

**TOWN OF MONTAGUE, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2017

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**Additional Offices:**

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

## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Montague, 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 Town of Montague, Massachusetts, as of and for the year ended June 30, 2017, (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2016), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' 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 auditors' 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 Town of Montague, Massachusetts, as of June 30, 2017, (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2016) 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 management's discussion and analysis, and the Pension and OPEB Schedules appearing on pages 57 to 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the

information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2017 on our consideration of the Town of Montague's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

*Melanson Heath*

November 13, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Town of Montague, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town of Montague's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to 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 our finances in a manner similar to a private-sector business.

The statement of net position presents information on all assets and liabilities, and deferred outflows/inflows with the difference 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 Town'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).

**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 financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

**Proprietary funds.** Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity established fees and charges designed to recover its costs, including capital costs such as depreciation and debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements, on in more detail. Specifically, enterprise fund is used to account for sewer operations, which is considered major fund.

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

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

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

## B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$17,525,261 (i.e., net position), a change of \$694,990 in comparison to the reclassified prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,679,932, a change of \$1,134,180 in comparison to the reclassified prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,056,184, a change of \$295,812 in comparison to the prior year.

## C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 6,253,562	\$ 6,216,467	\$ 1,026,979	\$ 1,004,249	\$ 7,280,541	\$ 7,220,716
Capital assets	<u>21,056,533</u>	<u>12,398,942</u>	<u>13,945,417</u>	<u>22,314,917</u>	<u>35,001,950</u>	<u>34,713,859</u>
Total assets	27,310,095	18,615,409	14,972,396	23,319,166	42,282,491	41,934,575
Deferred outflows	1,571,114	938,919	159,188	110,622	1,730,302	1,049,541
Current liabilities	1,108,602	1,317,026	3,713,726	3,894,433	4,822,328	5,211,459
Non-current liabilities	<u>15,814,434</u>	<u>15,364,735</u>	<u>5,349,208</u>	<u>5,531,284</u>	<u>21,163,642</u>	<u>20,896,019</u>
Total liabilities	16,923,036	16,681,761	9,062,934	9,425,717	25,985,970	26,107,478
Deferred inflows	455,418	41,480	46,144	4,887	501,562	46,367
Net position:						
Net investment in capital assets	15,580,155	6,492,300	6,275,307	15,207,719	21,855,462	21,700,019
Restricted	770,450	905,407	-	-	770,450	905,407
Unrestricted	<u>(4,847,850)</u>	<u>(4,566,620)</u>	<u>(252,801)</u>	<u>(1,208,535)</u>	<u>(5,100,651)</u>	<u>(5,775,155)</u>
Total net position	<u>\$ 11,502,755</u>	<u>\$ 2,831,087</u>	<u>\$ 6,022,506</u>	<u>\$ 13,999,184</u>	<u>\$ 17,525,261</u>	<u>\$ 16,830,271</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$17,525,261, a change of \$694,990 from the reclassified prior year.

The largest portion of net position, \$21,855,462, reflects our investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$770,450, represents resources that are subject to external restrictions on how they may be used. The remaining balances of unrestricted net position are deficits of \$(4,847,850) (governmental) and \$(252,801) (business-type).

CHANGES IN NET POSITION

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 961,400	\$ 1,049,174	\$ 1,966,057	\$ 2,070,288	\$ 2,927,457	\$ 3,119,462
Operating grants and contributions	1,022,744	1,998,385	-	-	1,022,744	1,998,385
Capital grants and contributions	2,192,883	450,787	42,803	1,558,805	2,235,686	2,009,592
General revenues:						
Property taxes	15,827,508	15,207,377	-	-	15,827,508	15,207,377
Excises	775,898	750,797	-	-	775,898	750,797
Penalties, interest and other taxes	133,060	115,275	-	-	133,060	115,275
Grants and contributions not restricted to specific programs	1,525,546	1,494,877	-	-	1,525,546	1,494,877
Investment income	21,428	12,485	125	185	21,553	12,670
Other	116,719	91,096	-	-	116,719	91,096
Total revenues	<u>22,577,186</u>	<u>21,170,253</u>	<u>2,008,985</u>	<u>3,629,278</u>	<u>24,586,171</u>	<u>24,799,531</u>
Expenses:						
General government	2,777,227	2,388,933	-	-	2,777,227	2,388,933
Public safety	3,561,118	3,355,913	-	-	3,561,118	3,355,913
Education	9,597,613	9,402,041	-	-	9,597,613	9,402,041
Public works	3,759,675	2,673,937	-	-	3,759,675	2,673,937
Health and human services	405,122	422,430	-	-	405,122	422,430
Culture and recreation	1,024,919	952,955	-	-	1,024,919	952,955
Interest	229,214	237,668	-	-	229,214	237,668
Intergovernmental	190,635	170,234	-	-	190,635	170,234
Sewer operations	-	-	2,345,658	2,341,405	2,345,658	2,341,405
Airport operations *	-	-	-	447,090	-	447,090
Total expenses	<u>21,545,523</u>	<u>19,604,111</u>	<u>2,345,658</u>	<u>2,788,495</u>	<u>23,891,181</u>	<u>22,392,606</u>
Change in net position before transfers	1,031,663	1,566,142	(336,673)	840,783	694,990	2,406,925
Transfers in (out)	<u>(221,881)</u>	<u>(486,051)</u>	<u>221,881</u>	<u>236,051</u>	<u>-</u>	<u>(250,000)</u>
Change in net position	809,782	1,080,091	(114,792)	1,076,834	694,990	2,156,925
Net position - beginning of year, as reclassified	<u>10,692,973</u>	<u>1,750,996</u>	<u>6,137,298</u>	<u>12,922,350</u>	<u>16,830,271</u>	<u>14,673,346</u>
Net position - end of year	<u>\$ 11,502,755</u>	<u>\$ 2,831,087</u>	<u>\$ 6,022,506</u>	<u>\$ 13,999,184</u>	<u>\$ 17,525,261</u>	<u>\$ 16,830,271</u>

\* The Town's Airport fund is included in governmental activities in 2017, as it no longer qualifies as a business-type activity under the GASB Statement No. 34 reporting model.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$809,782. Key elements of this change are as follows:

General fund operating results:	\$ 325,765
Major fund - Airport revenues and transfers in in excess of expenditures	972,506
Non-major fund expenditures and transfers out in excess of revenues	(164,091)
Depreciation expense in excess of principal debt service	(882,063)
Capital assets purchased from taxation and grants	1,170,968
Change in net OPEB obligation	(505,789)
Change in net pension liability, net of deferrals	(148,062)
Other timing differences	40,548
Total	<u>\$ 809,782</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$(114,792). Key elements of this change are as follows:

Sewer fund expenditures in excess of revenues	\$ (336,673)
Transfers from general fund	<u>221,881</u>
Total	<u>\$ (114,792)</u>

**D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, 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 \$4,679,932, a change of \$1,134,180 in comparison with the reclassified prior year. Key elements of this change are as follows:

General fund operating results	\$ 325,765
Major fund - Airport revenues and transfers in in excess of expenditures	972,506
Non-major fund expenditures and transfers out in excess of revenues	<u>(164,091)</u>
Total	<u>\$ 1,134,180</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,056,184, while total fund balance was \$4,072,801. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% of Total 2017 General Fund Expenditures</u>
Unassigned fund balance <sup>1</sup>	\$ 3,056,184	\$ 2,760,372	\$ 295,812	16.4%
Total fund balance	\$ 4,072,801	\$ 3,747,036	\$ 325,765	21.8%

<sup>1</sup> Includes Stabilization funds.

The total fund balance of the general fund changed by \$325,765 during the current fiscal year. Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 327,381
State and local revenues over budget	219,023
Budgetary appropriations unspent by departments	385,638
Use of free cash (fund balance) as a funding sources for non-recurring items	(383,846)
Difference between current year encumbrances to be spent in the subsequent year and prior year encumbrances spent in the current year	46,666
Change in Stabilization funds	<u>(269,097)</u>
Total	<u>\$ 325,765</u>

Included in the total general fund balance are the Town's stabilization funds with the following balances:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
General stabilization	\$ 781,019	\$ 882,403	\$ (101,384)
Capital stabilization	24,985	218,785	(193,800)
Franklin County Technical School stabilization	75,656	49,569	26,087
Gill-Montague Regional School District stabilization	<u>44</u>	<u>44</u>	<u>-</u>
Total Stabilization funds	<u>\$ 881,704</u>	<u>\$ 1,150,801</u>	<u>\$ (269,097)</u>

**Proprietary funds.** Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$(252,801), a change of \$(114,792) in comparison with the reclassified prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$100,500. Reasons for these amendments include:

- \$100,000 Strathmore Paper Mill building stabilizing.
- \$ 500 Increase in airport budget appropriation.

Of this increase, \$500 was funded through the use of free cash and \$100,000 was transferred from the general stabilization fund.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$35,001,950 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, construction in progress, and infrastructure.

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

Depreciation expense - governmental activities	\$ (1,318,931)
Depreciation expense – sewer fund	(431,354)
Capital asset disposals	(26,686)
Canal Street parking lot project	318,099
Purchase of police vehicles and equipment	183,548
Repurchase of Industrial Park land	132,000
Purchase of public works vehicles and equipment	62,844
Purchase of library books	50,832
Foreclosed properties	15,460
Construction in progress – airport runway replacement	326,265
Construction in progress – Sheffield School projects	4,878
Construction in progress – other projects	77,043
Construction of storm drainage	650,514
Construction in progress – pump station repairs and sewer line replacement	<u>243,579</u>
Total	<u>\$ 288,091</u>

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$9,667,512, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the notes to the financial statements.

### **REQUESTS FOR INFORMATION**

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

Ms. Carolyn Olsen  
Town Accountant  
Town of Montague  
One Avenue A  
Turners Falls, MA 01376

## TOWN OF MONTAGUE, MASSACHUSETTS

## STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 4,915,048	\$ 641,348	\$ 5,556,396
Receivables, net of allowance for uncollectibles:			
Property taxes	502,592	-	502,592
Excises	108,932	-	108,932
User fees	-	366,377	366,377
Departmental and other	176,610	-	176,610
Intergovernmental	259,202	15,553	274,755
Other assets	87,442	3,701	91,143
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax liens	203,736	-	203,736
Capital assets:			
Land and construction in progress	3,340,429	208,101	3,548,530
Other capital assets, net of accumulated depreciation	17,716,104	13,737,316	31,453,420
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	<u>1,571,114</u>	<u>159,188</u>	<u>1,730,302</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
	28,881,209	15,131,584	44,012,793
<b>LIABILITIES</b>			
Current:			
Warrants payable	203,137	102,692	305,829
Accrued payroll and withholdings	119,782	3,701	123,483
Accrued interest payable	-	57,846	57,846
Notes payable	177,024	3,347,645	3,524,669
Intergovernmental payable	87,716	-	87,716
Other current liabilities	85,265	-	85,265
Current portion of long-term liabilities:			
Notes payable	20,000	-	20,000
Bonds payable	403,178	201,842	605,020
Other	12,500	-	12,500
Noncurrent:			
Notes payable, net of current portion	60,000	-	60,000
Bonds payable, net of current portion	4,934,881	4,127,611	9,062,492
Net OPEB obligation	5,208,406	681,594	5,890,000
Net pension liability	5,188,827	525,740	5,714,567
Other, net of current portion	422,320	14,263	436,583
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pensions	<u>455,418</u>	<u>46,144</u>	<u>501,562</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>			
	17,378,454	9,109,078	26,487,532
<b>NET POSITION</b>			
Net investment in capital assets	15,580,155	6,275,307	21,855,462
Restricted for:			
Grants and other statutory restrictions	674,825	-	674,825
Permanent funds:			
Nonexpendable	65,562	-	65,562
Expendable	30,063	-	30,063
Unrestricted	<u>(4,847,850)</u>	<u>(252,801)</u>	<u>(5,100,651)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 11,502,755</u>	<u>\$ 6,022,506</u>	<u>\$ 17,525,261</u>

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

TOWN OF MONTAGUE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</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>
<b>Governmental Activities:</b>							
General government	\$ 2,777,227	\$ 120,868	\$ 636,522	\$ 1,610,205	\$ (409,632)	\$ -	\$ (409,632)
Public safety	3,561,118	386,594	75,134	-	(3,099,390)	-	(3,099,390)
Education	9,597,613	-	60,044	-	(9,537,569)	-	(9,537,569)
Public works	3,759,675	239,526	18,570	582,678	(2,918,901)	-	(2,918,901)
Health and human services	405,122	26,118	152,926	-	(226,078)	-	(226,078)
Culture and recreation	1,024,919	188,294	79,548	-	(757,077)	-	(757,077)
Interest	229,214	-	-	-	(229,214)	-	(229,214)
Intergovernmental	190,635	-	-	-	(190,635)	-	(190,635)
Total Governmental Activities	21,545,523	961,400	1,022,744	2,192,883	(17,368,496)	-	(17,368,496)
<b>Business-Type Activities:</b>							
Sewer operations	2,345,658	1,966,057	-	42,803	-	(336,798)	(336,798)
Total Business-Type Activities	2,345,658	1,966,057	-	42,803	-	(336,798)	(336,798)
Total	\$ 23,891,181	\$ 2,927,457	\$ 1,022,744	\$ 2,235,686	(17,368,496)	(336,798)	(17,705,294)
<b>General Revenues and Transfers:</b>							
Property taxes					15,827,508	-	15,827,508
Excises					775,898	-	775,898
Penalties, interest and other taxes					133,060	-	133,060
Grants and contributions not restricted to specific programs					1,525,546	-	1,525,546
Investment income					21,428	125	21,553
Miscellaneous					116,719	-	116,719
Transfers, net					(221,881)	221,881	-
Total general revenues and transfers					18,178,278	222,006	18,400,284
Change in Net Position					809,782	(114,792)	694,990
<b>Net Position:</b>							
Beginning of year, as reclassified					10,692,973	6,137,298	16,830,271
End of year					\$ 11,502,755	\$ 6,022,506	\$ 17,525,261

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

TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	<u>General</u>	<u>Airport Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 4,305,130	\$ 22,313	\$ 587,605	\$ 4,915,048
Receivables:				
Property taxes	786,330	-	-	786,330
Excises	113,754	-	-	113,754
Departmental and other	136,256	-	40,354	176,610
Intergovernmental	67,246	-	191,956	259,202
Other assets	<u>87,442</u>	<u>-</u>	<u>-</u>	<u>87,442</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,496,158</u></b>	<b><u>\$ 22,313</u></b>	<b><u>\$ 819,915</u></b>	<b><u>\$ 6,338,386</u></b>
<b>LIABILITIES</b>				
Warrants payable	\$ 160,375	\$ 779	\$ 41,983	\$ 203,137
Accrued payroll and withholdings	119,447	-	335	119,782
Notes payable	-	-	177,024	177,024
Intergovernmental payable	87,716	-	-	87,716
Other liabilities	<u>70,289</u>	<u>5,392</u>	<u>9,584</u>	<u>85,265</u>
<b>TOTAL LIABILITIES</b>	<b>437,827</b>	<b>6,171</b>	<b>228,926</b>	<b>672,924</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues	985,530	-	-	985,530
<b>FUND BALANCES</b>				
Nonspendable	-	-	65,562	65,562
Restricted	-	16,142	638,314	654,456
Committed	611,304	-	65,792	677,096
Assigned	405,313	-	-	405,313
Unassigned	<u>3,056,184</u>	<u>-</u>	<u>(178,679)</u>	<u>2,877,505</u>
<b>TOTAL FUND BALANCES</b>	<b><u>4,072,801</u></b>	<b><u>16,142</u></b>	<b><u>590,989</u></b>	<b><u>4,679,932</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 5,496,158</u></b>	<b><u>\$ 22,313</u></b>	<b><u>\$ 819,915</u></b>	<b><u>\$ 6,338,386</u></b>

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

TOWN OF MONTAGUE, MASSACHUSETTS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET POSITIONS OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET POSITIONS

JUNE 30, 2017

<b>Total Governmental Fund Balances</b>	\$ 4,679,932
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	21,056,533
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection.</li></ul>	900,706
<ul style="list-style-type: none"><li>• Long-term liabilities, including notes payable, bonds payable, net pension liability, net of deferrals, and net OPEB obligation, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	(14,699,596)
<ul style="list-style-type: none"><li>• Other</li></ul>	<u>(434,820)</u>
<b>Net Position of Governmental Activities</b>	<u>\$ 11,502,755</u>

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

TOWN OF MONTAGUE, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>General</u>	<u>Airport Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 15,823,139	\$ -	\$ -	\$ 15,823,139
Excises	744,355	-	-	744,355
Penalties, interest and other taxes	133,060	-	-	133,060
Charges for services	302,927	33,176	409,856	745,959
Intergovernmental	1,772,257	1,292,106	1,699,202	4,763,565
Licenses and permits	192,891	-	-	192,891
Fines and forfeitures	23,575	-	-	23,575
Investment income	16,150	80	5,198	21,428
Miscellaneous	88,180	-	39,635	127,815
	<u>19,096,534</u>	<u>1,325,362</u>	<u>2,153,891</u>	<u>22,575,787</u>
<b>Total Revenues</b>				
<b>Expenditures:</b>				
Current:				
General government	1,459,348	-	1,021,729	2,481,077
Public safety	2,025,723	-	292,565	2,318,288
Education	9,531,788	-	-	9,531,788
Public works	1,998,625	378,181	608,118	2,984,924
Health and human services	284,457	-	19,633	304,090
Culture and recreation	511,564	-	209,287	720,851
Employee benefits	2,021,991	-	-	2,021,991
Debt service	634,432	-	31,650	666,082
Intergovernmental	190,635	-	-	190,635
	<u>18,658,563</u>	<u>378,181</u>	<u>2,182,982</u>	<u>21,219,726</u>
<b>Total Expenditures</b>				
Excess (deficiency) of revenues over expenditures	437,971	947,181	(29,091)	1,356,061
<b>Other Financing Sources (Uses):</b>				
Transfers in	135,000	25,325	-	160,325
Transfers out	(247,206)	-	(135,000)	(382,206)
	<u>(112,206)</u>	<u>25,325</u>	<u>(135,000)</u>	<u>(221,881)</u>
<b>Total Other Financing Sources (Uses)</b>				
Change in fund balance	325,765	972,506	(164,091)	1,134,180
Fund Balance, at Beginning of Year, as reclassified	<u>3,747,036</u>	<u>(956,364)</u>	<u>755,080</u>	<u>3,545,752</u>
Fund Balance, at End of Year	<u>\$ 4,072,801</u>	<u>\$ 16,142</u>	<u>\$ 590,989</u>	<u>\$ 4,679,932</u>

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

TOWN OF MONTAGUE, 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, 2017

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 1,134,180</b>																		
<ul style="list-style-type: none"> <li>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td>    Capital outlay</td> <td style="text-align: right;">1,170,968</td> </tr> <tr> <td>    Loss on disposal of assets</td> <td style="text-align: right;">(26,686)</td> </tr> <tr> <td>    Depreciation</td> <td style="text-align: right;">(1,318,931)</td> </tr> </table> </li> <li>The issuance of long-term debt (e.g., notes, bonds and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td>    Repayments of debt</td> <td style="text-align: right;">436,868</td> </tr> <tr> <td>    Change in net pension liability, net of deferrals</td> <td style="text-align: right;">(148,062)</td> </tr> <tr> <td>    Change in net OPEB obligation</td> <td style="text-align: right;">(505,789)</td> </tr> <tr> <td>    Other</td> <td style="text-align: right;">41,388</td> </tr> </table> </li> <li>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the change in deferred revenue, net of allowance for uncollectibles. <table> <tr> <td></td> <td style="text-align: right;">12,625</td> </tr> </table> </li> <li>Other differences <table> <tr> <td></td> <td style="text-align: right;"><u>13,221</u></td> </tr> </table> </li> </ul>	Capital outlay	1,170,968	Loss on disposal of assets	(26,686)	Depreciation	(1,318,931)	Repayments of debt	436,868	Change in net pension liability, net of deferrals	(148,062)	Change in net OPEB obligation	(505,789)	Other	41,388		12,625		<u>13,221</u>	
Capital outlay	1,170,968																		
Loss on disposal of assets	(26,686)																		
Depreciation	(1,318,931)																		
Repayments of debt	436,868																		
Change in net pension liability, net of deferrals	(148,062)																		
Change in net OPEB obligation	(505,789)																		
Other	41,388																		
	12,625																		
	<u>13,221</u>																		
<b>Change in Net Position of Governmental Activities</b>	<b>\$ <u>809,782</u></b>																		

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

TOWN OF MONTAGUE, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Transfers In:</b>				
Property taxes	\$ 15,495,758	\$ 15,495,758	\$ 15,495,758	\$ -
Excises	673,600	673,600	744,355	70,755
Penalties, interest and other taxes	102,900	102,900	133,060	30,160
Charges for services	284,025	284,025	302,927	18,902
Intergovernmental	1,753,995	1,753,995	1,772,257	18,262
Licenses and permits	139,250	139,250	192,891	53,641
Fines and forfeitures	18,100	18,100	23,575	5,475
Investment income	4,000	4,000	8,336	4,336
Miscellaneous	73,688	73,688	88,180	14,492
Transfers in	408,325	508,325	511,325	3,000
Total Revenues and Transfers In	18,953,641	19,053,641	19,272,664	219,023
<b>Expenditures and Transfers Out:</b>				
General government	1,470,578	1,462,578	1,411,003	51,575
Public safety	2,044,548	2,044,548	2,009,187	35,361
Education	9,591,470	9,591,470	9,588,000	3,470
Public works	2,069,798	2,169,798	2,028,954	140,844
Health and human services	346,533	346,533	285,957	60,576
Culture and recreation	535,590	535,590	535,070	520
Employee benefits	2,111,315	2,111,315	2,021,991	89,324
Debt service	638,452	638,452	634,432	4,020
Intergovernmental	190,583	190,583	190,635	(52)
Transfers out	338,120	346,620	346,620	-
Total Expenditures and Transfers Out	19,336,987	19,437,487	19,051,849	385,638
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(383,346)	(383,846)	220,815	604,661
<b>Other Financing Sources/Uses:</b>				
Use of free cash:				
Operating budget	250,000	250,000	-	(250,000)
Capital budget	60,000	60,000	-	(60,000)
Transfer to Stabilization fund	73,346	73,346	-	(73,346)
Transfer to Airport fund	-	500	-	(500)
Total Other Financing Sources/Uses	383,346	383,846	-	(383,846)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 220,815	\$ 220,815

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

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-Type Activities
	<u>Sewer Fund</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 641,348
User fees, net of allowance for uncollectibles	366,377
Intergovernmental receivables	15,553
Other assets	3,701
	<u>1,026,979</u>
Total current assets	1,026,979
Noncurrent:	
Capital assets:	
Land and construction in progress	208,101
Other capital assets, net of accumulated depreciation	<u>13,737,316</u>
Total noncurrent assets	13,945,417
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions	<u>159,188</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>15,131,584</b>
<b>LIABILITIES</b>	
Current:	
Warrants payable	102,692
Accrued payroll	3,701
Accrued interest payable	57,846
Notes payable	3,347,645
Current portion of long-term liabilities:	
Bonds payable	<u>201,842</u>
Total current liabilities	3,713,726
Noncurrent:	
Bonds payable, net of current portion	4,127,611
Net OPEB obligation	681,594
Net pension liability	525,740
Other, net of current portion	<u>14,263</u>
Total noncurrent liabilities	5,349,208
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions	<u>46,144</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>9,109,078</b>
<b>NET POSITION</b>	
Net investment in capital assets	6,275,307
Unrestricted	<u>(252,801)</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>6,022,506</u></b>

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

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities
	<u>Sewer Fund</u>
<b>Operating Revenues:</b>	
Charges for services	\$ <u>1,966,057</u>
Total Operating Revenues	1,966,057
<b>Operating Expenses:</b>	
Salaries and benefits	664,593
Other operating expenses	1,073,950
Depreciation	<u>431,354</u>
Total Operating Expenses	<u>2,169,897</u>
Operating (Loss)	(203,840)
<b>Nonoperating Revenues (Expenses):</b>	
Intergovernmental revenue	42,803
Investment income	125
Interest expense	<u>(175,761)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(132,833)</u>
(Loss) Before Transfers	(336,673)
<b>Transfers:</b>	
Transfers in	<u>221,881</u>
Change in Net Position	(114,792)
Net Position at Beginning of Year	<u>6,137,298</u>
Net Position at End of Year	<u>\$ <u>6,022,506</u></u>

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

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Business-Type Activities Sewer Fund</u>
<b><u>Cash Flows From Operating Activities:</u></b>	
Receipts from customers and users	\$ 1,836,403
Payments to vendors and employees	<u>(1,671,325)</u>
Net Cash Provided By Operating Activities	165,078
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>	
Transfers in	<u>221,881</u>
Net Cash Provided By Noncapital Financing Activities	221,881
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>	
Acquisition and construction of capital assets	(894,093)
Issuance of short-term debt	5,347,645
Payments of short-term debt	(4,475,780)
Principal payments on bonds and notes	(273,469)
Grant income	42,803
Interest expense	<u>(179,223)</u>
Net Cash (Used For) Capital and Related Financing Activities	(432,117)
<b><u>Cash Flows From Investing Activities:</u></b>	
Investment income	<u>125</u>
Net Cash Provided By Investing Activities	<u>125</u>
Net Change in Cash and Short-Term Investments	(45,033)
Cash and Short Term Investments, Beginning of Year	<u>686,381</u>
Cash and Short Term Investments, End of Year	<u><u>\$ 641,348</u></u>
<b><u>Reconciliation of Operating (Loss) to Net Cash Provided By Operating Activities:</u></b>	
Operating (loss)	\$ (203,840)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation	431,354
Changes in assets, liabilities, and deferred outflows/inflows:	
User fees	(114,101)
Other assets	(19,254)
Warrants and accounts payable	60,721
Accrued liabilities	(16,249)
Other liabilities	(3,654)
Net OPEB obligation	64,211
Net pension liability, net of deferrals	<u>(34,110)</u>
Net Cash Provided By Operating Activities	<u><u>\$ 165,078</u></u>

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

TOWN OF MONTAGUE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Private Purpose Trust Funds	Other Post- Employment Benefits Trust Fund	Pension Trust Fund (as of December 31, 2016)
<b>ASSETS</b>			
Cash and short-term investments	\$ 123,446	\$ -	\$ 391,587
Investments	-	327,370	36,550,826
Accounts receivable	-	-	10,146
Total Assets	<u>123,446</u>	<u>327,370</u>	<u>36,952,559</u>
<b>LIABILITIES</b>			
Accounts payable	-	-	4,600
Total Liabilities	<u>-</u>	<u>-</u>	<u>4,600</u>
<b>NET POSITION</b>			
Total net position restricted for pensions and other purposes	<u>\$ 123,446</u>	<u>\$ 327,370</u>	<u>\$ 36,947,959</u>

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

TOWN OF MONTAGUE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Private Purpose Trust <u>Funds</u>	Other Post- Employment Benefits <u>Trust Fund</u>	Pension Trust Fund (For The Year Ended <u>December 31, 2016</u> )
<b>Additions:</b>			
Contributions:			
Employers	\$ -	\$ 510,074	\$ 1,727,600
Plan members	-	-	760,116
Other systems and Commonwealth of Massachusetts	-	-	86,443
Other	-	-	26,481
Total contributions	-	510,074	2,600,640
Investment Income:			
Interest and dividends	2,801	22,296	-
Appreciation in fair value of investments	-	-	2,735,513
Less: management fees	-	-	(189,512)
Net investment income	2,801	22,296	2,546,001
Total additions	2,801	532,370	5,146,641
<b>Deductions:</b>			
Benefit payments to plan members, beneficiaries and other systems	-	455,000	2,446,841
Reimbursements to other systems	-	-	109,615
Refunds to plan members	-	-	32,752
Administrative expenses	-	-	92,902
Scholarships awarded	3,300	-	-
Total deductions	3,300	455,000	2,682,110
Net increase (decrease)	(499)	77,370	2,464,531
<b>Net position restricted for pensions and other purposes:</b>			
Beginning of year	123,945	250,000	34,483,428
End of year	\$ 123,446	\$ 327,370	\$ 36,947,959

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

## Town of Montague, Massachusetts

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

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

##### A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the Town is considered to be financially accountable. In fiscal year 2017, it was determined that no entities met the required GASB-14 (as amended) criteria of component units, other than as described below.

*Blended Component Unit:* The Montague Contributory Retirement System was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 1 Avenue A, Turners Falls, MA 01376.

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

###### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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.

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

#### Government-Wide Financial Statements

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

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

#### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. All revenue items are considered to be measurable and available only when cash is received by the Town. Expenditures generally are recorded when a liability is incurred, as under

accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town 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 *airport enterprise fund*, which accounts for operating the Town's airport and supporting infrastructure. Although the Town voted to adopt enterprise fund legislation for airport operations, under the criteria established by GASB, it does not qualify as an enterprise fund since it does not fund all of its operations. Accordingly, it is included as a governmental fund under the GASB Statement No. 34 reporting model.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with 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.

The Town reports the following major proprietary fund:

- The *sewer enterprise fund*, which accounts for operations of the Town's wastewater treatment facility and supporting infrastructure.

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

The Town reports the following fiduciary funds:

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

exclusively benefit individuals, private organizations, or other governments.

- The *other post-employment benefit trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- The *pension trust fund* accounts for the activities of the Montague Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

#### D. Cash and Short-Term Investments

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

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

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

#### E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. 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 one year or less 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.

Investments for the Contributory Retirement System consist of investments in a State pool and are carried at fair value.

#### F. Property Tax Limitations

Legislation known as "Proposition 2 ½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy

limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2017 tax levy reflected an excess capacity of \$3,659.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Building and improvements	20 – 40
Infrastructure	5 – 50
Vehicles	5 – 10
Equipment and furnishings	10

H. Compensated Absences

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

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

## *J. Fund Equity*

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

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

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

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

## *K. Use of Estimates*

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

## **2. Stewardship, Compliance and Accountability**

### *A. Budgetary Information*

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town

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

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds.

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

*B. Budgetary Basis*

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

*C. Budget/GAAP Reconciliation*

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/expenditures (GAAP basis)	\$ 19,096,534	\$ 18,658,563
Other financing sources/uses (GAAP basis)	<u>135,000</u>	<u>247,206</u>
Subtotal (GAAP Basis)	19,231,534	18,905,769
Remove the effect of adding Town's stabilization funds per GASB 54:		
Reverse the adjustment eliminating interfund transfers	376,325	99,414
Remove stabilization funds investment income	(7,814)	-
Adjust tax revenue to accrual basis	(327,381)	-
Reverse beginning of year appropriation carry-forwards from expenditures	-	(468,266)
Add end of year appropriation carryforwards to expenditures	<u>-</u>	<u>514,932</u>
Budgetary basis	<u>\$ 19,272,664</u>	<u>\$ 19,051,849</u>

**D. Deficit Fund Equity**

Certain individual funds reflected deficit balances as of June 30, 2017:

Capital Project Funds:

Soil Stabilization	\$ (81,679)
Unity Park	<u>(97,000)</u>
	<u>\$ (178,679)</u>

It is anticipated that the deficit in these funds will be eliminated through future departmental revenues and bond proceeds, and/or transfers from other funds.

**3. Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts General Laws Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent

of the capital and surplus of such bank or trust company.” The Town and the Contributory Retirement System do not have deposit policies for custodial credit risk.

As of June 30, 2017, \$3,959 of the Town’s bank balance of \$6,039,015 was exposed to custodial credit risk as uninsured and/or uncollateralized.

As of December 31, 2016, none of the Contributory Retirement System’s bank balance of \$421,370 was exposed to custodial credit risk as uninsured and/or uncollateralized.

#### **4. Investments**

##### **A. Credit Risk**

Massachusetts General Law, Chapter 32, Section 23, limits the investment of Retirement System funds, to the extent not required for current disbursements, in the PRIT (Pension Reserves Investment Trust) Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

All of the Town’s and System’s investments are reported at fair value\* and are comprised of shares in the Pension Reserve Investment Trust (PRIT) Fund, which is exempt from credit risk disclosure.

*\*Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

##### **B. Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System does not have policies for custodial credit risk.

All of the Town’s and System’s investments are comprised of shares in the Pension Reserve Investment Trust (PRIT) Fund, which is exempt from custodial credit risk disclosure.

C. Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

The Town or the System do not have investments in one issuer greater than 5% of total investments other than the PRIT Fund.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

Information about the sensitivity of the fair values of the Town's and the System's investments to market interest rate fluctuations are not applicable as all of the investments are immediately liquid.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town and System do not have policies for foreign currency risk.

F. Fair Value

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town and the System have the following investments as of December 31, 2016 (in thousands):

Description

Investments measured at  
the net asset value (NAV):

External investment pool    \$ 36,878

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ 36,878	\$ -	Monthly	30 days

The Town and System value their investments in good faith at their pro-rata interest in PRIT based upon audited financial statements or other information provided to the Town and System by the underlying investment manager (PRIM). The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed.

## **5. Taxes and Excises Receivable**

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

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Taxes and excise receivables at June 30, 2017 consists of the following, net of an estimated allowance for doubtful account in the government-wide financial statements:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 524,274	\$ (28,305)	\$ 495,969
Personal property taxes	7,386	(763)	6,623
Tax liens	<u>254,670</u>	<u>(50,934)</u>	<u>203,736</u>
Total property taxes	786,330	(80,002)	706,328
Motor vehicle excise	112,850	(4,822)	108,028
Boat excise	<u>904</u>	<u>-</u>	<u>904</u>
Total excises	<u>113,754</u>	<u>(4,822)</u>	<u>108,932</u>
Grand Total	<u>\$ 900,084</u>	<u>\$ (84,824)</u>	<u>\$ 815,260</u>

## 6. User Fee Receivables

Receivables for user charges and betterments at June 30, 2017 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Sewer	\$ <u>461,988</u>	\$ <u>(95,611)</u>	\$ <u>366,377</u>
Total	<u>\$ 461,988</u>	<u>\$ (95,611)</u>	<u>\$ 366,377</u>

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017.

## 8. Other Assets

The Town collects certain receivables on behalf of several Districts located within Town. The balance in other assets consist primarily of these receivables, which are offset by an intergovernmental payable.

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Reclassification</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>						
Capital assets, being depreciated:						
Buildings and improvements	\$ 14,621,302	\$ 318,099	\$ -	\$ 1,043,740	\$ 8,627,020	\$ 24,610,161
Machinery, equipment, vehicles and furnishings	3,334,098	297,224	(102,203)	-	70,687	3,599,806
Infrastructure	751,443	-	-	-	-	751,443
Total capital assets, being depreciated	18,706,843	615,323	(102,203)	1,043,740	8,697,707	28,961,410
Less accumulated depreciation for:						
Buildings and improvements	(5,548,338)	(1,010,068)	-	-	(1,986,999)	(8,545,405)
Machinery, equipment, vehicles and furnishings	(2,177,968)	(278,791)	91,107	-	(53,017)	(2,418,669)
Infrastructure	(251,160)	(30,072)	-	-	-	(281,232)
Total accumulated depreciation	(7,977,466)	(1,318,931)	91,107	-	(2,040,016)	(11,245,306)
Total capital assets, being depreciated, net	10,729,377	(703,608)	(11,096)	1,043,740	6,657,691	17,716,104
Capital assets, not being depreciated:						
Land	627,404	147,460	(15,590)	-	120,915	880,189
Construction in progress	1,042,161	408,185	-	(1,043,740)	2,053,634	2,460,240
Total capital assets, not being depreciated	1,669,565	555,645	(15,590)	(1,043,740)	2,174,549	3,340,429
Governmental activities capital assets, net	\$ 12,398,942	\$ (147,963)	\$ (26,686)	\$ -	\$ 8,832,240	\$ 21,056,533
<b>Business-Type Activities:</b>						
Capital assets, being depreciated:						
Buildings and improvements	\$ 15,235,362	\$ -	\$ -	\$ -	\$ (8,627,020)	\$ 6,608,342
Machinery, equipment, vehicles and furnishings	103,706	-	-	-	(70,687)	33,019
Infrastructure	12,044,931	650,514	-	2,334,630	-	15,030,075
Total capital assets, being depreciated	27,383,999	650,514	-	2,334,630	(8,697,707)	21,671,436
Less accumulated depreciation for:						
Buildings and improvements	(6,643,268)	(159,417)	-	-	1,986,999	(4,815,686)
Machinery, equipment, vehicles and furnishings	(86,036)	-	-	-	53,017	(33,019)
Infrastructure	(2,813,478)	(271,937)	-	-	-	(3,085,415)
Total accumulated depreciation	(9,542,782)	(431,354)	-	-	2,040,016	(7,934,120)
Total capital assets, being depreciated, net	17,841,217	219,160	-	2,334,630	(6,657,691)	13,737,316
Capital assets, not being depreciated:						
Land	266,750	-	-	-	(120,915)	145,835
Construction in progress	4,206,951	243,579	-	(2,334,630)	(2,053,634)	62,266
Total capital assets, not being depreciated	4,473,701	243,579	-	(2,334,630)	(2,174,549)	208,101
Business-type activities capital assets, net	\$ 22,314,918	\$ 462,739	\$ -	\$ -	\$ (8,832,240)	\$ 13,945,417

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

Governmental Activities:	
General government	\$ 293,251
Public safety	181,542
Education	70,703
Public works	668,105
Culture and recreation	<u>105,330</u>
Total depreciation expense - governmental activities	<u>\$ 1,318,931</u>
Business-Type Activities:	
Sewer	<u>\$ 431,354</u>
Total depreciation expense - business-type activities	<u>\$ 431,354</u>

**10. Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions in accordance with GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* are more formally discussed in Note 18.

**11. Warrants Payable**

Warrants payable represent 2017 expenditures paid by July 15, 2017 as permitted by law.

**12. Anticipation Notes Payable**

The Town had the following short-term notes outstanding at June 30, 2017:

<u>Purpose</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2017</u>
Bond anticipation	1.10%	01/19/17	01/19/18	\$ 110,000
Bond anticipation	1.20%	01/20/17	01/19/18	537,024
State anticipation	1.20%	04/12/17	10/12/17	500,386
State anticipation	1.19%	06/16/17	01/19/18	835,514
Sewer and other water pollution control facilities (MCWT)	0.00%	03/15/17	N/A	<u>1,541,745</u>
Total				<u>\$ 3,524,669</u>

The following summarizes activity in short-term notes payable during fiscal year 2017:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 2,557,459	\$ 2,647,024	\$ (4,557,459)	\$ 647,024
State anticipation	242,165	1,335,900	(242,165)	1,335,900
Revenue anticipation	-	4,000,000	(4,000,000)	-
Sewer and other water pollution control facilities (MCWT)	-	1,541,745	-	1,541,745
<b>Total</b>	<b>\$ 2,799,624</b>	<b>\$ 9,524,669</b>	<b>\$ (8,799,624)</b>	<b>\$ 3,524,669</b>

### 13. Long-Term Debt

#### A. Long-Term Notes Payable and General Obligation Bonds

The Town issues long-term notes payable and general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds and notes currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of June 30, 2017</u>
<u>Bonds Payable:</u>			
Landfill	08/15/19	5.25%	\$ 105,000
Colle Opera House	06/15/22	4.25%	50,000
Municipal purpose	11/01/26	4.11%	255,000
Combined sewer overflow (MCWT)	07/15/27	2.00%	210,935
Municipal purpose	11/15/27	4.50%	3,570,000
FRCOG Brownsfields	06/30/33	2.50%	108,867
Municipal purpose	05/15/34	3.00%	85,000
Combined sewer overflow (MCWT)	01/15/39	2.41%	590,986
USDA	11/01/45	4.38%	362,271
<b>Total Bonds Payable</b>			<b>5,338,059</b>
<u>Notes Payable: *</u>			
Sheffield Parking Lot and Roof	05/22/21	2.15%	80,000
<b>Total Notes Payable</b>			<b>80,000</b>
<b>Total Governmental Activities</b>			<b>\$ 5,418,059</b>

\* This borrowing is a combination of several short-term notes intended to finance this project over periods up to ten years. This is being accomplished by rolling over a series of short-term notes for lesser amounts each year. The interest rates reported are the interest rates for the short-term notes issued in fiscal year 2017 and due in fiscal year 2018.

<u>Business-Type Activities:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>June 30, 2017</u>
Combined sewer overflow (MCWT)	02/01/18	N/A	\$ 5,772
Sewer - property acquisition	06/15/22	4.34%	25,000
Sewer - multiple purpose	06/15/23	4.42%	165,000
Sewer - multiple purpose	11/01/26	4.11%	119,729
Combined sewer overflow (MCWT)	07/15/27	2.00%	316,401
Sewer - multiple purpose	05/15/34	3.00%	1,375,000
Combined sewer overflow (MCWT)	01/15/39	2.41%	886,477
USDA	11/01/45	4.38%	543,409
USDA	09/21/47	4.13%	892,665
Total Business-Type Activities			<u>\$ 4,329,453</u>

**B. Future Debt Service**

The annual payments to retire all general obligation bonds and long-term notes outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 423,178	\$ 200,020	\$ 623,198
2019	429,525	184,032	613,557
2020	440,907	167,665	608,572
2021	417,327	151,815	569,142
2022	408,787	136,076	544,863
2023 - 2027	2,177,268	436,689	2,613,957
2028 - 2032	672,945	108,404	781,349
2033 and thereafter	448,122	97,927	546,049
Total	<u>\$ 5,418,059</u>	<u>\$ 1,482,628</u>	<u>\$ 6,900,687</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 201,842	\$ 150,491	\$ 352,333
2019	198,485	144,102	342,587
2020	205,974	137,549	343,523
2021	203,543	137,549	341,092
2022	206,190	124,084	330,274
2023 - 2027	978,402	524,921	1,503,323
2028 - 2032	880,025	372,315	1,252,340
2033 and thereafter	1,454,992	388,280	1,843,272
Total	<u>\$ 4,329,453</u>	<u>\$ 1,979,291</u>	<u>\$ 6,308,744</u>

**C. Changes in General Long-Term Liabilities**

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Total Balance July 1, 2016	Additions	Reductions	Reclassification	Total Balance June 30, 2017	Less Current Portion	Long-Term Portion June 30, 2017
<b>Governmental Activities</b>							
Notes payable	\$ 100,000	\$ -	\$ (20,000)	\$ -	\$ 80,000	\$ (20,000)	60,000
Bonds payable	5,754,927	-	(416,868)	-	5,338,059	(403,178)	4,934,881
Net OPEB obligation	4,702,617	505,789	-	-	5,208,406	-	5,208,406
Net pension liability	4,808,519	363,108	-	17,200	5,188,827	-	5,188,827
Other:							
Accrued compensated absences	273,041	-	(721)	-	272,320	-	272,320
Capital lease	41,388	-	(41,388)	-	-	-	-
Landfill closure	175,000	-	(12,500)	-	162,500	(12,500)	150,000
Subtotal	489,429	-	(54,609)	-	434,820	(12,500)	422,320
Totals	\$ 15,855,492	\$ 868,897	\$ (491,477)	\$ 17,200	\$ 16,250,112	\$ (435,678)	\$ 15,814,434
<b>Business-Type Activities</b>							
Bonds payable	\$ 4,602,922	\$ -	\$ (273,469)	\$ -	\$ 4,329,453	\$ (201,842)	\$ 4,127,611
Net OPEB obligation	617,383	64,211	-	-	681,594	-	681,594
Net pension liability	566,530	-	(23,590)	(17,200)	525,740	-	525,740
Other:							
Accrued compensated absences	17,917	-	(3,654)	-	14,263	-	14,263
Totals	\$ 5,804,752	\$ 64,211	\$ (300,713)	\$ (17,200)	\$ 5,551,050	\$ (201,842)	\$ 5,349,208

#### D. Overlapping Debt

The Town is a member community of other governmental agencies, which are authorized to issue debt. The Town is not directly responsible for the payment or guarantee of these debts; however, annual debt service costs are included in the operating budgets of these agencies and are funded through user charges and/or assessments to the Town. The following summarizes the debt of these other agencies and the Town's related participation percentages:

<u>Related Entity</u>	<u>Total Principal</u>	<u>Town's Percent</u>	<u>Town's Share</u>
<u>Gill-Montague Regional School District:</u>			
Gill-Montague Regional High School	\$ 945,000	88.10%	\$ 832,545
Sheffield School Windows	300,000	100.00%	300,000
Total	\$ 1,245,000		\$ 1,132,545

#### 14. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town perform certain maintenance and monitoring functions at the landfill site for thirty years after closure.

The \$162,500 reported as landfill postclosure care liability at June 30, 2017 represents the remaining estimated postclosure maintenance costs. These amounts are based on what it would cost to perform all postclosure care in 2017. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**15. Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The Town reports two items as deferred inflows of resources, one of which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 18. Unavailable revenues are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

**16. Interfund Fund Accounts**

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of major interfund transfers.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Governmental Funds:</u>		
General fund	\$ 135,000	\$ 247,206
Airport fund	25,325	-
Nonmajor Funds:		
Special revenue funds	-	135,000
Subtotal Nonmajor Funds	-	135,000
<u>Business-Type Funds:</u>		
Sewer fund	221,881	-
Grand Total	\$ <u>382,206</u>	\$ <u>382,206</u>

## 17. **Governmental Funds – Balances**

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

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

The following types of fund balances are reported at June 30, 2017:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes the principal portion of permanent trust funds.

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, capital project accounts funded by appropriation, stabilization funds restricted for specific purposes, and funds set-aside by the Town.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes fund balance (free cash) voted to be used in the subsequent fiscal year.

Unassigned - Represents amounts that are available to be spent in future periods general stabilization funds set aside by Town Meeting vote and deficit funds.

Following is a breakdown of the Town's fund balances at June 30, 2017:

	General Fund	Airport Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 65,562	\$ 65,562
Total Nonexpendable	-	-	65,562	65,562
Restricted				
Special revenue funds	-	16,142	608,251	624,393
Expendable permanent funds	-	-	30,063	30,063
Total Restricted	-	16,142	638,314	654,456
Committed				
Special articles	510,619	-	-	510,619
Stabilization funds for specific purposes *	100,685	-	-	100,685
Capital project funds funded by general fund appropriation	-	-	15,360	15,360
Town set-asides	-	-	50,432	50,432
Total Committed	611,304	-	65,792	677,096
Assigned				
Reserved for encumbrances	4,313	-	-	4,313
Reserved for expenditures	401,000	-	-	401,000
Total Assigned	405,313	-	-	405,313
Unassigned				
Unassigned	2,275,165	-	-	2,275,165
General stabilization fund	781,019	-	-	781,019
Deficit capital project funds	-	-	(178,679)	(178,679)
Total Unassigned	3,056,184	-	(178,679)	2,877,505
Total Fund Balance	\$ 4,072,801	\$ 16,142	\$ 590,989	\$ 4,679,932

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

## 18. Montague Contributory Retirement System

The Town follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

### A. Plan Description

Substantially all employees of the Town are members of the Montague Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees

must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System's Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 1 Avenue A, Turners Falls, MA 01376.

### Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to February 1, 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

### Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

### Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

### Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Town's contribution to the System for the year ended June 30, 2017 was \$950,064, which was equal to its annual required contribution.

*B. Summary of Significant Accounting Policies*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

*C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2017, the Town reported a liability of \$5,714,567 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Town's proportion was 52.36 percent.

For the year ended June 30, 2017, the Town recognized pension expense of \$1,027,631. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension related:		
Differences between expected and actual experience	\$ -	\$ 478,180
Net difference between projected and actual investment earnings	804,249	-
Changes in assumptions	926,053	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	23,382
Total	<u>\$ 1,730,302</u>	<u>\$ 501,562</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30:	
2018	\$ 370
2019	370
2020	361
2021	116
2022	<u>12</u>
Total	<u>\$ 1,229</u>

#### D. Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	1/1/2016
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.25-4.75%
Inflation rate	Not explicitly stated
Post-retirement cost-of-living adjustment	3% of first \$18,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the January 1, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period ended December 31, 2016.

Mortality rates were based on:

- Pre-retirement rates reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct).
- Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).

- For disabled retirees, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct).

For disabled retirees, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct).

### Changes of Assumptions

Beginning with the January 1, 2013 actuarial valuations of local systems, the System's actuary recommended an investment return assumption of 7.75% for most local systems (assuming a reasonable asset allocation).

Beginning with January 1, 2015 actuarial valuations, the System's actuary recommended reducing this assumption further, in part, based on PRIM's annual study of the average overall expected 30-year return, developed using expected returns by asset class. The most recent study shows an annualized 7.80% gross average expected return. The trend both in Massachusetts and across the country over the past 10 years has been to reduce this assumption. The Board decided to decrease this assumption in this valuation to 7.50%. In addition, the System's actuary will continue to monitor this assumption and may recommend decreasing this assumption further as part of the January 1, 2018 actuarial valuation. Any reduction in the investment return assumption increases the plan's liabilities. This change increased the normal cost by approximately \$45,000 and the total actuarial liability by approximately \$1.1 million.

### Target Allocations

The long-term expected rate of return on pension plan investments was based on the current market environment, the current market price, and by using a building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for PRIM for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Large Cap Equities	14.50%	7.50%
Small/Mid Cap Equities	3.50%	7.75%
Int'l Equities	16.00%	7.83%
Emerging Int'l Equities	6.00%	9.61%
Core Bonds	5.00%	4.00%
20+ Yr. Treasury STRIPS	5.00%	3.75%
TIPS	3.00%	3.75%
High-Yield Bonds	1.50%	5.75%
Bank Loans	1.50%	6.00%
EMD (External)	1.00%	5.75%
EMD (Local Currency)	2.00%	6.50%
Private Debt	4.00%	9.06%
Private Equity	10.00%	9.50%
Real Estate	10.00%	6.50%
Timberland	4.00%	6.00%
Hedge Funds & Portfolio Completion	13.00%	6.48%
Total	<u>100.00%</u>	

*E. Discount Rate*

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*F. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate (in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Decrease (6.50%)</u>
June 30, 2017	\$8,618	\$5,715	\$3,266

**G. Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

**19. Other Post-Employment Benefits – OPEB (GASB 45)**

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

**A. Plan Description**

In addition to providing the pension benefits described above, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. As of July 1, 2016, the actuarial valuation date, approximately 61 retirees and 69 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

**B. Benefits Provided**

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

**C. Funding Policy**

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

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2017 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2016.

	Governmental Funds	Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 1,024,043	\$ 135,957	\$ 1,160,000
Interest on net OPEB obligation	188,105	21,895	210,000
Adjustment to ARC	<u>(257,435)</u>	<u>(32,565)</u>	<u>(290,000)</u>
Annual OPEB cost	954,713	125,287	1,080,000
Contributions made	<u>(448,924)</u>	<u>(61,076)</u>	<u>(510,000)</u>
Increase (decrease) in net OPEB obligation	505,789	64,211	570,000
Net OPEB obligation - beginning of year	<u>4,702,617</u>	<u>617,383</u>	<u>5,320,000</u>
Net OPEB obligation - end of year	<u>\$ 5,208,406</u>	<u>\$ 681,594</u>	<u>\$ 5,890,000</u>

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

Fiscal year ended	Annual OPEB Costs	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 1,080,000	47%	\$ 5,890,000
2016	\$ 1,170,000	56%	\$ 5,320,000
2015	\$ 1,140,000	35%	\$ 4,810,000

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 12,250,000
Actuarial value of plan assets	<u>(250,000)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 12,000,000</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>2%</u>
Covered payroll (active plan members)	<u>\$ 3,650,000</u>
UAAL as a percentage of covered payroll	<u>329%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*F. Actuarial Methods and Assumptions*

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

In the July 1, 2016 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend rate of 8.0%, which decreases to a 5.0% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 2.5%.

**20. Other Post-Employment Benefits – OPEB (GASB 74)**

In October 2015, the Town established an OPEB Trust fund to provide funding for future employee health care costs.

Investments

The OPEB Trust fund does not have a formal investment policy. At June 30, 2017, cash and short-term investments totaled \$327,370 and were invested in PRIT (Pension Reserve Investment Trust). Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 15,196,987
Plan fiduciary net position	<u>(327,370)</u>
Net OPEB liability (asset)	<u>\$ 14,869,617</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.15%

A. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.00%
Investment rate of return	3.13%, net of OPEB plan including inflation

Mortality rates were based on RP-2014 mortality table with MP-2014 projection.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the

target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	40.00%	6.50%
Fixed Income	22.00%	1.50%
Private Equity	11.00%	6.00%
Real Estate	10.00%	5.50%
Cash	17.00%	0.00%
Total	<u>100.00%</u>	

**B. Discount rate**

The discount rate used to measure the total OPEB liability was 3.13%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

**C. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13 percent) or 1-percentage-point higher (4.13 percent) than the current discount rate:

	<u>1% Decrease (2.13%)</u>	<u>Discount Rate (3.13%)</u>	<u>1% Increase (4.13%)</u>
Net OPEB liability	\$17,208,560	\$14,869,617	\$12,530,675

**D. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current healthcare cost trend rates:

<u>Fiscal Year Ended</u>	<u>1% Decrease (7.0%)</u>	<u>Healthcare Cost Trend Rates (8.0%)</u>	<u>1% Increase (9.0%)</u>
June 30, 2017	\$12,236,329	\$14,869,617	\$18,018,782

## 21. **Subsequent Events**

### Debt

Subsequent to June 30, 2017, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Revenue anticipation	\$ 1,000,000	1.24%	08/10/17	10/10/17
Revenue anticipation	\$ 1,000,000	1.25%	08/10/17	10/10/17

## 22. **Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Self-Insurance – The Town participates in the Hampshire County Group Insurance Trust to provide health insurance coverage to its employees. The Trust is funded by member assessments, which are calculated in a manner similar to commercial insurance premiums. As of June 30, 2017 the Trust contracted with an insurance carrier for excess liability coverage which takes effect when an individual claim exceeds \$275,000.

If the Trust were to experience a cash deficit, each member would be required to contribute additional funds. At June 30, 2017, according to the Trust's unaudited financial statements, after accruing an estimated liability for

incurred but unreported claims of approximately \$4.4 million, the Trust was in a surplus position of approximately \$18.7 million.

**23. Beginning Net Position Restatement Reclassification**

The beginning (July 1, 2016) fund balance in the Town’s governmental funds have been reclassified as follows:

Governmental funds, as previously reported, 6/30/16	\$ 4,502,116
Reclassify Airport fund as a governmental fund	<u>(956,364)</u>
Governmental funds, as reclassified, 6/30/16	<u>\$ 3,545,752</u>

In addition, the beginning (July 1, 2016) net position of the Town’s governmental activities and business-type activities have been reclassified as follows:

	Governmental Activities	Business-Type Activities	
		Airport Fund	Total
As previously reported, 06/30/16	\$ 2,831,087	\$ 7,861,886	\$ 13,999,184
Reclassify Airport fund as a governmental fund	<u>7,861,886</u>	<u>(7,861,886)</u>	<u>(7,861,886)</u>
As reclassified, 06/30/16	<u>\$ 10,692,973</u>	<u>\$ -</u>	<u>\$ 6,137,298</u>

**24. Implementation of New GASB Standard**

The Government Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*, replacing requirements of Statements No. 45 and 57, effective for the Town beginning with its year ending June 30, 2018. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB. Management’s current assessment is that this pronouncement will have an impact by increasing net OPEB liability, and as a result, decreasing the unrestricted net position on the government-wide financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS  
 SCHEDULE OF PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2017

(Unaudited)

(Amounts expressed in thousands)

**Montague Contributory Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	<u>Covered Payroll</u>	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2017	12/31/2016	52.36%	\$5,715	\$3,641	156.97%	77.20%
June 30, 2016	12/31/2015	52.19%	\$5,375	\$3,354	160.27%	77.00%
June 30, 2015	12/31/2014	52.88%	\$4,469	\$3,569	125.22%	80.30%

Schedules are intended to show information for 10 years.  
 Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF MONTAGUE, MASSACHUSETTS  
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2017

(Unaudited)

(Amounts expressed in thousands)

**Montague Contributory Retirement System**

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	Contribution Deficiency <u>(Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$950	\$950	-	\$3,641	26.09%
June 30, 2016	\$925	\$925	-	\$3,354	27.58%
June 30, 2015	\$870	\$870	-	\$3,569	24.38%

Schedules are intended to show information for 10 years.  
Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF MONTAGUE, MASSACHUSETTS  
 SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)

June 30, 2017

(Unaudited)

(Amounts expressed in thousands)

**Other Post-Employment Benefits**

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/16	\$ 250	\$ 12,250	\$ 12,000	0.0%	\$ 3,650	329%
07/01/15	\$ -	\$ 14,950	\$ 14,950	0.0%	\$ 2,870	521%
07/01/14	\$ -	\$ 13,960	\$ 13,960	0.0%	\$ 2,870	486%

See Independent Auditors' Report.

TOWN OF MONTAGUE, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFITS (OPEB)  
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (GASB 74)  
(Unaudited)  
(Amounts expressed in thousands)

	<u>2017</u>
<b>Total OPEB liability</b>	
Service cost	\$ 528
Interest on unfunded liability - time value of \$	457
Benefit payments, including refunds of member contributions	<u>(455)</u>
Net change in total OPEB liability	530
Total OPEB liability - beginning	<u>14,667</u>
<b>Total OPEB liability - ending (a)</b>	<b><u>\$ 15,197</u></b>
 <b>Plan fiduciary net position</b>	
Contributions - employer	\$ 510
Net investment income	22
Benefit payments, including refunds of member contributions	<u>(455)</u>
Net change in plan fiduciary net position	77
Plan fiduciary net position - beginning	<u>250</u>
<b>Plan fiduciary net position - ending (b)</b>	<b><u>\$ 327</u></b>
 <b>Net OPEB liability (asset) - ending (a-b)</b>	 <b><u>\$ 14,870</u></b>

Schedule is intended to show information for 10 years.  
Additional years will be displayed as they become available.

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

TOWN OF MONTAGUE, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFITS (OPEB)  
SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS,  
AND INVESTMENT RETURNS (GASB 74)

(Unaudited)

(Amounts expressed in thousands)

<b>Schedule of Net OPEB Liability</b>	<u>2017</u>
Total OPEB liability	\$ 15,197
Plan fiduciary net position	<u>(327)</u>
Net OPEB liability	<u>\$ 14,870</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.15%
Covered payroll	\$ 3,650
Participating employer net OPEB liability as a percentage of covered payroll	407.40%
<b>Schedule of Contributions</b>	
Actuarially determined contribution	\$ 985
Contributions in relation to the actuarially determined contribution	<u>(510)</u>
Contribution deficiency (excess)	<u>\$ 475</u>
Covered payroll	\$ 3,650
Contributions as a percentage of covered payroll	13.97%
<b>Schedule of Investment Returns</b>	
Annual money weighted rate of return, net of investment expense	8.45%

Schedules are intended to show information for 10 years.  
Additional years will be displayed as they become available.

See notes to Town's financial statements for summary of significant actuarial methods  
and assumptions.

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