) used in governmental activities are not financial resources and therefore, are not reported in the funds.			89,486,482
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis.			13,409,648
Long Term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds:			
Bonds and Leases Payable	\$	(39,917,601)	
Other Post Employment Benefits Payable		(30,995,133)	
Compensated Absences		<u>(3,249,028)</u>	(74,161,762)
In the statement of activities, interest is accrued on outstanding long term debt, whereas in governmental funds, interest is not reported until due.			<u>(262,414)</u>
Net Position of Governmental Activities		\$	<u>54,760,037</u>

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 5,083,046

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 are reported as depreciation expense:

Capital Outlay Purchases	\$ 5,010,458	
Sale of Capital Assets	(217)	
Transfer of Capital Asset from/(to) Enterprise Fund	1,209,045	
Depreciation	<u>(5,143,142)</u>	1,076,144

Revenue 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 unavailable revenue. (2,338,127)

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:

Repayment of Debt and Lease Principal	4,993,847	
Capital Lease Financing	(234,992)	
Proceeds from Bonds and Notes	<u>(2,325,000)</u>	2,433,855

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 governmental funds:

Net Change in Compensated Absences	108,427	
Net Change in Other Post Employment Benefits	(6,003,356)	
Net Change in Accrued Interest on Long-Term Debt	<u>9,004</u>	(5,885,925)

Change in Net Position of Governmental Activities \$ 368,993

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGETARY BASIS - (NON-GAAP) -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Amounts Carried Forward to Next Year	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Budgetary Basis		
Revenues:					
Property Taxes	\$ 48,909,274	\$ 48,909,274	\$ 49,054,093	\$ -	\$ 144,819
Intergovernmental	15,022,888	15,022,888	15,249,336	-	226,448
Excise and Other Taxes	2,125,581	2,125,581	2,770,136	-	644,555
Hotel Room Occupancy and Meals Taxes	1,122,026	1,122,026	1,185,937	-	63,911
Charges for Services	3,022,106	3,022,106	3,300,492	-	278,386
Licenses, Permits, Fees	8,227,679	8,227,679	8,510,399	-	282,720
Interest on Taxes	176,000	176,000	177,428	-	1,428
Investment Income	88,918	88,918	63,431	-	(25,487)
Total Revenues	78,694,472	78,694,472	80,311,252	-	1,616,780
Expenditures:					
Current:					
General Government	5,190,970	5,153,956	4,877,283	125,440	151,233
Public Safety	11,501,725	12,029,824	11,507,876	9,367	512,581
Public Works	3,111,704	3,473,961	3,179,918	119,969	174,074
Education	31,874,624	32,012,589	31,858,780	153,809	-
Health and Human Services	1,459,600	1,490,206	1,414,057	4,199	71,950
Culture and Recreation	1,856,887	1,882,006	1,862,225	-	19,781
Employee Benefits and Insurance	16,707,737	16,538,636	16,063,950	108,448	366,238
Capital Improvements	2,920,039	5,139,363	2,255,674	2,883,689	-
State Assessments	3,130,816	3,130,816	3,028,307	-	102,509
Debt Service:					
Principal	4,400,000	4,525,000	4,510,000	-	15,000
Interest	1,565,805	1,429,850	1,325,657	-	104,193
Total Expenditures	83,719,907	86,806,207	81,883,727	3,404,921	1,517,559
Excess of Revenues Over (Under) Expenditures	(5,025,435)	(8,111,735)	(1,572,475)	(3,404,921)	3,134,339
Other Financing Sources (Uses):					
Operating Transfers In (Out)	1,954,413	1,879,152	2,337,155	-	458,003
Total Other Financing Sources (Uses)	1,954,413	1,879,152	2,337,155	-	458,003
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(3,071,022)	(6,232,583)	764,680	(3,404,921)	3,592,342
Budgetary Fund Balance - Beginning of Year	7,238,253	7,238,253	7,238,253	-	-
Budgetary Fund Balance - End of Year	\$ 4,167,231	\$ 1,005,670	\$ 8,002,933	\$ (3,404,921)	\$ 3,592,342

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
Reconciliation of Revenues and Expenditures
from Budgetary Basis to GAAP Basis
For the Year Ended June 30, 2014

	Revenues	Expenditures
Reported on a Budgetary Basis	\$ 80,311,252	\$ 81,883,727
<i>Adjustments:</i>		
Activity for Stabilization Funds Recorded in the General Fund for GAAP Purposes	2,870	-
Net Increase in Revenue from recording Refund Taxes Payable	43,000	-
Recognition of Intergovernmental Revenue - "on behalf payments"	9,109,385	-
Recognition of Expenditures - "on behalf payments"	-	9,109,385
Net Increase in Revenue from Recording 60-Day Receipts	1,700	-
Capital Leases	-	234,992
Reported on a GAAP Basis	\$ 89,468,207	\$ 91,228,104

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2014

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Solid Waste Fund	Total
ASSETS				
CURRENT:				
Cash and Cash Equivalents	\$ 6,957,621	\$ 8,105,094	\$ 5,463,868	\$ 20,526,583
User Charges, net of allowance for uncollectibles	716,799	589,834	28,360	1,334,993
Due from Other Governments	161,855	-	-	161,855
Total current assets	7,836,275	8,694,928	5,492,228	22,023,431
NONCURRENT:				
Capital Assets, net of accumulated Depreciation:				
Nondepreciable	2,082,674	2,653,906	-	4,736,580
Depreciable	4,699,731	34,328,572	129,823	39,158,126
Total noncurrent assets	6,782,405	36,982,478	129,823	43,894,706
Total Assets	14,618,680	45,677,406	5,622,051	65,918,137
LIABILITIES				
CURRENT:				
Warrants and Accounts Payable	137,816	119,502	50,438	307,756
Accrued Payroll	24,648	32,857	7,240	64,745
Accrued Interest	26,625	65,885	6,671	99,181
Compensated Absences	42,824	25,975	3,544	72,343
Bonds Payable	391,681	1,953,293	179,000	2,523,974
Total current liabilities	623,594	2,197,512	246,893	3,067,999
NONCURRENT:				
Landfill Closure	-	-	2,090,792	2,090,792
Compensated Absences	84,225	24,784	5,282	114,291
OPEB Obligation Payable	428,504	451,171	271,634	1,151,309
Bonds Payable	2,475,306	20,891,084	346,000	23,712,390
Total noncurrent liabilities	2,988,035	21,367,039	2,713,708	27,068,782
Total Liabilities	3,611,629	23,564,551	2,960,601	30,136,781
NET POSITION				
Net Investment in Capital Assets	4,077,273	14,138,101	129,823	18,345,197
Restricted for Capital	67,314	-	-	67,314
Unrestricted	6,862,464	7,974,754	2,531,627	17,368,845
Total Net Position	\$ 11,007,051	\$ 22,112,855	\$ 2,661,450	\$ 35,781,356

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Solid Waste Fund	Total
Operating Revenues:				
Charges for Services	\$ 6,064,492	\$ 6,550,399	\$ 400,753	\$ 13,015,644
Other	36,185	65,281	150,237	251,703
Total Operating Revenues	6,100,677	6,615,680	550,990	13,267,347
Operating Expenses:				
Salaries & Wages	698,445	881,308	176,040	1,755,793
Operating Expenses	1,703,676	1,693,579	89,284	3,486,539
Depreciation	326,132	1,133,833	425,849	1,885,814
Total Operating Expenses	2,728,253	3,708,720	691,173	7,128,146
Operating Income (Loss)	3,372,424	2,906,960	(140,183)	6,139,201
Non-Operating Revenues (Expenses):				
Interest Income	46,366	47,225	26,834	120,425
Intergovernmental	-	147,127	-	147,127
Interest Expense	(114,673)	(639,529)	(28,921)	(783,123)
Total Non-Operating Revenues (Expenses)	(68,307)	(445,177)	(2,087)	(515,571)
Income (Loss) Before Transfers and Other Items	3,304,117	2,461,783	(142,270)	5,623,630
Transfers and Other Items:				
Transfers In (Out)	(1,713,905)	(829,916)	(1,706,592)	(4,250,413)
Special Item	-	-	(3,312,181)	(3,312,181)
Total Transfers and Other Items	(1,713,905)	(829,916)	(5,018,773)	(7,562,594)
Change in Net Position	1,590,212	1,631,867	(5,161,043)	(1,938,964)
Net Position at Beginning of Year (as restated)	9,416,839	20,480,988	7,822,493	37,720,320
Net Position at End of Year	\$ 11,007,051	\$ 22,112,855	\$ 2,661,450	\$ 35,781,356

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Water Fund	Solid Waste Fund	
Cash Flows From Operating Activities:				
Receipts from Customers and Users	5,968,067	6,593,618	462,288	\$ 13,023,973
Receipts from Other Revenues	36,185	65,281	150,237	251,703
Payments to Vendors	(1,678,965)	(1,678,502)	(1,552,985)	(4,910,452)
Payments to Employees	(697,846)	(875,899)	(176,641)	(1,750,386)
Net Cash Provided by (Used for) Operating Activities	3,627,441	4,104,498	(1,117,101)	6,614,838
Cash Flows from Noncapital Financing Activities:				
Transfers from (to) Other Funds	(1,713,905)	(829,916)	(97,547)	(2,641,368)
Net Cash Provided by (Used for) Noncapital Financing Activities	(1,713,905)	(829,916)	(97,547)	(2,641,368)
Cash Flows from Capital and Related Financing Activities:				
WPAT Project Drawdowns	89,929	-	-	89,929
Intergovernmental	-	147,127	-	147,127
Acquisition and Construction of Capital Assets	(304,260)	(390,475)	-	(694,735)
Principal Payments on Bonds and Notes	(601,060)	(1,926,043)	(179,000)	(2,706,103)
Interest Expense	(108,102)	(640,894)	(31,158)	(780,154)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(923,493)	(2,810,285)	(210,158)	(3,943,936)
Cash Flows from Investing Activities:				
Investment Income	46,366	47,225	26,834	120,425
Net Cash Provided by (Used for) Investing Activities	46,366	47,225	26,834	120,425
Net Increase (Decrease) in Cash and Cash Equivalents	1,036,409	511,522	(1,397,972)	149,959
Cash and Cash Equivalents at Beginning of Year	5,921,212	7,593,572	6,861,840	20,376,624
Cash and Cash Equivalents at End of Year	\$ 6,957,621	\$ 8,105,094	\$ 5,463,868	\$ 20,526,583

**CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Solid Waste Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:				
Operating Income (Loss)	\$ 3,372,424	\$ 2,906,960	\$ (140,183)	6,139,201
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	326,132	1,133,833	425,849	1,885,814
Change in Assets and Liabilities:				
Increase (Decrease) in Warrants Payable	(18,250)	(54,980)	(91,259)	(164,489)
Increase (Decrease) in Accrued Payroll	(2,984)	(1,282)	(1,703)	(5,969)
Increase (Decrease) in Compensated Absences	3,583	6,691	1,102	11,376
Increase (Decrease) in OPEB Obligation Payable	42,961	70,057	111,766	224,784
Increase (Decrease) in Landfill Closure	-	-	(1,484,208)	(1,484,208)
Decrease (Increase) in User Charges Receivable	(96,425)	43,219	61,535	8,329
Total Adjustments	255,017	1,197,538	(976,918)	475,637
Net Cash Provided by (Used for) Operating Activities	\$ 3,627,441	\$ 4,104,498	\$ (1,117,101)	\$ 6,614,838

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	NORTHAMPTON		
	Employees Retirement System Pension Trust Fund		
	(as of December 31, 2013)	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and Cash Equivalents	\$ 75,582	\$ 285,790	\$ 290,199
Investments	100,451,473	1,560,870	-
Accrued Interest and Dividends	199,655	-	-
Accounts Receivable	21,265	-	39,164
Total Assets	100,747,975	1,846,660	329,363
LIABILITIES			
Warrants Payable	37,639	-	-
Due to Others	-	-	43,804
Due to Student Groups	-	-	161,447
Deposits and Escrows	-	-	124,112
Total Liabilities	37,639	-	329,363
NET POSITION:			
Held in Trust for Pension Benefits and Other Purposes	\$ 100,710,336	\$ 1,846,660	\$ -

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	NORTHAMPTON	
	Employees	
	Retirement	
	System Pension	
	Trust Fund	Private
	(as of December	Purpose
	31, 2013)	Trust Funds
Additions		
Contributions:		
Employers	\$ 4,824,000	\$ -
Plan Members	2,382,060	-
Transfers/Reimbursements from Other Systems	297,267	-
Federal Grant Reimbursements	18,608	-
Commonwealth of Massachusetts - COLA	101,003	-
Private Donations	-	9,992
Total Contributions	7,622,938	9,992
Investment Income:		
Interest & Dividends	2,101,031	222,295
Net Change in Fair Value of Investments	13,600,626	(40,419)
Total Investment Earnings	15,701,657	181,876
Less Investment Expense	(371,710)	-
Net Investment Earnings	15,329,947	181,876
Total Additions	22,952,885	191,868
Deductions:		
Benefit Payments to Plan Members and Beneficiaries	8,017,449	-
Refunds to Members	414,008	-
Transfers to Other Systems	577,460	-
Educational Scholarships	-	22,780
Human Services	-	-
General Expenses	183,727	11,250
Total Deductions	9,192,644	34,030
Change in Net Position	13,760,241	157,838
Net Position at Beginning of Year	86,950,095	1,688,822
Net Position at End of Year	\$ 100,710,336	\$ 1,846,660

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City of Northampton, 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 of Northampton, Massachusetts is a municipality in which citizens elect the mayor, seven council members and two at-large council members.

For financial reporting purposes, the City has included all funds, organizations, account groups, 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.

Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. The following component unit is blended within the primary government in the fiduciary funds:

The Northampton Contributory Retirement System (the System) was established to provide retirement benefits to City employees, the City Housing Authority, employees, and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The system did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 210 Main Street, Northampton, Massachusetts.

The City is responsible for electing the governing board and/or committee members of the Northampton Housing Authority. This related organization is excluded from the financial reporting entity because the City's accountability does not extend beyond the City electing the board and/or committee members. Audited financial statements are available from the respective organization. A description of the related organization is as follows:

Northampton Housing Authority - A public housing agency that provides housing assistance to eligible and qualified low and moderate income families, the elderly and handicapped. The housing authority is an autonomous and self-sufficient agency under the State Executive Office of Communities and Development. The City has no significant influence over management, budget or policies of the authority.

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

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.

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

Fund financial statements

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

Because governmental fund statements are presented using a measurement focus and basis of accounting different from that used in government-wide statements' governmental column, a reconciliation is presented that briefly explains the adjustments necessary to reconcile ending net position and change in net position.

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 fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds),

and

- If the total assets, liabilities, revenues or expenditures/expenses of the individual governmental funds are at least 5 percent of the corresponding element for all governmental funds combined.

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

Proprietary 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, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

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. Exceptions to this general rule are charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues of the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported.

Fund financial statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under the modified accrual basis concept, 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 thereafter to be used to pay current liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. 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.

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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 City 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 City reports the following major proprietary funds:

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

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

The *solid waste fund* is used to account for the solid waste activities.

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

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

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

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

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

Additionally, the City reports the following fund types:

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 government programs.

The *Northampton Employees Retirement System Pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

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

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

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. 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. The City maintains a cash and investment pool 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 cash equivalents".

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

Investment income from proprietary funds is maintained in those funds.

E. Investments

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

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Investments in the Contributory Retirement System consist of marketable securities, bonds and short-term money market investments. All investments are carried at market value.

F. Receivables

The recognition of revenues related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Property Taxes, Deferred Property Taxes, Taxes in Litigation, Rollback Taxes, and Tax Liens

Property taxes are based on assessments as of January 1, 2013 and include betterments, special assessments and liens. Taxes are used to finance the operations of the City for the fiscal year July 1st to June 30th. By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100% of fair cash value. Taxes are due and payable on July 1st. The City has accepted the quarterly tax payment system. Under the quarterly tax payment system, the assessors make a preliminary tax commitment based on the prior year's net tax and may not exceed, with limited exceptions, fifty percent of that amount. The collector must mail preliminary tax bills each year by July 1st. The preliminary tax is payable in two equal installments. The first installment is due on August 1st and the second installment is due on November 1st. After the City sets the tax rate, the assessors make the actual tax commitment. If actual bills are mailed on or before December 31st, the balance remaining is payable in two equal installments. The first installment is due on February 1st and the second installment is due on May 1st. If bills are mailed after December 31st, the entire balance is not due until May 1st or thirty days after the bills were mailed, whichever is later. Any betterments, special assessments and other charges are added to the actual bills. Interest at the rate of 14% is charged on the amount of any preliminary tax or actual tax installment payment that is unpaid and delinquent and is charged only for the number of days the payment is actually delinquent. If actual tax bills are mailed after December 31st, interest will be computed from May 1st, or the payment due date, whichever is later. The City has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables. Revenues from property taxes are recognized in the fiscal year for which they have been levied.

The City mailed preliminary tax bills for the fiscal year 2014 on July 1, 2013 and October 1, 2013, that were due on August 1, 2013 and November 1, 2013 and actual bills on January 2, 2014, and April 1, 2014, that were due on February 3, 2014 and May 1, 2014, respectively.

The Commonwealth of Massachusetts electorate in November, 1980, passed legislation known as Proposition 2 1/2, in order to limit the amount of revenue to be raised by taxation. The purpose of the legislation was to control the levy of taxes that are assessed to property owners of a City. The legal levy limit under Proposition 2 1/2 for fiscal year 2014 is as follows;

Legal Levy Limit Under Proposition	
2 1/2 for fiscal year 2014	\$ 48,078,995
Add: Debt Exclusion	1,414,608
	<u>\$ 49,493,603</u>

The total amount raised by taxation was \$49,463,820.

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

Excise Taxes

Excise taxes consist of motor vehicle excise and vessel excise. Excise taxes are assessed annually for each vehicle and vessel registered in the City and are recorded as receivables in the fiscal year of levy. The

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Commonwealth is responsible for reporting the number of vehicles registered and the fair value of those vehicles. The Board of Assessors of the City is responsible for determining the value of each vessel.

The tax calculation is the fair market value of the vehicle or vessel multiplied by the \$25 per \$1,000 of value and \$10 per \$1,000 of valuation, respectively.

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

User Charges

User charges and fees consist of sewer, water and solid waste. Sewer and water 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. Solid waste charges are landfill refuse fees. Water and sewer liens are processed each year and are included as a lien on the property owner's tax bill. Water charges, sewer charges, solid waste and water and sewer liens are recorded as receivables in the fiscal year of the levy.

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

Departmental

Departmental receivables consist primarily of veterans' services, school department fees, ambulance and other general government receipts.

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

Loans

The Community Development Block Grant office administers loan programs that provide housing assistance to residents of the City and commercial loans to businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

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

Due from Other Governments

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized 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.

G. Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, machinery, equipment and other, and infrastructure assets (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. 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.

All purchase of equipment in excess of \$15,000 and construction costs of in excess of \$50,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of fixed assets are as follows:

Capital Asset Type	Years
Buildings and renovations	10-40
Machinery, equipment and other	3-15
Infrastructure	20-50

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.

H. Interfund Transfers

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

In the government-wide financial statements, operating transfers between and within governmental 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."

In the fund financial statements, operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

I. Deferred Inflows of Resources

In addition to liabilities, the statement of net position and 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 an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for the City's property, excise and other taxes; departmental revenue, loans and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

J. Net Position and Fund Balances

In the Government-Wide financial statements, the difference between the City's total assets and total liabilities represents net position. Net position display three components – net investment in capital assets, restricted (distinguished between major categories of restrictions); and unrestricted. Unrestricted net position represents the net position available for future operations.

Net position classified as net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Net position has been "restricted for" the following:

"Capital projects" represents amounts restricted for capital purposes.

"Federal and state grants" represents amounts restricted by the federal and state government for various programs.

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

“Community preservation fund” represents amounts that are restricted for the preservation of open space, historical resources and community housing.

“Permanent funds – expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“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.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of those resources.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision making authority, which is the City Council action and can be modified or rescinded only through these actions. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action it employed to previously commit.

Assigned fund balance. This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. Department heads and City board/committees have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When the restricted and other fund balance resources are available for use, it is the City’s policy to use restricted resources first, followed by committed, assigned, and unassigned amounts respectively.

K. Long-term Debt

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position.

The face amount of governmental funds long-term debt is reported as other financing sources.

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

L. Compensated Absences

The City grants to employees sick and vacation leave in varying amounts based upon length of service and in accordance with various individual union contracts. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at 20% of their current rates of pay.

M. Post Retirement Benefits

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 50%, 60% and 80% share for PPO plans and HMO plans, respectively, insurance premiums in the general fund in the fiscal year paid.

N. Use of Estimates

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 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

An annual budget is adopted for the City's General Fund. Although legislative approval is required for the acceptance of grants, capital projects and borrowing authorizations, annual budgets are not prepared for any other fund; therefore comparison of budget to actual is only presented for the General Fund.

The City must establish its property tax rate each year so that the property tax rate levy will comply with the limits established by Proposition 2 1/2, as amended, and also equal the sum of (a) the aggregate of all annual appropriations for expenditures, plus (b) provision for prior year deficits, if any, less (c) the aggregate of all non property tax revenues estimated to be received, including available funds. Supplemental appropriations may be made from available funds after the setting of the tax rate. Appropriations may be transferred between departments with the City Council approval.

The City follows these procedures in establishing the General Fund budgetary data as reflected in the financial statements:

- Every board and committee in charge of a department shall annually, on the first day of December, send to the mayor and to the committee on finances an estimate in detail of the appropriations needed to enable the department to properly perform its duties.
- Hearings are conducted and the Mayor then submits a budget to the City Council.
- The budget is legally enacted by vote of the City Council prior to the end of the fiscal year.
- Throughout the fiscal year, any unencumbered appropriation, balance or portion thereof, may be transferred from one department, commission, board or office, to another by City Council vote.

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Massachusetts law requires cities and towns to provide for a balanced budget. Section 23 of Chapter 59 of the Massachusetts General Laws states, in part,

"The assessors shall annually assess taxes to an amount not less than the aggregate of all amounts appropriated, granted or lawfully expended by their respective towns (cities) since the preceding annual assessment and not provided for therein . . . "

For fiscal year 2014, the City incurred a final budget deficit of \$6,232,583 for the General Fund.

The City voted from the following sources to fund the deficit budget during the fiscal year:

Unassigned fund balance:	
Free cash votes	\$ 3,161,561
Overlay deficit	(131,843)
Prior year's encumbrances	3,168,711
Reserve for Police Station Debt	34,154
	\$ 6,232,583

3. DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risks – Deposits – City Financials

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. Deposits at June 30, 2014 were \$51,196,877. Of these, \$3,233,387 were exposed to custodial credit risk as uninsured and uncollateralized.

Custodial Credit Risks – Deposits – Northampton Contributory Retirement System

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned. The System does not have a deposit policy for custodial credit risk. Deposits at December 31, 2013 were \$371,267. None were exposed to custodial credit risk as uninsured and uncollateralized.

Investment Policies – City Financials

Investments of funds, except for trust funds, are generally restricted by Massachusetts General Laws, Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

The MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U. S. Government obligations and highly-rated corporate securities with maturities of one year or less.

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

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

Investment Type	Fair Value
Other Investments:	
Equity mutual funds	2,736,721
Equity securities-domestic stocks	88,020
	\$ 2,824,741

Custodial Credit Risks - Investments

For an investment, custodial risk is the risk that, in the event of the failure of 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. Of the City's \$2,824,741, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department and in the City's name. The City has no policy on custodial credit risk.

Interest Rate Risk

The City does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City has no exposure to credit risk as of June 30, 2014.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in one issuer. The City does not have more than 5 percent of the City's investments in one issuer.

Investment Policies – Northampton Contributory Retirement System City Financials

Under PERAC regulations, every retirement board shall file a statement of investment objectives with PERAC. Among the information to be filed are the investment policy, the rate of return expected, the expected level of risk, the asset mix, the degree of diversification, and other pertinent financial information.

Specific policies for investments of funds for the system are as follows:

- A. The assets shall be diversified among fixed income, equity, and short term investment and may include:
 - i. up to 3% of the total market value of the portfolio in limited partnerships, such as, but not limited to, venture capital investments;
 - ii. up to 8% of the total equity market value of the portfolio in foreign investments.
- B. The asset allocation of the portfolio shall lie within the range of 45%-65% common stock and 35%-55% fixed income as is permitted by an exemption issued to the Board.
- C. Equity investments shall comply with the following policies as well as relevant PERAC regulations including any modifications permitted by an exemption issued to the Board.

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
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- i. At least 75% of the market value of equity investments shall be in companies for which the market value of the outstanding shares is at least \$100 million at time of purchase.
 - ii. The investment in any one holding shall not exceed 5% of the total book value of equity investments at the time of purchase.
 - iii. All equity investments, including ADRs as permitted by an exemption issued to the Board, must be in securities traded on a major exchange or on the NASDAQ.
 - iv. The beta (a measure of equity volatility) shall average no more than 1.15 annually.
 - v. No investment shall be made in a company with less than a five year operating history.
 - vi. The holdings within the equity portfolio shall be diversified such that:
 - a. The equity portfolio shall consist of no fewer than 25 holdings;
 - b. no single industry shall account for more than 20% of the total market value;
 - c. at no time shall small capitalization stocks represent less than 10% of the total equity market value nor more than 50%.
 - vii. Recognizing that equity turnover may vary with market conditions and the specific characteristics of individual issues, turnover shall be targeted at no more than 150% per year.
- D. Fixed income investments shall comply with the following policies as well as relevant PERAC regulations including any modifications permitted by an exemption issued to the Board.
- i. At least 65% of the market value of the fixed income portfolio shall be in holdings rated no less than A or equivalent.
 - ii. No more than 5% of the portfolio shall have a rating less than investment grade, and no bond shall be below a rating of B. Split-rated bonds, i.e. bonds rated investment grade by at least one agency but rated below investment grade by another, are included in this 5%.
 - iii. No holding shall be purchased unless there is at least \$50 million par of the issue outstanding at the time of purchase.
 - iv. No more than 5% of the total market value of the portfolio shall be invested in the direct (as opposed to asset-backed or mortgage-backed) debt obligations of any one fixed income issuer except that issues of the U.S. government or agencies that have the full faith and credit of the U.S. government may be held without limit. The investment Manager may exceed that level, up to a maximum of 10%, however, if he or she feels it is prudent to do so as long as the Investment Manager promptly advises the Secretary to the Board of the situation so that the Board may review the investment at its next meeting.
 - v. Fixed income holdings which are downgraded below BBB or Baa shall be sold within one year of the downgrading unless the exemption issued to the Board permits retention.
 - vi. The adjusted modified duration of the fixed income portfolio shall be within the range of 75% to 125% of the duration of the Index.
 - vii. Excluding purchases and sales of issues of the U.S. government or agencies that have the full faith and credit of the U.S. government, the turnover of the fixed income portfolio shall not exceed 150% per year.
 - viii. The holdings within the fixed income portfolio shall be diversified such that:
 - a. the holdings shall be diversified across sectors and industries with no single industry representing more than one third the market value

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

- b. except that issues of the U.S. government or agencies that have the full faith and credit of the U.S. government may be held without limit.
- c. the fixed income portfolio will consist of no fewer than 20 holdings
- d. at no time shall more than 80% of the market value of the holdings nor less than 20% have an adjusted modified duration longer than the Index.

E. Cash and cash equivalents shall be invested in any or all of the following instruments: money market funds, repurchase agreements, short term instruments issued by the Treasury and other agencies of the U.S. government, commercial paper rated P1 and corporate debt maturing within one year at date of purchase.

As of December 31, 2013, the System had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities:					
U. S. treasury obligations	\$ 15,864,602	\$ 2,800,336	\$ -	\$ 4,822,530	\$ 8,241,736
Corporate bonds	14,489,204	92,307	3,079,701	6,020,867	5,296,329
Money market mutual funds	628,103	628,103	-	-	-
	<u>30,981,909</u>	<u>\$ 3,520,746</u>	<u>\$ 3,079,701</u>	<u>\$ 10,843,397</u>	<u>\$ 13,538,065</u>
Other Investments:					
PRIT pooled funds	67,826,475				
Pooled alternative investment investment capital	1,643,089				
	<u>\$ 100,451,473</u>				

Custodial Credit Risks - Investments

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the System's \$100,451,473; in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the System's name. The System has no policy on custodial credit risk.

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The System limits investments in bonds with a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent as rated by one or more recognized bond rating services.

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

The System's exposure to credit risk as of December 31, 2013 is as follows:

Related Debt Instruments	Fair Value
Moody's Quality Ratings	
<i>U. S. Treasury Obligations:</i>	
Aaa	\$ 15,864,602
<i>Corporate Bonds:</i>	
Aaa	2,529,805
Aa	1,669,459
A	2,458,658
Baa	5,827,931
Ba/b	2,003,351
<i>Money Market Mutual Funds:</i>	
Not rated	628,103
	\$ 30,981,909

Concentration of Credit Risk

The System may invest up to 15% of the account's assets in high yield securities on an opportunistic basis. There is no one investment that is 5 percent of the System's investments.

B. Receivables

At June 30, 2014, receivables for the individual major governmental funds, non-major governmental funds, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Major and nonmajor governmental funds:			
Property taxes	\$ 1,597,394	\$ (400,848)	\$ 1,196,546
Deferred property taxes	170,394	-	170,394
Rollback taxes	1,580	(1,580)	-
Tax liens	423,476	-	423,476
Taxes in litigation	6,794	(6,794)	-
Excise taxes and other taxes	876,140	(563,463)	312,677
Departmental	710,878	(328,272)	382,606
Loans	87,039	-	87,039
Due from other governments	11,463,736	-	11,463,736
Fiduciary funds:			
<i>Northampton Employees Retirement System</i>			
<i>(at December 31, 2013):</i>			
Accounts Receivable	21,265	-	21,265
<i>Agency funds:</i>			
Accounts Receivable	39,164	-	39,164
	\$ 15,397,860	\$ (1,300,957)	\$ 14,096,903

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

At June 30, 2014, receivables for the sewer, water and solid waste enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Sewer Fund:			
User charges	\$ 897,699	\$ (180,900)	\$ 716,799
Due from other governments	161,855	-	161,855
Water Fund:			
User charges	644,834	(55,000)	589,834
Solid Waste Fund:			
User charges	68,531	(40,171)	28,360
	\$ 1,772,919	\$ (276,071)	\$ 1,496,848

The composition of amounts due from other governments as of June 30, 2014 for governmental funds and the business-type activities are as follows:

Governmental Funds:

General Fund:

Commonwealth of Massachusetts:

Department of Veterans Services:

 Veterans benefits \$ 567,388

Massachusetts School Building Authority

 School Building Assistance - Capital portion 7,689,717

Due from Various Municipalities:

 Tuition 77,850 \$ 8,334,955

Nonmajor Governmental Funds:

U. S. Department of Housing and Urban Development:

 Community Development Block Grant 336,940

 Supportive Housing Grant 98,257

Commonwealth of Massachusetts:

 Department of Environmental Affairs 151,874

 Department of Energy Services 49,000

Executive Office of Public Safety & Homeland Security:

 Public safety grants 1,286

Massachusetts Department of Transportation:

 Highway Department - Chapter 90 funds 2,480,308

Private Grant:

 Massachusetts Woodlans Institute, Inc. 11,116 3,128,781

\$ 11,463,736

Business-Type Funds:

Sewer Fund:

Commonwealth of Massachusetts:

Massachusetts Water Pollution Abatement Trust:

 Bradford Street pump station project \$ 161,855

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

C. Deferred Inflows of Resources – Unavailable Revenue

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds were as follows:

General Fund:			
Property taxes	\$	840,987	
Deferred property taxes		170,394	
Tax liens		423,476	
Excise and other taxes		312,677	
Departmental		382,606	
Due from other governments		<u>8,253,277</u>	\$ 10,383,417
Nonmajor governmental funds:			
Property taxes		19,858	
Tax liens		3,828	
Loans		87,039	
Due from other governments		<u>2,915,506</u>	3,026,231
			<u><u>\$ 13,409,648</u></u>

D. Capital Assets

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 14,371,690	\$ 1,876,709	\$ (217)	\$ 16,248,182
Construction in progress	20,805,608	2,517,136	(20,404,870)	2,917,874
Total capital assets not being depreciated	<u>35,177,298</u>	<u>4,393,845</u>	<u>(20,405,087)</u>	<u>19,166,056</u>
Capital assets being depreciated:				
Buildings and improvements	101,885,929	18,470,105	(513,750)	119,842,284
Machinery, equipment and other	11,702,281	1,701,523	(30,000)	13,373,804
Infrastructure	18,408,275	2,458,900	-	20,867,175
Total capital assets being depreciated	<u>131,996,485</u>	<u>22,630,528</u>	<u>(543,750)</u>	<u>154,083,263</u>
Less accumulated depreciation for:				
Buildings	55,292,755	3,824,835	(113,750)	59,003,840
Machinery, equipment and other	9,656,439	933,741	(30,000)	10,560,180
Infrastructure	13,814,251	384,566	-	14,198,817
Total accumulated depreciation	<u>78,763,445</u>	<u>5,143,142</u>	<u>(143,750)</u>	<u>83,762,837</u>
Total capital assets being depreciated, net	<u>53,233,040</u>	<u>17,487,386</u>	<u>(400,000)</u>	<u>70,320,426</u>
Total governmental activities capital assets, net	<u><u>\$ 88,410,338</u></u>	<u><u>\$ 21,881,231</u></u>	<u><u>\$ (20,805,087)</u></u>	<u><u>\$ 89,486,482</u></u>

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 3,917,435	\$ 185,000	\$ (1,609,045)	\$ 2,493,390
Construction in progress	2,722,765	416,325	(895,900)	2,243,190
Total capital assets not being depreciated	6,640,200	601,325	(2,504,945)	4,736,580
Capital assets being depreciated:				
Buildings and Renovations	24,515,553	-	(19,538,600)	4,976,953
Machinery, equipment and other	2,698,425	93,410	-	2,791,835
Infrastructure	74,857,783	895,900	-	75,753,683
Total capital assets being depreciated	102,071,761	989,310	(19,538,600)	83,522,471
Less accumulated depreciation for:				
Buildings and Renovations	15,698,961	35,000	(827,991)	14,905,970
Machinery, equipment and other	2,441,634	128,974	-	2,570,608
Infrastructure	35,714,735	5,153,454	(13,980,422)	26,887,767
Total accumulated depreciation	53,855,330	5,317,428	(14,808,413)	44,364,345
Total capital assets being depreciated, net	48,216,431	(4,328,118)	(4,730,187)	39,158,126
Total business-type activities capital assets, net	\$ 54,856,631	\$ (3,726,793)	\$ (7,235,132)	\$ 43,894,706

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

Governmental Activities:

General government	\$ 837,985
Public safety	969,231
Public works	648,769
Education	2,360,118
Health and human services	119,098
Culture and recreation	207,941
Total depreciation expense - governmental activities	<u>\$ 5,143,142</u>

Business-Type Activities:

Sewer fund	\$ 326,132
Water works fund	1,133,833
Solid waste fund	3,857,463
Total depreciation expense - business-type activities	<u>\$ 5,317,428</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

E. Interfund Receivables, Payables and Transfers

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

	Transfers In:		
Transfers Out:	General fund	Nonmajor Governmental fund	Total
General fund	\$ -	\$ 136,157	\$ 136,157
Nonmajor governmental funds	1,824,118	-	1,824,118
Business-type fund	2,641,731	-	2,641,731
Total transfers out	\$ 4,465,849	\$ 136,157	\$ 4,602,006

F. Lease

The City has entered into a lease agreement as lessee for financing the acquisition of an ambulance. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through the capital leases are as follow:

	Governmental Activities
Asset:	
Machinery, Equipment and Other	\$ 421,825
Less: Accumulated Depreciation	(191,649)
Total	\$ 230,176

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

Year Ending June 30,	Governmental Activities
2015	\$ 107,406
Less: amount representing interest	(4,864)
Present value of minimum lease payments	\$ 102,542

G. Short-Term Financing

Under the general laws of the Commonwealth and with the appropriate local authorization the City is authorized to borrow funds on a temporary basis to (1) fund current operations prior to the collection of revenues, by issuing revenue anticipation notes, (2) fund grants prior to reimbursements, by issuing grant anticipation notes, and (3) fund capital projects costs incurred prior to selling permanent debt by issuing bond anticipation notes.

CITY OF NORTHAMPTON, MASSACHUSETTS
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Details related to the short-term debt activity of the governmental activities are as follows:

Purpose	Interest Rate	Final Maturity Date	Balance July 1, 2013	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2014
Nonmajor Governmental Funds:						
Bond Anticipation Notes:						
DPW Facility	1.00%	2/7/2014	\$ 800,000	\$ -	\$ 800,000	\$ -
School parking lot	1.00%	2/7/2014	125,000	-	125,000	-
Florence fields recreational project	1.00%	2/7/2014	1,200,000	-	1,200,000	-
Total Governmental Activities			\$ 2,125,000	\$ -	\$ 2,125,000	\$ -

H. Long Term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds currently outstanding of the governmental type fund are as follows:

	Interest	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2014
Inside Debt:					
Library building remodeling	3.40%	10/15/2002	9/1/2019	\$ 830,000	\$ 281,000
Building remodeling - school	Various	11/15/2004	10/15/2023	767,000	371,000
Aerial ladder fire truck	Various	11/15/2004	10/15/2023	720,500	70,000
Refinanced:					
Land acquisition - Gerogianna	Various	11/15/2004	10/15/2018	76,000	12,000
Storm and surface drains	Various	11/15/2004	10/15/2018	40,000	12,000
Fire station	Various	11/15/2004	10/15/2018	2,325,000	1,195,000
Municipal Purpose Loan of 2007:					
School energy	3.75-4.0%	3/15/2007	3/15/2016	60,000	12,000
SVAHS shop computers	3.75-4.0%	3/15/2007	3/15/2016	300,000	52,000
Ridgewood Terrace roads	3.75-4.0%	3/15/2007	3/15/2016	173,400	35,000
Veteran's field skatepark	3.75-4.0%	3/15/2007	3/15/2022	140,000	70,000
Senior center	3.75-4.0%	3/15/2007	3/15/2026	3,910,000	2,468,000
Forbes library remodeling	3.75-4.0%	3/15/2007	3/15/2026	982,900	599,000
Schools and DPW garage remodeling	3.75-4.0%	3/15/2007	3/15/2026	415,000	247,000
DPW salt/sand shed	3.75-4.0%	3/15/2007	3/15/2026	173,600	103,000
Storm and surface drains	3.75-4.0%	3/15/2007	3/15/2026	602,000	382,000
Municipal Purpose Loan of 2009:					
DPW roof repairs	2.0-5.0%	2/12/2009	2/1/2029	25,000	12,500
Ryan Road bridge repairs	2.0-5.0%	2/12/2009	2/1/2029	125,000	75,000
Various school projects	2.0-5.0%	2/12/2009	2/1/2029	744,000	237,500
Massachusetts Water					
Pollution Abatement Trust:					
Septic Management Program Bond	N/A	10/25/2000	8/1/2018	93,837	26,059
					\$ 6,260,059

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Notes to the Financial Statements
Year Ended June 30, 2014

	Interest	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2014
Inside Debt:					
Continued from Page 48					\$ 6,260,059
Municipal Purpose Loan of 2010:					
Drainage	3.01%	12/1/2010	11/15/2025	100,000	70,000
Sidewalk construction	1.70%	12/1/2010	11/15/2014	186,500	5,000
Police station	3.19%	12/1/2010	11/15/2025	1,100,000	875,000
Technology	2.31%	12/1/2010	11/15/2019	225,500	140,000
Energy conservation improvements	3.27%	12/1/2010	11/15/2025	4,893,000	4,105,000
Qualified energy conservation	1.73%	12/22/2010	11/15/2025	1,607,000	1,284,000
Clean renewable energy	1.73%	12/22/2010	11/15/2025	261,000	207,000
Municipal Purpose Loan of 2012:					
Police Station 1	2.30%	2/9/2012	12/1/2031	\$ 10,000,000	9,000,000
Police Station 2	2.32%	2/9/2012	12/1/2031	887,000	845,000
Police Station 3	2.28%	2/9/2012	12/1/2031	5,580,000	5,390,000
NPS Wheelchair Bus	1.07%	2/9/2012	12/1/2015	50,000	20,000
Police Vehicles	1.06%	2/9/2012	12/1/2015	141,500	70,000
SVAHS Culinary Arts Renovations	1.07%	2/9/2012	12/1/2015	50,000	20,000
SVAHS Paint Booth Renovation	1.07%	2/9/2012	12/1/2016	50,000	25,000
DPW 2 Dump Truck	1.07%	2/9/2012	12/1/2015	130,000	60,000
DPW 2 Six-Wheel Trucks	1.06%	2/9/2012	12/1/2015	280,000	135,000
Recreation Dept. Mini-Bus	1.05%	2/9/2012	12/1/2016	45,000	25,000
Police Tactical Equipment	1.07%	2/9/2012	12/1/2016	60,000	30,000
DPW Equipment	1.05%	2/9/2012	12/1/2016	150,000	90,000
JFK Pool Filter	1.05%	2/9/2012	12/1/2016	75,000	45,000
JFK Tilt Kettle	1.09%	2/9/2012	12/1/2016	31,000	15,000
Bridge and Jackson Dishwashers	1.08%	2/9/2012	12/1/2016	35,500	15,000
SVAHS Cafeteria Renovation	1.05%	2/9/2012	12/1/2016	125,000	75,000
High School Track	1.44%	2/9/2012	12/1/2021	50,000	40,000
Bridge St. School PA System	1.05%	2/9/2012	12/1/2016	50,000	30,000
Drainage DPW	1.44%	2/9/2012	12/1/2021	250,000	200,000
Bean Farm Land Acquisition	1.79%	2/9/2012	12/1/2026	910,000	755,000
Municipal Purpose Loan of 2014:					
DPW Facility	0.79%	2/6/2014	2/1/2017	275,000	275,000
School Parking Lot	1.00%	2/6/2014	2/1/2018	125,000	125,000
Florence Fields	2.34%	2/6/2014	2/1/2027	1,200,000	1,200,000
Ryan Road School Roof	1.94%	2/6/2014	2/1/2024	150,000	150,000
SVAHS Boiler	1.94%	2/6/2014	2/1/2024	150,000	150,000
DPW Vehicles	1.79%	2/6/2014	2/1/2019	300,000	300,000
Total Inside Debt					<u>32,031,059</u>
Outside Debt:					
High school roof replacement	3.40%	10/15/2002	9/1/2017	400,000	103,000
High school remodeling	3.40%	10/15/2002	9/1/2019	5,565,000	21,000
Refinanced:					
School project	Various	11/15/2004	10/15/2019	18,508,000	7,660,000
Total Outside Debt					<u>7,784,000</u>
Total Governmental Type Debt					<u>\$ 39,815,059</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
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General obligation bonds currently outstanding of the business-type fund are as follows:

	Interest	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2014
Inside Debt:					
Sewer:					
Refinanced:					
Sewer	Various	11/15/2004	10/15/2019	\$ 2,539,000	\$ 1,332,000
Municipal Purpose Loan of 2012:					
Bradford Street Pump Station	2.30%	2/9/2012	12/1/2031	800,000	720,000
Municipal Purpose Loan of 2014:					
DPW Facility	0.79%	2/6/2014	2/1/2016	137,500	137,500
Massachusetts Water Pollution Abatement Trust:					
Comprehensive Wastewater Management Plan	2.00%	6/13/2012	7/15/2032	706,047	677,487
Water:					
Municipal Purpose Loan of 2014:					
DPW Facility	0.79%	2/6/2014	2/1/2016	137,500	137,500
Total Inside Debt					<u>3,004,487</u>
Outside Debt:					
Water:					
Water filtration plant	Various	11/15/2004	10/15/2024	1,000,000	559,000
Route 66 water mains	Various	11/15/2004	10/15/2024	775,000	415,000
Water	3.75-4.00%	3/15/2007	3/15/2026	1,100,000	692,000
Route 66 water mains	2.00-5.00%	2/12/2009	2/1/2029	1,200,000	900,000
Massachusetts Water Pollution Abatement Trust:					
Water filtration plant	2.00%	2/1/2007	8/1/2024	2,241,713	1,525,606
Water filtration plant	2.00%	12/14/2006	7/15/2026	9,612,283	6,686,709
Water filtration plant	2.00%	12/14/2006	7/15/2026	14,000,000	9,738,991
Water filtration plant	2.00%	3/18/2009	7/15/2028	1,250,000	952,773
Well chlorination project	2.00%	7/8/2010	7/15/2025	459,416	378,216
Well chlorination project	2.00%	6/13/2012	7/15/2032	119,412	114,582
Refinanced:					
Water	Various	11/15/2004	10/15/2019	3,814,000	744,000
					<u>22,706,877</u>
Solid Waste:					
Refinanced:					
Landfill	Various	11/15/2004	10/15/2016	1,829,000	525,000
					<u>525,000</u>
Total Outside Debt					<u>23,231,877</u>
Total Business Type Debt					<u>\$ 26,236,364</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

The annual principal and interest payments to retire all governmental and business-type activities long-term debt outstanding as of June 30, 2014 are as follows:

Governmental

Year	Principal	Interest	Total
2015	\$ 4,626,212	\$ 1,415,070	\$ 6,041,282
2016	4,075,212	1,225,658	5,300,870
2017	3,490,212	1,060,971	4,551,183
2018	3,375,211	919,736	4,294,947
2019	3,610,212	775,284	4,385,496
2020-2024	11,734,000	2,301,038	14,035,038
2025-2029	6,479,000	775,259	7,254,259
2030-2032	2,425,000	108,825	2,533,825
	<u>\$ 39,815,059</u>	<u>\$ 8,581,841</u>	<u>\$ 48,396,900</u>

Business-type

Year	Principal	Interest	Total
2015	\$ 2,523,974	\$ 675,191	\$ 3,199,165
2016	2,433,553	591,680	3,025,233
2017	2,123,363	512,642	2,636,005
2018	1,908,610	452,601	2,361,211
2019	1,944,829	398,491	2,343,320
2020-2024	9,256,912	1,261,595	10,518,507
2025-2029	5,730,488	261,897	5,992,385
2030-2032	314,635	13,290	327,925
	<u>\$ 26,236,364</u>	<u>\$ 4,167,387</u>	<u>\$ 30,403,751</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

A summary of the changes in governmental activities and business-type long term debt during the year is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental activities:					
Bond Payable:					
General obligation bonds	\$ 42,270,000	\$ 2,200,000	\$ 4,681,000	\$ 39,789,000	\$ 4,621,000
Massachusetts Water Pollution Abatement Trust bonds	31,273	-	5,214	26,059	5,212
Lease payable	50,183	234,992	182,633	102,542	102,542
Compensated absences	3,357,455	-	108,427	3,249,028	1,228,514
OPEB obligation payable	24,991,777	6,003,356	-	30,995,133	-
Governmental activity					
Long-term liabilities	\$ 70,700,688	\$ 8,438,348	\$ 4,977,274	\$ 74,161,762	\$ 5,957,268
Business-type activities:					
Bond Payable:					
General obligation bonds	\$ 7,186,000	\$ 275,000	\$ 1,259,000	\$ 6,202,000	\$ 1,174,000
Massachusetts Water Pollution Abatement Trust bonds	21,356,467	-	1,322,103	20,034,364	1,349,974
Compensated absences	175,258	11,376	-	186,634	72,343
OPEB obligation payable	926,525	224,784	-	1,151,309	-
Landfill closure	3,575,000	-	1,484,208	2,090,792	-
Governmental activity					
Long-term liabilities	\$ 33,219,250	\$ 511,160	\$ 4,065,311	\$ 29,665,099	\$ 2,596,317

Massachusetts Water Pollution Abatement Trust (MWPAT)

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$28,482,718 and interest costs of \$6,619,178 for eight loans which the City has borrowed from MWPAT. The gross amount outstanding at June 30, 2014 for principal and interest combined for the loans is \$23,085,585. The net repayments, including interest, are scheduled to be \$22,749,217. Since the City is legally obligated for the total amount of the debt, such amounts for the gross principal have been recorded on the financial statements. The fiscal year 2014 principal and interest subsidies totaled \$42,585.

Legal Debt Limit

Under Section 10 of Chapter 44 of the Massachusetts General Laws, a City may authorize indebtedness up to a limit of 5 percent of the equalized valuation of the City. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." The City's inside debt at June 30, 2014, totaled \$35,035,546.

In addition, the City is authorized to incur debt outside of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

The following is a computation of the legal debt limit as of June 30, 2014:

Equalized Valuation-Real Estate and Personal Property (2014)		<u>\$ 3,351,978,800</u>
Debt Limit: 5 % of Equalized value		167,598,940
Total Debt Outstanding		
Governmental Activity Debt	\$ 39,815,059	
Less: Debt Outside Debt Limit	<u>(7,784,000)</u>	32,031,059
Business-Type Activity Debt	26,236,364	
Less: Debt Outside Debt Limit	<u>(23,231,877)</u>	3,004,487
		<u>35,035,546</u>
Inside Debt Excess Borrowing Capacity at June 30, 2014		<u><u>\$ 132,563,394</u></u>

Loans Authorized and Unissued - Memorandum Only

Under the general laws of the Commonwealth of Massachusetts, a City must authorize debt at a City Council meeting. This authorized debt does not have to be actually issued at that time and remains authorized until the debt is actually issued or City Council votes to rescind the authorized debt.

The loan authorizations of the governmental activities as of June 30, 2014, which are not reflected in the City's financial statements are as follows:

Date Authorized	Purpose	Amount
9/1/2011	Flood control pumping station engine replacements	\$ 50,000
7/12/2012	Outdoor recreation improvements	625,000
5/2/2013	Public rail trails improvements	500,000
6/27/2013	River Road retaining wall slope stabilization	400,000
2/7/2014	Playgrounds for Lampron Park or Florence Fields	250,000
5/16/2014	Conservation land acquisition	264,200
6/5/2014	Public parks and playground improvements	1,500,000
6/20/2014	Street resurfacing	500,000
6/20/2014	Department of Public Works' vehicles	360,000
		<u><u>\$ 4,449,200</u></u>

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

I. Fund Balances

The following is a summary of the City Governmental Fund balances at the year ended June 30, 2014:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Permanent funds	\$ -	\$ 696,006	\$ 696,006
Restricted:			
Federal, state and local grants	-	628,273	628,273
School revolving funds	-	4,456,549	4,456,549
City revolving funds	-	590,587	590,587
Donations and gifts	-	762,639	762,639
Community preservation fund	-	3,157,641	3,157,641
Capital projects	-	929,595	929,595
Permanent funds	-	434,994	434,994
Other	-	1,451,696	1,451,696
Reserve for debt	304,881	-	304,881
	<u>304,881</u>	<u>12,411,974</u>	<u>12,716,855</u>
Committed:			
Parking fund	-	904,991	904,991
Workers Compensation	-	81,400	81,400
	<u>-</u>	<u>986,391</u>	<u>986,391</u>
Assigned:			
General government	125,440	-	125,440
Public safety	9,367	-	9,367
Public works	119,969	-	119,969
Education	153,809	-	153,809
Health and human services	4,199	-	4,199
Culture and recreation	-	-	-
Employee benefits and insurance	108,448	-	108,448
Capital improvements	2,883,689	-	2,883,689
Energy projects	-	262,907	262,907
	<u>3,404,921</u>	<u>262,907</u>	<u>3,667,828</u>
Unassigned:			
General Fund	<u>8,221,003</u>	-	<u>8,221,003</u>
Total Governmental fund balances	<u>\$ 11,930,805</u>	<u>\$ 14,357,278</u>	<u>\$ 26,288,083</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

J. Stabilization Fund

Under Section 5B of Chapter 40 of the Massachusetts General Laws, the City may for the purpose of creating a stabilization fund appropriate in any year an amount not exceeding ten percent of the amount raised in the preceding year by taxation of real estate and tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The aggregate amount in the fund at any time shall not exceed ten percent of the equalized valuation of the City and any interest shall be added to and become a part of the fund. The stabilization fund may be appropriated in a City by the City Council for any lawful purpose.

At June 30, 2014 the balances in the stabilization funds are reported in the General Fund as unassigned fund balance consisting of the following:

General purpose stabilization fund	\$ 1,231,006
Capital stabilization fund	1,586,898
Fiscal stability stabilization fund	774,268
	<hr/>
	\$ 3,592,172
	<hr/>

4. OTHER INFORMATION

A. Risk Management

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. The City has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties.

Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

Litigation

Various cases are pending against the City at June 30, 2014. The amount of the claims cannot be estimated at the present time. As a result, the potential loss, if any on these claims has not been recorded on the financial statements.

Federal Financial Assistance

The City receives significant financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit procedures prescribed under the Single Audit Act Amendments of 1996. Any disallowed expenditures resulting from such audits become a liability of the City.

The outcome of lawsuits and any findings with respect to disallowed expenditures is not expected to materially affect the financial condition of the City.

C. Landfill Closure and Postclosure Cost - Northampton Regional Sanitary Landfill

The City of Northampton operates and owns a landfill. The City landfill is operating under a permit dated January 11, 1994 issued by the Commonwealth of Massachusetts Department of Environmental Protection. The permit is an authorization to operate the Phase 2 Expansion of the landfill. Phase 3 has begun to be

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

constructed with the City providing authorization to borrow in the amount of \$3,680,000. The estimated useful life of the facility is 13.4 years from the date of the permit at an estimated filling rate of 110 tons a day.

The City received a grant in the amount of \$5,656,912 from the Commonwealth of Massachusetts for Phase 1 and Phase 2 of the construction of the landfill. The total cost of Phases 1, 2 and 3 was \$11,187,743 including City funds. Sixty percent of the grant is a no interest loan with repayment of the loan to begin no later than one year after completion of the construction of the facility at a quarterly payment of \$94,281.86.

The City completed Phase 4 in fiscal year 2003. The final cost of phase 4 was \$1,600,000.

In fiscal year 2004, the capping of cell 1 was completed. A contract in the amount of \$734,810 had been awarded for the construction of Phase 4.

As a requirement of the grant the City must make the following financial assurances:

Operational Fund - The City shall provide adequate financial assurances to ensure that adequate funds will be available to maintain and operate the facility on a day-to-day basis through the use of an operational fund.

Closure Fund - The City must establish a "landfill closure fund" to be funded through a phased-in schedule as follows:

Fiscal Years 1991 - 1993	\$50,000 per year
Fiscal Years 1994 - 1995	\$75,000 per year
Fiscal Year 1996	\$100,000 per year
Fiscal Years 1997 - 2003	\$125,000 per year

On June 30, 2014, the landfill closure trust fund is maintained in the solid waste business-type fund in the amount of \$1,963,317.

The City has reflected a balance of \$2,090,792 as the estimate of the landfill maintenance and monitoring costs as of June 30, 2014 as a liability in the business-type activities of the government-wide financial statements. The amount is based on estimates of what it would cost to perform all future post closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

D. Other Post Employment Benefits Payable

GASB Statement No. 45

The cost of post employment benefits generally should be associated with the periods in which costs occur rather than in the future year when it will be paid. The City adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2009 and thus recognizes the cost of post employment benefits in the year when the employee services are received, reports the accumulated liability from prior years and provides information useful in assessing potential demands on the City's future cash flows.

Plan Description

In addition to providing pension benefits as described on the following footnote, the City provided post-employment health care and life insurance benefits for retired employees, their dependents and beneficiaries. The benefits, benefit levels, employee and employer contributions are governed by Massachusetts General Law chapter 32. As of the actuarial valuation date there are approximately 1,514 active and retired employees that meet the eligibility requirements. The plan does not issue a separate financial report.

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Funding Policy

The contribution requirements of plan members and the City are established and may be amended through City policy and member contracts. The required contribution is based on the projected pay-as-you-go financing requirements. For the 2014 fiscal year, total City premiums plus implicit costs for the retiree medical program are \$3,286,320 consisting of \$3,178,915 for governmental activities and \$107,405 for the business-type activities.

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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the City's annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the City's net OPEB obligation to the plan:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 10,158,032	\$ 368,295	\$ 10,526,327
Interest on net OPEB obligation	999,672	37,062	1,036,734
Adjustment to annual required contribution	(1,389,689)	(51,521)	(1,441,210)
Amortization of Actuarial (Gains)/Losses	(489,463)	(17,928)	(507,391)
Annual OPEB cost (expense)	9,278,552	335,908	9,614,460
Contributions made during the fiscal year	(3,178,915)	(107,405)	(3,286,320)
Contributions made to OPEB Trust	(96,281)	(3,719)	(100,000)
Increase in net OPEB obligation	6,003,356	224,784	6,228,140
Net OPEB Obligation - beginning of year	24,991,777	926,525	25,918,302
Net OPEB Obligation - end of year	<u>\$ 30,995,133</u>	<u>\$ 1,151,309</u>	<u>\$ 32,146,442</u>

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2014 fiscal year and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 9,614,460	35.22%	\$ 32,146,442
6/30/2013	\$ 11,902,136	34.96%	\$ 25,918,302
6/30/2012	\$ 11,198,476	34.99%	\$ 18,177,567

Funded Status and Funding Process

As of July 1, 2013, the most recent valuation date, the plan was 0.0% funded. The actuarial liability for benefits was \$108,948,518, and the actuarial value of assets was 0.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$108,948,518. The covered payroll (annual payroll of active employees covered by the plan) was not available, and the ratio of the UAAL to the covered payroll was not available.

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

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Amounts determined regarding the funded status of the plan and the Annual Required Contribution 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 multi-year 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 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 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 City OPEB actuarial valuation as of July 1, 2013, used the projected unit credit actuarial cost method. The OPEB liability is currently unfunded. Actuarial assumptions include a 4.0% investment rate of return, a 3.00% payroll growth rate per annum and medical/drug cost trend rate of an ultimate level of 5% per year.

The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar amount open basis. The remaining amortization period at June 30, 2014 is 24 years.

E. Pension Plan

Plan Description

The City contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Northampton Contributory Retirement Board. Substantially, all employees are members of the System, except for public school teachers and administrators who are members of Commonwealth of 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 \$9,109,385 for the fiscal year ending June 30, 2014, and, accordingly, are reported in the general fund as intergovernmental revenues and employee benefit expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan. Cost of living adjustments granted between 1981 and 1987, and any increases 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 1987 must be approved by the Northampton 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 210 Main Street, City Hall, Northampton, Massachusetts.

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. The current and two preceding fiscal years

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

apportionment of the annual pension cost between the employers required the City to contribute 96% of the total. Chapter 32B of the Massachusetts General Laws governs the contributions of plan members and the City.

The City's contribution to the System for the fiscal years ended June 30, 2014, 2013, and 2012 is shown below, which equaled its required contribution for each fiscal year.

Year Ended June 30	City's Contribution
2014	\$ 4,599,669
2013	\$ 4,359,384
2012	\$ 4,198,899

The required information presented above was determined as part of the actuarial valuations at the dates indicated. The last actuarial valuation was prepared by the Stone Consulting, Inc. as of January 1, 2012. The actuarial cost method of the plan has been determined in accordance with the individual entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.75 % a year compounded annually, (b) projected salary, including longevity, increases of approximately 7% during the first eight years of employment and 4% thereafter, except for the next three years, the 4% is reduced by 2% (prior valuation reduction was 3% for two years and 2% in the third year).

The total unfunded actuarial liability at January 1, 2012 is as follows:

Active members	\$ 58,676,990
Inactive, retired members and beneficiaries	<u>72,710,809</u>
Total actuarial liability	131,387,799
Less: Assets	<u>(79,531,350)</u>
Unfunded actuarial liability	51,856,449
Add/Less: Adjustments	<u>3,054,550</u>
Unfunded actuarial liability	<u><u>\$ 54,910,999</u></u>

Reporting Policies

The funds of the Northampton Employees Retirement System are accounted for under the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenditures are accrued and investments are amortized to value. The books are maintained on a calendar year basis from January 1st to December 31st in accordance with the standards and procedures outlined by the Commissioner of the Public Employees Retirement Administration.

Investments are reported in accordance with PERAC requirements.

F. Special Item – Solid Waste Enterprise Fund

As of the end of fiscal year 2014, the City's Municipal Landfill is no longer accepting solid waste. The activity at the Municipal Solid Waste Landfill (MSWLF) has been accounted for in a Proprietary Fund. The capitalized value of the MSWLF land and land improvements are being fully depreciated to reflect the assets useful life due to the cease in operations of the landfill. The amount associated with this depreciation is \$3,312,181 as shown on the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.

CITY OF NORTHAMPTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

G. Restatement

The Landfill Proprietary Fund Net Position beginning balances were decreased \$5,249,620 to reflect landfill closure costs that were previously capitalized as land improvements. Capital Asset beginning balances were decreased \$5,958,178 and accumulated depreciation was decreased (added back) by \$735,558.

H. Implementation Of New GASB Pronouncements

During fiscal year 2014, the GASB implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement introduced the concept of deferred outflows and deferred inflows to the financial statements. As such, certain items that were previously reported as assets and liabilities were reclassified to deferred outflows and deferred inflows.

I. Future GASB Pronouncements

The GASB issued Statement No. 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 City's basic financial statements by recognizing as an asset/(liability) and revenue/(expense), the City's portion of the Northampton Contributory Retirement System actuarial accrued liability.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORTHAMPTON, MASSACHUSETTS
Required Supplementary Information
Schedule of Funding Progress and Employer Contributions
Other Post-Employment Benefit Plan
Year Ended June 30, 2014

Schedule of Funding Progress

Other Post Employment Benefits							
(Dollar Amounts in Thousands)							
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Aid (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	\$ -	\$ 108,949	\$ 108,949	0%	N/A	N/A	
7/1/2012	\$ -	\$ 126,172	\$ 126,172	0%	\$ 37,703	334.6%	
7/1/2011	\$ -	\$ 118,782	\$ 118,782	0%	\$ 36,428	326.1%	

Schedule of Contribution Funding

Other Post Employment Benefits			
Fiscal Year Ended June 30	Annual OPEB Cost	Actual Contributions Made	Percentage Contributed
2014	\$ 9,614,460	\$ 3,386,320	35.22%
2013	\$ 11,902,136	\$ 4,161,401	34.96%
2012	\$ 11,198,476	\$ 3,918,657	34.99%

The information presented in the above Required Supplementary Schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation can be found in the Notes to Basic Financial Statements.

Actuarial Methods:

Valuation date	July 1, 2013
Actuarial cost method	Projected Unit Credit Actuarial Cost Method
Amortization method	30-year amortization payments
Remaining amortization period	24 years remaining as of June 30, 2014

Actuarial Assumptions:

Investment rate of return	4.0%
Discount rate	4.0%
Medical/drug cost trend rate	6.0% in the current year trending down to an ultimate rate of 5% per year in 2014.

Plan Membership:

Current active members	973
Current retirees, beneficiaries and dependents	541
Total	<u>1,514</u>

CITY OF NORTHAMPTON, MASSACHUSETTS
Required Supplementary Information
Schedule of Funding Progress and Employer Contributions
Northampton Contributory Retirement System
For the Year Ended June 30, 2014

Schedule of Funding Progress

Pension System						
Northampton Contributory Retirement System						
(Dollar Amounts in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2012	\$ 79,531	\$ 131,388	\$ 51,857	61%	\$ 23,889	217%
1/1/2010	\$ 76,045	\$ 116,637	\$ 40,592	65%	\$ 22,556	180%
1/1/2008	\$ 71,799	\$ 108,846	\$ 37,047	66%	\$ 21,754	170%

Schedule of Funding Progress

Pension System			
Northampton Contributory Retirement System		City	
Fiscal Year Ended	Required Contributions (A)	Actual Contributions (B)	Percentage of System-Wide Actual Contributions (B/A)
6/30/2014	\$ 4,824,000	\$ 4,599,669	95.35%
6/30/2013	\$ 4,359,384	\$ 4,359,384	100.00%
6/30/2012	\$ 4,198,899	\$ 4,198,899	100.00%

The information presented in the above Required Supplementary Schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation can be found in the Notes to Basic Financial Statements.

Actuarial Methods:

Valuation date	January 1, 2012
Actuarial cost method	Individual Entry-Age Normal Cost Method
Amortization method	Approximate level percent of payroll closed
Remaining amortization period	23 years remaining as of January 1, 2012
Asset valuation method	Market value adjusted by accounts payable and receivables adjusted to phase in over four years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value and no more than 110% of the adjusted market value. Market value of assets is \$79,836,059.

Actuarial Assumptions:

Investment rate of return	7.75%
Projected salary increase	4.50% per year on average
Cost of living adjustments	3.00% per year (of the first \$12,000)

Plan Membership:

Active Members	624
Inactive Members	161
Retired Members, Beneficiaries and Survivors	363
Total	1,148

SUPPLEMENTARY SCHEDULES

CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Fund Balances July 1, 2013	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2014
Special Revenue:					
Federal and State Grants:					
School Grants	\$ 105,717	\$ 2,268,208	\$ 2,176,260	\$ -	\$ 197,665
Arts Lottery Council Grants	7,147	37,883	38,144	-	6,886
Community Development Grants	170,303	818,157	911,866	76,695	153,289
Council on Aging Grants	8,984	57,905	59,788	-	7,101
Disaster Relief and Hazard Grants	174,353	-	2,365	(142,995)	28,993
Economic Development Grants	14,517	-	14,517	-	-
Energy Grants	22,466	117,285	133,488	-	6,263
Health Grants	16,205	1,560	3,954	-	13,811
Highway Grants	-	1,064,183	992,427	-	71,756
Library Grants	651	41,837	41,837	-	651
Other Programs and Grants	14,119	93,841	77,971	(8,619)	21,370
Planning Grants	903	381,741	381,716	-	928
Public Safety Grants	320,567	212,641	470,492	-	62,716
Rail Trail Grants	35,573	-	-	-	35,573
Recycling Grants	21,271	-	-	-	21,271
Schools:					
School Lunch Revolving	1,206	936,449	866,236	-	71,419
School Lunch Commodities	-	71,369	71,369	-	-
E-Rate Reimbursement	-	14,677	-	(14,677)	-
Grant Indirect Expenses	101,188	1,225	1,225	(101,188)	-
McKinney Vento Reimbursement	-	-	53,968	54,813	845
Privately Funded Grants	22,355	112,436	118,533	-	16,258
Revolving Accounts	1,098,956	1,264,626	672,246	(38,926)	1,652,410
School Choice	1,864,470	1,555,805	1,250,978	-	2,169,297
State Special Education Reimbursement Fund	382,694	546,322	382,696	-	546,320
Other:					
Baystate Gas Roundhouse Lot Fund	93,964	-	9,999	-	83,965
Board of Health Revolving	6,169	11,891	5,047	-	13,013
Community Preservation Fund	1,622,423	1,612,932	1,265,569	1,187,855	3,157,641
Committee on Disabilities Revolving Fund	11,500	4,570	5,463	-	10,607
Total Special Revenue Page 65	\$ 6,117,701	\$ 11,227,543	\$ 10,008,154	\$ 1,012,958	\$ 8,350,048

CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Fund Balances July 1, 2013	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2014
Continued from Page 65	\$ 6,117,701	\$ 11,227,543	\$ 10,008,154	\$ 1,012,958	\$ 8,350,048
Special Revenue (continued):					
Other (continued):					
Connecticut River Channel Markers	15,570	15,554	22,093	-	9,031
Conservation Funds	15,591	8,538	127	(6,000)	18,002
Cooley Dickinson Hospital Healthy Communities Grant	6	-	-	(6)	-
Council on Aging Revolving Funds	69,805	132,665	95,130	-	107,340
Dog Refund and Revolving Fund	53,940	125	240	-	53,825
Energy Rebates	407,907	-	-	(145,000)	262,907
Energy Sustainability Revolving Fund	59,562	39,629	33,952	-	65,239
Fire Department Revolving Funds	64,056	104,038	123,538	-	44,556
Fire Outside Detail	3,915	16,735	15,631	-	5,019
Gifts & Donations	798,939	87,918	124,581	363	762,639
Handicapped Funds	1,892	-	1,167	(725)	-
Internet Access and Technology	186,727	146,687	-	(160,000)	173,414
James House Rental	20,031	52,875	34,050	-	38,856
Liquor Licenses Deposits	10,000	-	-	-	10,000
MIIA Loss Control Grant	-	4,908	4,908	-	-
Municipal Waterways Fund	2,385	2,088	-	(3,000)	1,473
Neil H. McManus Memorial	-	500	-	-	500
Northampton State Hospital Marketing	1,356	-	-	-	1,356
Parking Meter Reserves and Passes	1,327,598	157,538	-	(580,145)	904,991
Police Court Time	7,268	-	-	-	7,268
Police Outside Detail	17,627	457,701	402,857	-	72,471
Premium on Loans	-	180,727	37,276	(143,451)	-
Public Works Grants Projects Revolving	84,949	3,074	2,833	-	85,190
Public Works Reuse Committee	-	250	-	-	250
Recreation Revolving Funds	237,903	410,792	422,908	-	225,787
Regionalization - PBRN	697	-	-	-	697
Sale of Cemetery Lots	35,050	6,000	-	(10,000)	31,050
Total Special Revenue Page 66	\$ 9,540,475	\$ 13,055,885	\$ 11,329,445	\$ (35,006)	\$ 11,231,909

CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Fund Balances July 1, 2013	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2014
Continued from Page 66	\$ 9,540,475	\$ 13,055,885	\$ 11,329,445	\$ (35,006)	\$ 11,231,909
Special Revenue (continued):					
Other (continued):					
Sale of Land	225,163	-	-	(14,296)	210,867
Sale of Lumber	16,997	-	-	(16,997)	-
Septic Repair Loan Repayments	47,008	1,456	6,670	-	41,794
Survival Center Capital Fund	14,850	3,600	-	-	18,450
Tax Title Attorney Fees Revolving	15,754	6,245	-	(21,999)	-
Tourism Directional Signs	236	75	-	-	311
Affordable Housing Fund	1,000	2	-	-	1,002
Conservation Land Purchase Fund	523,585	129,120	81,898	-	570,807
Compensated Absences Fund	-	56	-	81,344	81,400
Drug Forfeiture Fund	30,273	17,627	9,691	-	38,209
E. Lyman Fund	50	7	-	-	57
Library Fund	87,691	11,353	-	-	99,044
Park Street Improvements Fund	2,498	323	-	-	2,821
Smith Vocational High School Fund	74,515	71	-	(74,573)	13
Total Special Revenue Funds	10,580,095	13,225,820	11,427,704	(81,527)	12,296,684
Capital Projects:					
City Hall Exterior Upgrades	9,656	-	1,754	-	7,902
Department of Public Works Projects	(257,041)	-	516,693	1,100,000	326,266
Energy Conservation Projects	224,902	-	78,965	-	145,937
Forbes Library Renovations	11,078	-	-	-	11,078
Management of Information Systems 5 Year Plan	139,325	-	76,358	-	62,967
Northampton Public Schools Projects	78,431	-	322,509	275,000	30,922
Public Safety Projects	264,287	-	60,488	(35)	203,764
Smith Vocational and Agricultural High School Projects	12,886	-	22,127	150,000	140,759
Total Capital Projects	\$ 483,524	\$ -	\$ 1,078,894	\$ 1,524,965	\$ 929,595

**CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Fund Balances July 1, 2013	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2014
Perpetual Permanent Funds:					
Cemetery Perpetual Care Funds	\$ 687,206	\$ 8,800	\$ -	\$ -	\$ 696,006
Permanent Funds:					
Cemetery Funds	327,831	132,162	-	(25,000)	434,993
Total Non-Major Governmental Funds	\$ 12,078,656	\$ 13,366,782	\$ 12,506,598	\$ 1,418,438	\$ 14,357,278

**CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF REAL ESTATE AND PERSONAL PROPERTY TAXES, ROLLBACK TAXES,
AND DEFERRED PROPERTY TAXES AND COMMUNITY PRESERVATION SURCHARGE
JULY 1, 2013 TO JUNE 30, 2014**

	Uncollected Taxes July 1, 2013	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2014	Uncollected Taxes Per Detail June 30, 2014
Real Estate Taxes:						
Levy of 2014	\$ -	\$ 48,118,941	\$ 257,507	\$ 47,062,178	\$ 799,256	\$ 799,236
Levy of 2013	728,667	-	100,597	407,023	221,047	219,481
Levy of 2012	133,167	-	28,830	101,291	3,046	3,046
Levy of 2010	75	-	-	15	60	60
Prior Years	-	-	(708)	-	708	708
	<u>861,909</u>	<u>48,118,941</u>	<u>386,226</u>	<u>47,570,507</u>	<u>1,024,117</u>	<u>1,022,531</u>
Personal Property Taxes:						
Levy of 2014	-	1,344,884	4,515	1,307,324	33,045	33,045
Levy of 2013	24,533	-	-	6,252	18,281	18,281
Levy of 2012	46,646	-	-	3,195	43,451	43,451
Levy of 2011	23,668	-	-	2,731	20,937	20,969
Levy of 2010	25,542	-	-	2,476	23,066	23,066
Prior Years	416,084	-	-	1,445	414,639	419,689
	<u>536,473</u>	<u>1,344,884</u>	<u>4,515</u>	<u>1,323,423</u>	<u>553,419</u>	<u>558,501</u>
Total Real Estate and Personal Property Taxes	<u>\$ 1,398,382</u>	<u>\$ 49,463,825</u>	<u>\$ 390,741</u>	<u>\$ 48,893,930</u>	<u>\$ 1,577,536</u>	<u>\$ 1,581,032</u>
Rollback Taxes	<u>\$ 5,940</u>	<u>\$ 5,145</u>	<u>\$ -</u>	<u>\$ 9,505</u>	<u>\$ 1,580</u>	<u>\$ 1,580</u>
Deferred Property Taxes	<u>\$ 183,544</u>	<u>\$ 18,217</u>	<u>\$ -</u>	<u>\$ 31,367</u>	<u>\$ 170,394</u>	<u>\$ 170,868</u>
Community Preservation Surcharge						
Levy of 2014	\$ -	\$ 1,039,665	\$ 21,088	\$ 1,002,795	\$ 15,782	\$ 15,802
Levy of 2013	14,145	-	1,609	8,488	4,048	4,017
Levy of 2012	1,928	-	500	1,400	28	28
Total Community Preservation Surcharge	<u>\$ 16,073</u>	<u>\$ 1,039,665</u>	<u>\$ 23,197</u>	<u>\$ 1,012,683</u>	<u>\$ 19,858</u>	<u>\$ 19,847</u>

**CITY OF NORTHAMPTON, MASSACHUSETTS
SCHEDULE OF MOTOR VEHICLE EXCISE AND BOAT EXCISE TAXES
JULY 1, 2013 TO JUNE 30, 2014**

	Uncollected Taxes July 1, 2013	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2014	Uncollected Taxes Per Detail June 30, 2014
Motor Vehicle Excise Taxes:						
Levy of 2014	\$ -	\$ 2,498,366	\$ 61,487	\$ 2,257,953	\$ 178,926	\$ 178,926
Levy of 2013	219,931	251,017	52,448	383,657	34,843	34,843
Levy of 2012	39,294	-	1,790	13,685	23,819	23,819
Levy of 2011	30,336	-	556	3,513	26,267	26,267
Levy of 2010	18,199	-	18	947	17,234	17,234
Prior Years	557,197	-	99	3,316	553,782	553,789
	<u>864,957</u>	<u>2,749,383</u>	<u>116,398</u>	<u>2,663,071</u>	<u>834,871</u>	<u>834,878</u>
Boat Excise Taxes:						
Levy of 2014	-	8,986	437	7,204	1,345	1,345
Levy of 2013	1,040	-	-	(10)	1,050	1,050
Levy of 2012	760	-	-	-	760	760
Levy of 2011	1,047	-	-	-	1,047	1,047
Levy of 2010	1,199	-	-	-	1,199	1,199
Prior Years	35,868	-	-	-	35,868	35,868
	<u>39,914</u>	<u>8,986</u>	<u>437</u>	<u>7,194</u>	<u>41,269</u>	<u>41,269</u>
Total Motor Vehicle Excise and Boat Excise Taxes						
	<u>\$ 904,871</u>	<u>\$ 2,758,369</u>	<u>\$ 116,835</u>	<u>\$ 2,670,265</u>	<u>\$ 876,140</u>	<u>\$ 876,147</u>

**CITY OF NORTHAMPTON, MASSACHUSETTS
 SCHEDULE OF TAX LIENS, COMMUNITY PRESERVATION TAX LIENS AND TAXES IN LITIGATION
 JULY 1, 2013 TO JUNE 30, 2014**

	Uncollected Accounts July 1, 2013	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Accounts June 30, 2014	Uncollected Accounts Per Detail June 30, 2014
Tax Liens	\$ 411,097	\$ 127,870	\$ -	\$ 119,319	\$ 419,648	\$ 419,684
Community Preservation Tax Liens	\$ 3,498	\$ 2,108	\$ -	\$ 1,778	\$ 3,828	\$ 3,904
Taxes in Litigation	\$ 6,794	\$ -	\$ -	\$ -	\$ 6,794	\$ 6,794